

Report
on the Status of Financial Consumer Protection in 2017

This publication is prepared by the Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing (Rospotrebnadzor), with the assistance of FBK, LLC provided as part of the implementation of Contract № FEFLP/QCBS-4.1 “Strengthening of Institutional Capacity of Rospotrebnadzor Relating to Consumer Protection in the Financial Services Market” within the framework of a Joint Project of the Russian Federation and the International Bank for Reconstruction and Development “Financial Education and Financial Literacy in the Russian Federation”.

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Rospotrebnadzor’s Report “On the State of Financial Consumer Protection in 2017” / Ministry of Finance of the Russian Federation - 164 pages

This publication contains results of the analysis of the state of and prospects for the consumer rights protection development in the financial sector of the Russian Federation for 2017, including the results of the study of regulation of protection of the rights of financial services consumers, analysis of trends in the financial market development and risks for financial services consumers, review of the financial services consumer rights protection, results of the statistical observation and practice of preventing violations of legal requirements, review of the state of informing the population in the field of financial services consumer rights protection and improving the financial literacy, as well as the activities of major public consumer associations.

The Rospotrebnadzor’s public Report on the State of Financial Services Consumer Rights Protection for 2017 is the sixth such publication in the history of the Russian Federation intended for a wide range of users published on the official Rospotrebnadzor website in Russian and English.

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Table of Contents

INTRODUCTION.....	4
1. FUNDAMENTALS OF THE REGULATION OF FINANCIAL SERVICES CONSUMER RIGHTS PROTECTION 5	
1.1. The State Policy Strategy of the Russian Federation in the Field of Consumer Rights Protection up to 2030.....	5
1.2. Improvement of the legislation in the field of consumer rights protection.....	7
1.3. The Institution of the Financial Ombudsman for the Rights of Consumers of Financial Institutions' Services.....	13
1.4. Consumer Lending Regulation.....	15
1.5. Development of the Individuals Bankruptcy institution.....	20
1.6. Protection of Consumer Rights during Debt Collection.....	27
1.7. Codification of the Legislation on Consumer Rights Protection.....	33
2. DEVELOPMENT OF THE RETAIL FINANCIAL MARKET AND RISK ASSESSMENT FOR FINANCIAL CONSUMERS.....	37
2.1. General Characteristics of the Financial Market and Financial Activity of the Population.....	37
2.2. Changes in banking services market, and consumer risks.....	40
2.3. Insurance Market Changes and Risks for Consumers.....	51
2.4. Changes in the Microfinance Institutions Market and Risks for Consumers.....	64
2.5. Development of E-Commerce Payment Methods and Risks for Consumers.....	71
2.6. Changes in Other Sectors of Financial Segment and Risks for Consumers.....	82
3. PARTICIPATION OF Rospotrebnadzor in the International Cooperation for Financial Consumer Protection.....	93
3.1. Development of Activities of the United Nations Organization in the Field of Financial Services Consumer Protection.....	93
3.2. Activities of Group of Twenty and Organization for Economic Cooperation and Development.....	95
3.3. Activities of Member States of the Eurasian Economic Union.....	101
3.4. Development of the Activities of the Member States of the Commonwealth of Independent States.....	103
3.5. The main results of the implementation of the Joint Project of the Russian Federation and the International Bank for Reconstruction and Development.....	109
4. RESULTS OF THE Rospotrebnadzor's Activities and Court Practice in the Field of Protection of the Rights of Consumers of Financial Services.....	114
4.1. Consideration of applications and statements from consumers.....	114
4.2. Supervisory activities.....	119
4.3. Arbitrage practice.....	127
5. THE PRACTICE OF INFORMING IN THE FIELD OF PROTECTION OF THE RIGHTS OF CONSUMERS OF FINANCIAL SERVICES.....	137
5.1. Implementation of the educational function of Rospotrebnadzor.....	137
5.2. Departmental standards for counselling the consumers of financial services.....	143
5.3. The best Russian practice of counselling and informing consumers of financial services.....	144
6. ASSESSMENT OF THE EFFECTIVENESS OF THE ACTIVITIES OF THE Rospotrebnadzor's Counselling Centres.....	148
6.1. Methodology for effectiveness assessment.....	148
6.2. The results of the assessment of the activity of the counselling centres for consumers.....	148
7. IMPROVING CONSUMER FINANCIAL LITERACY.....	153
7.1. Financial Literacy Strategy for 2017-2023.....	153
7.2. Consumer Information Resources.....	154
7.3. Nation-wide Financial Literacy Events.....	155
8. LARGEST PUBLIC CONSUMER ASSOCIATIONS. MAIN ACHIEVEMENTS.....	158
8.1. Russian Financial Consumers Protection Union (FinPotrebSouz).....	158
8.2. Consumers Union of the Russian Federation.....	160
8.3. Confederation of Consumer Societies (KonfOP).....	160
CONCLUSIONS: ACHIEVING EXCELLENCE IN FINANCIAL CONSUMER PROTECTION IN RUSSIA.....	162

Introduction

In the context of digital economy development in Russia, expansion of financial services, emergence of new sophisticated financial tools based on the use of information technologies, issues of improving financial literacy of the population and ensuring the efficient financial consumer protection are of great relevance.

In order to improve the national system of consumer protection taking into account the challenges and threats of the dynamically developing consumer market, including its financial segment, in 2017, the Government of the Russian Federation developed and approved the Strategy of the Russian Federation State Policy in the field of consumer protection for the period up to 2030, and The Strategy of Raising Financial Literacy in the Russian Federation for 2017-2023.

The Federal Agency for Health and Consumer Rights Protection of the Russian Federation (Rospotrebnadzor), as the body authorized to develop and implement the state policy and legal regulation in the field of consumer protection, takes an active part in implementation of the Government's strategic actions and the relevant information and educational work together with other state and local authorities, the Bank of Russia and public consumer associations.

In order to provide a wide range of stakeholders with organized analytical information on the status and directions of the state policy and international cooperation in the field of financial consumer protection, on the results of federal state supervision in this field, on the development of the retail financial market and assessment of risks for financial services consumers, since the year of 2013, Rospotrebnadzor has been preparing the annual public Report On the Status of On the Status of Financial Consumer Protection, with the support of Financial and Accounting Consultants, LLC. The report is drawn up in addition to the Rospotrebnadzor State Report On Protection of Consumer Rights in the Russian Federation, and every year is highly appraised by Russian and foreign experts in the field of financial markets and consumer rights protection.

Despite the variety of issues related to the functioning of the financial market, banking and non-credit financial organizations, the content of the annual Report On the Status of Financial Consumer Protection is limited to relations arising from contracts for the provision of certain types of financial services that are subject to consumer protection laws. It should be noted that the respective services on the market of foreign currency transactions, securities, mutual fund transactions, and non-public pension fund transactions do not fall within the purview of said legislation. The range of financial organizations covered in this Report is limited to crediting/lending, microfinance, and insurance organizations, credit consumer cooperatives and pawnbrokers.

The Report "On the Status of Financial Services Consumers Rights Protection in 2017" is particularly focused on the activities to implement the instructions of the President of the Russian Federation, given following the meeting of the Presidium of the State Council on the development of the national system for protecting consumer rights, including measures to improve the legal framework.

Thus, the first section of the Report presents a number of draft laws prepared by responsible federal executive authorities in order to protect the rights of consumers of financial services and to improve the legal regulation of relations in this field. A separate subsection presents foreign experience of codification of consumer protection legislation that can be used in the development and approval of the concept of codification of the legislation of the Russian Federation on consumer protection.

The second section of the Report is dedicated to the changes that occurred in the sphere of state regulation of the financial market in 2017, development of financial services offered to the population and the assessment of corresponding risks to consumers. The section's particular focus is on e-commerce, which is one of the most dynamically developing segments of the consumer market, and the risks associated with making electronic payments. In this regard, the Report emphasizes the need to increase the literacy of financial consumers, especially those with disabilities, and elderly people and children.

In 2017, Rospotrebnadzor actively participated in international cooperation on the issues of financial services consumer rights protection and financial education of individuals. A milestone event was the "Financial Consumer Protection: Global Challenges and Prospects" International Conference organized by Rospotrebnadzor with the support of Financial and Accounting Consultants LLC as part of the implementation of the Joint Project of the Russian Federation and the IBRD "On raising financial literacy and development of financial education in Russia".

Organization and implementation of federal state supervision in the field of consumer rights protection, direct participation in the judicial protection of consumers are among the most important activities of Rospotrebnadzor, its territorial bodies and subordinate institutions. The results of these activities are described in a separate section of the Report.

In addition, the Report pays much attention to the results of educational activities of Rospotrebnadzor, and the best Russian practice of consulting and informing consumers on financial services. The report also presents the results of the work of the largest public consumer associations in 2017. The Report contains the results of the efforts undertaken by Rospotrebnadzor, its local offices and subordinate organizations to address consumer appeals and conduct their monitoring and control activities as well as judicial practice. Further, the Report has a section describing the contribution of the largest consumer community groups. Finally, the Report discusses the performance of Rospotrebnadzor, and its local offices and reporting entities, and offers findings and recommendations as to further improvement of the financial consumer protection in the Russian Federation.

The Public Report "On the Status of Financial Consumer Protection in 2016" is intended for wider audience, including citizens—financial consumers, relevant government and local governing bodies, professional financial market participants, public consumer unions and associations, and research and education institutions.

Along with the State Report "On Protection of Consumers Rights in the Russian Federation", the Report "On the Status of Financial Services Consumer Rights Protection", including the version in English, is published annually on the official website of Rospotrebnadzor on the Internet.

1. Fundamentals of the Regulation of Financial Services Consumer Rights Protection

1.1. The State Policy Strategy of the Russian Federation in the Field of Consumer Rights Protection up to 2030.

A milestone event in the development of the national system of consumer rights protection, which set the main priorities for its development for the next decade, was approval by Executive Order of the Government of the Russian Federation No. 1837-EO, dated 28 August 2017, of the State Policy on Consumer Rights Protection Strategy for the Period of up to 2030.

The strategy was prepared by Rospotrebnadzor in pursuance of the instruction of the President of the Russian Federation following the meeting of the Presidium of the State Council on development of the national system of consumer protection, which was held on 18 April 2017. In addition to Rospotrebnadzor, a number of ministries and departments, as well as public organizations took part in the development of this strategic document.

The Strategy highlights the risks that justify the creation of an effective system for protecting the rights of consumers, including financial services. The main groups of risks are as follows:

- Rapid growth of consumer lending, which led to the debt overburden of a large part of the population;
- Rapid development of e-commerce, which along with a number of positive drivers (expansion of the range of goods (works, services), reducing their cost and increasing their accessibility to consumers) entails a number of negative consequences as well (annual increase in consumers complaints against businesses operating in electronic commerce, distribution of products, the turnover of which is banned or limited, the unregulated activities of aggregators, etc.);
- Abuse of consumer confidence (during assignment of rights of demand) and legal instruments and guarantees provided for consumers, by dishonest intermediaries ("car-lawyers", "debt strippers", "insurance cancellers", "anti-collectors"), which the business community perceives as a manifestation of consumer extremism;
- Unpreparedness of business entities to participate in the creation of non-discriminatory conditions for people with disabilities to acquire various kinds of goods (works, services) (first of all, to create a barrier-free environment), misunderstanding or neglecting the problems of people with disabilities, which causes a vulnerable position of this social group on the consumer market, including the financial market;
- Communicating incomplete and unreliable information about purchased goods and services, hard selling of additional services, selling expensive goods with inadequate characteristics to elderly citizens who do not have sufficient consumer experience in acquiring innovative goods and services with complex contractual terms (banking, insurance, real estate and chargeable medical services);
- Rapid development of remote technologies that simplify purchase of goods (works, services) via the Internet leads to their active use by children who, due to a low level of consumer literacy, are not able to independently consume goods (works, services) safely, efficiently and reasonably.

Taking these risks into account, the main declared objectives of the Strategy are to ensure the observance of individuals' rights to access to safe goods and services; Protection of consumers' interests of all groups of the population, with a focus on socially vulnerable groups; Raising the level and quality of life of the Russian Federation population.

Priority directions ensuring the achievement of the Strategy goals cover all areas of the consumer market. At the same time, it is possible to identify a number of measures that directly or to the greatest extent are aimed at ensuring the financial consumer protection.

These measures include the following:

a) *In the field of protection of the Russian Federation individuals as consumers:*

- Continue to summarize the judicial practice, including regarding cases related to implementation and protection of consumer rights in the financial services market, and regarding disputes arising from consumer loan agreements in order to determine the effectiveness of applicable provisions of the laws of the Russian Federation on consumer protection and the need to change these regulations;
- Introduce legal mechanisms for protecting the rights and legitimate interests of consumer groups in courts (group suits);
- Assist in educating and informing consumers, including through organization of consumer counselling in multifunctional centres;
- Ensure implementation of projects of the World Bank, the Ministry of Finance of the Russian Federation, the Central Bank of the Russian Federation aimed at ensuring the right of consumers to education and getting new and important knowledge in the field of personal finance management;
- Assist in ensuring the protection of consumer personal information and data, including through prohibition of forcing consumers to provide personal information under the threat of cancelling the transaction in cases where the provision of such data is not provided for by the legislation of the Russian Federation and is not related to the sale of goods (works, services), as well as through imposing administrative responsibility for violation of this prohibition;

b) *In the field of consumer protection of socially vulnerable groups of population:*

- To introduce additional measures to protect the rights of consumers who, for medical reasons, cannot use insurance

instruments;

- To develop special rules for the restructuring of accounts payable for socially vulnerable groups of the population, including for the period of temporary disability or parental leave, until employment is renewed and the income is restored to the level that existed before the occurrence of temporary disability;
- c) *In the field of stimulating the production models and services that can meet the consumer needs and demands:*
- Ensure protection of e-commerce consumers at a level not lower than that provided for other forms of commerce, including the expansion of the information on the seller (provider, manufacturer) and on goods (works, services), which is to be communicated to a consumer in a mandatory manner, as well as publishing of such information on websites on the Internet (in relevant mobile applications) of a person who is a seller (provider) in accordance with the Law “On Protection of Consumer Rights”¹, and on the person providing on the Internet an opportunity to sign an agreement with the seller (provider) and make an advance payment for the goods (services) to its bank account;
 - Support good faith business activities of financial service providers and their authorized representatives, including during signing loan and financial products sales agreements;
- d) *In the field of preventing the emergence of dishonest practices by business entities that adversely affect consumers:*
- Monitor business entities for compliance with the requirements of the laws of the Russian Federation on consumer protection, which exclude illegal, unethical, discriminatory or misleading practices, such as the use of aggressive marketing or debt collection methods, or other activities that may expose consumers to excessive risk or cause damage to them;
 - Develop programs and mechanisms to assist consumers in acquiring knowledge and skills necessary to understand risks, including financial risks, making informed decisions and gaining access to competent and professional advice and other assistance (if necessary);
 - Ensure making alterations to the laws of the Russian Federation to provide for the following:
 - ✓ Increase the amount of administrative fines imposed on officials who illegally carry out activities on provision of consumer loans, as well as introduction of criminal penalties for officials and suspension of activities of legal entities in the case of a repeated commission of such an offense;
 - ✓ Upon request of the Central Bank of the Russian Federation, restriction of access to Internet websites used in violation of the laws of the Russian Federation regulating relations in the financial market, including for fraudulent activities in the financial market;
 - ✓ Deprivation of a credit grantor (lender) of the right to require that the borrower fulfil the obligations under the loan (credit) agreement, if such an agreement has been entered into by a person who is not a lender in accordance with the concept specified in the Law “On Consumer Loan (Credit)”², or if the agreement has been entered into in violation of quantitative restrictions on the provision of loans;
- e) *In the field of development of market conditions, providing consumers with a wider choice at lower prices:*
- Take measures to improve and harmonize on an integrated basis the policy on ensuring the availability of financial services through reducing their cost, properly informing about all fees and charges, and other expenses and measures;
- f) *in the field of assistance to set-up public consumer associations and their activity:*
- Assist public consumer associations in carrying out active educational activities among consumers of financial services, increasing the financial consumer competence of regional journalists covering this subject in local mass media;
 - Involve public consumer associations in implementation of projects of the World Bank and the Ministry of Finance of the Russian Federation which contribute to raising financial literacy of the population and development of financial education in the Russian Federation.

As a result of implementation of the Strategy measures to ensure an appropriate and irreducible level of protection of all basic consumer rights of individuals, including in the financial field, it is expected to increase a proportion of consumers satisfied with the level of protection of their rights to 85% of the total number of consumers by 2030.

With a view to immediate implementation of the Strategy, Rospotrebnadzor developed a relevant Action Plan, which was approved by Executive Order of the Government of the Russian Federation No. 481-eo, dated 23 March 2018.

The measures of this plan are focused, among other things, on consistent and coherent implementation of instructions of the President of the Russian Federation No. Pr-1004GS, dated 25 May 2017, and given following the meeting of the Presidium of the State Council for development of the national system of consumer rights protection on 18 April 2017.

The Plan provides for the following directions of implementing the activities:

- Improvement of the legal and regulatory framework in the field of consumer rights protection;
- Monitoring, law enforcement analysis, as well as study of international practices in the field of consumer rights protection;
- Development of information resources in the field of consumer rights protection and alternative dispute settlement mechanisms, promotion of consumer awareness raising and education;
- Development of regional and local level of the national system of consumer rights protection, assistance to public consumer associations;

¹ Russian Federation Law No. 2300-1, dated 7 February 1992, “On Protection of Consumer Rights”.

² Federal Law No. 353-FZ, dated 21 December 2013, “On Consumer Loan (Credit)”.

- Development of market conditions aimed at providing consumers with a wider choice of goods and services at lower prices and promoting the principles of rational consumption patterns;
- Development of international cooperation.

The key measures to improve the regulatory framework in the field of consumer rights protection are development and approval of the concept of codification of the legislation of the Russian Federation on consumer rights protection (March 2019), extensive public discussion of this concept with participation of scientific and expert communities (November 2019), and development of a new legislative act of the Russian Federation (Code) on consumer rights protection (November 2023).



The strategy of the state policy of the Russian Federation in the field of consumer rights protection is an important element of the overall social policy determining the role and place of the state, local authorities, individuals and business entities, as well as their associations in the national system of consumer protection, including in the financial field.

1.2. Improvement of the legislation in the field of consumer rights protection

Legislative initiatives following the meeting of the Presidium of the State Council in 2017

As part of implementation of List of Instructions of the President of the Russian Federation No. Pr-1004GS, dated 25 May 2017, following the meeting of the Presidium of the State Council on Development of the National System of Consumer Rights Protection on 18 April 2017 (hereinafter referred to as the List of Instructions), responsible federal authorities prepared a number of draft laws to protect the rights of consumers of financial services and improving the legal regulation of relations in this field.

In pursuance of Sub-Clause “a” and “e” of Clause 2 of the List of Instructions, the Ministry of Finance of the Russian Federation drew up the draft federal law “On Amendments to the Federal Law On Consumer Credit (Loan)” and the Federal Law “On Microfinancing and Microfinance Institutions”³. The provisions of the draft law clarify the definition of “professional activity for provision of consumer loans”, and restricts the amount of interest, penalties, fines and other liabilities accrued under the consumer credit (loan) agreement with a repayment period of no longer than one year, so that their total amount does not exceed one and a half times the amount of the granted consumer loan (credit).

The passing of the draft law will help to protect the rights of individual debtors under consumer loans (credits) through establishing a legal mechanism that limits possible abuses in this field and facilitates driving of non-professional lenders from the market, as well as lenders who conduct dishonest business related to the provision of consumer loans).

The amendments proposed by the draft law are given in Table 1.1.

In pursuance of Sub-Clause “c” of Clause 2 of the List of Instructions, the Ministry of Finance of Russia prepared a draft federal law “On Amendments to the Russian Federation Code of Administrative Offenses”⁴. The draft law provides for strengthening the responsibility for illegal professional activities for provision of consumer loans, which will effectively counter this activity and, thus, protect the rights and interests of good faith lenders and consumers of financial services.

Table 1.1. The provisions of the draft federal law “On Amendments to the Federal Law “On Consumer Credit (Loan)” and the Federal Law “On Microfinancing and Microfinance Institutions” as compared with the current versions of the legal acts.

Legal act structural unit	Current version	Suggested version
Federal Law No. 353-FZ, dated 21 December 2013, “On Consumer Loan (Credit)”		
Clause 5 of Part 1 of Article 3	Professional activities in provision of consumer loans are activities of a legal entity or an individual entrepreneur to provide consumer loans in cash	(with the exception of loans provided by an employer to an employee, loans provided by a broker to a client for performance of securities purchase and sale transactions, and other cases provided for by the federal law)
Article 5 Part 7.1	-	shall be supplemented with the following: “General conditions of the consumer loan (credit) agreement with the period of repayment of a consumer loan (credit) not more than one year should prohibit accrual and collection by the lender of interest under the consumer loan (credit) agreement, penalties and fines and imposing on the borrower other liabilities under the consumer loan (credit) agreement until full performance of obligations under the consumer loan (credit) agreement, and payment of penalties and fines in the

³ As of 1 May 2018.

⁴ As of 1 May 2018.

Legal act structural unit	Current version	Suggested version
		<p>event that the amount of accrued interest under the consumer loan (credit) agreement, penalties and fines and other payments not included in the amount of consumer loan (credit) that is subject to be repaid will reach one and a half times the amount of consumer loan (credit).</p> <p>The condition containing this prohibition shall be given on the first page of the consumer loan (credit) agreement with the consumer loan (credit) repayment period not exceeding one year before setting forth individual conditions of the consumer loan (credit) agreement"</p>
Article 12 Part 1	The creditor may assign the rights (claims) under a consumer loan (credit) agreement	
	to third parties, unless otherwise provided for by the federal law or an agreement containing a condition prohibiting assignment agreed upon its signing in accordance with the procedure established by this Federal Law.	only to a person engaged in professional activities in provision of consumer loans, to a person engaged in returning overdue debts of individuals as a main activity, to a specialized financial company or financial agent, if prohibition to assign is not provided for by the federal law or an agreement containing an assignment prohibition clause agreed at its signing following the procedure established by this Federal Law
Article 13 Part 5	-	<p>shall be supplemented with the following:</p> <p>"A lender that is not at the time of signing a consumer loan (credit) agreement a person engaged in professional activities in provision of consumer loans, and at the time of assignment of rights (claims) under a consumer loan (credit) agreement - a person engaged in professional activities in provision of consumer loans, or a person engaged in returning overdue debts of individuals as a main activity, or a specialized financial company or financial agent may not require fulfilment of obligations by the borrower under such a consumer loan (credit) agreement".</p>
Federal Law No. 151-FZ, dated 2 July 2010, "On Microfinancing and Microfinance Institutions"		
Article 12 Part 1 Clause 9	Microfinance institution may not do the following:	
	charge an individual borrower interest on a consumer loan agreement, with a period of repayment of a consumer loan not exceeding one year, with the exception of penalties and fines, and payments for services rendered to the borrower for a separate fee, if the amount of interest accrued under the agreement is three times more the amount of the loan.	Delete
	The condition containing this prohibition shall be indicated by the microfinance institution on the first page of the consumer loan agreement with the consumer loan repayment period not exceeding one year before the table with individual conditions of the consumer loan agreement;	
Article 12.1 Part 1	Upon occurrence of the delay in fulfilment of the obligation of an individual borrower to repay the loan amount and/or to pay the interest due under the consumer loan agreement with the repayment period of the consumer loan not exceeding one year, the microfinance institution may continue to charge the individual borrower interest only for the outstanding principal amount.	Delete
	Interest on the outstanding principal debt that is not repaid by the borrower continues to accrue until the total amount of the interest payable is equal to a two-time amount of the outstanding loan.	
	A microfinance institution may not charge interest for a period from the date, when the total interest due amounts to two times the amount of the outstanding loan, to the date when the borrower partially repays the loan amount and/or pays interest due.	

The increase in an administrative fine amount provided for by the draft law for illegal performance of professional activities in provision of consumer loans as compared to the current norms is presented in Table 1.2.

Table 1.2 Administrative fines for illegal professional activities in provision of consumer loans proposed by the draft federal law "On Amendments to the Russian Federation Code of Administrative Offenses"

Administrative actions against the following categories	Current version of the AOC	Suggested version of the AOC
Persons	-	10,000–30,000 RUB
Officials	20,000–50,000 RUB	30,000–50,000 RUB
Legal Entities	200,000–500,000 RUB	300,000–500,000 RUB

In addition, the draft law provides for the responsibility for repeated administrative offense, which involves the following administrative fines:

- persons - 30,000 to 50,000 RUB;
- officials - 50,000 to 200,000 RUB;
- legal entities — 500,000 to 2,000,000 RUB or administrative suspension of business for the period of up to 90 days.

In pursuance of Sub-Clause “d” of Clause 2 of the List of Instructions, the Ministry of Communications of the Russian Federation prepared a draft federal law “On Amendments to Article 15.1 of the Federal Law “On Information, Information Technologies and Information Protection”⁵.

The draft law was drawn up with a view to counter the use of Internet websites to commit fraudulent activities in the financial market.

The draft law proposes to authorize the Bank of Russia to make decisions on inclusion of Internet websites used to commit fraudulent activities in the financial market in the Unified register of domain names, page indexes of Internet websites and network addresses that allow identifying Internet websites containing information, dissemination of which is prohibited in the Russian Federation, in order to restrict access to such websites.

However, inclusion of Internet websites in the specified register provides for posting the following information on them:

- using the "fishing" technology by simulating the affiliation of Internet websites to official websites of credit and non-credit financial organizations;
- related to offering and/or providing of financial services by persons who do not have the right to provide them in accordance with the laws of the Russian Federation.

Part of the items of the List of Instructions concerns the improvement of legal regulation in the field of consumer rights protection, including in the financial field. A number of specific issues shall be resolved through making relevant amendments to the Law “On Protection of Consumer Rights”.

Thus, on 10 November 2017, the State Duma of the Federal Assembly of the Russian Federation at the first reading passed draft federal law No. 268019-7 “On Amendments to the Law of the Russian Federation “On Protection of Consumer Rights” and the Federal Law “On Sanitary and Epidemiological Well-Being of the Population”⁶ prepared by Rospotrebnadzor.

The draft law provides for using control purchases when implementing federal state supervision in the field of consumer rights protection and federal state sanitary and epidemiological supervision.

However, in accordance with Article 16.1 of Federal Law No. 294-FZ, dated 26 December 2008,⁷ a control purchase (1) is a control measure, during which the state control (supervision) authority carries out actions to create a situation for a transaction in order to verify compliance by legal entities, individual entrepreneurs with mandatory requirements for sale of goods, performance of works and provision of services to consumers. The above law sets the procedure for carrying out a control purchase.

In order to ensure unambiguous legal regulation of local authorities exercising their powers in the field of consumer rights protection, Rospotrebnadzor drafted a federal law “On Amendments to the Federal Law “On General Principles of Organization of Local Government in the Russian Federation”⁸.

The draft law provides for establishment in Federal Law No.131-FZ, dated 6 October 2003, “On General Principles of Organization of Local Government in the Russian Federation” the right of local governments to exercise consumer protection within the powers established by Article 44 of the Law “On Protection of Consumer Rights”.

In response to emerging threats to safety of personal data, including when providing financial services to individuals, Rospotrebnadzor, in pursuance of Paragraph 7 of Sub-Clause “b” of Clause 1 of the List of Instructions, prepared a draft federal law “On Amendments to Articles 16 and 40 of the Law of the Russian Federation “On Protection of Consumer Rights”⁹, focused on additional protection of consumers when collecting and processing personal data.

The draft law prohibits forcing a consumer under threat to refuse to enter into a transaction to provide personal data in cases where provision of such data is not stipulated by the laws of the Russian Federation and is not related to sale of goods (works, services).

The above new provisions are intended to restrict the practice of forced or non-transparent, unconscious collection of personal data of consumers for purposes not related to signing and performance of the agreement.

⁵ As of 1 May 2018.

⁶ As of 1 May 2018.

⁷ Federal Law No. 294-FZ, dated 26 December 2008, “On Protection of the Rights of Legal Entities and Individual Entrepreneurs in the Conduct of State Control (Supervision) and Municipal Control” as amended by Federal Law No. 277-FZ, dated 3 July 2016, “On Amending the Federal Law “On Protection of Rights of Legal Entities and Individual Entrepreneurs in the Conduct of State Control (Supervision) and Municipal Control”, and the Federal Law “On Strategic Planning in the Russian Federation”.

⁸ As of 1 May 2018.

⁹ As of 1 May 2018.

Simultaneously with this draft law, Rospotrebnadzor drew up a draft federal law “On Amendments to the Code of Administrative Offenses of the Russian Federation Relating to Introducing Additional Measures of Administrative Responsibility for Violating Consumer Rights”¹⁰.

The applicable version of the Code of Administrative Offenses of the Russian Federation¹¹ does not provide for administrative responsibility for violations in the field of consumer rights protection related to forcing a consumer, including under threat of refusal to sign, perform, amend, terminate the agreement, to provide personal data in cases where obligation to provide such data is not stipulated by the laws of the Russian Federation and is not related directly to the performance of the agreement with the consumer.

The new provisions of the draft law are intended to restrict the practice of forced provision of personal data by consumers for purposes not related to signing and performance of the agreement, and they correspond with the amendments introduced in Article 16 of the Law “On Protection of Consumer Rights regarding prohibition of forcing a consumer to provide his or her personal data when signing the agreement”.

The list of draft laws drawn up in pursuance of the List of Instructions in 2017 and published on the official website <http://regulation.gov.ru> is given in Table 1.3.

Table 1.3. The list of draft laws drawn up in pursuance of the List of Instructions of the President of the Russian Federation No. Pr-1004GS, dated 25 May 2017, and aimed at improving regulation in the field of consumer rights protection, including in the financial field

No.	Description of Instruction	Draft Federal Law Name
Responsible Federal Authority: Ministry of Finance of the Russian Federation		
1.	Ensure making amendments to the laws of the Russian Federation to provide for the following: <ul style="list-style-type: none"> Reduction of the maximum amount of the borrower's liabilities before the microfinance institution or credit organization under a consumer loan agreement, upon which such an organization may not charge and collect interest for the use of the loan and penalties and fines, and impose other liability measures on the borrower under the above contract until full repayment of the debt; Deprivation of a lender of the right to require that the borrower fulfil the obligations under the loan (credit) agreement, if such an agreement has been entered into by a person who is not a lender in the meaning of the Federal Law “On Consumer Loan (Credit)”, or if the agreement has been entered into in violation of quantitative restrictions on the provision of loans; 	The draft Federal Law “On Amendments to the Federal Law “On Consumer Credit (Loan)” and the Federal Law “On Microfinancing and Microfinance Institutions” (draft ID 02/04/08-17/00070222).
2.	Ensure making amendments to the laws of the Russian Federation providing for increase of the amount of administrative fines imposed on officials who illegally carry out activities on provision of consumer loans, as well as introduction of criminal penalties for officials and suspension of activities of legal entities in the case of a repeated commission of such an offense	The draft federal law “On Amendments to the Russian Federation Code of Administrative Offenses” (Draft ID 02/04/08-17/00070118)
Responsible Federal Authority: Ministry of Communications of the Russian Federation		
3.	Ensure making amendments to the laws of the Russian Federation providing for, as requested by the Central Bank of the Russian Federation, restriction of access to Internet websites used in violation of the laws of the Russian Federation regulating relations in the financial market, including for fraudulent activities in the financial market	The draft federal law “On Amendments to Article 15.1 of the Federal Law “On Information, Information Technologies and Information Protection” (Draft ID 02/04/06-17/00067719)
Responsible Federal Authority: Rospotrebnadzor		
4.	Ensure making amendments to the laws of the Russian Federation providing for using control purchases when implementing federal state supervision in the field of consumer rights protection and federal state sanitary and epidemiological supervision;	Draft federal law No. 268019-7 “On Amendments to the Law of the Russian Federation “On Protection of Consumer Rights” and the Federal Law “On Sanitary and Epidemiological Well-Being of the Population” (Draft ID 02/04/02-17/00062253) Federal Law No. 81-FZ, dated 18 April 2018, “On Amendments to Certain Legal Acts of the Russian Federation”.
5.	Ensure making amendments to the laws of the Russian Federation providing for granting local governments with additional powers in the field of consumer rights protection	The draft federal law “On Amendments to the Federal Law “On General Principles of Organization of Local Government in the Russian Federation” (Draft ID 01/05/08-17/00072701)
6.	Ensure making amendments to the laws of the Russian Federation to provide for the following: <ul style="list-style-type: none"> determining a list of unacceptable and wrongful terms of agreements violating consumer rights in order to exercise the principle of protecting a weak party of the agreement in relations governed by the legislation of the Russian Federation on 	Draft Federal Laws: <ul style="list-style-type: none"> “On Amendments to Articles 16 and 40 of the Law of the Russian Federation “On Protection of Consumer Rights” (Draft ID

¹⁰ As of 1 May 2018.

¹¹ Code of Administrative Offenses of the Russian Federation.

No.	Description of Instruction	Draft Federal Law Name
	<p>consumer rights protection;</p> <ul style="list-style-type: none"> Prohibition of forcing consumers to provide personal information threatening to reject the transaction in cases where the provision of such data is not provided for by the legislation of the Russian Federation and is not related to the sale of goods (works, services), as well as imposing administrative liability for violation of this prohibition 	<p>02/04/11-17/00074720;</p> <ul style="list-style-type: none"> "On Amendments to the Code of Administrative Offenses of the Russian Federation Relating to Introducing Additional Measures of Administrative Responsibility for Violating Consumer Rights" (Draft ID 02/04/11-17/00074713). <p>Rospotrebnadzor issued a notification on the start of the drafting a federal law "On Amendments to the Laws of the Russian Federation providing for determining a list of unacceptable and wrongful terms of agreements violating consumer rights in order to exercise the principle of protecting a weak party of the agreement in relations governed by the legislation of the Russian Federation on consumer rights protection" (Draft ID 01/05/08-17/00072685)</p>

Responsible Federal Authority: Ministry of Labour of the Russian Federation

7.	Ensure making amendments to the laws of the Russian Federation providing for special measures to protect the rights of socially vulnerable categories of consumers (disabled, elderly people, children) and administrative responsibility for their violation	<p>Draft Federal Laws:</p> <ul style="list-style-type: none"> "On Amendments to Certain Legal Acts of the Russian Federation Providing for Special Measures to Protect the Rights of Socially Vulnerable Categories of Consumers such as Disabled, Elderly People and Children" (Draft ID 02/04/08-17/00072573); "On Amendments to the Russian Federation Code of Administrative Offenses" (Draft ID 02/04/08-17/00072581)
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Responsible Federal Authority: Ministry of Justice of the Russian Federation

8.	Ensure making amendments to the laws of the Russian Federation providing for introduction of legal mechanisms for protecting the rights and legitimate interests of consumer groups in courts (group suits)	The draft federal law "On Amendments to Certain Legal Acts of the Russian Federation for the Purposes of Establishing a Procedure to Consider Claims for Protection of Rights and Legitimate Interests of a Group of Persons" (Draft ID 01/05/09-17/00073156)
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In pursuance of Sub-Clause "c" of Clause 1 of the List of Instructions, the Ministry of Communications of the Russian Federation as part of the direction "Legal Regulation" of the programme "Digital Economy of the Russian Federation" approved by RF Executive Order No. 1632-eo, dated 28 July 2017, provides for drafting of the concept of middle term actions to improve the legal regulation with a view to develop the digital economy, including actions to improve legal regulation of consumer rights protection in the digital economy environment.

The Action Plan under the direction "Legal Regulation" of the programme "Digital Economy of the Russian Federation" approved by the Government Commission for Using Information Technologies to Improve the Quality of Life and Business Conditions (Minutes No. 2, dated 18 December 2017) provides for the following measures of legal regulation in the field of consumer rights protection in the digital economy environment:

- Passing of a federal law providing for amendments to the Civil Code of the Russian Federation¹², the Law "On Protection of Consumer Rights" and other legal acts related to observance of the balance of rights and obligations of the parties to an agreement, the mechanism for protecting weaker party, and development of the joint consumption economy;
- Passing of a federal law providing for amendments to the Law "On Protection of Consumer Rights" and/or other legal acts with regard to ensuring of non-cash payment methods for all organizations that sell goods via Internet;
- Drafting of proposals of the Russian Federation on amendments to the Treaty on the Eurasian Economic Union, dated 29 May 2014, or drafting of other EEU legal acts as part of implementation of the roadmap for harmonizing the laws of the EEU Member States in the digital field aimed at establishing a unified policy to protect consumer rights in terms of usage of digital services, digital technologies, etc. by consumers of the Member States.

Novations of the Law "On Protection of Consumer Rights"

In order to promote further expansion of the infrastructure for accepting national payment instruments and development of non-cash settlements, in 2017, Federal Law No. 88-FZ, dated 1 May 2017, "On Amendments to Article 16.1 of the Law of the Russian Federation "On Protection of Consumer Rights" and the Federal Law "On National Payment System" were passed. In accordance with this law, the obligation to provide an opportunity to pay for goods (works, services) with national payment instruments within the national payment card system is to be borne by the seller (provider), whose revenue from the

¹² The Civil Code of the Russian Federation.

sale of goods (works, services) exceeds 40 million RUB in the previous calendar year (in the previous version of the law, the revenue limit was 120 million RUB).

The new version of Clause 1 of Article 16.1 of the Law “On Protection of Consumer Rights” provides for the following cases when a business entity is relieved of the obligation to accept payment for goods (works, services) using national payment instruments:

- if a place of payment for goods (works, services) is located where access to mobile radiotelephone communications and/or means of collective access to Internet is not provided;
- if the revenue from the sale of goods at the retail facility for the previous calendar year is less than 5 million RUB.

One of the trends of recent years is the rapid development of the segment of Internet commerce (remote sale of goods via Internet), which to date is represented by a very large number of microenterprises, the total share of which, however, ranges from 50 to 80% due to weak consolidation of Internet commerce on different commodity markets.

The provisions of the Clause 1 of Article 16.1 of the Law “On Protection of Consumer Rights” in the above version taking into account the stipulated total revenue amount actually fully exclude the above Internet sellers from business entities that are obliged to provide the opportunity to pay for goods (works, services) with national payment instruments. As a result, at the majority of Internet market segments, consumers are deprived of the opportunity to pay for goods with national payment instruments. At the same time, international practice convincingly proves that remote payments for purchases in developed countries are effected only with electronic means of payment. Thus, in the USA, United Kingdom and European Union countries that share of electronic payment almost reached 100%.

Regarding the above, draft federal law No. 346659-7 “On Amendments to Article 16.1 of the Russian Federation Law “On Protection of Consumer Rights” was drawn up¹³ and brought in to the State Duma of the Russian Federation on 21 December 2017.

The draft law proposes to set a requirement to provide consumers with a possibility to make non-cash payments with national payment instruments when carrying out commerce via Internet.

Passing of this draft law will both reduce the sales of substandard and counterfeit goods and increase fiscal transparency of the Internet commerce segment, identify the actual income from such business, significantly increase tax collection and reduce the segment of “grey” import. The relevant law will guarantee a transaction security, the possibility to recover money with the help of the card issuing bank, if the service has not been rendered or rendered improperly, including following the payment system procedures.

In order to improve legal regulation of the sale of goods and services in the Internet and establish additional mechanisms to protect the rights of consumers who purchase goods and services on the Internet, on 14 June 2017, the State Duma of the Russian Federation passed at the first reading draft Federal Law No. 26869-7 drawn up by Rospotrebnadzor “On Amendments to the Russian Federation Law “On Protection of Consumer Rights”.

The said draft law provides for the “aggregator” term as an independent business entity responsible to consumers for respecting their rights to information about goods or services.

In accordance with the draft law, the “aggregator” means an information intermediary which enters into fee-based relations with consumers, but does not enter into transactions for sale and purchase of goods (fee-based services).

The amendments to the draft law brought in by the Government of the Russian Federation to the State Duma on 19 February 2018 clarify the list of information that the aggregator shall provide to consumers and for which it is responsible.

Thus, the aggregator is obliged to communicate to consumers the following information about itself and the seller (manufacturer):

- Name, location and state registration number of the entry on the establishment of the legal entity;
- Last name, first name, patronymic, state registration number of the entry on the state registration of an individual entrepreneur.

These amendments to the draft law additionally establish the obligation of the seller (provider) to communicate to the aggregator true information about itself. They also provide for responsibility of the aggregator for losses caused to consumers due to supply of unreliable information about goods (services) or the seller (provider). However, the aggregator is relieved of this responsibility in cases where it did not change the information about goods or services submitted by the seller (provider).



Laws that govern legal relations in the field of consumer rights protection, including the basic Law “On Protection of Consumer Rights”, are constantly improved and supplemented with new provisions that are designed to correspond in the best way to current trends of the consumer market development, including the financial services segment. The Instructions of the President of the Russian Federation following the meeting of the Presidium of the State Council became an important incentive for further improvement of the national legal framework for consumer rights protection, including financial consumers.

¹³ As of 1 May 2018.

1.3. The Institution of the Financial Ombudsman for the Rights of Consumers of Financial Institutions' Services

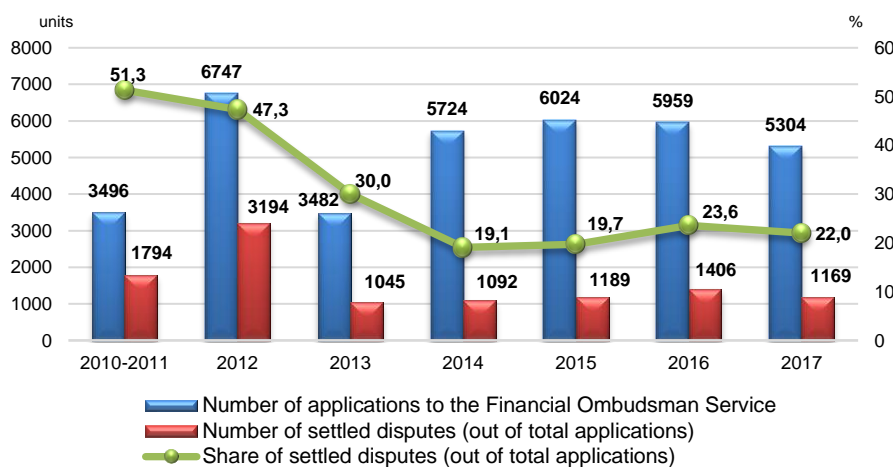
The institution of the financial ombudsman for the rights of consumers of financial institutions services as an institution for out-of-court settlement of disputes became common in the global practice.

The experience of European countries, in particular, United Kingdom, Ireland and Germany shows that introduction of the institution of financial ombudsman (commissioner) significantly improves the security of individuals when receiving financial services, greatly simplifies out-of-court settlement of disputes between individuals and financial organizations, and in addition raises financial literacy of the population and reduces the social tension caused by dissatisfaction with the quality of financial services, including in the case of debt overburden of the population.

In Russia, the financial ombudsman institution was established in 2010 under the Russian Bankers' Association (hereinafter referred to as the RBA). The position of the financial ombudsman is held by P.A. Medvedev. Please note that as from 1 December 2017 the personnel of the institution of the financial ombudsman under the RBA will be made redundant, but for the financial ombudsman¹⁴.

During 2017, the financial ombudsman considered 5,304 applications, which is 11% less than in 2016. Settled disputes also decreased — by 16.8%, as well as their share — by 6.8% (Figure 1.1.).

Figure 1.1. Movements in the number of applications submitted to the financial ombudsman service, 2010-2017¹⁵



Source: Russian Bankers' Association

Totally, during its service (2010–2017) the financial ombudsman considered 36,736 applications, in which the share of settled disputes amounts to about 30%. However, despite the overall growth of applications during the above period by 1.5 times (from 3,496 to 5,304), settled disputes decreased by 34.8% (from 1,794 to 1,169), and their share — by 2.3 times (from 51.3 to 22%)¹⁶.

In their applications for the period from the beginning of the service of the financial ombudsman, there were totally 500 organizations, where the largest share attributed to credit organizations (278 applications, or 55.6%) followed by microfinance institutions (85 applications, or 17%) (Figure 1.2.).

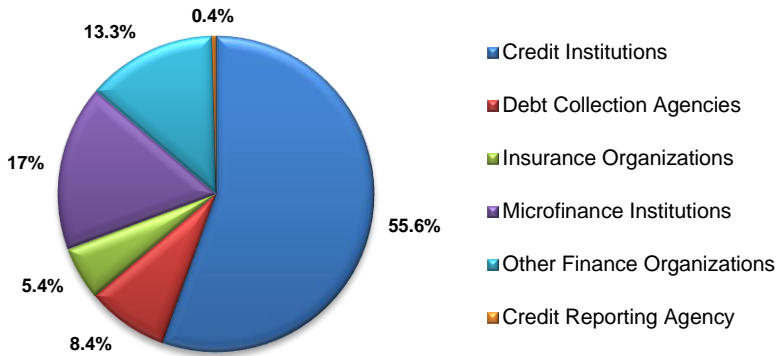
The legal framework for regulating the institution of the financial ombudsman activities is suggested to be improved through passing of a special law, the need for which is recognized by all stakeholders, including representatives of the banking community.

Figure 1.2. Mix of organizations indicated in individuals' applications submitted to the financial ombudsman office in 2010–2017, by types of financial organizations in the financial services market

¹⁴ <https://www.finversia.ru/news/events/finansovyi-upolnomochennyi-mif-ili-realnost-32014>.

¹⁵ Statistics have been kept since 1 October 2010.

¹⁶ Based on the Information Bulletins of the Financial Ombudsman for 2010–2017 // Official website of the Russian Bankers' Association <http://arb.ru>.



Source: Russian Bankers' Association

In 2014, the State Duma of the Russian Federation passed at the first reading the following draft federal laws¹⁷:

- No. 517191-6 "On Financial Ombudsman for the Rights of Consumers of Financial Institution Services"
- No. 517203-6 "On Amendments to Certain Legal Acts of the Russian Federation in Relation to Passing the Federal Law "On Financial Ombudsman for the Rights of Consumers of Financial Institutions Services".

In 2016, the Ministry of Finance drafted amendments to the said draft laws, which are published on the website <http://regulation.gov.ru>.

The Government of the Russian Federation was instructed to finalize by 1 February 2017 the draft federal law "On Financial Ombudsman for the Rights of Consumers of Financial Institutions" Services and passing it as a matter of priority (Sub-Clause "a" of Clause 1 of List of instructions of the President of the Russian Federation No. Pr-2563, dated 28 December 2016). To date the draft law has not been passed¹⁸.

The reasons for delay of the passing of the draft law aimed at introducing a civilized institution for protection of financial consumers rights were discussed by the participants of the "Financial Ombudsman in Russia" roundtable, which was held on 5 December 2017. According to the head of the Bank of Russia's Office for Protection of Consumer Rights and Availability of Financial Services, M.V. Mamuta, establishment of the institution of the ombudsman is a rather important step to ensure that the financial market has in place rules for handling claims that, in the long term, which will lead to increased customer satisfaction with the services rendered. However, both the market and consumers should have time to adapt¹⁹.

In accordance with the draft amendments to the draft federal law "On Financial Ombudsman for the Rights of Consumers of Financial Institutions Services" drawn up by the Ministry of Finance of Russia and published on the website <http://regulation.gov.ru>, it is proposed to amend the title of draft law as follows: "On Financial Ombudsman for the Rights of Consumers of Financial Institutions Services".

According to the draft amendments, the draft law defines the legal status of the financial ombudsmen for the rights of financial consumers, the procedure and terms for resolution of disputes by them arising between individuals and financial organizations, the legal framework for organizational and financial support for the activities of the Financial Ombudsmen Service.

As per Part 1 of Article 3 of the draft law, in the draft amendments, the activity of the financial ombudsman is a preventive measure to protect the rights and interests of the financial consumer and complements existing ways of protecting the rights and legitimate interests of individuals.

The financial ombudsman may consider financial consumers' applications submitted to the Office in the event of disputes, regardless of other means of settlement selected by individuals: legal proceedings, mediation, arbitration proceedings, settlement of claims with the financial institution, except for disputes arising after legal proceedings and disputes, for which dates of consideration of disputes in courts are appointed.

In accordance with Part 3 of Article 3 of the draft law, the financial consumers' applications are considered by the financial ombudsman free of charge.

The draft law provides for the following conditions under which the financial consumer has the right to submit an application to the Financial Ombudsman Service:

- A contract signed by the financial consumer with a financial institution, the performance of which raises complaint to be followed by submission of an application;
- An agreement on cooperation entered into between the financial organization with the Financial Ombudsman Service.

In accordance with Article 21 of the draft law, the signing of an agreement on cooperation with the Financial Ombudsman Service is an act of free will of the financial institution.

At the same time, insurance organizations that provide at least one of the following types of insurance: a) insurance of ground transport vehicles (with the exception of railway transport); b) insurance of civil liability of vehicle owners; c) mandatory insurance of civil liability of vehicle owners, sign a cooperation agreement in a mandatory manner.

The Financial Ombudsman Service costs are funded at the expense of the property of the Service, which is formed from

¹⁷ Drafts IDs, correspondingly: 02/09/11-16/00059423, 02/09/11-16/00059424.

¹⁸ As of 1 May 2018.

¹⁹ <https://www.finversia.ru/news/events/finansovyi-upolnomochennyi-mif-ili-realnost-32014>.

the following sources:

- asset contributions of founders, in particular, the Bank of Russia through a one-time transfer of 300 million RUB for the activities of the Service;
- annual contributions of financial organizations received in accordance with the cooperation agreement;
- proceeds received by the Service from investing the funds;
- other proceeds that are not prohibited under Russian laws.

The amount of the annual contribution of a financial institution that signed a cooperation agreement is set on the basis of a fixed rate established by the Service Presidium and the ratio, the amount of which depends on the number of applications from the financial organization customers considered by the Service.

In accordance with Article 20 of the draft law, a financial consumer may file a legal claim against a financial organization in two cases:

- if a response to the application filed with the Financial Ombudsman Service was not received within a prescribed deadline;
- if the financial consumer does not agree with a decision of the financial ombudsman as to settlement of the dispute (before the effective date of the decision).

Taking into account the draft amendments prepared by the Ministry of Finance of Russia, the provisions of the draft federal law “On Amendments to Certain Legal Acts of the Russian Federation in Relation to Passing the Federal Law “On Financial Ombudsman for the Rights of Consumers of Financial Institutions Services” have been reviewed significantly.

The draft law, as per the draft amendments, provides for amendments to the following legal acts:

- The CAO of the Russian Federation - with regard to establishing the grounds and measures of administrative responsibility for violating the requirements of the laws of the Russian Federation On Financial Ombudsman (non-performance or improper performance of a decision of the financial ombudsman that came into force), as well as for issuing a knowingly unlawful decision by the financial ombudsman for financial consumer rights;
- Federal Law No. 86-FZ, dated 10 July 2002, “On the Central Bank of the Russian Federation (Bank of Russia)” - with regard to inclusion in the list of functions of the Board of Directors of the Bank of Russia the consideration of issues and taking decisions related to the activities of the Financial Ombudsman Service.

Federal Law No. 40-FZ, dated 25 April 2002, “On Compulsory Insurance of the Civil Liability of Vehicle Owners” (hereinafter referred to as OSAGO Law) and Federal Law No. 223-FZ, dated 21 July 2014, “On Amendments to the Federal Law “On Compulsory Insurance of the Civil Liability of Vehicle Owners” and Certain Legal Acts of the Russian Federation — with regard to the establishment of an out-of-court procedure for disputes settlement related to OSAGO providing for submission by the affected party to the insurer of a claim with documents attached thereto and justifying the claim of the affected party and/or submission by the affected individual of an application to the Financial Ombudsmen Service in the manner prescribed by the Federal Law “On Financial Ombudsman for the Rights of Consumers of Financial Institutions Services”.



The issue of legal regulation of the institution of the financial ombudsman for financial consumer rights in the Russian Federation is still under discussion. Passing of a relevant federal law will contribute to the overall strengthening of the legal framework for protection consumer rights in the financial sector.

1.4. Consumer Lending Regulation

Over the last years, one of the most important developments in statutory financial consumer protection is the Law “On Consumer Credit (Loan)” became effective 01 July 2014.

The law established the content and procedure for submission of the information when signing a consumer loan (credit) agreement, the requirements to a consumer loan (credit) agreement and related agreements, requirements to lenders and borrowers, the rights and obligations of the parties under the agreement, measures to protect the rights and legitimate interests of consumers and creditors and liability for their breach, measures of the state control and supervision in the field of consumer lending, as well as other matters of consumer lending.

Also, the law imposed the definition of the total cost of consumer credit (loan) (TCC). TCC may not exceed the average market value of TCC of the respective category of consumer credit (loan), applied during a respective calendar quarter, by more than one third.

In 2017, amendments initiated by legal acts passed earlier came into force. Thus, as from 01 January 2017 Article 15 “Peculiarities of Committing Actions Aimed at Recovery of Debts under a Consumer Loan (Credit) Agreement” of the Law “On Consumer Loan (Credit)” in connection with passing of the Law “On Protection of Rights and Legal Interests of Individuals in Recovery of Overdue Debts” ... became void²⁰.

²⁰ Federal Law No. 230-FZ, dated 3 July 2016, “On Protection of Rights and Legal Interests of Individuals in Recovery of Overdue Debts and on Amendments to the Federal Law “On Microfinancing and Microfinance Institutions”.

Improvement of the legal framework for consumer lending is characterized by the implementation of a number of important legislative initiatives in 2017. In particular, as from 24 June 2013 the norms came into effect²¹ that regulate the peculiarities of the terms of the credit agreement, loan agreement that are signed with individuals for purposes not related to carrying out business activities by him or her, and the borrower's obligations under which are secured by a mortgage, concerning:

- Determining the effective interest rate of the loan (credit);
- Application of the requirements of the Law "On Consumer Loan (Credit)" to the agreement with regard to:
 - Publishing of information on the TIC on the first page of the agreement;
 - Prohibiting charging by the lender of remuneration for performance of the obligations assigned to it by the legal acts of the Russian Federation, as well as for services rendering which the lender acts solely in its own interests and which do not create separate material benefits for the borrower;
 - Publishing of information on the terms and conditions for provision, use and repayment of a loan (credit) in the places of rendering of services (places of acceptance of applications for a loan (credit), including on the Internet), as well as with regard to supplying the borrower with other prescribed information;
 - Providing the borrower with a repayment schedule;
 - Performing by the lender free of charge operations with the bank account of the borrower, if the terms of the agreement provide for opening thereof.
- Reflecting in the calculation of the TIC, along with the borrower's payments provided for the purposes of calculating the TIC of standard consumer loans (credits), of the amount of the insurance premium paid by the borrower under the contract of insurance of the collateral that securing the requirements to the borrower under the consumer loan agreement;
- Determining the approximate amount of the average monthly payment of the borrower and posting it in a square box to the right of the TIC information in monetary terms (in digits and capital letters). However, the area of the square box should not be less than 5% of the area of the first page of the agreement;
- Setting the amount of the penalties and fines for failure to perform or improper performance by the borrower of his or her obligations under the agreement in an amount not exceeding the key rate of the Bank of Russia on the day of signing of the corresponding agreement, in the event that under the terms of the agreement interest accrues for the relevant period of breaching the obligations, or 0.06% of the amount of overdue debt for each day of breaching of obligations in the event that under the terms of the agreement, interest for using the loan (credit) does not accrue for the corresponding period of breaching obligations.

In addition, the above amendments to the Law "On Consumer Loan (Credit)":

- Set the requirement to publish on the first page of the consumer loan (credit) agreement information on the TIC not only in percent per annum, but also in monetary terms;
- Detail the list of information that is to be published in the places of the rendering of services. Now, the lender must indicate the date from which interest accrues for using a consumer loan (credit) or the procedure for setting it, as well as information on the increased risks to the borrower receiving income in a currency other than the loan (credit) currency;
- Extend the individual conditions of the consumer loan (credit) agreement with the terms of provision of a variable interest rate on the date of granting the individual conditions to the borrower, indicating the change in the amount of borrower's costs when the variable interest rate of the consumer loan (credit) used in the consumer loan (credit) agreement increases by 1%, starting with the second regular payment, on the nearest date after the expected date of conclusion of the consumer credit (loan) agreement;
- Complete the indicators, regarding which the Bank of Russia establishes the categories of consumer loans (credits), with the following indicators: receiving the salary by the borrower to his or her bank account opened with the lender, other regular payments accrued in connection with performance of employment duties and/or pensions, allowances and other social or compensation payments;
- Limit the influence of the largest lenders in calculating the TIC. Thus, if during calculation of an average weighted TIC the amount of consumer loans (credits) granted in one category of a consumer loan (credit) by one lender exceeds 20% of the total volume of loans (credits) granted by all lenders in this category, then the amount of loans of such a creditor is deemed to be 20%.

As from 1 June 2018 new amendments to the Civil Code of the Russian Federation come into force²². Their main goal is to protect the weakest party of the agreement - an individual borrower. Below are the changes to the Civil Code of the Russian Federation:

- Previously, the loan agreement came into effect immediately upon funds transfer from the lender to the borrower. Now, the loan agreement can be consensual, i.e. come into effect immediately upon signing by the parties. If the lender refuses to perform its obligations and does not transfer funds to the borrower, the borrower will have the opportunity to protect his or her rights under the applicable loan agreement;
- Now, the lender may refuse to perform the loan agreement in full or in part, if there are circumstances that clearly

²¹ Federal Law No. 378-FZ, dated 5 December 2017, "On Amendments to Article 9.1 of the Federal Law "On Mortgage (Real Estate Pledge)" and the Federal Law "On Consumer Loan (Credit)".

²² Federal Law No. 212-FZ, dated 26 July 2017, "On Amendments to Part One and Two of the Civil Code of the Russian Federation and Certain Legal Acts of the Russian Federation".

indicate that the loan granted will not be repaid on time;

- The loan agreement can now provide for new terms and conditions, compliance with which leads to the change in the interest rate;
- Previously, the loan agreement was considered to be non-interest bearing, if the amount of borrowing did not exceed 50 times of the minimum wage (hereinafter referred to as MROT) and it was not related to the business of at least one of the parties to the agreement, now this amount is 100,000 RUB, irrespective of whether the loan agreement is signed between individuals or individual entrepreneurs;
- Now, the interest under a loan agreement signed between individuals or between a legal entities that is not involved in professional activities in provision of consumer loans and a borrower, which is 2 times or more higher than the interest that normally accruable in such cases, and therefore is excessively onerous for the debtor (usurious interest), may be reduced by the court to the amount of interest normally charged in comparable circumstances;
- The amount of interest-free loan can be repaid early both in full and partially, unless otherwise is stipulated by the agreement;
- The text of the agreement may include the provision about the agreement of the lender to an early repayment of the loan (except for “consumer” ones);
- Previously, the borrower was obliged to repay the loan and pay interest on it, now the loan agreement may provide for other payments, including those related to the provision of a loan. However, with regard to consumer loans, restrictions, cases and peculiarities of charging other payments are governed by the Law “On Consumer Loan (Credit)”;
- A loan used by the debtor in full or in part to fulfill obligations under a loan previously granted by the same lender without crediting it to the bank account of the debtor shall be considered granted immediately upon receipt by the debtor of the information from the lender on the repayment of the loan previously granted, in the manner provided for in the agreement.

Table 1.4. shows TCC for the organizations granting consumer credits to individuals in Q1-Q4 2016. TCC are calculated for consumer credit (loan) categories by the types of organizations. The categories of consumer credits (loans) are classified by credit periods, loan security, loan nature (targeted and general-purpose loans), and the amount of credit (loans).

Table 1.4. Total cost of consumer credit (loan) (TCC) for organizations granting consumer credits (loans) to individuals for Q1–Q4 2016-2017

Year	Range of maximum values of the true interest cost, %			
	Q1	Q2	Q3	Q4
<i>Credit Institutions (Banks)</i>				
2016	21.5–51.6	21.8–48.2	22.6–46.1	22.2–44.0
2017	21.6–41.8	20.7–39.5	20.6–39.4	19.6–35.7
<i>Microfinancing Organizations</i>				
2016	44.7–880.1	54.7–807.0	48.8–818.2	50.8–817.6
2017	45.3–795.2	44.7–799.2	45.5–799.1	44.7–795.6
<i>Pawn Shops</i>				
2016	124.4–216.8	115.5–177.5	96.5–179.2	100.9–167.6
2017	94.5–163.1	89.4–166.2	89.2–163.1	89.1–165.3
<i>Consumer credit co-operatives</i>				
2016	33.6–261.7	32.7–252.8	33.1–244.7	30.6–256.1
2017	31.0–255.1	30.8–259.2	28.4–256.4	30.3–256.0
<i>Agricultural consumer credit co-operatives</i>				
2016	31.5–67.5	20.7–67.3	23.1–75.5	23.9–63.3
2017	23.2–54.5	24.0–50.8	22.6–51.9	20.9–50.4

When the Law “On Consumer Loan (Credit)” came into force, significant practice of applying its provisions accumulated through consideration of disputes in courts.

The greatest number of references in court rulings, judgments, and decisions is made to Art.5 “Terms and conditions of consumer credit (loan) agreement” of the Law “On Consumer Credit (Loan)”. Number two is Article 6 entitled “Full Consumer Credit (Loan) Value”. Number three is Article 7 entitled “Entering into the Consumer Credit (Loan)” governing the procedures of entering into a loan agreement.

The following provisions of the Law “On Consumer Loan (Credit)” are often used in court judgements: Article 12 “Assignment of Rights (Claims) Under a Consumer Loan (Credit) Agreement” related to professional debt collectors activities; Article 13 “Resolution of Disputes”; Article 17 “Entry into Force of this Federal Law”, which is due to the fact that the provisions of the Law are applied only to the loan (credit) agreements signed as from 1 July 2014; Article 10 “Information Provided to the Borrower after Signing the Consumer Loan (Credit) Agreement”; Article 11 “Borrower’s Right to Refuse to Take Out a Consumer Loan (Credit) and Early Repayment of a Consumer Loan (Agreement)”; Article 1 “Relations Governed by this Federal Law”; Article 14 “Consequences of Violation by the Borrower of the Terms of Repayment of the Principal Amount of Debt and/or Payment of Interest Under the Consumer Loan (Credit) Agreement”²³.

²³ According to ConsultantPlus as of 16 January 2018.

Please note, that the Supreme Court of the Russian Federation (hereinafter referred to as the Russian Supreme Court) carries out explanatory work on the enforcement of the Law “On Consumer Loan (Credit)”. Along with the previous explanations, in September 2017, the Russian Supreme Court ^{24 25} published a review of judicial practice on cases relating to the protection of the rights of financial services consumers²⁶, which summarizes the practice of considering cases involving violation of the rights and legitimate interests of financial consumers, including in the field of consumer lending.

The above review notes the following:

- Invalidating the loan agreement terms of payment of the fee for maintaining the account leads to compensation to a individual consumer of losses under the rules of Article 15 of the Civil Code of the Russian Federation;
- The provisions of the Civil Code of the Russian Federation apply to claims of an individual consumer to protect his or her rights when the loan agreement is signed on their behalf in a fraudulent way;
- If the instructions of the consumer regarding withdrawal of funds from the account are not followed, in accordance with Article 856 of the Civil Code of the Russian Federation, the bank is obliged to pay interest on this sum in the manner and in the amount provided for by Article 395 of the Civil Code of the Russian Federation;
- The borrower may not unilaterally terminate the banking account agreement intended for keeping records of his or her accounts payable, if opening of such an account was a condition for signing the loan agreement;
- The payment of less funds for early repayment of the loan than was indicated by the individual borrower in the application for early repayment of the loan is not per se the grounds for refusing to credit these funds towards the debt repayment;
- Refusal to satisfy the claim of the consumer to the bank about reducing the contractual penalty with reference to the fact that the provisions of Article 333 of the Civil Code of the Russian Federation apply only in the event when the claim for recovery of loan debt and penalty was made by the bank was recognized unlawful;
- Bringing organizations providing financial services to administrative responsibility provided for by Article 14.8, Part 2 of the Code of Administrative Offenses of the Russian Federation, for the inclusion in the loan agreements of the terms that infringe the consumer rights, in comparison with the rules established by the legislation in the field of consumer rights protection, is recognized lawful.

On the whole, the Law helped to regulate the consumer crediting sphere. The rules and restrictions for the consumer credit market (that had earlier been indirectly regulated by other legislative acts such as Civil Code of the Russian Federation) were statutorily defined for lending organizations. At the same time, the costs of administering credits (loans) increased as did the risks for creditors. On the other hand, the borrowers were thus given a statutorily enshrined instrument to protect their rights on the previously unregulated consumer lending market.

However, during agreement and passing of this law the position of Rospotrebnadzor on a number of principal provisions was not taken into account²⁷.

In 2017, a number of draft laws to make amendments to the Law “On Consumer Loan (Credit)” were drawn up and brought in to the State Duma (Table 1.5).

Table 1.5. The draft laws brought in to the State Duma of the Russian Federation to make amendments to the Law “On Consumer Loan (Credit)”

Date, No.	Status, Last event date
Draft law abstract	
5 July 2017, 217958-7	Official comments from the Government of the Russian Federation have been received, 14 December 2017
<p>It is proposed to provide a borrower with the opportunity to repay the interest and principal debts arrears as a matter of priority, and only then penalties and fines.</p> <p>It is also proposed to establish a vacation term for borrowers for a period not exceeding 3 months within 1 calendar year, provided that interests for the period are paid. If the consumer loan agreement is signed for less than 1 calendar year, the delay of payment of the principal debt is granted for not more than 2 months.</p> <p>In addition, the lender is responsible for providing information on the amount of interest payable.</p>	
5 July 2017, 218178-7	Official comments from the Government of the Russian Federation have been received, 14 December 2017
<p>It is proposed to align the provisions of the Law “On Consumer Loan (Credit)” with the provisions of the Civil Code of the Russian Federation.</p> <p>In particular, it is proposed to establish a different order of priority for repayment of the monetary obligations (1) interest for the use of funds; 2) the principal amount of debt), as well as to exclude penalties (since the Civil Code of the Russian Federation already provides for liability for non-performance or improper performance of monetary obligations) as an additional measure of responsibility for breach of the monetary obligations of the debtor to the lender under the applicable consumer credit agreement.</p>	
14 July 2017,	Official comments from the Government of the Russian Federation have been received, 14 December 2017

²⁴ Review of Judicial Practice of the Russian Supreme Court No. 2 (approved by the Presidium of the Russian Supreme Court on 26 June 2015).

²⁵ Clause 37 of Ruling of the Plenary Meeting of the Russian Supreme Court No. 54, dated 22 November 2016.

²⁶ Review of Judicial Practice in Cases Involving the Protection of the Rights of Consumers of Financial Services (approved by the Presidium of the Supreme Court of the Russian Federation on 27 September 2017).

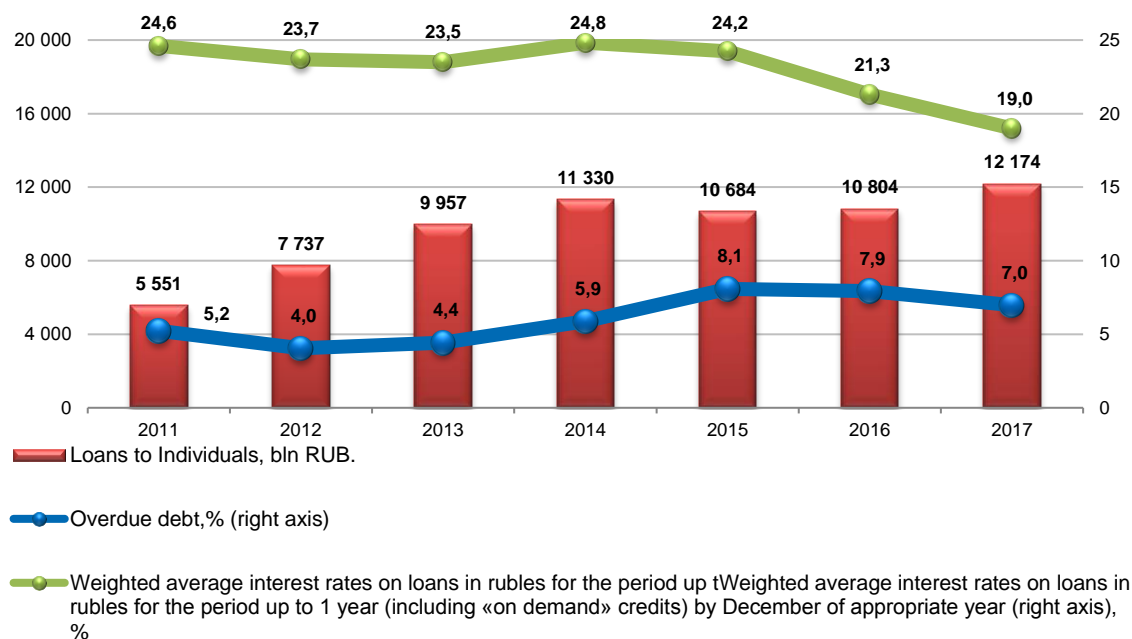
²⁷ Report On the Status of Financial Consumer Rights Protection in 2016, p.18

Date, No.	Status, Last event date
224583-7	
<p>It is proposed to introduce a provision, according to which the creditor may not assign rights (claims) under a consumer loan (credit) agreement to third parties without a consent of the borrower.</p> <p>And to cap the total amount of the borrower's monetary obligations under one consumer loan (credit) agreement, which includes obligations for repayment of the principal amount of debt, payment of interest, penalties and fines and other payments by a two-time amount of such consumer loan (credit).</p>	
21 July 2017, 232097-7	Federal Law, No. 53-FZ, dated 7 March 2018, "On Amendments to Certain Legal Acts of the Russian Federation".
<p>It is proposed to oblige the lender to inform the borrower about the debt and the balance of the credit limit under the consumer loan (credit) agreement provided using electronic means of payment by sending a notice to the borrower.</p>	
28 July 2017, 237568-7	Passed in the first reading, 8 November 2017
<p>It is proposed to clarify the definition of "professional activity in provision of consumer loans" to exclude as criteria for its qualification the need to carry out related activities at the expense of systematically raised funds, as well as its repeated nature (at least 4 times within one year).</p> <p>In addition, it restricts the amount of interest, penalties, fines and other liabilities accrued under the consumer credit (loan) agreement with a repayment period not exceeding one year, so that their total amount does not exceed 1.5 times the amount of the granted consumer loan (credit).</p> <p>In addition, it limits the possibility to assign rights (claims) under the consumer loan (credit) agreement: according to the general rule the assignment is allowed only to a person engaged in professional activities in provision of consumer loans, or a person engaged in returning overdue debts of individuals as a main activity, or a specialized financial company or financial agent.</p> <p>In addition, the draft law deprives the lender of judicial protection on claims with regard to the consumer loan (credit), if the consumer loan (credit) was granted by a non-professional lender, and also limits judicial protection on claims of the professional lender in terms of the amount of accrued interest under a consumer loan (credit) agreement, the repayment period of which does not exceed one year, penalties and fines and other payments that are not included in the amount of consumer loan (credit) due to 1.5 times the amount of the consumer loan (credit).</p>	
17 October 2017, 287844-7	Passed at the first reading, 14 February 2018
<p>It is proposed that Part 20 of Article 5 of the Law "On Consumer Loan (Credit)" shall be amended providing for that the amount of payment made by the borrower under the consumer loan (credit) agreement, if it is insufficient to fully discharge the borrower's obligations, repays the debt of the borrower in the following order of priority: 1) Interest on using the funds; 2) Principal debt amount; 3) Penalties and fines; 4) Other payments.</p> <p>It is established that the above order of priority of liability discharge may not be changed through agreement between the parties.</p>	

In 2017, the quality of the credit portfolio continued to improve, which is confirmed by decrease of the share of overdue debts of individuals by 0.9 percentage points (hereinafter referred to as p.p.), however, the volume of loans grew by 12.7% and exceeded pre-crisis level (Figure 1.3). It is worth noting the decrease in overdue debt on mortgage housing loans in the total amount of debt in this type of lending by 0.24 p.p. in 2017 to 1.33% as of 1 January 2018, which supports a general trend of decrease in overdue debt of individuals.

Improvement of the quality of the loan portfolio is due to a number of factors, including: general stabilization of the situation in the economy; Decrease in interest rates on loans (Figure 1.3); Programs of banks on loan refinancing (including to prevent overdue payments); Increase in the share of secured loans (mortgages, car loans) in the total amount of debt; Increase in the share of state-owned banks being more demanding creditors in the lending market; Higher level of exercise of the principles of responsible lending by the banks; Implementation of government programs to help borrowers who find themselves in a difficult life situation; Using of the private bankruptcy mechanisms; State regulation measures; Implementation of projects and programs to raise financial literacy of the population and financial consumers rights protection.

Figure 1.3. Movements in the volume of loans to individuals, share of overdue debts of individuals and average weighted interest rates in 2011–2017



Source: Bank of Russia

An important result of improvement of the quality of the loan portfolio is decrease in the level of tension between financial services consumers and financial institutions, including decrease in the number of complaints about actions of lenders to public authorities and legal proceedings between lenders and borrowers.



A significant number of legislative initiatives to introduce changes in the regulation of the consumer lending sector testify to the close attention of the society to this field and the need to further improve the rules governing the relations in the field of consumer lending in order to reduce the level of tension between financial services consumers and financial organizations.

1.5. Development of the Individuals Bankruptcy Institution

For a long time, Rospotrebnadzor, in cooperation with state authorities and public organizations has carried out preparatory work aimed at establishing the legal fundamentals to start functioning of the institution of private bankruptcy.

Following a long public discussion, since 1 October 2015, individuals have had the right to apply for the private bankruptcy procedure²⁸, which increased the ability of financial services consumers who found themselves in a difficult situation to protect their rights.

FOR REFERENCE

The global practice of regulating bankruptcy procedures is based on recognizing the institute of “consumer bankruptcy” as a benefit for a good faith individual, as it allows to get rid of his/her debts during the same process by providing his/her property for settlements with creditors. The private bankruptcy institution operates in many countries across the globe. For example, in the USA 300,000 individuals declare themselves insolvent, in Germany - 90,000, in Canada - 70,000.

The new legislation will enable a distressed debtor, taking into account his/her available or future earnings, to plan the fulfillment of their liabilities to creditors and thus restore their solvency; to reduce the creditors’ risks and costs associated with debt collection difficulties, and to reduce the costs of personal bankruptcy administration.

Table 1.6. Step-by-step private bankruptcy procedure

Description/Contents
1. Filing a Bankruptcy Application
<u>Applicants</u>

²⁸ Federal Law No. 154-FZ, dated 29 June 2015, “On Settlement of Peculiarities of Insolvency (Bankruptcy) in the Republic of Crimea and the Federal City of Sevastopol, and on Amendments to Certain Legal Acts of the Russian Federation”.

Description/Contents
<ul style="list-style-type: none"> Individual (debtor) Bankruptcy creditor Authorized body (revenue authority) <p><u>For all creditors</u></p> <ul style="list-style-type: none"> Claims against the debtor amount to or exceed 500,000 RUB, payments are overdue for 90 days or more; The debt is confirmed by a court decision, or at least one of the following conditions applies: <ul style="list-style-type: none"> There is a written debt admission by the debtor (the court must verify the credibility of the creditor's monetary claim, regardless of whether the debt is admitted by the debtor²⁹) The claim is notarized The bank's claim under a loan agreement A support recovery claim A mandatory payment claim <p><u>For the debtor</u></p> <p><u>Rights:</u></p> <p>The individual is aware that he/she is reasonably not able to discharge his/her liabilities when due, regardless of their amount (he/she lost his/her job, seriously disease, etc.) and also meets at least one insolvency criterion:</p> <ul style="list-style-type: none"> The individual has ceased to fulfill his/her liabilities and/or has an overdue obligation to pay mandatory payments More than 10% of all debts have been overdue for more than 1 month from the due date The amount of an individual's debt exceeds his/her assets value There is an order to dismiss the enforcement proceedings due to the fact that the individual has no foreclosable assets <p><i>If there is reason to believe that the individual will be able to discharge the overdue liabilities within a short period of time taking into account the planned income, such individual may not be deemed bankrupt</i></p> <p><u>Responsibilities:</u> In the event that the liabilities exceed 500,000 RUB, the petition shall be submitted within 30 business days from the date when the individual becomes aware or should have become aware of it</p> <p>There are no payment delays yet, but the individual realizes that he/she is not able to discharge all liabilities simultaneously</p>

2. Finding the court

A bankruptcy petition is submitted to the arbitration court of the region where the debtor resides

The Arbitration Court can be found on the Federal Arbitration Courts website at <http://www.arbitr.ru/as/subj>

In exceptional cases, particularly if the debtor's last place of residence is unknown or is known but located outside the Russian Federation, the debtor's bankruptcy case is heard in court having jurisdiction over the debtor's property location or over the debtor's last known place of residence (Part 1, Art.36 of the Russian CAPC)

3. Required documents

The required documents must be collected to confirm the debtor's inability to pay his/her debt in full. To file a petition, the following information is required:

- Debts
- Income for the last 3 years
- Debtors' property
- Major purchase transactions (exceeding 300,000 RUB) in relation to movable and immovable property over the last 3 years before prior to the submission of a petition;
- Status (an extract from EGRIP³⁰, marriage/divorce certificate, children's birth certificates)
- Documents (e.g. INN³¹)

For the list of documents required to file a petition see Clause 3, Art. 213.4 of the Insolvency (Bankruptcy) Law³²

4. Selecting a self-regulatory organization of arbitration receivers

A self-regulatory organization of arbitration receivers that will nominate to the court the candidate for a bankruptcy manager to manage the procedure must be specified in the bankruptcy petition – otherwise the court will not accept the petition.

See the list of all SROs on the Rosreestr website³³ or the Unified Federal Register of Bankruptcy-Related Information³⁴.

5. Paying the bankruptcy fee

Bankruptcy petition is filed in the Commercial (Arbitration) Court. The bankruptcy fee is 300 RUB³⁵.

For the sample fee payment slip and required bank details see the website of your regional Commercial (Arbitration) Court.

6. Making a payment to the court deposit account

²⁹ Clause 15, Judicial Review 1 (2017) , Russian Supreme Court (approved by the Presidium of the Supreme Court of the Russian Federation on 16 February 2017).

³⁰ Unified State Register of Individual Entrepreneurs

³¹ Taxpayer Identification Number.

³² Federal Law No. 127-FZ, dated 26 October 2002, "On Insolvency (Bankruptcy)"

³³ Federal Service for State Registration, Cadastre and Cartography (Rosreestr) <https://rosreestr.ru/site>.

³⁴ Unified Federal Register of Bankruptcy-Related Information <http://bankrot.fedresurs.ru>.

³⁵ Federal Law No. 407-FZ, dated 30 November 2016, "On Amendments to Art. 333.21, Part 2 of the Tax Code of the Russian Federation".

Description/Contents

Prior to filing a bankruptcy petition, the Applicant, Bankruptcy Creditor or Authorized Body must pay the amount of bankruptcy manager's fee (25,000 RUB) to the court deposit account.

The individual may apply to the court for a postponement of such payment by filing a respective petition. However, by the time the court considers the relevance of the petition, the fee must be paid to the court deposit account.

The individual may give his or her consent to engage persons to provide support to bankruptcy manager's performing his/her duties.

7. Forwarding the petition to creditors

Copies of the petition shall be submitted to bankruptcy creditors and/or authorized bodies (Clause 4, Art. 37 of the Law "On Insolvency (Bankruptcy)").

8. Submitting documents to the court

- Personally
- By proxy
- By post (preferably with return receipt requested)

The court has 5 workdays to decide whether to accept or reject the petition, return it or leave it without action.

9. If the petition is accepted and deemed valid

The court will approve a bankruptcy manager provided by a self-regulatory organization of arbitration receivers that has been specified by the debtor in his/her petition. Since then, the debtor resolves all financial issues with this bankruptcy manager and provides to the latter all information concerning his/her property, liabilities and major transactions for the last three years.

NB: withholding information will speak against the debtor. The bankruptcy manager can obtain this information by its discretion as the court will issue him/her the inquiries with a right to serve the answers to it personally. The debtor, however, may be prosecuted pursuant to the laws of the Russian Federation (Art. 14.13 of the Code of Administrative Offenses of the Russian Federation).

10. Bankruptcy manager

The bankruptcy manager is a mandatory participant in an individual bankruptcy case nominated by court. The bankruptcy manager must respect the interests of all parties in the bankruptcy case.

The individual must submit to the bankruptcy manager any information concerning his/her assets, location of these assets, his/her liabilities, creditors, and other information relevant to his/her bankruptcy case. This information must be submitted to the bankruptcy manager at its request within 15 days.

Bankruptcy managers may be released of their duties for failure to perform or improper performance of the duties assigned to them by the laws or federal standards. Bankruptcy managers must also recover the losses occurring due to the failure to perform or improper performance of the assigned duties by court order.

11. Bankruptcy procedures

The law provides for three possible developments for an individual in a bankruptcy case:

- Debt restructuring
- Sale of property
- Composition

Debt restructuring is a procedure used to restore the individual's solvency and repay debts to creditors in accordance with the prepared draft debt restructuring plan.

A draft restructuring plan may be prepared by the debtor and each of its creditors. The final plan shall be agreed by the creditors' meeting and submitted to the court for approval.

The standstill is effected on the date of recognizing the individual's bankruptcy petition reasonable and commencing the restructuring of his/ her debts for the payment under monetary obligations and mandatory payments (interest, fines and penalties cease to accrue). The standstill does not apply to personal and life injury claims, support recovery claims and current payment claims related to liabilities arising after the petition is filed, etc.

The procedure is applied if the court finds the petition proven and the debtor:

- Has a source of income;
- Has not been bankrupt for 5 years;
- Has not had an approved debt restructuring plan for past 8 years;
- Has no outstanding criminal history records for committing intentional economic crimes, and prior to the date of the bankruptcy petition, the period when the individual had been considered to be subjected to administrative punishment for petty theft, intentional destruction or damage to property or for fraudulent or deliberate bankruptcy has expired.

The bankruptcy manager nominated by court maintains the debt restructuring procedure.

The restructuring plan shall set the procedure and due dates for payments for a period not exceeding 3 years. It is understood that the plan shall allow repaying the debt due to less stringent conditions (lower interest rate, increased maturity, debt reduction on creditors' discretion).

Collateralized debt restructuring

In case of creditors for liabilities secured by an individual's property (e.g. a car loan or a mortgage loan), the individual's debts are repaid by proceeds from the sale of the collateral. Repayment of such debts is recognized separately in the restructuring plan.

Completing the procedure

Upon completion of the debt restructuring procedure, the court considers the outcomes and makes an order:

- To complete the the individual's debt restructuring, if the debt is repaid and the creditors' claims are found to be unproven;
- To reverse the restructuring plan and declare the individual bankrupt, if there are grounds for reversal of the said plan (it implies the commencement of sale of the debtor's property).

Sale of the individual's property is a procedure applied to an individual when he or she is declared bankrupt

Description/Contents
<p>The <u>procedures applies</u> in the following cases, including but not limited to the following:</p> <ul style="list-style-type: none"> The debtor does not meet the requirements for approval of the debt restructuring plan The debt restructuring plan was not submitted in a timely manner or the plan was submitted, but not approved by the court The approved debt restructuring plan is not implemented by the debtor The debtor breaches the composition terms <p>In case of the sale of the individuals property on his or her behalf, the <u>bankruptcy manager</u> acts as follows, including but not limited to the following:</p> <ul style="list-style-type: none"> Exercises all rights with respect to the bankruptcy estate (makes an inventory and evaluates the debtor's property and makes a proposal on the sale of property to be approved by the court. The proposal describes the assets, their initial price and proposed terms of sale. Information on the sale of the debtor's property must be published); Manages the individual's funds on accounts and deposits; Opens and closes the individual's accounts in credit institutions. <p><i>It should be noted that the bankruptcy estate does not include assets not subject to foreclosure in accordance with Article 446 of the CPC of the Russian Federation³⁶. In particular, such assets include residential premises (part thereof), if it is the only suitable premises for permanent residence of the debtor and his/her family members living together in the premises owned by him/her, save for the said property being the subject of a mortgage</i></p> <p><u>Completing the procedure</u></p> <p>The proceeds from the sale of property are applied to pay the bankruptcy manager's fee, court expenses and payments to creditors in the prescribed order. 80% of the proceeds from the sale of collateral are applied to repay debts to secured creditors, the balance is applied to pay the bankruptcy manager's fee and to repay other debts.</p> <p>A composition between the debtor and creditors may be signed at any stage of the bankruptcy case. The signed composition implies the dismissal of action related to the individual's bankruptcy case. If the individual breaches the composition, he / she is declared bankrupt and the procedure for selling the property is commenced</p>

12. Bankruptcy procedure outcome

<p>Upon repayment of debts to creditors, the bankrupt individual is released from further liabilities under the creditors' claims (even if the funds from the sale of property did not suffice to pay all debts), including claims not filed in due time.</p> <p><i>The debt exemption rule does not apply to current payments (for utilities, etc.), support recovery claims, personal and life injury claims, and other liabilities under Art. 213.28 of the Law "On Insolvency (Bankruptcy)". The court may also refuse to release the bankrupt from the debts, if it reveals signs of unfair conduct.</i></p>

13. Bankruptcy procedure effects

<p>For 5 years after completion of the sale of property or dismissal of action on the bankruptcy case, he or she must inform of his status when attempting to take a new loan (credit).</p> <p>Should the individual be adjudged bankrupt once again following a creditor's petition or the Federal Tax Service's petition within these 5 years, the rule of debt relief shall not be applicable.</p> <p>For 3 years after completion of the sale of property or dismissal of action on the bankruptcy case, he or she shall not hold a management position.</p> <p>For 10 years after completion of the sale of property or dismissal of action on the bankruptcy case, he or she shall not hold a management position in a credit institution.</p> <p>For 5 years after completion of the sale of property or dismissal of action on the bankruptcy case, he or she shall not hold a management position in an insurance entity, a private pension fund, management company of an investment fund, unit investment fund and a private pension fund or a microfinance company.</p> <p><i>It should be noted that the last two restrictions came into force on 28 January 2018³⁷.</i></p>
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14. Key expenses of the debtor

According to experts, the minimum expenses of the debtor in the bankruptcy case amount to 50,000 RUB			
Description of costs	Amount	Payment deadline	Comment
Stamp duty for the case consideration	300 RUB	If the petition is filed in court	If the creditor is the originator of the bankruptcy case, the expenses of the applying creditor shall still be paid by the debtor
Legal costs (e.g. postal services, expert reviews)	As accrued	Determined by court	The amount recovered by the debtor is determined by the court
Cost of records in the Unified Federal Register of Bankruptcy-Related Information	402.5 RUB per record ³⁸	As published	As part of the debt restructuring procedure, at least 6 records are made. Even if the composition is approved at the first court hearing, it is required to make at least 2 records
Costs of announcements in the official publication	The price of 1 cm ² is set by the Ministry of Economic Development of Russia and amounts to 210.97		

³⁶ The Civil Procedure Code of the Russian Federation.

³⁷ Federal Law No. 281-FZ, dated 29 July 2017, "On Amendments to Certain Legal Acts of the Russian Federation Regarding the Improvement of Mandatory Requirements to Founders (Participants), Management Bodies and Officials of Financial Organizations".

³⁸ Rules for interaction of the operator and users of the Single Federal Register of Legally Significant Information on the Activities of Legal Entities, Individual Entrepreneurs and Other Economic Entities (as of 22 January 2018).

Description/Contents			
	RUB ³⁹ . The average cost of one announcement is about 10-11,000 RUB ⁴⁰		
Remuneration of the financial manager for each procedure in the course of bankruptcy	Debt Restructuring: From 25,000 RUB + 7% of the awarded amount	Upon implementing the debt restructuring plan	The court may increase the fixed fee depending on the scope and complexity of its work. The interest is included in the restructuring plan
	Sale of property: From 25,000 RUB + 7% of proceeds from sale of property and other income	Upon completing the settlements with creditors	The interest is paid out of the proceeds from the sale of property
	Composition: From 25,000 RUB + interest	Provided by the composition	
Services of other persons engaged by the bankruptcy manager	Determined by court	Under service agreements	Prior to approval by the court, the cost of services of other persons shall be agreed by the debtor and creditors

FOR REFERENCE

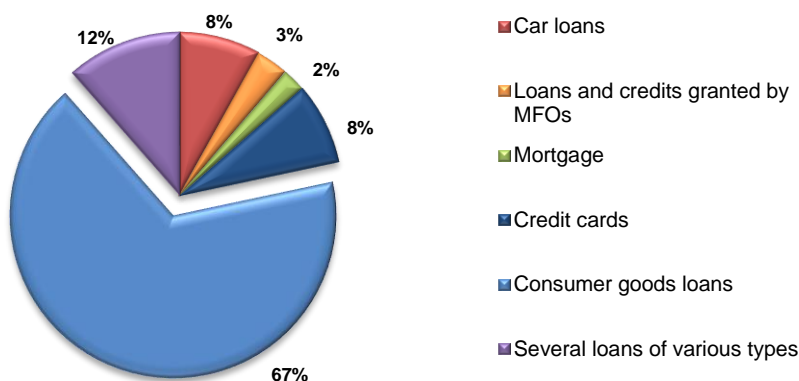
The list of potential bankrupt individuals, in respect of which claims have already been filed with arbitration courts, is very diverse. It contains both very famous people, such as lawmakers, businessmen and bankers, and regular people, like pensioners, disabled persons, mothers with many children, and unemployed⁴¹.

According to 4,100 creditors providing data to the National Credit Reporting Agency (hereinafter referred to as NBKI), the number of individuals formally covered by the law on private bankruptcy amounted to 799,500 people as of the end of September 2017. It is the number of individuals with debts amounting to more than 500,000 RUB overdue for more than 90 days (for all types of retail loans/credits). Thus, the number of potential bankrupts increased by 16.1% or by 110,800 persons from February 2017 (688,700 persons as of the late February 2017).

However, most potential bankrupts are still in the unsecured lending segment: loans for the purchase of consumer goods (66.9%) and credit cards (8.1%) (Figure 1.4)⁴².

According to a joint study conducted by the analysts of the Joint Credit Bureau (hereinafter referred to as OKB) and Fedresource Project⁴³, as of the late 2017, the number of potential bankrupts (more than 500,000 RUB in debt and more than 90 days overdue for at least one loan) amounted to about 698,000 persons or about 1.4% of the total number of borrowers holding bank accounts. The average debt of such borrower to creditors amounted to 1 770 000 RUB. In addition, in 2017, less than 29,900 individuals or 4.3% of the total potential bankrupts initiated the bankruptcy procedure (sale of property).

Figure 1.4. The structure of potential bankrupt individuals by types of loans, in%



Source: NBKI

The study used data on 49 700 000 borrowers holding bank accounts based on information stored in OKB, as well as reports of arbitration managers on court orders disclosed in Fedresurs.

³⁹ Service for receiving insolvency (bankruptcy) messages to be published in Kommersant // <http://bankruptcy.kommersant.ru/?a=s:4>.

⁴⁰ NO TO DEBTS Project // <https://dolgam.net/bankrupt-articles/stoimost-protsedury-bankrotstva>.

⁴¹ Natural selection // *Russian Gazette* No. 6844 of 03 December 2015.

⁴² NBKI: The number of potential bankruptcies on retail loans nearly reached 800,000 people // National Credit Reporting Agency website https://www.nbki.ru/company/news/?id=21548&sphrase_id=99288, 18.10.2017.

⁴³ Single Federal Register of Legally Significant Information on the Activities of Legal Entities, Individual Entrepreneurs and Other Economic Entities // <https://fedresurs.ru>.

According to Fedresource⁴⁴:

- In 2017, Russian courts issued 29,876 orders on bankruptcy of individuals and individual entrepreneurs or 1.5 times more than in 2016;
- The most orders were issued in Q4 2017 (9,204 or 34% more than in Q4 2016);
- In 2017, there were 2 times more individual bankrupts than companies;
- Since the institution of consumer bankruptcy in Russia (1 October 2015), 50,405 individuals have become insolvent. This is about 8% of potential bankrupts (according to OKB estimates);
- In 2017, the number of debt restructuring procedures and orders to approve the restructuring plan increased by 3% compared to 2016;
- The share of rehabilitation procedures is decreasing. In 2017, there were 8,213 rehabilitation procedures (for individuals and individual entrepreneurs) or 22% of all procedures. In 2016, the share of rehabilitation procedures was 29% (see Figure 1.5 for data on individuals, excluding individual entrepreneurs).

FOR REFERENCE

Fedresource: In Russia, there are 34 bankrupts per 100,000 people.

According to the EsliBankrot.ru portal, as at 23 January 2018, over 81 thousand applications were filed with Russian courts by debtors to be declared insolvent (bankrupt). To prevent bankruptcy, creditors shall continue checking the risk profile of borrowers of all ages in terms of their current obligations in order to promptly monitor their financial conduct.

In 2017, Russian Supreme Court continued to raise awareness on law enforcement in bankruptcy cases. For example, it issued a position that if an individual did not have the assets allowing to proportionally satisfy the claims of creditors, this fact was not per se the reason for dismissal of such individual's bankruptcy case⁴⁵.

FOR REFERENCE

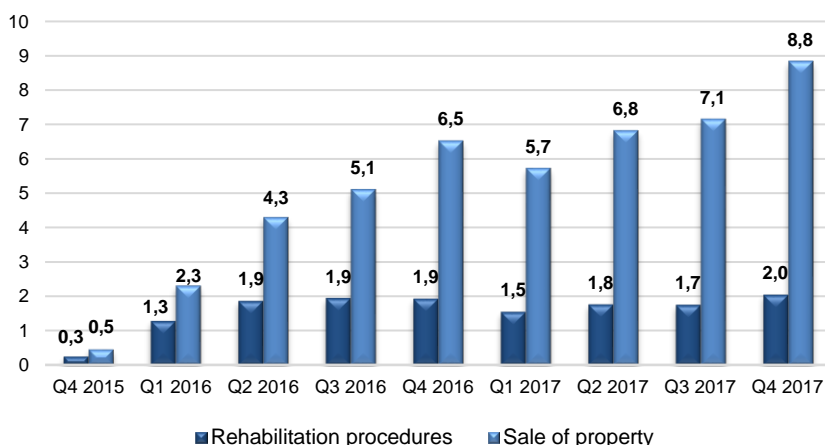
Within the framework of the Joint Project of the Russian Federation and the IFRD "On raising financial literacy and development of financial education in Russia", a great deal of explanatory work is carried out among the population in relation to the private bankruptcy procedure, including the developing (updating), publishing and distributing (including via social media) the information materials (booklets, comic books, colouring books, infographics, online tests, videos, online quests, interactive games, etc.) in both print and electronic form, information events are held (about 100 events have been held since the project was launched), including festivals, events for pensioners, schoolchildren and students, school teachers and facilitators.

Information materials are distributed via information kiosks located in public reception offices and Rospotrebnadzor advisory centres in all regions of the country (a total of 170 kiosks).

In autumn 2017, a full-service 24/7 toll-free hotline for financial services consumers, including issues of private bankruptcy, was launched. In addition to the hotline, the Rospotrebnadzor Internet reception office will be launched in spring 2018 for financial services consumers where they can file a complaint or receive automated advice remotely.

In the reporting year, the advisory standards, including Personal Bankruptcy standards, were updated. Questionnaires on bankruptcy information perception by the population and existing needs for additional information support completed by employees of territorial Rospotrebnadzor offices were reviewed.

Figure 1.5. The number of court orders finding the individual's bankruptcy petition proven and introducing the debt restructuring procedure; orders on bankruptcy of the individual and sale of property (thousand units per quarter)



Source: Fedresource

⁴⁴ Private bankruptcy cases 2015–2017: EFRSB statistics // <https://fedresurs.ru/news/daeddbdf1-e77e-474e-a28c-59c258ba8fdc>, 19.01.2018.

⁴⁵ Clause 19, Judicial Review 2 (2017), Russian Supreme Court (approved by the Presidium of the Supreme Court of the Russian Federation on 26 April 2017).

It should be noted the exempts from PIT⁴⁶ any income are:

- in the form of the amount of indebtedness before creditors, in respect of which the taxpayer is relieved from making payments under the procedures applicable to the same in the individual's bankruptcy case;
- of the taxpayer in respect of selling his/her property to be sold, if such taxpayer is held bankrupt and the procedures of selling his/her property are introduced⁴⁷.

Previously, the gain from such property sale, associated with writing down part of the citizen's debt, was regarded as revenue (Art.210 of the Tax Code of the Russian Federation) and, accordingly, was included in the tax base, and the bankrupt citizen was obliged to pay 13% tax on it.

In 2017, additional amendments were made to private bankruptcy regulation system. In particular, the Law ⁴⁸ was adopted to strengthen the effects of applying the bankruptcy procedure to individuals. In accordance with the Law, individual debtors may not manage financial organizations for a certain period. The corresponding provisions are set in the step-by-step private bankruptcy procedure (Table 1.6).

In the reporting year, the State Duma of the Russian Federation received initiatives to amend private bankruptcy regulations providing for the following:

- To extend the definition of "sale of the individual's property" in Art. 2 of the Law "On Insolvency (Bankruptcy)", indicating that one of the purposes of this procedure is the debt relief;
- To set a rule that if the individual has no assets to pay the claims of creditors after covering the costs of the bankruptcy procedure being applied in the bankruptcy case, this does not prevent the introduction of the bankruptcy procedure being applied in the bankruptcy case of such individual⁴⁹;
- To differentiate the administrative responsibility of arbitration managers in bankruptcy cases of legal entities and that in private bankruptcy cases. In this respect, it is proposed to exclude the bankruptcy manager from subjects of administrative offenses provided for in Art. 14.13, Part 3 of the Russian CAO (failure to perform the duties of the arbitration manager provided for by the bankruptcy law, if such action (omission) does not contain a criminal offense, entails a warning or a fine for officials amounting to 25-50,000 RUB and 200,000 to 250,000 RUB for legal entities; It is also proposed to amend Art. 14.13, Part 3.2 of the Russian CAO providing that the failure of the bankruptcy manager in the private bankruptcy procedure to perform the duties provided for by the bankruptcy laws, if such action (omission) does not contain a criminal offense, entails a fine for officials amounting to 5-25,000 RUB or disqualification for the period from 6 months to 3 years⁵⁰. It is expected that this will allow eliminating negative factors demotivating bankruptcy managers to participate in private bankruptcy cases and improve the availability of the bankruptcy institution for individual debtors.

In recent years, the introduction of a simplified private bankruptcy procedure has been discussed. For example, in autumn 2016, the Ministry of Economic Development of Russia developed the appropriate amendments to the Law "On Insolvency (Bankruptcy)" Amendments supplement the tenth Chapter of the Law (Private Bankruptcy) with a new paragraph "On Simplified Private Bankruptcy Procedure". The concept of the proposed regulation provides for abolition of mandatory bankruptcy manager engagement and independent legal support of the bankruptcy procedure by the individual to minimize the individual's costs.

The Draft Law has already been submitted several times to the Government of the Russian Federation and returned for revision. According to the latest version, individuals with a debt amounting to 50-700,000 RUB (the upper threshold was 900,000 RUB in the previous version), including individual entrepreneurs, will be able to take advantage of the simplified procedure, and the individual's income for the last 6 months shall not exceed 50,000 RUB a month.

In all other respects, the conditions have not changed: no more than 25% of the debt shall occur within the last 6 months, the individual may not sale the property for more than 2,000,000 RUB during the year (save for the sale of collateral with the consent or at the request of the bank) and gratuitous transactions on sale of the property for more than 200,000 RUB. However, 10 years must expire since the last procedure for the sale of property under a simplified procedure and not less than 5 years after debt restructuring, the debtor may not have more than 10 creditors and criminal records for intentional financial crimes. Only the debtor may apply for the simplified procedure.

FOR REFERENCE

In 2018, Rospotrebnadzor will implement a pilot project on providing MFC⁵¹ advisory services to financial services consumers, including on the private bankruptcy, and assistance in processing an application under a simplified procedure.

The Draft Law also requires the bankruptcy managers to publish a report on results of the private bankruptcy procedure in the Unified Federal Register of Bankruptcy-Related Information.

The authors of the Draft Law admit in the explanatory note that the bankruptcy procedure is not available to many debtors

⁴⁶ Personal income tax.

⁴⁷ Federal Law of 29 December 2015 No. 396-FZ "On Making Amendments to Part Two of the Tax Code of the Russian Federation".

⁴⁸ Federal Law No. 281-FZ, dated 29 July 2017, "On Amendments to Certain Legal Acts of the Russian Federation Regarding the Improvement of Mandatory Requirements to Founders (Members), Management Bodies and Officials of Financial Organizations".

⁴⁹ Draft Law No. 307663-7, dated 8 November 2017, "On Amendments to the Federal Law "On Insolvency (Bankruptcy)" and Certain Legal Acts of the Russian Federation (as of 1 May 2018, it was adopted in first reading).

⁵⁰ Draft Law No. 295382-7, dated 24 October 2017, "On Amendments to Article 14.13 of the Code of Administrative Offenses of the Russian Federation to Improve the Administrative Responsibility of Bankruptcy Managers" (as of 1 May 2018, it is still pending).

⁵¹ Multifunctional centres providing state and municipal services.

who have really found themselves in a very difficult situation. The Draft Law is intended to solve a vital problem of debtors lacking funds to pay the cost of bankruptcy management services potentially amounting to 150-200,000 RUB.

The Federal Chamber of Lawyers of the Russian Federation in its comments on the Draft Law notes that the legal representation of insolvent individuals must be mandatory, and individuals must be represented in arbitration proceedings by lawyers only. Therefore, it is proposed that the Draft Law must grant the right to free legal support within the public system to disadvantaged insolvent individuals.⁵²



Private bankruptcy institution as an important element of the financial consumer rights protection system allows solving problems faced by creditors and borrowers using civilized procedures. However, this regulatory mechanism is relatively new for the Russian Federation, and the law enforcement practice reveals the need to amend the adopted laws.

1.6. Consumer protection during Debt Collection

Adoption of the Law “On Protection of Rights and Legal Interests of Individuals in Recovery of Overdue Debts”⁵³ in 2016, as well as a number of associated laws, Federal Law No. 231-FZ⁵⁴ and Federal Law No. 246-FZ⁵⁵ drew a line under the public discussion on the legitimacy of professional debt collectors' activities (the so-called "debt collectors") and ensured the debtor protection from illegal recovery practices by setting out the legal basis for recovery of debts arising out of monetary liabilities, as well as mechanisms for protecting the rights and legitimate interests of individuals in the debt recovery process.

This Federal Law entered into force on 3 July 2016, save for some provisions; the most significant rules on regulation of interaction between collectors and debtors were effected on 1 June 2017.

Indebtedness may be recovered directly by creditors of individuals or by legal entities engaged in recovering an overdue indebtedness of individuals as the core activities. The present approach has legalized the existing recovery practice, where an organization granting consumer credits (loans) to individuals either has debt recoverers as regular employees or outsources bad debt recovery functions to external professional organizations. Along with that, there is a model under which an organization extending credits (loans) is affiliated with the collections organization to which bad debts are sold.

FOR REFERENCE

According to the consolidated company National Recovery Service / First Collection Bureau, in 2012-2017, the total amount of debt purchased from banks reached 1,500,000,000,000 RUB. In 2017, the amount of assignment transactions decreased by a quarter to 360,000,000,000 RUB compared to 2016, the average closing price of transactions increased by more than 1.5 times to 1.4% of the total debt.

In 2017, there was an upward trend in sales in small debt amount segments (up to 20,000 RUB) with the increase from 24% to 33%. Sales in all medium segments declined. In large debt segments (over 500,000 RUB), mortgage loans and loans to SMEs prevail. Their share slightly increased and amounted to about 6% of the total debt sold.

However, the share of debts with arrears of up to 2 years last year in the total sales decreased significantly (by 15 pp) to 21%, the share of debts in arrears for 2-3 years increased insignificantly (by 6 pp) to 29%, the share of old (3-4 years) debts showed an increase of 10 pp up to 25%, debts with arrears of more than 4 years account for 25%.

It is expected that by the end of 2018, the assignment market will return to indicators observed in 2016 settling down at the level of 480,000,000,000 RUB. The price will remain at the level of 2017, about 1.4%.⁵⁶

The new regulation determined the general rules of taking actions aimed at debt recovery, as well as acceptable methods and limitations on liaison with the debtor.

In recovering any overdue indebtedness, the creditor or collector may interact with the debtor in one of the following ways:

1. personal meetings, phone calls (direct interaction);
2. telegraph, voice and text messages transmitted via telecommunications networks, including mobile wireless communications;
3. notices by mail at the place of residence or place of temporary residence of the debtor.

Other communication methods are also possible, but they shall be covered by the agreement between the debtor and creditor or collector.

It is not allowed to engage the following persons in interacting with the debtor:

⁵² Simplified private bankruptcy procedure with the help of lawyers // Federal Chamber of Lawyers http://fparf.ru/news/all_news/news/45556, 11.01.2018.

⁵³ Federal Law No. 230-FZ, dated 3 July 2016, “On Protection of Rights and Legal Interests of Individuals in Recovery of Overdue Debts and on Amendments to the Federal Law “On Microfinancing and Microfinance Institutions”.

⁵⁴ Federal Law No. 231-FZ, dated 3 July 2016, “On Amendments to Certain Legal Acts of the Russian Federation Due To Adoption of the Federal Law “On Protection of Rights and Legal Interests of Individuals in Recovery of Overdue Debts and On Amendments to the Federal Law “On Microfinancing and Microfinance Institutions”.

⁵⁵ Federal Law No. 246-FZ, dated 3 July 2016, “On Amendments to Article 333.33, Part 2 of the Tax Code of the Russian Federation Due To Adoption of the Federal Law “On Protection of Rights and Legal Interests of Individuals in Recovery of Overdue Debts and On Amendments to the Federal Law “On Microfinancing and Microfinance Institutions” To Set a Stamp Duty for Registration of Legal Entities in the State Register of Legal Entities Engaged in Returning Overdue Debts of Individuals as a Main Activity”.

⁵⁶ Collectors Did Not Have Enough Problems // Kommersant, No. 38, 5 March 2018, p. 8.

- persons with unexpunged or unspent conviction for committing crimes against the person, financial crimes or crimes against the public order or public security;
- persons outside the Russian Federation for interaction with the debtor on the territory of Russia;
- other persons for interaction with the debtor with the use of international telephony or transmission of any telegraph, text, voice or other messages from beyond the Russian Federation.

It is prohibited to take any actions, including related to:

- applying physical force or threatening to apply the same, threatened murder or personal injury to the debtor and other persons;
- destruction or damage to property or threatened destruction or damage to such property;
- use of methods that are dangerous for human life and health;
- exerting a psychological pressure on the debtor and other persons, using expressions and taking any other acts assaulting the honour and dignity of the debtor and other persons;
- misleading the debtor and other persons as of a legal nature and amount of any outstanding obligation, reasons for the debtor's failure to perform the same, timing of performing such obligation; referring the issue of recovering any outstanding indebtedness to the court, consequences of non-performance of the obligation for the debtor and other persons, potential application to the debtor of any administrative and criminal procedural influence and persecution; affiliation of the creditor or the person acting in his/her name and/or on his/her behalf with any governmental authorities or local bodies; or
- causing any other illegal harm to the debtor and other persons or abuse of law.

The creditor or the collector shall not, without the consent of the debtor, provide (communicate) to third parties any details of the debtor, its outstanding indebtedness and recovery, as well as any other personal data of the debtor. Such consent shall be given in writing in the form of a separate document. Provided that the debtor may at any time revoke such consent by notifying thereof the relevant person to whom such consent was given.

Roskomnadzor being the body authorized to protect rights of personal data subjects reacts in case of revealing facts of misusing personal data of citizens of the Russian Federation, in particular, publishes comments on its official website.

For example, on 11 November 2017, the following comments regarding the validity of calls from collectors to debtors of credit institutions were published:

- Creditors may make telephone calls only with the consent of the debtor or persons acting for and on its behalf;
- If there is no consent given by the debtor or persons acting on its behalf, such phone calls are illegal⁵⁷.

In addition, on 14 November 2017, Roskomnadzor published comments on legitimacy of telephone calls to third parties (family members of the debtor, relatives, neighbours, etc.) to recover the overdue accounts payable. Such calls are deemed legitimate, if there is consent of the debtor to interact with a third party and the third party does not refuse to interact⁵⁸. In turn, individuals may file a complaint to Roskomnadzor on improper actions of collectors in the field of personal data subject protection.⁵⁹

The law prohibits direct contacts with the debtor in the following cases:

- from the date of holding as reasonable the application on recognizing the individual as bankrupt and introducing his/her debt restructuring or declaring the debtor bankrupt;
- the debtor is the person deprived of his/her legal capacity, restricted in his/her legal capacity; is being treated in a permanent healthcare institution; is a disabled person of group 1; is a minor (except for emancipated minors). The said grounds shall be supported with documentary evidence.

The direct interaction and communications with the debtor via messages at the creditor or collector's discretion is also prohibited on weekdays from 10 PM to 8 AM and on weekends and holidays from 8 PM to 9 AM local time at the place of debtor's residence.

The contacts are restricted as follows: via personal meetings - no more than once a week, via telephone calls - no more than once a day, 2 times a week, 8 times a month; via messages - no more than 2 times a day, 4 times a week, 16 times a month.

In case of direct contact, the debtor must be informed of the full name of the contacting person; full name or company name of the creditor and a person acting for and on its behalf. The caller's telephone number or e-mail address must be disclosed to the debtor.

In accordance with the new laws, collectors must do the following:

- Maintain a list of employees who have access to debtors' data;
- Make audio records in any and all cases of direct interaction with debtors and other persons, warn the debtor and other persons about such record at the beginning of communications, and ensure that audio records are stored on electronic media for at least 3 years from the date of recording;
- Record any and all communications transmitted in the course of interaction aimed at recovering debt over

⁵⁷ On the legitimacy of telephone calls by collectors to debtors of credit institutions, 11 November 2017 // Website of the Federal Service for Supervision of Communications, Information Technology, and Mass Media <https://rkn.gov.ru/news/rsoc/news51916.htm>.

⁵⁸ Comments on the legitimacy of telephone calls to third parties to recover the overdue credit debts, 14 November 2017 // Website of the Federal Service for Supervision of Communications, Information Technology, and Mass Media <http://rkn.gov.ru/news/rsoc/news52042.htm>.

⁵⁹ The application can be filed in an electronic form — <https://rkn.gov.ru/treatments/ask-question>.

telecommunication networks, including mobile communications, and store them for at least 3 years from the date of communication;

- Store any and all hard and soft copies of documents related to debt recovery for at least 3 years from the date of submission or receipt thereof;
- Enter into compulsory insurance contracts related to liability for losses incurred by the debtor when performing debt recovery activities, and the annual coverage shall amount to at least 10,000,000 RUB.

It should be noted that the Law "On Protection of Rights and Legal Interests of Individuals in Recovery of Overdue Debts" does not apply to collection of overdue debts of individuals related to payments for utility services.

Law No. 231-FZ amended the certain legal acts governing the overdue debt recovery activities entered into force on 1 January 2017. In particular, the Russian CAO (Article 14.57) was amended so that to provide for liability for violating the Law "On Protection of Rights and Legal Interests of Individuals in Recovery of Overdue Debts" (Table 1.7).

Collectors' activities are supervised by the Federal Bailiff Service (FSSP of Russia)⁶⁰. To exercise the relevant powers, the Ministry of Justice of the Russian Federation approved the Administrative Regulations on executing the corresponding public function by FSSP of Russia⁶¹.

Table 1.7. Liability for violating the Law "On Protection of Rights and Legal Interests of Individuals in Recovery of Overdue Debts"

Basis / Liability for		
of citizens	Officials	Legal entities
Violating the Law "On Protection of Rights and Legal Interests of Individuals in Recovery of Overdue Debts" by the creditor or a person acting for and/or on its behalf		
5-50,000 RUB (previously 5-10,000 RUB)	10-100,000 RUB (previously 10-20,000 RUB) or disqualification for a period from 6 months to 1 year	20-200,000 RUB (previously 20-100,000 RUB)
The same violation by a legal entity included in the State Register of Legal Entities Engaged in Returning Overdue Debts as a Main Activity		
	20-200,000 RUB or disqualification for a period from 6 months to 1 year	50-500,000,000 RUB or administrative suspension of business for the period of up to 90 days
Violation of legal requirements and restrictions by the founder (member), member of the board of directors (supervisory board), member of the collective executive body, sole executive body of the legal entity included in the State Register of Legal Entities Engaged in Returning Overdue Debts as a Main Activity		
	50-100,000 RUB or disqualification for a period from 6 months to 1 year	
Unlawful performance of activities to be performed only by a legal entity included in the State Register of Legal Entities Engaged in Returning Overdue Debts as a Main Activity by the entity not included in the above Register		
50,000–500,000 RUB	100,000-1,000,000 RUB or disqualification for a period from 6 months to 1 year	200,000 - 2,000,000 RUB

Since early 2017, FSSP of Russia has been performing the functions related to maintaining the State Register of Legal Entities Engaged in Returning Overdue Debts, as well as state control over their activities. In 2017, 173 legal entities in 40 constituent entities of the Russian Federation were included in the State Register of Legal Entities Engaged in Returning Overdue Debts as a Main Activity (State Register), 45 legal entities were rejected (submission of incomplete documents), 3 legal entities were excluded.

In 2017, 37 unscheduled inspections of legal entities included in the State Register were conducted. 16,500 applications on issues of overdue debts were accepted for consideration, including 5,800 (35.2%) in relation to legal entities included in the State Register; 6,200 (37.7%) in relation to microfinance institutions; 2,500 (14.8%) in relation to credit institutions; 2,000 (12.3%) in relation to other persons. Based on review of 14,300 applications, 806 were found to be proven, including 430 applications related to legal entities included in the State Register.

Territorial bodies of FSSP of Russia institutiond 868 cases on administrative offences under Art. 14.57 of the Russian CAO. The courts investigated 466 cases (materials), the offenders were ordered to pay the administrative fine for a total amount of about 14,400,000 RUB, and in 64 administrative offence cases the proceedings were dismissed.⁶²

Given the high level of consumer debt and broad use of unscrupulous practices by collectors in relation to borrowers, Rospotrebnadzor has been for a long time opposing attempts to legalize the "collection business," which, according to

⁶⁰ Decree of the President of the Russian Federation No. 670, dated 15 December 2016, "On Amendments to Presidential Decree No. 1313, dated 13 October 2004 (On the Ministry of Justice of the Russian Federation), and Regulations approved by this Decree, to Decree of the President of the Russian Federation No. 1316, dated 13 October 2004, "On the Federal Bailiff Service" and Regulations approved by this Decree.

⁶¹ Order of the Russian Ministry of Justice No. 332, dated 30 December 2016, "On Approval of the Administrative Regulations on Executing the Public Function on Control (Supervision) Over the Activities of Legal Entities Included in the State Register of Legal Entities Engaged in Returning Overdue Debts as a Main Activity".

⁶² Final report on activities of the FSSP of Russia for 2017 // Website of the Federal Bailiff Service http://fssprus.ru/files/fssp/db/files/02018/itogovj_doklad_zh_2017_god_2018361451.pdf.

Rospotrebnadzor, boils down to desire to formally recognize the status of a separate type of economic activity performed by "collectors".

Provided that Rospotrebnadzor's legal position was based on the fact that a debt is not an object of civil rights (Article 128 of the Civil Code of the Russian Federation), for which reason its civil circulation is *a priori* impossible. The issue of bad debts may be handled in a completely different way, for example, through converting debts into freely transferable securities with their subsequent sale at a discount, including to the debtor itself.

Concurrently, Rospotrebnadzor expressed its readiness to support those legislative initiatives that may lead to the actual creation of a legal framework of civilized operation of the institute of out-of-court recovery of an overdue indebtedness that completely excludes carrying out activities with "the only intention of causing harm to another person, acting in contravention of laws for any illegitimate purpose, as well as any other knowingly bad faith exercise of civil rights (abuse of law)", which is prohibited by virtue of the provisions of Article 10 of the Civil Code of the Russian Federation⁶³.

In particular, the head of Rospotrebnadzor A.Yu. Popova emphasized that "the option of regulation by using law is, probably, the only real option as of now. Some other countries have such laws too, though we offered a different way, namely, to declare collectors outside the legal environment and render such activities simply impossible"⁶⁴.

FOR REFERENCE

In the debt collection market, a case was created when a collector who bought a large amount of private debts from banks disappeared. But the joy of forgotten debtors was short-lived. Having applied for new loans, their applications were rejected, as their credit records showed debts to the missing collector.

The debtors could not find the collector by themselves, as the company did not have any real businesses. Experts say that there is a way out. "Debtors may apply to a notary and deposit the remaining debt amount on the notary's account, thereby repaying it," says Alexander Fedorov, Partner of Yurpartner. Ilya Radchenko, member of the Technical Committee of the Federal Chamber of Notaries, confirmed that if an individual has a duty to pay and there are no proper creditors, its liabilities are deemed discharged immediately upon depositing by the debtor of money on the notary's account. However, the law does not specify the period for holding the money on the notary's deposit. Ilya Radchenko adds that the individual may apply to the notary and request a refund at any time before the money is received by the creditor. Thus, theoretically, it is possible to repay a debt, improve the record and take the money back⁶⁵.

In the reporting year, the State Duma of the Russian Federation received an initiative to amend the Law "On Protection of Rights and Legal Interests of Individuals in Recovery of Overdue Debts". The initiative proposes to allow the creditor to specify in communications transmitted over telecommunication networks, including mobile communications, the amount and structure of the debt for the purposes of recovering overdue debts, if such debt was created as a result of the debtor's failure to perform the agreement with the service provider⁶⁶. This initiative emerged due to the fact that, by virtue of Part 6, Art. 7 of the above law, now communication operators may not specify the amount and structure of the debt related to the provided communication services in SMS messages and automatic VO messages sent to subscribers. Subscribers have to contact telecom operator call centres and offices to confirm the information on the debt. The number of such repeated visits/communications is about 2,100,000 per month.

Provided that Rospotrebnadzor's legal position was based on the fact that a debt is not an object of civil rights (Article 128 of the Civil Code of the Russian Federation), for which reason its civil circulation is *a priori* impossible. The issue of bad debts may be handled in a completely different way, for example, through converting debts into freely transferable securities with their subsequent sale at a discount, including to the debtor itself.

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In accordance with the new version of Art. 90 of Fundamentals of Notarial Laws of the Russian Federation⁶⁹, ⁷⁰loan agreements, including consumer loan agreements (save for agreements with microfinance institutions), as well as credit agreements with a single institution for housing development being the creditor, and credit contracts with a single institution for housing development being the creditor based on assignment agreements are classified as documents providing for the uncontested collection of debts on the basis of notary writs. However, the prerequisite for applying this debt recovery type is

⁶³ On the legal status of the "collection business" // Official website of Rospotrebnadzor <http://rospotrebnadzor.ru>, 01.02.2016.

⁶⁴ Komsomolskaya Pravda: the chief sanitary inspector of Russia told us how we are deceived by sellers of products, whether there is a conspiracy among drug manufacturers and where to complain about impudent collectors // Official website of Rospotrebnadzor <http://rospotrebnadzor.ru>, 04.04.2016.

⁶⁵ Debtors Search For The Collector // Kommersant, № 55, 31 March 2017, p. 9.

⁶⁶ Draft Law No. 339044-7 "On Amendments to the Federal Law "On Protection of Rights and Legal Interests of Individuals in Recovery of Overdue Debts and On Amendments to the Federal Law "On Microfinancing and Microfinance Institutions" (as of 29 January 2018, it is still pending).

⁶⁷ On the legal status of the "collection business" // Official website of Rospotrebnadzor <http://rospotrebnadzor.ru>, 01.02.2016.

⁶⁸ Komsomolskaya Pravda: the chief sanitary inspector of Russia told us how we are deceived by sellers of products, whether there is a conspiracy among drug manufacturers and where to complain about impudent collectors // Official website of Rospotrebnadzor <http://rospotrebnadzor.ru>, 04.04.2016.

⁶⁹ Federal Law No. 360-FZ, dated 3 July 2016, "On Amendments to Certain Legal Acts of the Russian Federation".

⁷⁰ Federal Law No. 506-FZ, dated 31 December 2017, "On Amendments to the Federal Law "On Promotion of Housing Construction" and Certain Legal Acts of the Russian Federation".

the appropriate provision on the possible debt recovery under the notary writ directly in the body of the loan agreement (credit agreement) or associated additional agreement to the loan (credit) agreement.

The provision on the possible debt recovery under the notary writ is initially also subject to agreement with the consumer in the context of determining specific terms of the loan agreement. The consumer must be guaranteed an unconditional right to refuse to include such provision in the agreement, and this fact *per se* shall not affect the decision on granting a loan.

Rospotrebnadzor monitors such law enforcement practices, as well as the behavioural practices of credit institutions related to loan agreements and inclusion of such provisions thereto to timely take the necessary steps (in accordance with their authorities) to protect the borrowing consumers from unfair practices of entities granting consumer loans to individuals.

In case of foreclosure of debt on loans and credits by court order, a writ procedure is the most popular tool among creditors, because it is two to three times cheaper and faster than litigation. The judge issues the order unilaterally, without the need to try and summon the parties to hear their statements. In the case of credit proceedings, the order is made only on the basis of an application and documents provided by the creditor. The procedure for challenging a court order is also simplified. It is necessary to submit a defence to the court order within 10 days from the receipt of its copy, and in this case the court must reverse the order allowing the creditor to apply for recovery only by litigation⁷¹. In recent years, creditors and collectors have often received refusals to issue a court order due to heterogeneous writ proceedings practice in different regions of Russia⁷².

FOR REFERENCE

The claims are considered by writ proceedings only if the amount of claims does not exceed 500,000 RUB.

To improve and simplify the writ proceedings, Plenum of the Russian Supreme Court resolved⁷³ as follows:

- The claims considered by writ proceedings must be non-controversial;
- The recovered amount is the principal amount and the accrued interest and penalties (fines), mandatory payments and sanctions with the total amount not exceeding (at the time of filing an application for a court order): 500,000 RUB for applications considered by magistrates, including claims on movable property of the debtor; 400,000 RUB (for claims arising out of non-performance or improper performance of the contract and based on documents submitted by the creditor and confirming the liabilities recognized, but not performed by the debtor); 100,000 RUB (for claims for mandatory payments and sanctions recovery) on applications considered by arbitration courts;
- The magistrate or arbitration court issues a court order on the claim for debt recovery, including payments for non-residential premises and utilities under the contract proceeding from the interrelated provisions of Clause. 1, Art. 290 of the Russian Civil Code, Arts. 153 and 158 of the Russian HC74, pars. 3 and 10, Art. 122 of the Russian CCP, Clause 1, Art. 229.2 of the Russian CAO;
- Application for a court order must contain the required information specified in Art. 124 of the Russian CCP, Art. 229.3 of the Russian CAO.

The explanatory notes to the Resolution also state that the claims under the assignment agreement, estimated amounts of debt, interest and penalties, complexity of the credit relations and many other reasons are not sufficient grounds for refusing the writ proceedings. This fact contributed to a significant increase in the number of court orders.

In the Review of Judicial Practice in Cases Relating to the Protection of the Rights of Consumers of Financial Services (approved by the Presidium of the RF Supreme Court on 27 September 2017), it is noted that:

- If the bank make simultaneous claims to the borrower to recover the debt under the loan agreement and to terminate it, such claims are subject to litigation, rather than writ proceedings;
- The bank may not transfer the borrower's personal data to another entity under an agency agreement.

FOR REFERENCE

On the one hand, writ proceedings seem to be more beneficial for all parties. As compared to litigation, it allows obtaining an enforcement document faster and saving 50% of the stamp duty, so banks extensively use this recovery type.

Alexander Savinov, Deputy Chairman of the Board of a collection agency, says that in case of litigation for the debt amounting to 180,000 RUB, the debtor will have to pay the stamp duty (5,000 RUB), and roughly estimated counsel's fees will amount to 20-25,000 RUB. In case of a claim for the same debt amount in writ proceedings, the debtor will not have to spend money on a lawyer, and the amount of the stamp duty will be reduced to 2-3,000 RUB.

However, human rights activists do not agree with this position. "Court orders are extremely defendant-unfriendly; the debtor is not allowed to present his/her position on the disputed subject, to challenge some payments, recalculate the amount of penalties" says Dmitry Yanin, Chairman of the Board, ConfOP.

In this case, according to financial ombudsman Pavel Medvedev, the debtor often does not know about the court order issued against him/her and misses 10 days, when it could easily challenge it.

These concerns are shared by senators. In February 2017, Andrey Palkin, member of the State Duma Committee on Housing Policy

⁷¹ Creditors To Demonstrate Efficiency // Kommersant, No. 82, 12 May 2017, p. 9.

⁷² The struggle for debt recovery writ proceedings entered the final stage. Maxim Bogomolov, member of the NAPCA Board, CEO, Legal Collection Agency / NAPCA website <http://www.napca.ru/press-tsentr/analitika/detail.php?ID=633>.

⁷³ Resolution of the Plenum of the Supreme Court of the Russian Federation No. 62, dated 27 December 2016, "On Some Issues of Applying the Writ Proceedings Provisions of the Civil Code of the Russian Federation and Arbitration Procedure Code of the Russian Federation".

⁷⁴ The Housing Code of the Russian Federation.

and Utilities, proposed the draft amendments to the Russian CCP⁷⁵ (as of 26 January 2018, it was pending) for consideration by the State Duma of the Russian Federation. These amendments provide for repealing the litigation procedure on simple written transactions (including loan agreements). Experts do not rule out that it may be significantly reduced during the approval process. According to Marat Safiulin, manager of the Federal Public Fund for Protection of Rights of Investors and Shareholders, it is not required to completely withdraw the retail lending sector from the scope of litigation, but to protect the rights of bona fide borrowers, the time limit for filing defences by individuals shall be extended up to 30 days, and the creditor must disclose to the court the actual whereabouts of the borrower or to pay legal expenses incurred to search the debtor⁷⁶.

“Debt strippers” companies that render legal services to terminate loan agreements are becoming more and more popular. In this case, the consumer ceases to make payments on the loan (credit) and pays only to such a law firm. In turn, the company initiates legal actions against lenders, if necessary, acts in court for the debtor, but such litigations are rarely a success. As a result, the services of debt strippers lead to a significant deterioration in the financial situation of the consumer, because due to late payments, the lender charges penalties and fines, the requirement to repay the debt remains, and the money were already paid to the legal firm.

However, it is not possible to bring such legal companies to justice, as the services stipulated by the agreement have been formally performed.

The growth of interest on the part of borrowers in the services of "debt strippers" is due to active, but not always proper advertising and unfair competition. More and more "debt strippers" and fake lawyers advertise a guaranteed result in favour of the borrower, which misleads consumers and can lead to fraudulent actions against consumers when fake lawyers receive payment for their services, but they do not actually render the services.

The so-called “debt strippers” found another way to terminate debts: they look for clients through the Federal Bailiff Service of Russia and offer to resolve all problems for a fee. “Debt strippers” are interested in clients who do not hold debit accounts in top banks. An individual is suggested to issue a power of attorney for presenting his or her interests in the Federal Bailiff Service of Russia and financial institutions. Later, this representative goes to the bank and applies for several debit cards in the name of the individual, and the debtor does not know anything about it, and then these cards are sold on the black market for cashing-out transactions. By the time the money begins to flow through the cards, the "debt stripper" submits information about these cards to the Federal Bailiff Service of Russia, which writes off the funds when they appear on the card. This scheme is dissipated using Telegram channels as one of the ways.

According to some lawyers, a client who tries to terminate his or her debts through such firms becomes a participant in financial fraud, and this is Article 174 of the Criminal Code of the Russian Federation⁷⁷ - “Legalization (Laundering) of Money or Other Property Acquired by Other Persons by Criminal Means”, since cards where funds are credited and written off at the request of bailiffs are issued in his or her name, and "debt strippers" act only as intermediary, and it is not easy to reach them⁷⁸.

In 2017, the Civil Arbitration Panel of the Russian Supreme Court published a ruling stating that it is impossible to terminate the bank account agreement, if it was opened together with the issue of a credit card, until the debt is fully repaid. People used this opportunity to limit the growth of the loan burden and avoid paying commissions for the cards servicing. Closing of the card account does not affect the need to repay the debt, but does not allow it to grow. However, according to the Russian Supreme Court, the loan and card account are part and parcel of a mixed contract.

According to some experts, the closure of the account is directly related to possibility of using borrowed money, for example, via the very same credit card. Thus, Dmitry Yanin, Chairman of the Board of ConfOP, notes that there is a certain category of clients who cannot resist the temptation to use a credit card, if it is available. As a result, despite monthly payments made to the credit card, the amount of debt does not reduce. In this situation, closing a card account actually turns a card loan into a regular one, it is repaid through a loan account, from which you cannot withdraw money. If the client has been using the card for a long time, the refusal from the card account will avoid annual service payment (from 0 to 750 RUB per year). Opening an account is not directly related to the subject of the agreement, and the service of opening a card account is imposed by the bank⁷⁹.

The corresponding law has been passed to clarify the procedure for repaying the debts of individuals who are residents of the Republic of Crimea or the federal city of Sevastopol under the loan agreements signed with Ukrainian banks⁸⁰.

In accordance with it, the borrower may apply to the Depositors Protection Fund (hereinafter referred to as the Fund) with a notification of refusal to cooperate with the person entitled to demand repayment of the debt, and the readiness to resolve the dispute only with participation of the Fund. The Borrower Debt Restructuring Fund's Capacities are Expanding.

⁷⁵ Draft Law No. 104417-7 “On Amending Article 122 of the Code of Civil Procedure of the Russian Federation To Exclude the Claim Being the Basis for a Court Order” [http://asozd2.duma.gov.ru/main.nsf/\(Spravka\)?OpenAgent&RN=104417-7](http://asozd2.duma.gov.ru/main.nsf/(Spravka)?OpenAgent&RN=104417-7).

⁷⁶ Creditors To Demonstrate Efficiency // Kommersant, No. 82, 12 May 2017, p. 9.

⁷⁷ The Criminal Code of the Russian Federation.

⁷⁸ «Debt Strippers» Appropriate Cards // Kommersant FM on 1 November 2017.

⁷⁹ Credit Card Cannot be Separate from Its Account // Kommersant No 50, 24 March 2017, p. 9.

⁸⁰ Federal Law No. 240-FZ, dated 29 July 2017, “On Amendments to Certain Legal Acts of the Russian Federation and On Invalidation of Individual Provisions of Legal Acts of the Russian Federation”.



Improvement of the system of legal regulation of protection of the rights and legal interests of individuals in the course of activities related to the repayment of overdue debts is intended to ensure an appropriate level of protection of debtors from illegal activities of "debt collectors". However, the emergence of new instruments for debt collection, such as court order, a notarial writ of execution can lead to higher risks for financial services consumers due to possible abuse.

1.7. Codification of the Legislation on Consumer Rights Protection

New challenges for the national system of consumer protection require a systematic approach to updating existing and developing new legal provisions.

As noted in the Strategy of the State Policy for Consumer Rights Protection up to 2030⁸¹, the current system of legal regulation of relations involving consumers have both gaps and inconsistency between certain federal laws, which in the absence of a clear hierarchical subordination of special provisions to the fundamental provisions of the Civil Code of the Russian Federation often generates legal uncertainty (controversial law enforcement practice) which causes abuse that inflict harm to consumers.

Numerous amendments to the legislation of the Russian Federation on consumer protection testify to the need for systemic rework of this legislation, definition of a terminological framework followed by the codification of a vast array of provisions governing legal relations involving consumers and its update taking into account international law.

Many countries of the world possess the experience of systematization of legislative acts and their codification, regardless of what system of law operates there - continental or common law⁸². The model of continental, or Romano-Germanic, law applies in many countries of Europe and Latin America and provides for the systematization of general rules in this or that sphere, including as codes. At the same time, the legal systems of countries of common law, such as United Kingdom and the USA are based on a tradition of precedents that are reflected in relevant court decisions.



However, **in the USA** the basic federal laws are codified. Certain branches, including also consumer protection are governed by several regulatory legal acts without issuing a specific law regarding the consumer rights protection. Individual laws are as follows:

- Consumer Product Safety Act;
- Federal Trade Commission Act;
- Pure Food and Drug Act;
- Telecommunications Act;
- Fair and Accurate Credit Transaction Act;
- National Health Insurance Act, etc.

In addition, each state has its own laws on consumer rights: individual consumer rights protection laws were enacted in New York, California and Pennsylvania.



In Germany, which belongs to the Romano-Germanic legal family, measures to protect the rights of consumers are also not established in a special law, but are stipulated in various legal acts. The requirements of the directives of the European Union affecting the rights of consumers are integrated into the German civil code. Some of the most detailed legal acts concern electronic commerce.

In Sweden, like in Germany and the USA, consumer rights protection legislation is represented by separate laws⁸³:

- Goods Sales Law;
- Remote and Travelling Sales Law;
- Law on Rendering Services to Consumers;
- Law on Sale of Goods to Consumers;
- Law on Contracts with Consumers.



Under the Swedish law, a consumer, like most consumers in European countries, may, within 14 days, return goods and services that were purchased by phone, mail or online. This right extends to transactions exceeding 400 SEK. When purchasing insurance policies or joining a non-state pension fund, this period is 30 days. It should be noted that the reversal of these transactions is impossible, if they were made in the store or office of the supplier.

The most prominent representative of continental law is **France**, where the codification of legal acts has been conducted for more than one century. Thus, five codes were created even under Napoleon, and today in France 60% of the laws and 30% of the decrees are codified.⁸⁴

⁸¹ Approved by Executive Order of the Government of the Russian Federation No. 1837-eo, dated 28 August 2017.

⁸² http://open.gov.ru/events/5516028/?sphrase_id=316029.

⁸³ <https://www.hallakonsument.se/other-languages/english-engelska1/consumer-laws>.

⁸⁴ http://open.gov.ru/events/5516028/?sphrase_id=316029.

Legal relations concerning consumer protection are regulated by the Consumer Code of 2016⁸⁵.

To date, the Consumer Code consists of eight Books:

- Information for Consumers and Trade Practice;
- Drawing and Execution of Contracts;
- Credit;
- Conformity and Safety of Goods and Services;
- Investigation Powers and Control Measures;
- Disputes Settlement;
- Debt;
- Authorized Associations for Consumer Protection and Consumer Institutions.



Thus, the Code reflects the general provisions of consumer information and advertising, issues of good business practices, sanctions applied, the basis for signing and performing contracts, including those signed remotely. In addition to the general provisions, the code also reflects special provisions that concern contracts for electricity supply, communication services and communication operators, transport, financial, educational, tourist, medical services, as well as hosting.

With regard to financial services, the Consumer Code contains information on consumer loans and debt, which is reflected in Book III. In addition, the Code contains rules for remote sale of goods and services, including Internet sales, which are reflected in section II of Book II. Financial services are also reflected in this section.

The main provisions of the section are as follows:

- the consumer may reject goods or services without explanation within 14 full calendar days (decision and negotiation period) and is exempted from paying any unauthorized fines;
- if the parties decide that the contract will be governed by the legislation of a state that is not a member of the European Union, the judge should refer to the consumer rights protection legislation that applies at the place of permanent residence of the consumer, and apply Directive 97/7/EC of the European Parliament and Council, dated 20 May 1997, "On Protection of Consumer Rights with Regard to Distance Contracts" and Directive 2002/65/EC of the European Parliament and Council, dated 23 September 2002, "On Remote Provision of Financial Services to Consumers, if the contract is closely linked to the territory of one or several EU Member States"; this condition is considered met, if consumers are residents of a member state of the European Union.

The following relates to financial services consumers rights protection:

- Services described in the Currency and Financial Code;
- Transactions entered into by companies that work in accordance with the Insurance Code, mutual insurance companies and associations that observe the Code of Mutuality;
- Services of savings institutions and associations in the Code of Social Insurance.

In Italy, all provisions of the European Union consumer rights protection law were gathered in the consolidated Consumer Code of 2005, which entered into force on 23 October 2005.⁸⁶ Applicable provisions on consumer rights protection are systematized in 170 articles of the Code (before 2007 there were 146 articles).



Approval of the Consumer Code can be considered an important milestone in the field of consumer rights protection in Italy, taking into account the new meaning of the legislation from the point of view of the state policy: consumer rights protection issues were previously covered by specific rules that were adopted from time to time, mainly to implement the directives of the European Union.

The Consumer code has the following structure:

- Part I. General Provisions.
- Part II. Education, Information, Commercial Practice, Advertising.

The second part provides mandatory information, pricing rules, misleading actions, deceptive and aggressive business practices, obligation to use the national language, administrative and judicial protection, and protection of minors.

- Part III. Requirements for Signing and Performance of Contracts.
- The third part reflects provisions on remote transactions, delivery, exchange of documents and information, payment for services and goods.
- Part IV. Safety and Quality.

The fourth part provides information on the liability of the manufacturer, supplier, seller, compensation for damages, exemption from liability, right of recourse, and warranty obligations.

- Part V. Consumer Associations and Access to Justice.
- Part VI. Final Provisions.

The Consumer Code is a single law that covers and consolidates all stages of relations with consumers, from advertising to supply of information, from consumer transactions in general to product safety, access to justice and consumer

⁸⁵ www.legifrance.gouv.fr/affichCode.do?cidTexte=LEGITEXT000006069565&dateTexte=20180417.

⁸⁶ Legal Decree No. 206, dated 6 September 2005.

organizations.

In 2007, new article 140 bis on a collective legal action appeared in the Consumer Code, but implementation thereof was repeatedly postponed until 2009, when its original version was changed in order to weaken the initiative of consumer organizations. It includes a section on consumer lending. Proper financial activity is governed by another law, the single Banking Code.

In addition to this article, the Code was supplemented by article 144 bis, which deals with cooperation between national consumer rights protection authorities. The Ministry of Economic Development of Italy performs the functions of a competent authority for consumer protection in the field of tourism services, electronic commerce and consumer loans issues, aspects of unfair terms in contracts entered into with consumers. However, it adheres to the provisions on banking, financial, insurance and payment systems. In turn, industry bodies continue to perform the functions assigned to them by the competent authorities.



Ireland has had the Consumer Protection Code since August 2006⁸⁷. The Code sets out the requirements that suppliers of goods and services must comply with in order to ensure the same level of consumer protection. In 2008, the provisions on credit firms were added to the Code. In 2012, a new version of the Code was published, which was amended several times. Thus, in July 2015, amendments to the Code were drafted after enactment of the Consumer Rights Protection Law (Regulations on Credit Institutions)⁸⁸. In 2016, the Code included provisions concerning mortgage loans with a variable rate⁸⁹. The Code also regulates the matters of financial services consumer rights protection.

The Code includes 13 chapters:

- Scope;
- General Principles;
- General Requirements (Restrictions, Conflicts of interest, Contact with consumers, Product producer responsibilities, etc.);
- Provision of Information (Information about products, remuneration, charges and regulations, etc);
- Knowing the Consumer and Suitability;
- Post-sale Information Requirements;
- Rebates and Claims Processing;
- Arrears Handling;
- Advertising;
- Complaints Resolution;
- Records and Compliance;
- Definitions;
- Additional requirements for Debt Management firms

In addition, the Code contains 5 Appendices, which include additional information to be disclosed to the consumer in respect to the activities of debt management companies, reporting, etc.

In addition to the Consumer Protection Code, Ireland has in place the following: Consumer Protection Code for Licensed Money lenders, Code of Conduct on Mortgage Arrears, Consumer Credit Act.

FOR REFERENCE

In December 2012, European Union lawmakers passed the Code of EU Online Rights⁹⁰, which contains the minimum rights that consumers must possess in the territory of the European Union, when purchasing online goods and services. Each country may improve this Code. The Code consists of 3 sections and 11 chapters:

- *Section I: Rights & Principles applicable when you access and use online services*
 - *Chapter 1. Access to electronic communication networks and services*
 - *Chapter 2. Access to services and applications*
 - *Chapter 3. Non-discrimination when accessing online services*
 - *Chapter 4. Privacy, protection of personal data and security*
- *Section II: Rights & Principles applicable when you buy goods or services online*
 - *Chapter 5. Information prior to the conclusion of a contract online*
 - *Chapter 6. Timely, clear and complete contractual information*
 - *Chapter 7. Fair contract terms and conditions*
 - *Chapter 8. Protection against unfair practices*
 - *Chapter 9. Delivery of fault free goods and services on time*

⁸⁷ <https://www.centralbank.ie/docs/default-source/Regulation/consumer-protection/other-codes-of-conduct/4-gns-4-2-7-cp-code-2012.pdf?sfvrsn=4>.

⁸⁸ Consumer Protection (Regulation of Credit Servicing Firms) Act 2015 // <https://www.centralbank.ie/docs/default-source/Regulation/industry-market-sectors/credit-servicing-firms/Legislation/gns-4-4-4theconsumerprotection-act2015-pdf.pdf?sfvrsn=0>.

⁸⁹ <https://www.centralbank.ie/regulation/consumer-protection/consumer-protection-codes-regulations>.

⁹⁰ <https://ec.europa.eu/digital-single-market/code-eu-online-rights>.

- Chapter 10. *Withdrawal from a contract*
- Section III: *Rights & Principles protecting you in case of conflict*
 - Chapter 11. *Access to justice and dispute resolution.*

Consumers have at least seven days to change their mind about goods or services they have ordered online from a trader without penalty and without giving any reason. But if necessary, the only charge that can be made to the consumer in this case is the direct cost of returning the goods. Cancellation of financial services acquired online is possible within 14 days. It is also without any penalty and without giving any reason for withdrawal from the contract.

The dispute resolution procedures described in chapter 11 provide an overview of the process and provide the necessary references to the relevant directives of the European Union. If the consumer has made an online transaction in a country other than his/her country of residence, he/she can use a mediator or a special procedure for resolving small disputes, including online transactions (up to 2,000 EUR).

Codification of the Legislation on Consumer Rights Protection is not characteristic only of European countries. In 1990, **Brazil** adopted the Consumer Protection Code, which came into effect on 11 March 1991.



The Code protects the social interests of the whole society. Social interests are the key concept of the Consumer Code. Therefore, its objective is to provide consumers with affordable and very specific tools to protect their rights under conditions of fairness. The key provision of the Consumer Code is that Brazil creates a system of consumer protection, shifting the burden of compliance with the law to service providers.

The Consumer Code consists of six sections:

- Rights of the consumer;
- Criminal offenses;
- Judicial consumer protection;
- National system for consumer protection;
- Consumer collective agreement;
- Final Provisions.

The Code focuses on preventing abuses that damage the consumer market, such as unfair competition and an indefinite form of public services. In special cases, the code also sets out criminal penalties.

Financial organizations are also required to comply with the rules and provisions of the Code. This provision was supported by the Federal Supreme Court in accordance with Rulings No. 452, 430, 425 and 417 and the decision issued under Case of the direct unconstitutional action, dated 6 July 2006, ADI 2.591/DF. Thus, it was agreed that according to the Code a "consumer" is any individual or legal entity that, as the end recipient, uses banking, financial and credit services.

Consumers are protected from low quality products or services (Articles 12, 14, 18 and 20 of the Code) that inflict harm to health or cause irreparable damage to the consumer or other persons, as well as those products and services that are consumed and are of substandard quality.

The Code prohibits misleading or high pressure advertising tactics, and forces suppliers to immediately inform consumers about the possible harm or danger of using already sold low-quality products.



The practice of systematization and codification of legislation on consumer protection in foreign countries shows that codification ensures systematic nature of the relevant rules of law, makes them more understandable to a wide range of individuals, and also promotes coherence and consistency of law enforcement practice. Foreign experience can be used in developing a concept of codifying the legislation of the Russian Federation on consumer rights protection, including financial consumers.

2. Development of the Retail Financial Market and Risk Assessment for Financial Consumers

2.1. General Characteristics of the Financial Market and Financial Activity of the Population

Despite difficult geopolitical conditions, in 2017, the Russian economy resumed growth, which according to the Federal State Statistics Agency amounted to 1.5%⁹¹.

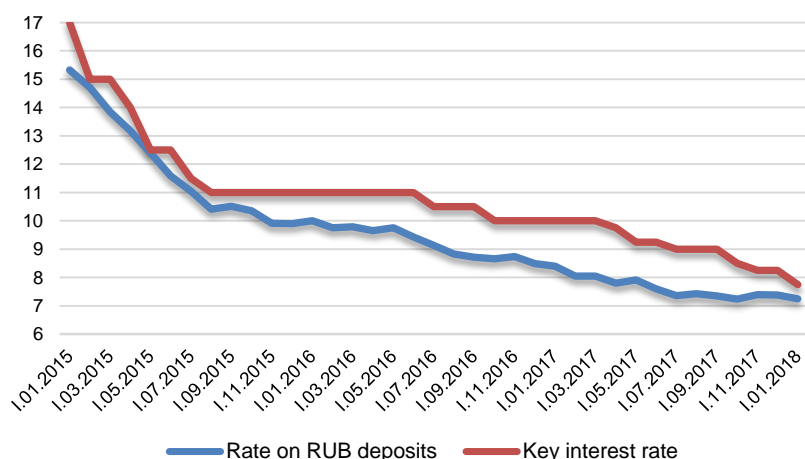
Internal financial conditions in the Russian economy were determined by a gradual decrease of the Bank of Russia's key rate and a moderately strict monetary policy. Players in the domestic financial market mainly retained a conservative risk appetite, contributed to maintaining the incentives for savings and a moderate demand for borrowing. In general, the movements in domestic financial conditions contributed to the preservation of incentives for savings and a moderate demand for borrowing in the economy⁹².

The inflation rate remained record low: according to the Federal State Statistics Agency, the consumer price index in 2017 was 102.5% against 105.4% in 2016.

The transition from high to low inflation rate contributed to the growth in demand for fixed-income financial instruments, such as bonds and deposits, thereby reducing their yield. At the same time, the key rate of the Bank of Russia in 2016-2017 ceased to have a significant impact on yield on deposits in credit institutions. Thus, as of the first ten days of January 2018, the key rate and the maximum rate on deposits in RUB in 10 credit institutions that attracted the largest volume of individuals deposits were practically equal - 7.75% and 7.245%, respectively (Figure 2.1).

Thus, since mid-2016, a steady trend of reducing the cost of money has developed in the financial market. 2017 also saw an increase in bank deposits of individuals in RUB, while a similar figure in foreign currency and precious metals was declining.

Figure 2.1. Movements of the maximum interest rate on deposits in Russian RUB in 10 credit institutions that attracted the largest volume of individuals deposits and the key rate for 2015-2018 and January 2018⁹³, %



Source: Bank of Russia

In 2017, one of the trend-setting drivers for the development of the financial services market was an increase in consumer confidence of the population by 7 p.p. (Figure 2.2.)

The increase in the consumer confidence index by 7 pp. is due to the positive changes in the population's assessments of the occurred and expected developments in the Russian economy, changes in personal financial status and favourable conditions for large purchases. The assessment of a subjective opinion of the population about expected changes in personal financial status remained at the same level.

The real disposable income of the population have declined for four consecutive year, but in 2017 the rate of decline slowed. Thus, during 2017, this indicator decreased by 1.7%, while by the end of 2016 real incomes of the population decreased by 5.8%⁹⁴.

The fall in real incomes in recent years has led to an increase in the number of households experiencing difficulties in purchasing goods and services. Thus, in Q3 2017, 0.9% (0.9%) of⁹⁵ households did not have enough money even for food, 18.1% (19.7%) experienced difficulties in purchasing clothes and paying for housing and utility services, another 50.1% (48.0%) could not afford buying durable goods.

⁹¹ On Production and Use of the Gross Domestic Product (GDP) in 2017 (first assessment) // Website of the Federal State Statistics Agency http://www.gks.ru/bgd/free/b04_03/lsswww.exe/Stg/d03/20.htm.

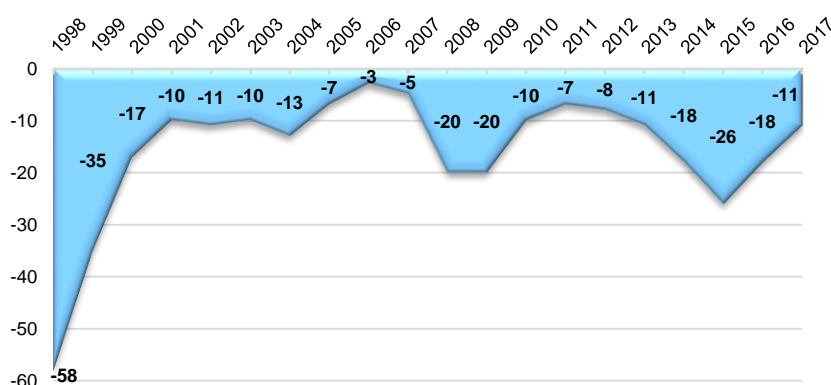
⁹² Credit and Monetary Policy Report (No.4, December 2017) http://www.cbr.ru/publ/ddcp/2017_04_ddcp.pdf.

⁹³ Values for categories are given for the first ten days of a relevant month and the year.

⁹⁴ The standard of living and income of the population in December 2017 // Website of the Federal State Statistics Agency http://www.gks.ru/bgd/free/B17_00/lssWWW.exe/Stg/dk12/6-0.doc.

⁹⁵ Figures for Q3 2016 are indicated in brackets.

Figure 2.2.⁹⁶, Dynamics of consumer confidence %

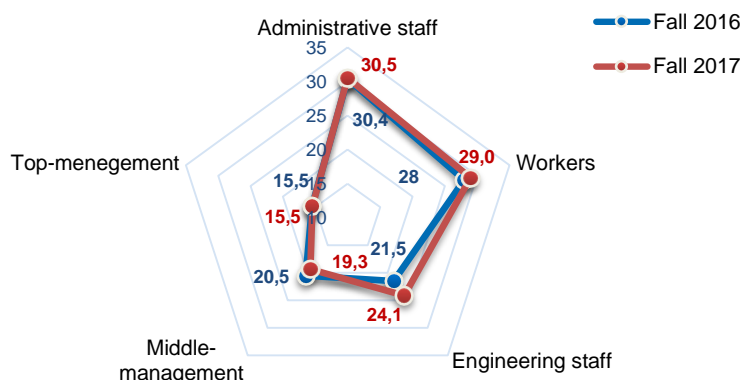


Source: Rosstat

The sharpest decline in income is evident for consumers who have obligations on loans and borrowings. Among households that had fixed payments, according to the results of Q3 2017, 9.8% (+ 0.6% compared to the same period in 2016) of households had financial difficulties, which made it impossible to make payments for using consumer bank loans.⁹⁷

At the same time, the statistics of NBKI shows insignificant deterioration of debt burden of borrowers in 2017 against 2016 (Figure 2.3).

Figure 2.3. Ratio of monthly payments on all loans to monthly income depending on personnel structure of enterprises



Source: NBKI

It should be noted that, as of 1 November 2017, the highest debt burden was carried by employees of security companies (32.8%), and by employees of social fields (31.6%) and medical and pharmaceutical institutions (30.3%). In turn, the lowest debt burden was seen in the following fields: Information Technologies (13.9%), Telecommunications (14.5%) и Marketing, Advertising and PR» (21.2%)^{98,99}.

Thus, employment of borrowers in certain industries affects the risk of non-payment under their obligations. This circumstance should be taken into account when preparing financial literacy programs for the population.

FOR REFERENCE

In a situation of economic uncertainty, citizens change their financial habits. Thus, in 2015, 47% of respondents tried to first save the funds, and then use the balance of funds. Today, 46% spend all the money for current needs and do not save anything (15% in 2015). The share of those who spend first, and then saves, remains unchanged (36%). It is revealing that the strategy to "spend all funds and not make savings" is most likely to be chosen by economically active citizens of 35-44 years (51%).

The continued growth of consumer confidence in 2017 allowed further increase in lending to the population with lower growth rates of savings and cash income (Figure 2.4).

⁹⁶ The consumer confidence index is calculated as the arithmetic mean of five particular indices: occurred and expected changes in the personal material situation (1-2), occurred and expected changes in the economic situation in Russia (3-4), favourable conditions for major purchases (5).

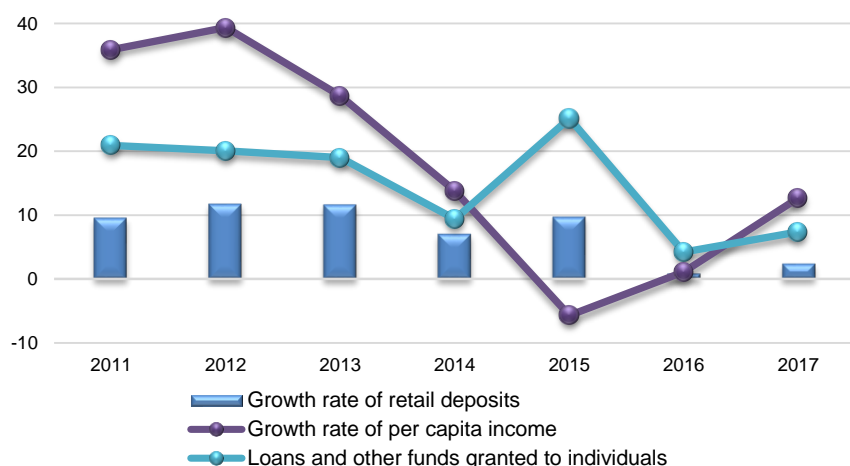
⁹⁷ Incomes, expenditures and consumption of households in 2017 (following the sample survey of household budgets) // Website of the Federal State Statistics Agency http://www.gks.ru/bgd/regl/b17_102/Main.htm .

⁹⁸ NBKI: During the year, the debt burden of employees in all fields of the Russian economy has significantly decreased, 31 October 2016 // Website of the National Credit Reporting Agency <https://www.nbki.ru/press/pressrelease/?id=20592>.

⁹⁹ NBKI: Decrease in the debt burden of employees in all fields of the Russian economy is noticeable, 13 November 2017 // Website of the National Credit Reporting Agency www.nbki.ru/company/news/?id=21582&sphrase_id=100656.

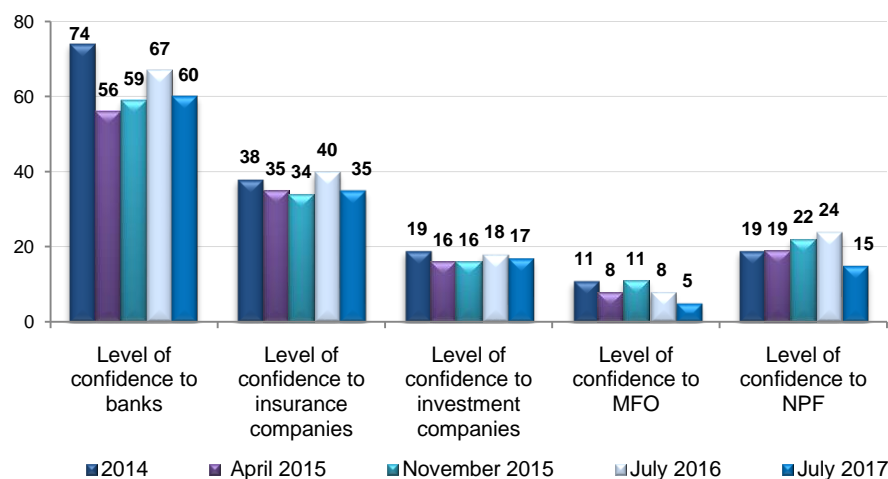
Figure 2.4. Movements of annual growth rates of per capita cash income, loans and other funds provided to individuals, individuals deposits during 2011-2017¹⁰⁰, %

Sources: Bank of Russia, Statistics Agency of Russia



Despite the growth of consumer confidence in 2017, the public confidence in financial institutions significantly decreased (Figure 2.5).

Figure 2.5. Level of public confidence in financial institutions, %



Sources: NAFI

60% of Russians are confident in Banks (14% absolutely and 46% - more likely), which is 7% lower than the previous year. The decrease was due to the share of those who have doubts (in July 2016, respondents who said "more likely confident" accounted for 52%). It should be noted that from April 2015 to July 2016 (based on the results of three surveys), there was an increase in Russians' confidence in the banking system.

The confidence in insurance companies declined from 40% in July 2016 to 35% in July 2017. The confidence in microfinance institutions (5%) remains virtually unchanged (movements are within the margin of error)¹⁰¹.

In order to reduce the risks of financial consumers, governmental institutions are working on improvement of the legal framework.

In particular, in 2017, the so-called "behavioural supervision" started to be introduced in the financial market. In the opinion of the First Deputy Chairman of the Bank of Russia Sergey Shvetsov, behavioural supervision means an area that covers legal relations related to a direct contact of the organization and its client. "It includes the rules for selling financial products and services to different categories of buyers. Plus, restrictions for the parameters of products and services sold, and there may also be certain requirements for the format of the contract¹⁰²."

In addition, the Strategy for Improving Financial Accessibility in the Russian Federation for the Period 2018-2020¹⁰³ was adopted in early 2018, the main objectives of which are the following:

- 1) Increasing the accessibility and quality of financial services for consumers in remote, low populated or hard-to-access territories,

¹⁰⁰ With regard to per capita cash income for 2017, data for Q3 2017 was used.

¹⁰¹ Confidence in banks, insurance companies and non-government pension funds decreased significantly, 8 September 2017 // Website of the NAFI Analytical Centre <https://nafi.ru/analytics/doverie-bankam-strakhovym-kompaniyam-i-npf-zametno-snizilos>.

¹⁰² The Central Bank introduces financial supervision in all financial markets, 9 February 2017 // Website of the TASS Information Agency tass.ru/ekonomika/4010369.

¹⁰³ The strategy of increasing financial accessibility in the Russian Federation for 2018-2020 (approved by the Board of Directors of the Bank of Russia on 26 March 2018).

small and medium-sized businesses and groups of people with limited access to financial services (people with low income, other socially vulnerable groups of the population);

2) Increasing speed and quality of financial services for the population with access to the Internet.

As part of the introduction of the borrower's debt burden indicator, the Bank of Russia issued the following documents in 2017:

- Report for the public consultations (February 2017) "On Assessing the Risks of Individual Borrowers Based on the Borrower's Debt Burden Indicators";
- Report for the public consultations "On the Development Strategy for the Credit Reporting Agency Services Market" (includes proposals for collecting information and calculation of the debt burden indicator for consumer loans (credits) of Credit Reporting Agency) (October 2017);
- Draft ordinance "On Premiums on Risk Ratios for Certain Types of Assets and Characteristics of Types of Assets, for Which Premiums on Risk Ratios are Established" (introduces a debt burden indicator for consumer loans (credits)) (April 2018)¹⁰⁴.

In 2017, non-credit financial organizations still had a pressing issues in connection with Bank of Russia Ordinance No. 3073-U, dated 7 October 2013, "On Cash Settlements": CCCs, MFOs and pawn shops may not lend money received from borrowers to repay their loans as new loans, but they must deposit all these funds into the bank and then take them back from the bank for loans. Thus, bank fees grow to become burdensome for business, and a company either wilfully violate the Instruction, or it is forced to withdraw from business. The issues between the regulator and financial institutions lead to risks of abuse by the latter in relation to consumers in order to compensate for losses arising from the proper implementation of the requirements of the Bank of Russia.



In 2017, there were signs of stabilization of indicators of development of economic and social fields in Russia. However, real disposable incomes of the population decreased and limit consumer activity and generates various and significant risks for financial consumers, which must be taken into account in the current activities of Rospotrebnadzor and other participants in the national system for consumer protection.

2.2. Changes in banking services market, and consumer risks

Trends of the Banking Services Market Development

According to the Bank of Russia, in 2017, the Russian banks' assets grew by 6,4% (-3.5% in 2016) while the banking sector's aggregate annual profit dropped by 15.1% (+384.3% in 2016). In light of increase in the assets of the banking sector, the amount of equity remained virtually the same (+ 0.1% in 2017 compared to +4.2% in 2016).

The role of households in creating assets of the banking system is steadily increasing: in 2017, they accounted for 30.5% of all assets of credit institutions (30.2% as of early 2017, 28% as of early 2016).

By early 2018, the number of banking system institutions reduced by 1,249 entities compared to that on 1 January 2017 and comprised 34,656 institutions, including 194 Bank of Russia's organizations (- 45), 561 lending organizations (-62), 890 branches of lending organizations (-208), and 33,011 (-934) business units of lending organizations. At the same time, the number of banking institutions per 1,000,000 citizens reduced from 245 to 237¹⁰⁵.

According to the Deposit Insurance Agency ("DIA"), as of early 2017, there were 512 banks operating in the deposit insurance system licensed to work with individuals¹⁰⁶, and there were already 466¹⁰⁷ banks as of the year end. In addition, as of the end of 2017, measures to prevent bankruptcy were applied to 29 credit institutions (26 credit institutions as of the beginning of the year)¹⁰⁸.

FOR REFERENCE

According to Expert RA, in 2018 licenses of at least 60 banks may be withdrawn, including at least five banks in the Top 50.

The Bank of Russia's efforts to rehabilitate banking sector accelerated the process of clients' migration from small and medium-sized banks to major banks and publicly-owned banks. While at the beginning of 2017, the Top 5 banks accounted for 55.3% of the banking sector assets, at the end of the year their share was 55.8%. The Top 50 banks account for more than 90% of all assets (88.6% as of the early 2017).

In the Report on Priority Activities of Constituent Entities of the Russian Federation on Promoting Competition in the Russian Federation, presented at the State Council meeting on priority areas of activity of constituent entities of the Russian Federation to promote competition in the country, which was held on 5 April 2018, and chaired by the President of the Russian Federation, it was proposed to focus on deterioration of the competitive environment and non-market tendencies to strengthen positions of major credit

¹⁰⁴ Bank of Russia Draft Ordinance "On Premiums on Risk Ratios for Certain Types of Assets and Characteristics of Types of Assets, for Which Premiums on Risk Ratios are Established" // Official website of the Bank of Russia <http://www.cbr.ru/analytics/?PrtlId=project>.

¹⁰⁵ Institutional availability of payment services for the population // The Bank of Russia's Website <http://www.cbr.ru>.

¹⁰⁶ Changes in the Register of Members of the Deposit Insurance System, 11 January 2017 // Deposit Insurance Agency http://www.asv.org.ru/agency/for_press/pr/445872.

¹⁰⁷ Changes in the Register of Members of the Deposit Insurance System, 12 January 2018 // Deposit Insurance Agency https://www.asv.org.ru/agency/for_press/pr/509556.

¹⁰⁸ Overview of the banking sector of the Russian Federation // The Bank of Russia's Website <http://www.cbr.ru>.

institutions in the banking market with the prevailing participation of the State and Bank of Russia in the authorized capital.

In this situation, major publicly owned banks are able to significantly reduce interest rates on household deposits while maintaining relatively high interest rates on loans¹⁰⁹.

To effectively implement measures on rehabilitation of credit institutions supported by the Bank of Russia, Managing Company of the Banking Sector Consolidation Fund Limited Liability Company (MC FKBS LLC) was established in 2017¹¹⁰. The new bank rehabilitation scheme allows reorganizing a credit institution by recapitalizing a rehabilitated bank by the Bank of Russia through MC FKBS LLC¹¹¹, rather than through DIA's concessional loans, as was the case. In fact, the new scheme provides for state ownership of the problematic banks, and there is a chance of improving the protection of consumers of such credit institutions.

In April 2017, the Bank of Russia issued Ordinance No. 4336-U "On Assessing the Financial Status of Banks" providing that the bank's financial stability for the purpose of participating in the Deposit Insurance System is assessed based on adequacy of the common and tangible common equity.

In addition, in 2017, a law¹¹² was adopted to reduce the risks of small credit institutions. This law provides for the following:

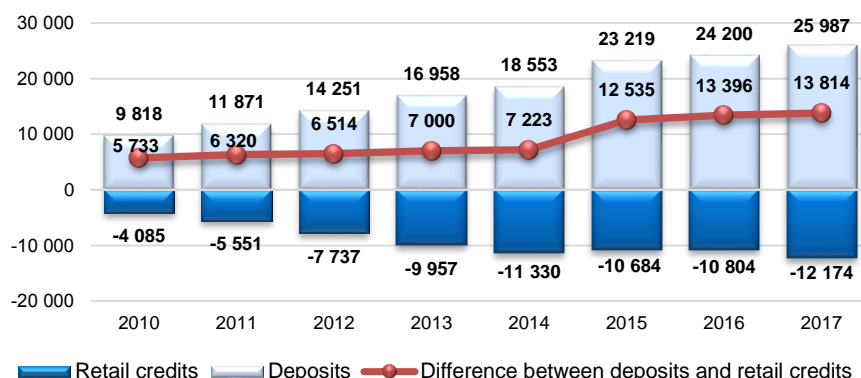
- Differentiation of banks by allowable operations to banks with a general license and banks with a basic license, as well as the requirements to such banks and the procedure for and conditions of granting the appropriate licenses;
- The existing credit institutions are classified as banks with a general license as of 1 June 2017;
- As of 1 January 2018, the minimum capital of a bank with a general license shall be 1,000,000,000 RUB, and that of a bank with a basic license - 300,000,000 RUB;
- Procedure for granting a basic license to banks with a general license, and a general license to banks with a basic license;
- Procedure and conditions for granting the basic bank license or a non-bank credit institution status to microfinance companies.

It is expected that this law will increase competition in consumer lending and retail deposit markets, since some transactions of banks with a basic license with legal entities will be restricted, and reducing their costs will improve the terms of banking products.

Despite the outstripping growth in the retail loan portfolio (compared to deposits), the amount of household deposits still significantly exceeds the amount of retail loans provided by banks (Figure 2.6).

Figure 2.6. Dynamics of household deposits and retail loans in 2010-2017, bln RUB

Source: Bank of Russia, FBK



However, in 2017 the portfolio of loans and other funds provided to individuals increased by 12.7% (+ 1.1% in 2016) and the amount of deposits - by 7.4% (+4.2% in 2016). Despite the efforts of the Bank of Russia to restrict the unsecured consumer lending, this type of lending grew by 11% (-3.1% in 2016), which, however, is less than the growth rate of the loan portfolio as a whole.

In 2017, the quality of the retail loan portfolio improved significantly. The proportion of bad debts overdue for more than 90 days in the total loans was 7.5% as of 1 January 2018 (9.3% as of 1 January 2017).

To reduce the debt burden of individuals, in early 2018 the Bank of Russia published Draft Ordinance "On Premiums on Risk Ratios for Certain Types of Assets and Characteristics of Types of Assets, for Which Premiums on Risk Ratios are Established"¹¹³. The regulation act introduces the debt burden indicator for consumer loans (hereinafter referred to as the "DBI") to differentiate the premiums for risk factors under consumer loans, and sets requirements for determining the average monthly income of the borrower and the average monthly payment under all consumer loans and credits. As of 1 May 2018, the DBI thresholds were not set.

Based on the risk assessment, the main areas for protecting the consumers of banking services in 2018 may be the following: eliminating the existing gaps and bottlenecks in the applicable laws related to interpretation of certain standards, increasing the information transparency of banking services, limiting the possibility of abuse by banks, responding to cyberthreats, encouraging the competition of credit institutions and improving the legal support of financial consumers.

To cover trends in the development of the market for selected banking services in more detail, the most popular and therefore

¹⁰⁹ State Council of the Russian Federation, Report on priority areas of activity of the Russian regions to promote competition in the Russian Federation // Website of the FAS of Russia <https://fas.gov.ru/documents/622661>.

¹¹⁰ Federal Law No. 84-FZ, dated 1 May 2017, "On Amendments to Certain Legal Acts of the Russian Federation".

¹¹¹ Official MC FKBS LLC website <http://amfbc.ru>.

¹¹² Federal Law No. 92-FZ, dated 1 May 2017, "On Amendments to Certain Legal Acts of the Russian Federation".

¹¹³ Bank of Russia Draft Ordinance "On Premiums on Risk Ratios for Certain Types of Assets and Characteristics of Types of Assets, for Which Premiums on Risk Ratios are Established" // Official website of the Bank of Russia <http://www.cbr.ru/analytics/?Prtd=project>.

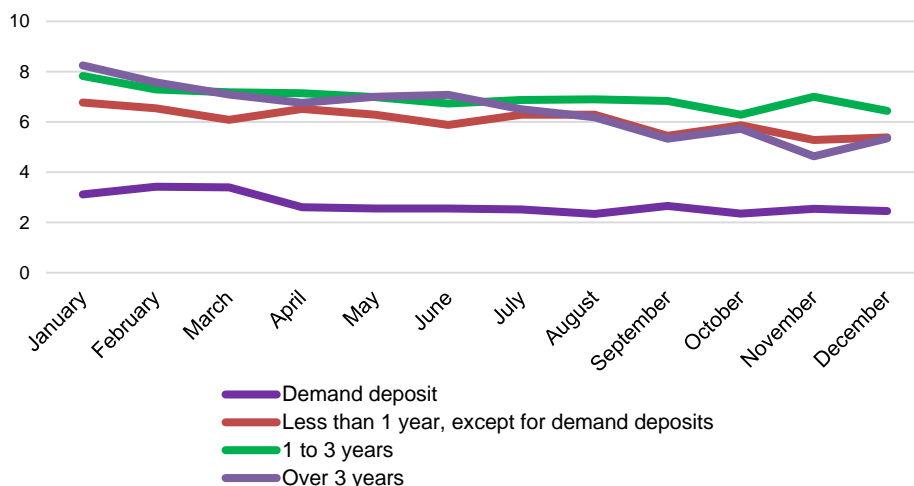
the most risky banking products for consumers are reviewed below.

Deposits

Similarly to 2016, the deposit market showed a decreased yield in the reporting year. At the same time, rates on long-term deposits decreased more rapidly (Figure 2.7).

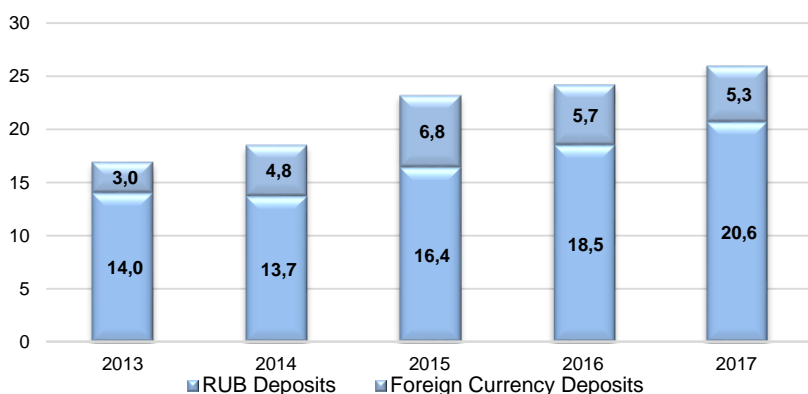
Figure 2.7. Weighted average annual interest rates on RUB deposits in credit institutions in 2017, (% per annum)

Source: Bank of Russia



In 2017, weighted average annual interest rates on US dollar deposits raised by credit institutions did not exceed 2.5%, on rates on EUR deposits did not exceed 1%, while the highest annual interest rates on RUB deposits were more than 8%. As a result, in 2017, the share of foreign currency deposits in the retail deposit structure raised by credit institutions declined by 3.1 percentage points (to 20.6%) (Figure 2.8).

Figure 2.8. Deposits in credit institutions by currencies (trln RUB)



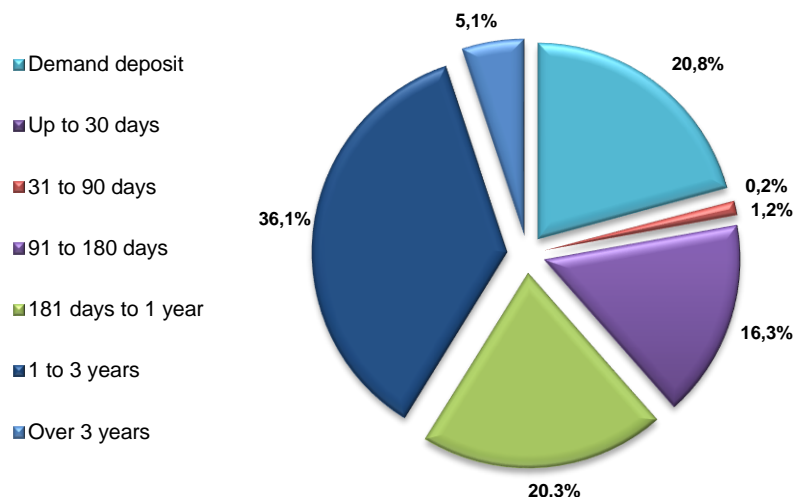
Source: Bank of Russia

More than a third of deposits in the retail deposit structure is represented by funds raised for a period of 1 to 3 years (Figure 2.9). Approximately the same share of deposits is raised for a period of 91 days to 1 year. The share of funds on demand deposits (20.8%) with relatively low interest rates is still high, thus entailing the risk of gradual depreciation of such funds.

In 2017, 41 loss events occurred with respect to banks participating in the Deposit Insurance System (hereinafter referred to as the "DIS"), the claims amounted to 404,300,000,000 RUB, claims were filed by 637,800 individuals. In general, 424 loss events have occurred for 14 years of DIS operations, the associated total insurance liability to 8,400,000 depositors amounted to 1,746,000,000,000 RUB¹¹⁴.

Figure 2.9. Retail deposits in credit institutions by maturity (as of the end of 2017)

¹¹⁴ DIA Held its Meeting, 06.03.2018 // Deposit Insurance Agency https://www.asv.org.ru/agency/for_press/pr/517221.



Source: Bank of Russia

There are multiple problems and conflicts in relations of DIA securing the DIS operations and financial consumers of banks. For example, in 2017, the DIA started to extensively challenge the withdrawal of money by depositors of bankrupt banks and recover funds from them. Depositor good faith rule is often ignored, the court is satisfied by availability of a default payment file in the bank at the time of deposit withdrawal. According to experts, most banks have such files prior to revocation of their licenses. Then, the DIA returns to individuals a part of funds recovered from them by court order in the form of deposit insurance (up to 1,400,000 RUB). Such practices result in social tension and lead to an unreasonable increase in court expenses of the DIA, experts say.¹¹⁵

In this regard, the Russian Union of Depositors collected 25,000 signatures under a petition calling for the Bank of Russia and the DIA to inspect the banks with revoked licenses. Signatories of the petition request President Vladimir Putin to take in the situation. In turn, the DIA asserts that judicial actions cover only clients of the banks performing transactions that go "beyond normal business activities"¹¹⁶.

FOR REFERENCE

"Fictitious" deposits amounting to 76,000,000,000 RUB were first discovered in 2014 when the Moscow Regional Bank was reorganized.

Out of 195 credit institutions declared bankrupt from 2015 to 2017, 160 had "preferential" transactions, including transactions on behalf of individuals in 128 entities. The average number of legal actions filed by individuals in relation to preferential satisfaction does not exceed 2-3% of the preferential creditors, and the procedure of challenging doubtful transactions has increased the bankruptcy estate of liquidated banks by almost 7,000,000,000 RUB of "real" money over the past 3 years¹¹⁷.

It should be noted that these actions bear the risk of decreasing citizens' confidence in the banking system and seeking alternative ways to deposit the funds, and they are often more risky than bank deposits (financial instruments of the securities market, investment life insurance, crypto-currencies, Ponzi schemes, etc.).

In early 2018, it was reported that deputies of the State Duma Committee on the Financial Market together with the Bank of Russia, DIA and the Ministry of Finance of Russia were preparing a draft law that would protect depositors from DIA's claims. The purpose of the draft law is to separate *bona fide* depositors of banks from lending institutions associated with the bank that have insider information on the bank's activities. Experts are sure that to solve the problem, strict control of the Bank of Russia is vital, as well as making bank employees granting a preferential loan personally liable for such actions¹¹⁸.

According to the DIA, when preparing for and performing insurance payments in 2017, cases of fraud using the so-called "off-balance-sheet" accounting were revealed. In such schemes, actual retail deposits were not recognized in the bank's formal accounting or recorded therein immediately before withdrawal of the bank's license. For example, it revealed cases of concealing 10,900,000,000 RUB to steal deposits of 12,100 depositors (the amount of funds concealed by banks decreased by 5,5 times compared to 2016).

Since the beginning of 2017, the DIA have re-recognized and included in insurance payments "off-balance-sheet" liabilities for more than 7,900,000,000 RUB to satisfy claims made by 13,100 depositors. Rights of over 99% of such depositors were restored extrajudicially¹¹⁹.

To mitigate risks of "off-balance-sheet" deposits, consumers are encouraged to follow some rules:

¹¹⁵ DIA Makes Claims on Deposits // Kommersant, No. 18, 1 February 2018, p. 1.

¹¹⁶ Russian Union of Depositors collected 25,000 signatures under a request to inspect the Bank of Russia and DIA, 12.03.2018 // Gazeta.Ru https://www.gazeta.ru/business/news/2018/03/12/n_11274121.shtml.

¹¹⁷ The Agency Protects All Creditors, 14.02.2018 // Deposit Insurance Agency https://www.asv.org.ru/agency/for_press/pr/514364.

¹¹⁸ Deputies Stood Up For Depositors // Kommersant, No. 52, 28 March 2018, p. 8.

¹¹⁹ Annual Report of Deposit Insurance Agency State Corporation for 2017 (Approved by Resolution of the Board of Directors of Deposit Insurance Agency State Corporation on 6 March 2018 (Minutes No. 3, Section I)).

- The bank deposit agreement shall be signed only in the official premises of the bank;
- The bank deposit agreement shall specify the full name of the bank's employee and details of the document authorizing such employee;
- Upon signing the agreement, it is required to receive its copy with the original signature of the bank's employee, seal (a passbook may be issued), as well as the cash receipt when depositing cash;
- It is required to regularly request the account statement. If the bank refuses to do so, file a complaint with the Bank of Russia;
- Bank deposits shall not be converted to other types of financial services¹²⁰.

The Bank of Russia has proposed to prosecute entities for up to 6 years as a way to combat "off-balance-sheet" deposits, and if the crime is committed by an organized group, to prosecute for up to 10 years¹²¹.

To prevent "off-balance-sheet" deposits, it is planned to launch a database on bank deposits on the e-government portal by the middle of 2018. For this purpose, amendments to laws have been prepared and a software system is being actively developed¹²².

The Bank of Russia is also considering the possibilities to legislate a new bank rehabilitation mechanism, bail-in or conversion of funds on accounts and deposits of major creditors to bank shares or its subordinated liabilities to reduce the State's expenses for its rehabilitation. In Russia, this mechanism was first tested in early 2017 during rehabilitation of PERESVET JSB. This mechanism shall not affect depositors with deposit amounts falling within the insured amount (1,400,000 RUB). Risks for major investors resulting from implementation of this initiative will depend on the condition of rehabilitated bank and the demand for funds in depositors.

In addition to bank savings certificates, there is an alternative option, personal investment accounts (PIAs), providing for depositing up to 400,000 RUB a year on a special brokerage account allowing for a tax deduction of 13% of the deposited funds or income tax exemption in case of transactions with financial instruments¹²³.

It should be noted that to mitigate the risks of individuals, the Bank of Russia proposes to create a comprehensive insurance system for individuals' investments deposited on personal investment accounts, similar to the Deposit Insurance System. For this purpose, a draft law was introduced to the State Duma of the Russian Federation proposing to set insurance indemnity amounting up to 1,400,000 RUB.

Due to the increasing number of complaints, on 27 February 2017, the Bank of Russia issued an Information Letter No. IN-01-59/10 with recommendations for credit institutions on communicating possible risks of investing in the financial market to their clients, if they are offered the corresponding financial services or financial instruments.

FOR REFERENCE

During the presentation of Report "On public protection of consumers in the Russian savings market"¹²⁴ at the International Conference of the Federal Service for Consumer Rights Protection "Protection of Financial Services Consumer Rights: Challenges and Prospects in the Global Context" held on 20 October 2017, both new and existing problems of the savings market were reviewed:

- *The absolute majority of banks are not ready to provide the agreement to the client for consideration prior to signing it (only 16% of banks are ready to provide a template to the client);*
- *A half of the banks require the depositor to sign a banking agreement, even if the consumer only wants to open an account (in 24% of banks, a bank card is issued for a client wishing to open a deposit; in 84% of banks deposits are renewed automatically);*
- *Bank office employees and call centre operators often do not have sufficient experience to provide high-quality advice to the consumer;*
- *Banks introduce unfair conditions into the agreement making the consumer a financially vulnerable party (unilateral amendment of the agreement by the financial institution, imposing additional services);*
- *Banks only partially recognize consumer deposits in their records ("off-balance-sheet" deposits), thus increasing the risk that consumers will not receive any coverage, if the bank's license is revoked;*
- *Internet search engines do not provide a true view of existing opportunities to invest profitably and safely. For example, if you enter "invest money profitably," the first lines in search engines are links to companies promising super-high returns (from 10-12% to 100% or more) and not guaranteeing the safety of investments, there are almost no links to investments proposed of banks;*
- *There are no regulatory educational materials designed to warn individuals against risky investments and links to them in the array of analyzed information;*
- *Information on websites of non-banking organizations shall be treated with caution: 13 out of 25 organizations specified their details on the website, and in two cases the companies were registered outside the Russian jurisdiction; 10 out of 25 organizations also posted various certificates to prove their reliability and solvency, and in three cases certificates were of foreign origin; 5 out of 25 organizations also use symbols of Russian authorities and confusingly similar images on their websites to confirm their reliability and accountability.*

Thus, relying on information from the Internet, individuals may lose their savings by investing in such organizations, and most of them

¹²⁰ At Stake // Kommersant, No. 81, 11 May 2017, p. 13.

¹²¹ Financiers will be imprisoned for off-balance sheet deposits and fictitious securities, 16 June 2017 // RBC <https://www.rbc.ru/finances/16/06/2017/5942b0719a794776eb646fff>.

¹²² Depositors Will Be Provided With A Public Service // Kommersant, No. 217, 22 November 2017, p. 8.

¹²³ For the details see http://www.cbr.ru/statichml/file/14714/pres_sep_2817.pdf.

¹²⁴ The Report was prepared by the Consortium as part of the Union of Public Associations "International Confederation of Consumer Societies" (ConfOP) and Consumers International within the framework of the research conducted from January to April 2017 to implement the Joint Project of the Ministry of Finance of the Russian Federation and the IBRD "On raising financial literacy and development of financial education in Russia".

To strengthen the rights of citizens, Law No. 212-FZ¹²⁵ was adopted. The Law provides that starting from 1 June 2018, the bank performing incorrect transactions with money on the account must pay interest for using money on the client's account and interest under Art. 395 of the Civil Code of the Russian Federation (liability for non-performance of monetary obligations). The liability will arise, if:

- The bank unreasonably withdraws money from the account;
- The bank does not implement (fails to timely implement) the client's instructions on transferring or issuing money.

For the untimely crediting of money, the bank will have to pay only interest under Art. 395 of the Civil Code of the Russian Federation, which is insufficient to encourage banks to timely perform their obligations and reduces the level of protection of credit institution customers.

FOR REFERENCE

Legal positions of the Russian Supreme Court:

- *Clause 5, Art. 28 of the Law of the Russian Federation No. 2300-1, dated 7 February 1992, "On Protection of Consumer Rights" determining the consequences of violating the deadline for performing works (rendering services) by the provider does not apply to bank and depositor relations regarding the return of funds and interest payments¹²⁶;*
- *If the instructions of the consumer regarding withdrawal of funds from the account are not followed, in accordance with Article 856 of the Civil Code of the Russian Federation, the bank must pay interest on this amount in the manner and in the amount provided for by Article 395 of the Civil Code of the Russian Federation¹²⁷.*

In addition, new types of agreements between the credit institution and individuals are introduced into the civil law practice, i.e. precious metal bank account agreement, precious metal bank deposit agreement.

An important novelty of Law No. 212-FZ is the opportunity to sign a joint account agreement. If a bank account agreement is signed by several clients, such clients may only be individuals subject to restrictions established by the currency laws of the Russian Federation. The funds on the account are deemed to be owned by such persons proportionally to amounts of funds deposited by each client or third parties in favour of each client, if the agreement provides for a disproportionate share. If the agreement is signed by spouses, the title to such money shall be the common title of the spouses, unless otherwise agreed in the marriage contract communicated to the bank by such spouses.

Thus, depositors of credit institutions are exposed to the following risks undermining the confidence in the bank deposit institution¹²⁸:

- Provision of unreliable information on features of the deposit due to the lack of a single standard for provision of such information;
- No opportunities for the client to consider the agreement prior to signing it;
- Financial losses due to additional paid services;
- Failure to receive the insurance coverage in case of loss events due to off-balance-sheet deposits;
- Failure to return / untimely return of the deposit;
- Purchase of a more risky financial product than the deposit due to the unfair conduct of a bank employee;
- Amendment of deposit terms and conditions due to amendment of deposit insurance conditions and/or taxation of income on deposits;
- Claims on the depositor's funds previously withdrawn from the bank, and the bank's license is later revoked;
- Low interest rates due to deterioration of the competitive environment and non-market trends to strengthen positions of major credit institutions in the banking market in some regions.

Loans

Following rapid growth in consumer loans in 2013-2014, a decline in lending in 2015 and stagnation in 2016 in the consumer lending market, 2017 saw a recovery (+ 12.7%), accompanied by a trend of declining the share of foreign currency loans (from 1.5% to 0.9%).

Experts expect an increase in the portfolio of unsecured individuals consumer loans by approximately 10% in 2018 due to higher profitability for banks. Retail lending will be supported by the growth of real disposable income of the population. Measures taken by the Bank of Russia, as well as an initiative to limit the debt burden of the population will restrain the growth of retail lending. It is forecasted that the development of the banking business will be limited by the deficit of quality borrowers and growing risks¹²⁹.

¹²⁵ Federal Law No. 212-FZ, dated 26 July 2017, "On Amendments to Part One and Two of the Civil Code of the Russian Federation and Certain Legal Acts of the Russian Federation".

¹²⁶ Review of Judicial Practice of the Russian Supreme Court No. 1 (2017) (approved by the Presidium of the Supreme Court of the Russian Federation on 16 February 2017).

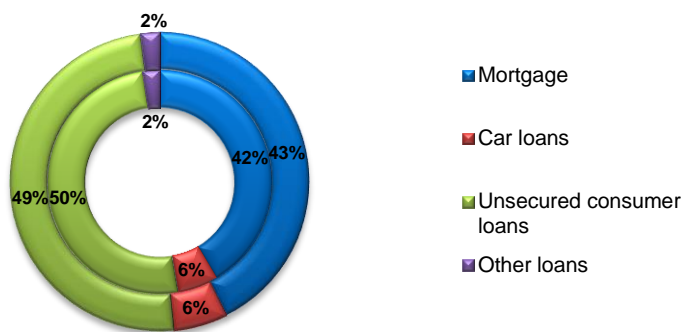
¹²⁷ Review of Judicial Practice in Cases Involving the Protection of the Rights of Consumers of Financial Services (approved by the Presidium of the Supreme Court of the Russian Federation on 27 September 2017).

¹²⁸ The first four risks are specified in the Third Interim Report on Contract No. FEFLP/QCBS-1.43 "Examining the Extent of Compliance of Applicable Standards and Established Disclosure Practices (Including the Terminology Used by Financial Institutions in the Consumer Market) with the Level of Preparedness and Needs of Russian Financial Services Consumers with the Drafting of Practical Proposals for Improving Regulation and Business Practices in this Field".

¹²⁹ Forecast for Development of the Banking Sector in 2018: Business Model Crisis// RA Expert https://raexpert.ru/researches/banks/prognoz_2018.

In 2017, the share of mortgage loans increased in the retail loans portfolio mix (Figure 2.10).

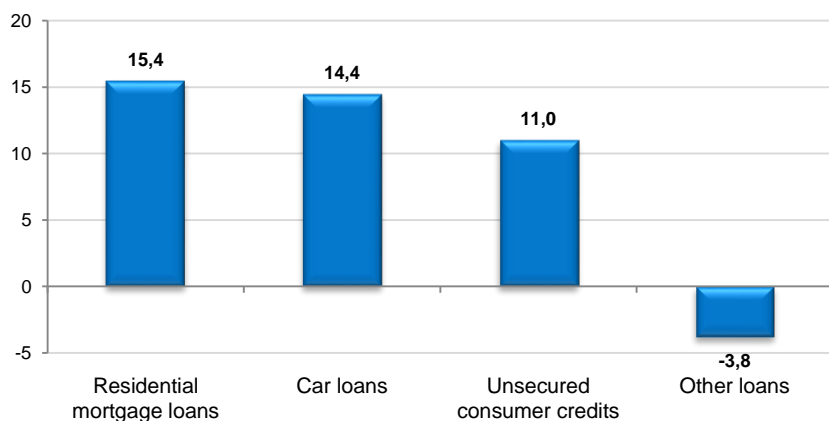
Figure 2.10. Structure of retail credit portfolio for the beginning (internal round) and end of 2017 (external round) by types of credit



Source: Bank of Russia

These structural changes are linked to a more intensive growth in consumer lending secured by collateral as compared to unsecured lending, which is in line with the Bank of Russia’s policy in the field of retail lending, and reduces the risks of financial consumers (Figure 2.11).

Figure 2.11. Growth rates by retail lending types in 2017, %



Source: Bank of Russia

The demand for mortgage loans was related to continuation in 2017 of the government program for subsidizing interest rates on mortgage loans, as well as with a fall in the real estate prices in most regions, which increased the availability of mortgage loans.

Governmental support programs also contributed to the recovery of car loans growth. In July 2017, a programme of concessional car loans¹³⁰ was prolonged, according to which families with two or more children will be able to get a 10% discount on the initial cost of a car under the Family Car programme, people buying their first car will receive a 10% discount under the First Car programme. Experts note that for the car loans market, which has just begun to recover this year, the extension of the programme is an important step¹³¹.

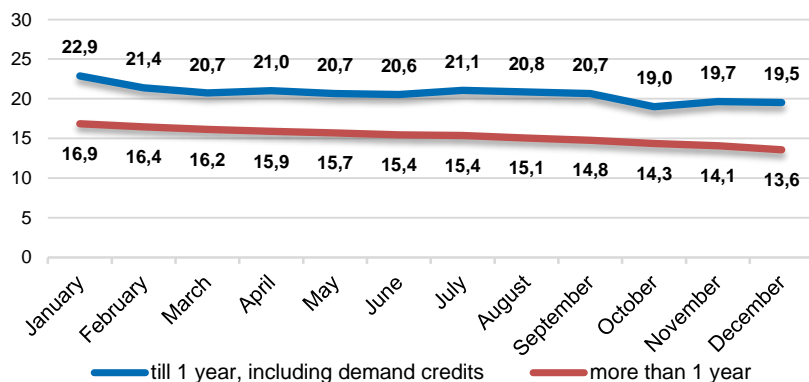
The market of unsecured consumer lending was characterized by a steady recovery in individuals demand for loans, which was as well due to reduction in rates (Figure 2.12), and an increase in the quality of loan portfolios and the profitability of banks specializing in this type of lending. The growth of unsecured lending increases the risks of increasing debt overburden for citizens.

¹³⁰ Executive Order of the Government of the Russian Federation No. 808, dated 7 July 2017, “On Amendments to the Rules for Granting Subsidies to Russian Credit Institutions from the Federal Budget for Reimbursement of Falling Income on Credits Issued by Russian Credit Institutions in 2015-2017 to Individuals for the Acquisition of Motor Vehicles”.

¹³¹ Government Support to Push Car Lending // Kommersant No. 124, dated 12 July 2017, p. 8.

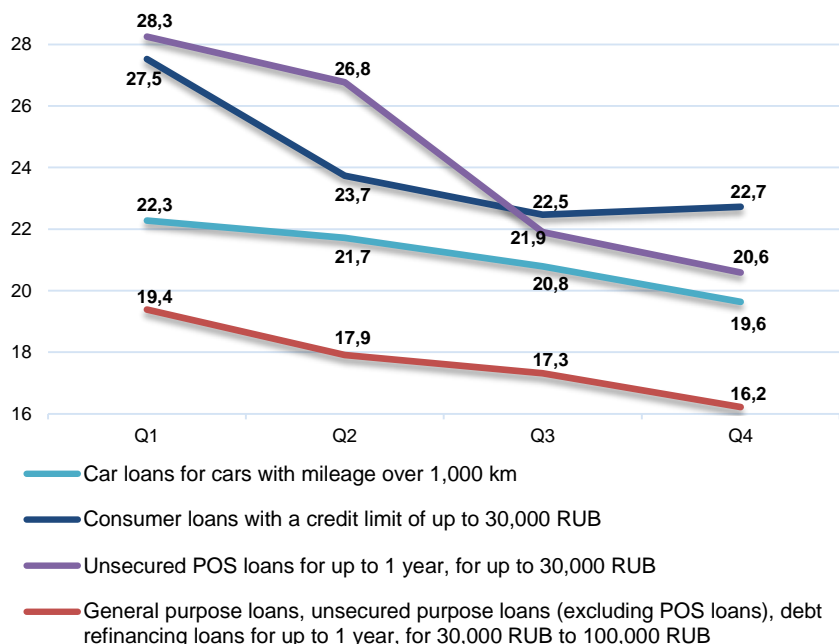
Figure 2.12. Weighted average interest rates on personal credits excluding Sberbank, % per annum

Source: Bank of Russia



As part of the trend of decreasing interest rates on loans, the rates for special purpose consumer loans (credits) provided by transferring borrowed funds to retail and service companies for payment of goods (services) (POS-credits) without a collateral (for a term of up to 1 year and below 30,000 RUB) decreased more rapidly - by 7.7 p.p. (Figure 2.13).

Figure 2.13. Average market values of the true interest costs of consumer loans (credits) of certain types of loans (loans) in the respective quarters of 2017, %



Source: Bank of Russia

The decrease in rates on POS loans was due to the regulatory policy of the Bank of Russia aimed at limiting high interest rates on loans, recovering consumer sentiment, and raising competition in this segment of lending.

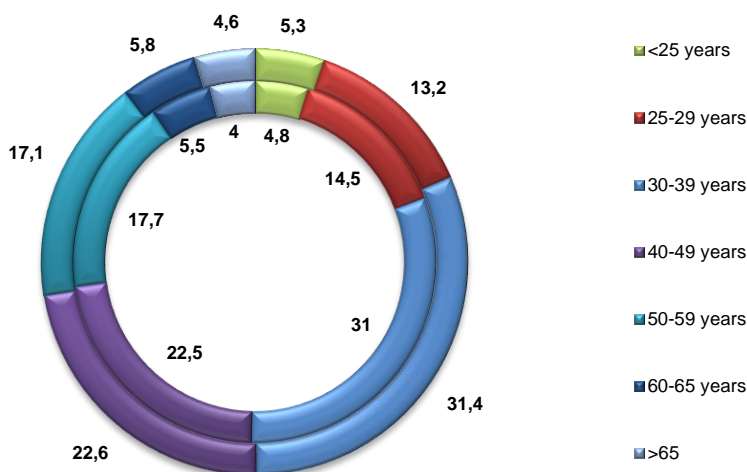
The average weighted rate on the mortgage loans market in 2017 decreased in RUB from 12.49% to 10.64%, in foreign currency - from 8.65% to 7.47%.¹³²

The fall in interest rates on loans minimizes the risks of consumers due to a decrease in the monthly payment and, accordingly, the debt burden.

Another trend in the consumer loan market is a significant increase in loans granted by banks to individuals over 65 and under 25 years old (Figure 2.14). Thus, individuals over 65 years old are attractive to lending banks due stability of their incomes guaranteed by the government and a more responsible attitude towards their obligations, and individuals younger than 25 years old are a reserve for growth of retail lending in the future.

¹³² Indicators of the housing (mortgage) lending market// Official website of the Bank of Russia <https://www.cbr.ru/statistics/?PrId=ipoteka>.

Figure 2.14. Structure of retail credit portfolio for the beginning (internal round) and end of 2017 (external round) by borrower's age



Source: NBKI¹³³

Despite the improvement in the quality of the consumer loan portfolio (the share of overdue debt decreased from 7.9% to 7.0%), the problem of foreign currency mortgage loans remained urgent. Thus, during 2017, overdue mortgage loans in foreign currency increased from 31.3% early in the year to 33.9% by the end of the year as compared to the total portfolio of foreign currency mortgage loans (early 2016 - 20.4%). In 2017, debts of individuals for mortgage loans in RUB increased by 16.3% to 5.1 trillion RUB, while overdue debts in RUB increased by 13.6%, amounting to 1.1% of such loans. However, the number of mortgage loans granted in RUB increased by 26.9% in 2017, to 1 million loans (+ 22.5% in 2016). During 2017, loans amounted to 2 trillion RUB (+ 37.3% by 2016), during the previous year they increased by 27.2%. The growth rate of overdue debt on mortgage loans in RUB is lower than those in total mortgage loans debt in RUB, which reduces the risks of these financial consumers.

FOR REFERENCE

The results of the all-Russian poll carried out by the NAFI Analytical centre in February 2017 show that one out of every five Russians plans to improve housing conditions in the next three years, while 36% of them are ready to take a mortgage loan¹³⁴.

As experts forecasted, 2018 will see the most rapid growth in the mortgage loan portfolio due to the launch of the AHML mortgage factory¹³⁵ (on 2 March 2018, the company name changed from AHML JSC to DOM.RF JSC), the government programme for subsidizing interest rates for large families, and measures of the Bank of Russia¹³⁶, which requires strengthening of monitoring of respecting the rights of mortgage loans borrowers.

Efforts to minimize the risks of borrowers of mortgage loans in foreign currency other than the currency of income led to an actual freeze in mortgage lending in foreign currency, thus, in 2017 only 11 such loans (2016 - 34) were granted for a total of 544 million RUB (2016 - 1,087 million RUB).

As part of support to mortgage loans borrowers, the Government Support Programme¹³⁷ was implemented, which ended on 31 May 2017, but almost all the funds allocated for it (4.5 billion RUB) were spent as of March, and some of the people applying for assistance and having collected all the necessary funds for this, could not get money, despite the formal compliance with the requirements of the programme¹³⁸. At the end of 2017, the Programme resumed its operation, with the updated basic conditions for its implementation¹³⁹. It should be noted that in 2017 banks offered their own programmes for restructuring loans, including converting foreign currency loans to RUB loans, which also led to improvement of the quality of the loan portfolio.

In 2017, the Russian Supreme Court continued to systematically summarize the practice of considering various categories of cases related to the protection of financial consumer rights. Thus, the reviews of judicial practice presented a number of legal positions regarding retail lending, including the following:

- The loan amount is repaid based on the loan currency specified in the contract. The risk of changing the exchange rate of the debt currency is borne by the borrower;

¹³³ NBKI: 2017 saw the growing share of the most "elderly" (over 65 years) and the "youngest" (under 25 years) borrowers // Official website of the National Credit Reporting Agency <https://www.nbki.ru/press/pressrelease/?id=21651>.

¹³⁴ Over one third of Russian hope on mortgage loans, 20 March 2017 // NAFI Analytical centre <https://nafi.ru/analytics/boleet-treti-rossiyan-nadeyutsya-na-ipoteku>.

¹³⁵ Agency for Housing Mortgage Lending.

¹³⁶ Forecast for Development of the Banking Sector in 2018: Business Model Crisis// RA Expert https://raexpert.ru/researches/banks/prognoz_2018.

¹³⁷ Resolution of the Government of the Russian Federation No. 373, dated 20 April 2015, "On Principal Terms and Conditions for Implementation of the Programme of Assistance to Certain Categories of Borrowers of Housing Mortgage Loans (Credits) Who Found Themselves in a Difficult Financial Situation and On Increase in the Authorized Capital of the Agency for Housing Mortgage Lending Joint Stock Company".

¹³⁸ Assistance to Mortgage Loan Borrowers with Problems to be Worked On Regardless on the Currency of the Loan — AHML, 13 July 2017 // RIA News Agency https://realty.ria.ru/mortgage_news/20170713/408755798.html.

¹³⁹ Resolution of the Government of the Russian Federation No. 961, dated 11 August 2017, "On Further Implementation of the Programme of Assistance to Certain Categories of Borrowers of Housing Mortgage Loans (Credits) Who Found Themselves in a Difficult Financial Situation".

- The change by the owner of the characteristics of the real estate property that he or she owns being charged as collateral does not terminate the encumbrance¹⁴⁰;
- If the pledgor is a debtor for two or more obligations and does not fulfill them, then the claims of the lending pledgee are discharged first of all at the expense of the value of the pledged property;
- The provisions of the Civil Code of the Russian Federation apply to claims of an individual consumer to protect his or her rights when the loan agreement is signed on their behalf in a fraudulent way;
- An individual may refuse personal insurance service under a loan agreement;
- Refusal to satisfy the claim of the consumer to the bank about reducing the contractual penalty with reference to the fact that the provisions of Article 333 of the Civil Code of the Russian Federation apply only in the event when the claim for recovery of loan debt and penalty was made by the bank was recognized unlawful;
- Bringing organizations providing financial services to administrative responsibility provided for by Article 14.8, Part 2 of the Code of Administrative Offenses of the Russian Federation, for the inclusion in the loan agreements of the terms that infringe the consumer rights, in comparison with the rules established by the legislation in the field of consumer rights protection, is recognized as lawful¹⁴¹.

2017 again raised the problem of debiting funds from accounts without the owner's order (direct debit). When signing a loan agreement, banks actually impose a standard condition of direct debit of funds from the accounts in the same bank. At the same time, after signing a loan agreement and submitting an application for revocation of a previously issued consent to debit funds from all accounts of an individual, banks continue to debit funds towards repayment of loans.

Banks are also concerned with the said problem. In response to the bankers' request to keep the current procedure of direct debit, the Bank of Russia indicated that the application of this acceptance of the payer to all accounts opened with the bank is prohibited. However, the laws do not clearly indicate whether such debiting is lawful or not¹⁴².

Prohibition of direct debit may increase the borrower's protection against the bank's actions, as well as it may increase the frequency of defaults under loans and the cost of consumer loans.

FOR REFERENCE

As part of implementation of the Joint Project of the Russian Federation and the IBRD "On raising financial literacy and development of financial education in Russia", on 13 February 2017, the press centre of the IIA Russia Today (Moscow) held an expert discussion of the results of independent monitoring of financial services and presentation of the Report "On Status of Protection of the Rights and Interests of Borrowers in Russia in the Lending Market". The event presented the results of monitoring the credit services market and the status of the rights of Russian borrowers, in particular, it reviewed the terms and conditions of loan agreements regarding credit cards and cash loans in 25 largest retail banks and microfinance institutions.

The monitoring revealed the following main problems:

- *Debt overburden of Russian citizens. Today, people spend monthly about a quarter of their income on repaying loans, while the group of the least well-off individuals spend more than a third of their income towards the repayment of loans. Thus, the debt overburden term is more relevant to the poorest part of the population, especially many such borrowers are employed in the public sector: teachers, nurses, kindergarten teachers;*
- *Indication by banks of the minimum rates in advertising brochures. The consumers get illusion of a loan availability, however, it is impossible to obtain a loan at such rates. The Bank of Russia obliges banks to inform the consumers of the true interest cost of the loan before signing an agreement, while the borrowers are not explained as to how the true interest cost of the loan (hereinafter referred to as the "TIC") is formed. Taking into account accompanying chargeable information services, the TIC specified in the loan agreements turns out to be 1.5-2.5 times lower. In addition, borrowers may be unaware that information services are provided for fee: according to the ConfOP, only one third of the lenders provide them free of charge;*
- *Imposing additional services to the consumer, for example, life insurance when issuing a loan. Along with this, banks often insist on buying an insurance policy in insurance companies that are part of the holding company;*
- *Credit calculators presented on the websites of half of the banks checked during the review help the borrower to understand only approximate costs of the loan servicing without providing an exhaustive list of costs and an accurate representation of the rate, as well as all loan terms and conditions;*
- *Lack of information in loan agreements on the actions of the lender and the borrower, when the loan agreement is terminated. Often bank employees do not inform consumers about the terms of the loan repayment;*
- *At the time of the review, the banks did not sign the Responsible Lending Code, which, in fact, transfers all responsibility in these relationships to the consumer.*

In 2018, the Bank of Russia plans to extend to mortgage loan (credit) agreements requirements of a standard table form of individual contract terms, taking into account the practice of using the tables with individual terms of the consumer loan (credit) agreement, as well as adding explanations to individual conditions of the table for individual agreement terms.

In addition, changes are proposed to clarify the content of the consumer loan agreement terms with regard to application

¹⁴⁰ Review of Judicial Practice of the Russian Supreme Court No. 1 (2017) (approved by the Presidium of the Supreme Court of the Russian Federation on 16 February 2017).

¹⁴¹ Review of the Judicial practice in Cases Related to the Protection of the Rights of Consumers of Financial Services approved by the Presidium of the Supreme Court of the Russian Federation on 27 September 2017).

¹⁴² The State Duma Deputy Requested that the Central Bank should prohibit direct debit of funds, 19 September 2017 // Rambler https://news.rambler.ru/business/37943940/?utm_content=rnews&utm_medium=read_more&utm_source=copylink.

of a variable interest rate. Standardization of loan agreements and clarification of legal requirements increases the protection of borrowers against the actions of unscrupulous banks.

In order to improve the protection of financial consumers rights, a law ¹⁴³ was drafted and passed in 2017 providing for supply of additional information to individuals about the increased risks of borrowers when getting loans in foreign currency and loans with floating rates, including those secured by mortgages. The true interest cost of the loan should now be calculated as a percentage per annum, and in monetary terms. The above procedure extends to both retail and mortgage loans. The amendments take effect on 24 June 2018.

The above innovations and the current provisions of the banking laws create the following main risks to borrowers of credit institutions ¹⁴⁴:

- Acquiring a financial product with excessively high cost to this borrower;
- Taking a loan that is excessively onerous for the budget, because of the unfair practices of financial service providers;
- Misunderstanding of the reasons for the occurrence of delay, as well as the procedure for calculating fines and penalties;
- Errors in accounting of obligations of the borrower, both through the fault of the borrower and through the fault of the bank, which causes the borrower to assume his or her obligations discharged, and the bank - non-discharged, and continues to charge interest and penalties;
- Debits of funds unauthorized by the borrower from accounts not intended for repayment of the loan in accordance with the signed loan agreement (or updates/ amendments thereto).

Banking Fees

Rospotrebnadzor closely focused on the issue of the legitimacy of charging fees for operations, including banks.

Below are the attributes of the legitimacy of the additional fees:

- The service or additional actions are not included in the subject matter of the basic service (transfer of money or exchange of documents are a part and parcel of a lending transaction)¹⁴⁵;
- The additional service is not hard sold (it has useful properties, the consumer needs the effects of the service);
- The information on the provider of the additional service and its cost was communicated;
- The law, advertisement or the contract do not indicate that the service is free;
- The service does not interfere with the exercising of the rights set out by the law (the right to freedom of movement and the resident registration fee).

Types of fee income are recognized unlawful, including for maintaining the loan account; Receipt of funds towards repayment of the loan; Early repayment of the loan; Issue of the loan via the bank's cashier desk; Replenishment of the account; Issue of bank statements to be submitted to various authorities and institutions, for changing the terms of the loan agreement ¹⁴⁶.

The bank also may not unilaterally introduce penalties (for example, for submitting false information), relying on the term of the agreement with the client on its right to unilaterally approve of rates and tariffs and publish them on its website and in other accessible places, since any penalties may be established only by mutual agreement between the parties in writing. ¹⁴⁷.

FOR REFERENCE

Due to signs of violation by the Company of the Law "On Protection of Competition"¹⁴⁸ revealed by the FAS of Russia, which resulted in charging a fee for servicing individuals during payment of taxes and duties, a warning was issued to cease this practice. The fee was charged in favour of a third person for information and technical services, but information on such individual service was not communicated to clients. In pursuance of Clause 2, Article 60 of the Tax Code¹⁴⁹, the fee for this service is not charged. The antimonopoly authority's warning was contested in court. In accordance with the decision of the Arbitration Court of the East Siberian District No. F02-7023/2017, dated 1 January 2018, on case No. A74-947/2017, the claim was not satisfied because the feasibility of the warning in this case was confirmed by such signs of the offense as the company was recognized as occupying a dominant position in the market of the relevant services and setting a service fee by the company when receiving payments from individuals for payment of taxes and levies of the Russian Federation.

In 24% of banks, an obligatory condition in the banking services agreement is the issuance of a bank card to the customer, which is serviced at the rates of the bank. In this case, the consumer should be offered a free alternative.

In accordance with Part 17, Art. 5 of the Law "On Consumer Loan (Credit)", if individual terms of the consumer loan agreement provide for the opening for a borrower of a bank account by the lender, all transactions in such account associated

¹⁴³ Federal Law No. 378-FZ, dated 5 December 2017, "On Amendments to Article 9.1 of the Federal Law On Mortgage (Real Estate Pledge)" and the Federal Law "On Consumer Loan (Credit)".

¹⁴⁴ See Third Interim Report on Contract No. FEFLP/QCBS-1.43 "Examining the Extent of Compliance of Applicable Standards and Established Disclosure Practices (Including the Terminology Used by Financial Institutions in the Consumer Market) with the Level of Preparedness and Needs of Russian Financial Services Consumers with the Drafting of Practical Proposals for Improving Regulation and Business Practices in this Field".

¹⁴⁵ Information Letter of the Presidium of the Supreme Arbitration Court of the Russian Federation No. 147, dated 13 September 2011, "Review of Judicial Practice of Settling Disputes Related to Application of the Provisions of the Civil Code of the Russian Federation Regarding a Loan Agreement".

¹⁴⁶ Resolution of the Federal Anti-Monopoly Service for the Central District on Case No. A48-4263/2013, dated 3 July 2014.

¹⁴⁷ Resolution of the Federal Anti-Monopoly Service for the Moscow District No. KG-A40/5358-11, dated 29 June 2011, on Case No. A40-97749/10-98-848.

¹⁴⁸ Federal Law No. 135-FZ, dated 26 July 2006, "On Protection of Competition".

¹⁴⁹ Tax Code of the Russian Federation (Part 1) No. 146-FZ, dated 31 July 1998.

with performance of obligations under the consumer loan agreement, including opening an account, issuing and crediting to the borrower's account of the consumer loan, must be carried out by the lender free of charge.

The following civil liability is established for charging an unlawful fee:

- Recovery of the fee amount;
- Liquidated damages for using the funds of others;
- Liquidated damages for delay in processing a complaint;
- Liquidated damages for remedying the omission in the principal agreement;
- Compensation of losses;
- Fine imposed by the court;
- Compensation for moral harm.

Below are the main risks for consumers of banking services related to unlawful charge of fees for operations:

- With loans and deposits, including for replenishment and maintenance of the account, withdrawal of cash, early repayment of the loan, changing the terms of the agreement, obtaining an account statement;
- Payment of taxes, levies and insurance premium;
- Acceptance of denominations of banknotes undesirable for the bank.



2017 saw significant improvement in the main parameters of the banking sector, an increase in the bank consumer lending, and the growth of individual deposits. At the same time, consumers of banking services were still exposed to risks associated with the actual lack of growth in real household incomes, wish of unscrupulous lending institutions to maximize profits through the use of, among other things, imperfection of the legal framework and insufficient financial literacy of the population, the debt overburden of certain categories of borrowers, and keeping deposits in unreliable banks.

2.3. Insurance Market Changes and Risks for Consumers

Insurance Market Development Trends

According to the Bank of Russia, as of 1 January 2018 there were 226 insurance companies in the Russian Federation while as of the beginning of 2017 - 256. Thus, the number of insurance companies operating in the market dropped by 12% (-23% in 2016). Decrease in the number of active insurance companies is associated with changes and novelties in the insurance market. Number of mutual insurance companies remained the same as in 2016 - 12¹⁵⁰.

In 2017, Russian insurance market demonstrated positive dynamics of insurance charges comparing to the previous periods (Fig. 2.15).

According to the Bank of Russia¹⁵¹, amount of insurance contributions in 2017 reached RUB 1,279 bln, thus increasing by RUB 98 bln over the year. The increment was supported by substantial increase of contributions in voluntary life insurance (RUB 116 bln), which was due, inter alia, to the banks' soliciting additional (insurance) services to the customers when taking decisions on loan issue. Without taking into account the life insurance segment, the increment rate would be negative (-1.8%).

Movements of contributions in 2016-2017 are presented below (Fig. 2.16):

- accident and health insurance (12.3% or RUB 13.3 bln growth);
- compulsory motor third party liability insurance (OSAGO) (contributions fell by RUB 12.3 bln, or by 5.2%);
- voluntary health insurance (growth by RUB 2.2 bln, or 1.6%);
- insurance of other individual and corporate property (decrease by RUB 5.5 bln or by 3.5%);
- insurance against financial risks (growth by RUB 5.3 bln or by 25%).

¹⁵⁰Registry of Insurance Entities // Official website of the Bank of Russia https://www.cbr.ru/finmarket/supervision/sv_insurance.

¹⁵¹Registry of Insurance Entities // Official website of the Bank of Russia https://www.cbr.ru/finmarket/supervision/sv_insurance.

Figure 2.15. Dynamics of main insurance market indicators in Russia in 2012-2017

Source: Bank of Russia

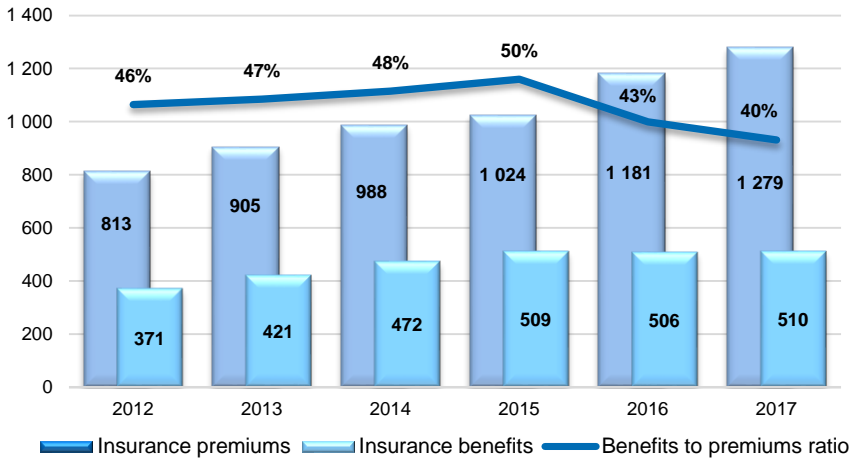
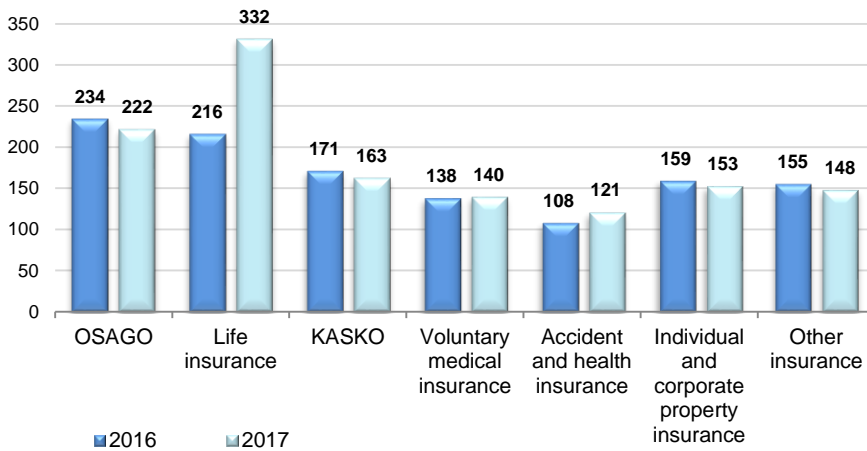


Figure 2.16. Dynamics of insurance premiums, mlrd RUB

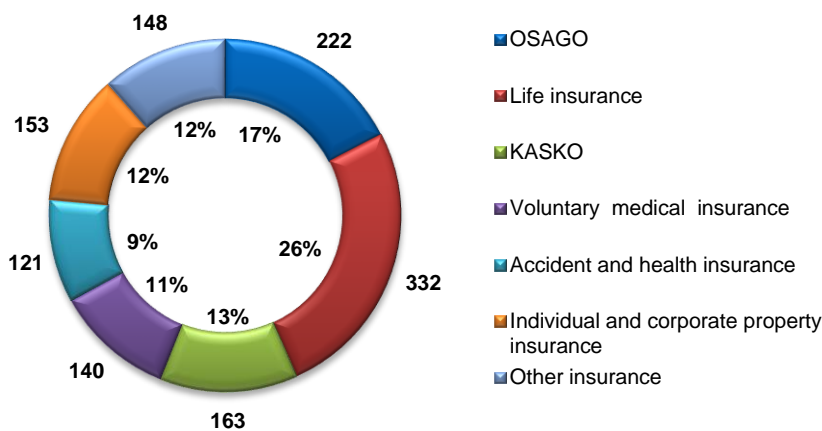
Source: Bank of Russia



In 2017, voluntary types of insurance accounted for 80.6% of the total amount of the contributions, which is by 2.6% higher than that in the previous period (Fig. 2.17).

Increase in the share of voluntary insurance is mainly supported by increase in respective contributions due to promotion by the banks of investment insurance products as an alternative to deposits with descending yield as well as increase in retail lending.

Figure 2.17. Structure of insurance premiums in 2017, bln RUB



Source: Bank of Russia

Voluntary health insurance (VHI) showed insignificant rise in 2017, as little as by 1.6% while last year growth was 6.9% comparing to the level of 2015. Together with this insurance payouts under voluntary health insurance policies grew by 5.1%

in 2017. Reduction of contributions in relation to this type of insurance is determined by entities' pursuing cutting of costs and inclusion of less services to the VHI policies.

Increase in insurance charges in accident and health insurance and other property insurance is primarily due to the recovery of consumer lending market and revival of tourist flows.

Growth of the share of insurance against financial risks can be explained by promotion by banks of the so-called "packaged solutions" being standard express insurance products without any additional financial and time expenditures associated with call of an appraiser¹⁵².

FOR REFERENCE

The Bank of Russia regularly faces individuals' complaints concerning the behaviour of insurance companies preventing execution of compulsory insurance agreements. The most frequently occasion for disputes between insurers and insuring parties is an alleged absence of policy forms for compulsory motor third party liability insurance (hereinafter referred to as "OSAGO"); impossibility for individuals of executing OSAGO agreements in electronic form or difficulties with electronic processing of insurance policies (25% of the total number of complaints concerning OSAGO); disagreement on the amount of insurance compensation (the number of such complaints grew by 52%); attempts of insurers to provide other services as a precondition for executing an OSAGO agreements, in particular, executing a voluntary insurance agreement (fully comprehensive car insurance, life insurance, etc.); soliciting insurance products to customers applying for a credit (loan) including the so-called service of "financial protection".

Managers of banks and microfinance institutions often inform individuals who apply for a credit (loan) that an approval of the credit (loan), its amount and term depends on the individual's attitude to the provision of the service of "financial protection" service; in some cases managers reject the application if an individual does not give the consent to the service of "financial protection". It is worth noting that in 2017 a share of complaints concerning solicitation of additional services and denial of OSAGO agreement reduced significantly, by 68%. However, the issue of applying bonus-malus system when executing OSAGO agreements is still a pressing matter. It accounts for almost 50% of all complaints concerning OSAGO in 2017.

To separate definitely areas of competence and response limits of regulatory bodies, Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing of the Russian Federation (Rospotrebnadzor) suggested individuals to notify territorial bodies of Rospotrebnadzor on the facts of solicitation of additional insurance services, and the Bank of Russia and its structural divisions - on facts of denial of execution of an OSAGO agreement allegedly due to the absence of OSAGO policy forms as well informed individuals on the possibility of sending the said complaints to prosecution authorities¹⁵³.

In 2017, the structure of insurance contribution amounts in the insurance market generally differed insignificantly from that of 2016, however, in 2017 a shift in the key distribution channels of all types of insurance was observed, which was predicted even upon the results of the last year¹⁵⁴. For the first time the share of sales of insurance services through banks (hereinafter referred to as "bank assurance") exceeded the share of sales of the same services through agents (individuals, self-employed persons) in the total volume of sales of insurance services (41% and 33%, respectively). Shares of other distribution channels of insurance services compared to those stated above are insignificant (Fig. 2.18).

Growth of the bank assurance share is caused by increasing popularity of unit-linked life insurance. This tool provides for a possibility to keep and augment personal savings at the rates higher than the bank deposit rates. In terms of the amounts of contributions, the life insurance surpassed OSAGO and VHI as early as in the first half of 2017. Together with this, unit-linked life insurance accounted for 64.2% of the total amount of life insurance contributions.

Growing popularity of unit-linked life insurance is associated with certain risks for consumers of financial services. Misunderstanding of the product on the part of some consumers is still observed at the stage of buying a certificate of insurance and this may affect the product popularity in future¹⁵⁵.

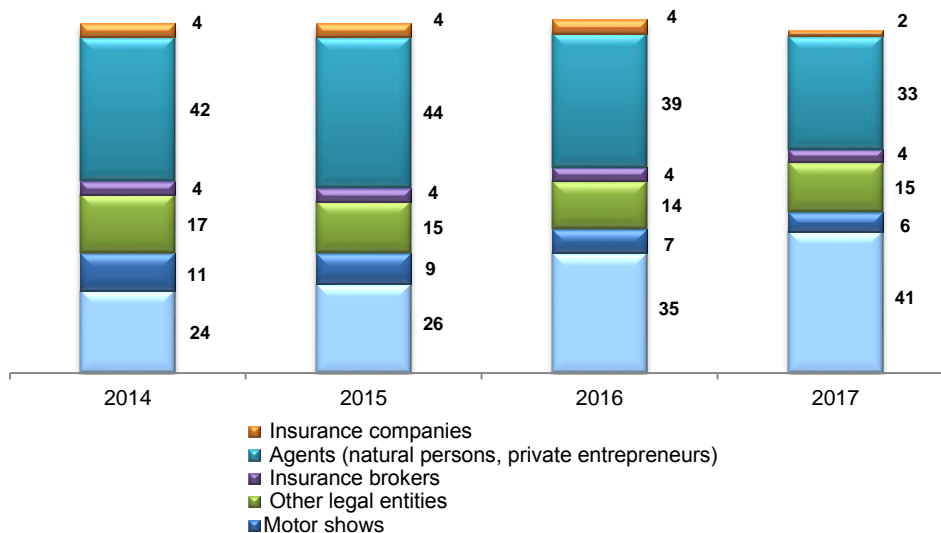
¹⁵² "Insurance Market Remains Unchanged", 26 March 2018 // Expert <http://expert.ru/expert/2018/13/na-strahovom-ryinke-bez-peremen>.

¹⁵³ Press release of Rospotrebnadzor, dated 18 April 2014, "On State of Safeguarding Legal Interests of Individuals When Executing Compulsory Insurance (OSAGO) Agreements".

¹⁵⁴ Overview of the Russian insurance market, KPMG in Russia and CIS, 2017.

¹⁵⁵ Unit-Linked Life Insurance Market: Structure, Leaders, Rankings, October 2017 // BusinessDrom http://bizdrom.com/analytics_insurance.

Figure 2.18. Dynamics of OSAGO distribution channels in 2017,%



Source: All-Russian Insurance Association according to the Bank of Russia

There are customers' complaints on "total loss" of paid insurance contributions on different grounds or substantial financial losses in cases of an agreement termination. An evolving arbitrage practice demonstrating the court's dismissal of the customers' claims based on the Law "On Protection of Consumer Rights" also becomes conspicuous. The stated court orders confirm the courts' findings that payment of redemption sum in the amount stipulated by the agreement terms is not inconsistent with the legal requirements. To solve this problem the Bank of Russia discusses the possibility of compulsory certification with regard to sellers of such products¹⁵⁶.

Growing number of cases when individuals reject insurance services accompanying loans both personal and collective did not influence greatly the share of bank assurance with regard to distribution channels of insurance products. Increasing number of cases of individuals' waiver of such type of insurance is caused by regulatory increase of the period during which a borrower may reject voluntary insurance accompanying a loan ("cooling-off period") from 5 business days to 14 calendar days¹⁵⁷, and this situation improves the position of a financial consumer. Now, an individual has more possibilities to examine terms of this insurance and submit a waiver in time¹⁵⁸.

Moreover, pursuant to decision of the RF Supreme Court, the "cooling-off period" and the possibility to reject insurance services may be extended towards collective insurance agreements¹⁵⁹. Today a consumer is unable to reject insurance, if he/she acceded to the collective insurance scheme. Often such accession is performed behind the consumer's back and is the result of conspiracy between an insurer and a bank often being related parties. Introduction of the "cooling-off period" in relation to collective insurance agreements will allow consumers to reject such insurance services and not to pay an insurance contribution.

While the "cooling-off period" issue with regard to collective schemes is still open, the so-called "insurance cancellers" continue to have an extensive room to work with material risks for the consumer. "Insurance cancellers" promise to repay to the consumer a certain insurance contribution paid under collective or personal life insurance agreement while applying for a loan. Actually, this is impossible, however, consumers believe their promises and resort to their services. Though practice of the "insurance cancellers" is not always a simple fee earning. Some of them may collect personal data of consumers (passport copy, phone number, bank account details) and use them for their personal needs, for example, to receive loans in the name of the consumers¹⁶⁰.

FOR REFERENCE

Within the framework of the Joint Project of the Russian Federation and the IBRD "On raising financial literacy and development of financial education in Russia" the eighth wave of independent monitoring in relation to the state of consumer protection and interests in the Russian insurance market was arranged. The monitoring results showed a number of issues and risks for consumers and recommendations on their elimination were elaborated.

One of the risks revealed was a common practice in the lending sector when life and health insurance is provided at the same time with the credit arrangements and life insurance services are rendered by insurance companies included into perimeter or holding of these banks. Together with this, discriminating practices of insurance companies towards insurance of vulnerable individuals were observed. It is worth

¹⁵⁶ CB is Thinking About Life. Life Insurance is Awaiting Changes, 26 September 2017 // Kommersant <https://www.kommersant.ru/doc/3421486>.

¹⁵⁷ Bank of Russia Ordinance No. 4500-U, dated 21 August 2017, "On Amendments to Clause 1 of Bank of Russia Ordinance No. 3854-U, dated 20 November 2015, "On Minimum (Standard) Requirements to Terms and Procedure of Providing Certain Types of Voluntary Insurance".

¹⁵⁸ CB Will Cool Down Collective Insurance. Individuals Will Be Protected from Conspiracy of Banks and Insurers, 22 September 2017 // Kommersant <https://www.kommersant.ru/doc/3417123>.

¹⁵⁹ Borrowers Will Be Separated From the Collective. Supreme Court Intervened into an Insurance Matter, 31 October 2017, Kommersant <https://www.kommersant.ru/doc/3454773>.

¹⁶⁰ Borrowers Are Taken Off the Insurance. New "Smooth Operators" appeared in the Banking Market, 14 December 2017 // Kommersant <https://www.kommersant.ru/doc/3495649>.

noting that this issue was considered at the RF State Council presidium meeting on 18 April 2017 and the President of the Russian Federation stressed the need for exclusion of any discriminating legal norms contained in the insurance rules and restricting rights of vulnerable categories of individuals¹⁶¹.

Monitoring activities held provided a number of recommendations concerning elaboration of standards on informing a consumer on the insurance product; regulating the procedure of execution of an agreement with the consumer; creating proper conditions for insurance of vulnerable categories of individuals and elimination of their discrimination; unifying procedures of notification of an insurer on the occurrence of an insured event and insurance compensations¹⁶².

Additional risk for consumers concerning safety of their personal data may be associated with the proposal of the Ministry of Finance of Russia on admission of insurers to the private health information. On the one part, such novelty will allow struggling with fraudulent activities in the areas of life insurance, health insurance and accident insurance and reducing personal insurance rates. However, on the other part, such decision may result in misuse by insurance companies of their right of access to personal data.

The law on telemedicine effective from 1 January 2018 is expected to influence positively the VHI cost¹⁶³. Positive movements in VHI are also expected in 2018 due to the development of cancer insurance, VHI programs with a deductible amount as well as programs stipulating joint payment of the insurance premium by a company and an employee¹⁶⁴. Therefore, state bodies should place greater focus on VHI market because of possible further sophistication of the complicated enough VHI services.

Novelties attended by risks for consumers are also possible in the home emergency insurance. Pursuant to the instruction of the President of the Russian Federation, mechanisms of home emergency insurance shall be affordable. However, individuals are leery of voluntary home insurance and this type of coverage is still quite low. Insurers and Russian Ministry of Finance insist on inclusion of the home emergency insurance fee in the utility bills. An individual will be free to decide whether to pay for home insurance under the bill or not. At present, such practice exists in Moscow¹⁶⁵.

The novelty stipulating passenger insurance for the trip duration improved the position of service consumers of Uber and Yandex.Taxi online cab aggregators. Uber has already introduced this service, but outside Russia¹⁶⁶. Since 2017 Wheely service users are insured for the trip duration¹⁶⁷.

An initiative of All-Russian Insurance Association (hereinafter referred to as "ARIA") concerning establishment of the global office for social and economic risk management for the entire country using statistical data arrays provided by state agencies may influence the cost of some personal insurance segments for consumers. Timely analytics and event simulation will allow insurance companies to fine tune their products and rates and this may lead to decrease in some rates. Risk data may be obtained from such state agencies of Russia as Federal Social Insurance Fund, Ministry of Emergency Situations, Federal Service for Environmental, Technological and Nuclear Oversight (Rostekhnadzor), Ministry of Public Health, Ministry of Labour, Federal State Statistics Service and others. Some international insurance practices stipulate participation of the insurers in mitigation of some risks at the state level. For instance, in Japan the system assists in the road traffic management. In US, the system solves a wide range of problems including predicting a crime number in certain districts¹⁶⁸. ARIA asserts that it will have no access to personal data in the activities of the global office.

To mitigate consumer risks associated with insurance fraud, in December 2017 the Bank of Russia together with Yandex implemented marking in the search results of the Yandex search engine of websites of insurance companies included into the Single State Registry of Insurance Entities.

FOR REFERENCE

Insurance activities in the Russian Federation are developed pursuant to the Strategy approved by the Executive Order of the Government of the Russian Federation for the Period of up to 2020¹⁶⁹. Main growth areas of insurance activities highlighted in this Strategy and being important for consumers are the improvement of regulation of compulsory insurance, stimulation of voluntary insurance, protection of rights of the insurance consumers, insurance culture campaign, insurance promotion.

The Strategy stipulates: unified procedures of determining loss estimation and insurance compensation for compulsory insurance types; state regulation of minimum and maximum values of insurance rates of compulsory insurance; regulatory support of expanding of the methods of insurance sales including electronic sales of certain types of insurance services; introduction of rules compulsory for insurers, which regulate the execution of insurance agreements in the electronic form, terms of considering electronic certificate of insurance equal to a hard-copy certificate; extension of the scope of application of standard voluntary insurance terms, insurance glossary for simplifying understanding and choice by insuring parties of certain insurance services and building public confidence in the insurers and insurance business; informing individuals on the insurers, insurance brokers and terms of their

¹⁶¹List of Instructions of the President of the Russian Federation No. Pr-1004NS, dated 25 May 2017, following the results of the Presidium Meeting of the State Council of the Russian Federation on 18 April 2017.

¹⁶²The Ninth interim report "On State of Protection of Consumer Rights and Interests in the Russian Insurance Market" // International Confederation of Consumer Societies

¹⁶³Federal Law No. 242-FZ, dated 29 July 2017, "On Amendments to Certain Legal Acts of the Russian Federation on the Matters of Applying Information Technologies in Healthcare Services".

¹⁶⁴Insurance Market Remains Unchanged", 26 March 2018 // Expert <http://expert.ru/expert/2018/13/na-strahovom-ryinke-bez-peremen>.

¹⁶⁵Insurance Seeks To Be Included in the Utility Bills. Ministry of Finance Ready to Amend Home Emergency Insurance Draft, 10 July 2017 // Kommersant <https://www.kommersant.ru/doc/3350712>.

¹⁶⁶Yandex.Taxi Will Protect Cab Drivers. Through Insurance, 1 September 2017 // Kommersant <https://www.kommersant.ru/doc/3401349>.

¹⁶⁷Online Cab Service Providers Hurry to Secure Against Risks. Wheely and VSK Had A Deal, 11 September 2017 // Kommersant <https://www.kommersant.ru/doc/3407830>.

¹⁶⁸Insurers Hunting Big Data. RF to Create Global Risk Assessment System, 26 June 2017 // Kommersant <https://www.kommersant.ru/doc/3335911>.

¹⁶⁹Executive Order of the Government of the Russian Federation No. 1293-eo, dated 22 July 2013, "On Approval of the Strategy of Insurance Business Development in the Russian Federation for the Period of up to 2020".

services, which enables an informed choice by insurance consumers, providers and sellers by means of providing comprehensive information on the specialized website on the Internet with the possibility of comparing insurers and insurance brokers as well as terms and prices of different insurance services; disclosure of the respective information on official websites of insurance companies; consumer counselling, clarification of insurance terms when executing an insurance agreement, providing explanations on claim settlement procedure, determining insurance compensations and payout procedures upon notifying an insurer on loss occurrence and applying for compensation; enhancement of legal protection of insurance consumers taking into account specific features of insurance activities, ensuring unambiguous law enforcement practice and consistent judicial practice by means of harmonization of the current Russian laws on consumer protection and insurance law.

Among other remedies, individuals being insuring parties have the right to relief in court pursuant to the position of the Supreme Court of the Russian Federation¹⁷⁰. For instance, consumers are able: to file a suit against insurers with a court that is local to claimants; not to pay state duty when bringing the matter before the court; to file moral damage claim against an insurer; with regard to the types of insurance, for which the delay fee amount is not established by a special law (for instance, in case of voluntary insurance) to demand payment of delay fee in the amount of 3% of the service rate per each day of the delay in fulfilling obligations.

In relation to fully comprehensive car insurance (FCCI), the RF Supreme Court provided clarifications improving the position of an insurance consumer. So, for example, in case of total loss of a vehicle or its theft an individual shall receive insurance compensation in the amount of full insured value initially agreed by the parties (Order of the Judicial Panel of the RF Supreme Court No. 50-KG16-26, dated 25 April 2017).

To ensure efficient protection of rights and interests of all parties involved as well as correct and consistent application of laws to voluntary property insurance the Supreme Court of the Russian Federation on 27 December 2017 approved the law review¹⁷¹ representing a number of legal positions including the following:

- Insurance value of the property stated in the insurance agreement may not be disputed thereafter except for the case when an insurer that waived its right to assess the covered risk prior to execution of the insurance agreement was deliberately misled in relation to the stated value;
- Unless otherwise provided by the law or other legal acts, parties of the voluntary insurance agreement have the right to determine at their sole discretion a list of events considered loss events as well as the cases that may not be considered loss events;
- The voluntary insurance agreement may stipulate that loss of commodity value shall not be compensated by the insurer;
- In case of any doubts concerning interpretation of terms of the voluntary insurance agreement stated in the certificate of insurance and insurance rules as well as the impossibility to determine true mutual intent of the parties taking into account purpose of the agreement, the most favourable interpretation for a consumer shall be applied (*contra proferentem*);
- If the voluntary insurance agreement stipulates during its term a change of the insured value being the basis for payment of the insurance premium by the insuring party at the rate corresponding to such differentiated insured value, then full insured value in case of abandonment when the insuring party abandons its title in property in favour of the insurer shall mean the insured value determined by the insurance agreement as of the loss occurrence date;
- In case of non-performance by the insurer of the obligation stipulated by the voluntary insurance agreement to perform repair of a vehicle at the service station, the insuring party shall have the right to demand compensation of the repair cost within the insured value;
- In case of poor quality of the vehicle repair, i.e. improper performance by the insurer of its obligation to provide insurance compensation in kind, the insuring party may exercise its rights available under clause 1 Article 29 of the Law "On Protection of Consumer Rights" (for instance, to demand compensation by the insurer of costs incurred to eliminate deficiencies of the repair performed).

In the Review of Judicial Practice in Cases Relating to the Protection of the Rights of Consumers of Financial Services¹⁷² the following legal positions are stated:

- provisions of the Law "On Protection of Consumer Rights" shall apply to relations arising out of mortgage insurance agreement between the insurer and successors of the insuring party using the insurance service for the needs not associated with income generating activities;
- when applying provisions of the Law "On Protection of Consumer Rights" to the disputes concerning untimely payment of insurance compensation under property insurance agreement it should be noted that merely non-registration of an individual as a self-employed person does not mean that the insured property is used by such individual solely for personal, family, household needs and other needs not associated with income generating activities;
- an individual shall have the right to reject personal insurance service under the loan agreement and claim damage incurred due to failure to provide proper information on the service in due time;
- an individual being a consumer shall have the right to claim damage against the bank if the latter does not include the individual into the list of insured persons in violation of the agreement for joining the insurance scheme, which leads to

¹⁷⁰ Ruling of the Plenum of the RF Supreme Court No. 17, dated 28 June 2012, "On Consideration by Courts of Civil Cases on Disputes on the Protection of Consumer Rights".

¹⁷¹ Review on Specific Issues of Judicial Practice Related to Voluntary Insurance of Property of Citizens approved by Presidium of the RF Supreme Court on 27 December 2017.

¹⁷² Approved by the Presidium of the Supreme Court of the Russian Federation on 27 September 2017.

the insurance claim denial;

- amounts of loan interest and penalties paid by the individual in association with illegal claim denial under credit insurance agreement shall be considered losses enforceable against the insurance company;
- in case of early loan repayment the insuring party shall have the right to return of insurance premium in proportion to the period during which the coverage was effective.

In 2017, regulatory framework of legal protection of rights of insurance consumers continued to improve.

On 1 January 2017, the Law¹⁷³ became effective, pursuant to which taxpayers have the right to demand from their employers a social tax deduction in the amount of insurance contributions under voluntary life insurance agreement(s) prior to expiry of the tax period in relation to personal income tax subject to confirmation of such right by a tax authority.

The following changes were introduced to the Law “On Compulsory Insurance of Carrier’s Civil Liability...”¹⁷⁴ (new provisions are applicable to compulsory insurance agreements executed after 27 January 2018)¹⁷⁵:

- the carrier shall inform passengers on the insurer with which it has a compulsory insurance agreement by means of placing information in the locations available for passengers, on its official website, on the Internet, on a ticket, information handouts, by broadcasting through information and reference audio systems or by other means and keep the stated information updated;
- the new version contains main terms, for instance, the term “passenger” now includes children travelling free of charge or at a discount rate;
- it is established that persons actually engaged in passenger transportation using vehicles for more than 8 persons (except for personal, family and household needs) in case of absence of the compulsory insurance agreement shall be liable for harm caused as per the terms applicable to carriers;
- the insurer shall have the right to terminate compulsory insurance agreement unilaterally due to failure of the insuring party to pay an instalment due upon expiry of 30 calendar days after the established term;
- the amount of penalty payable by the insurer for delay of payment of insurance compensation is determined in the amount of 1% of the unpaid sum per each day of delay. In case of failure to meet the term of sending a substantial compensation claim denial, the insurer shall pay penalty in the amount of 0.05% of the established amount of insured value according to the type of harm caused per each day of delay;
- it is stipulated that the insurer that paid insurance compensation or the carrier having liability coverage shall not be subject to recourse claims with regard to payments under compulsory social insurance, cost of medical services provided by health care organizations;
- the right of professional association of insurers, transport control and supervision body and other agencies to information interaction and exchange is enshrined.

On 14 February 2017, the procedure was approved, which regulates the preparation by beneficiaries of documents for applying for insurance compensation, part of the compensation (pre-payment) under the agreement for compulsory insurance of carrier’s civil liability to cover harm to health and property of passengers (Bank of Russia Ordinance No. 4293-U).

Moreover, throughout 2017, some amendments were introduced in the Law “On Organization of Insurance Activities” effective since 28 January 2018 concerning requirements to the qualification of governing bodies of insurance entities and insurance companies¹⁷⁶.

Plans aimed at improving the regulation in order to ensure better protection of rights of insurance services consumers stipulate in 2018 the adoption of Bank of Russia Draft Ordinance “On Insurance Tariffs, Structure of Insurance Tariffs Including Ceiling Amounts of Allocations for Financing Compensation Payments, Procedure of Application of Insurance Tariffs by Insurers When Determining Insurance Premium Under the Agreement for Compulsory Insurance of Civil Liability of a Hazardous Facility Owner To Cover Harm Caused by an Accident at the Hazardous Facility”.

Thus, one may highlight the following principal risks for insurance consumers:

- low financial literacy of the population;
- putting pressure on a consumer when taking decision on execution of a loan agreement, namely, to compel the consumer to execute a voluntary insurance agreement;
- failure to notify, untimely or incomplete notification of the consumer on conclusion thereof into collective insurance scheme when executing the loan agreement;
- services of “insurance cancellers” that are dangerous due to both paying fee for improper quality service and submission of personal data to fraudsters;
- non-submission or submission of incomplete data on the terms, benefits and expectations from a product, for instance, when a consumer acquires unit-linked life insurance agreement;
- high commission fees of insurance agents, which increase substantially the cost of insurance service;
- solicitation of “packaged” or ancillary services without due informing on the terms thereof;

¹⁷³Federal Law No. 403-FZ, dated 30 November 2016, “On Amendments to Article 219, Part 2 of the Tax Code of the Russian Federation”.

¹⁷⁴Federal Law No. 67-FZ, dated 14 June 2012, “On Compulsory Insurance of Carrier’s Civil Liability To Cover Harm To Health And Property of Passengers and Procedure of Compensation of Such Harm Incurred During Subway Transportation”.

¹⁷⁵Federal Law No. 277-FZ, dated 29 July 2017, “On Amendments to Federal Law “On Compulsory Insurance of Carrier’s Civil Liability To Cover Harm To Health And Property of Passengers and Procedure of Compensation of Such Harm Incurred During Subway Transportation”.

¹⁷⁶ Federal Law No. 281-FZ, dated 29 July 2017, “On Amendments to Certain Legal Acts of the Russian Federation Regarding Improvement of Mandatory Requirements to Founders (Participants), Governing Bodies and Officials of Financial Organizations”.

- lack of unified requirements to providing information on insurance products including complete information on the cost of insurance service preventing the consumer from making an informed choice of insurance service;
- activities of insurance fraudsters distributing fake certificates of insurance including those in electronic form distributed via Internet;
- actual violation by banks of the insurance law when they provide insurance services simultaneously with the banking services;
- absence of established period of reflection, during which an individual may consider the terms of agreements for certain types of insurance.

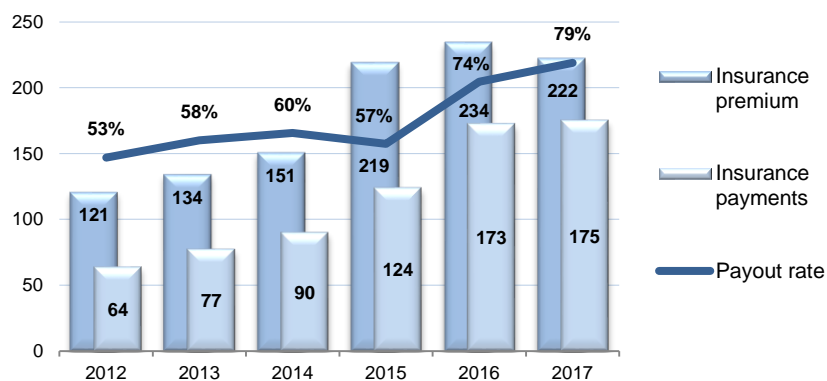
OSAGO Market Development Trends

Outcomes of analysis of the compulsory motor third party liability insurance (hereinafter referred to as “OSAGO”) are given separately due to high importance of the OSAGO market for the consumers, high risks and substantial volume of this type of insurance.

Following the results of 2017, the OSAGO market ranked the second after life insurance in terms of volume. Loss of leadership in terms of volume is caused both by growth of life insurance market and reduction in OSAGO contributions.

It has not been not for the first year that the OSAGO segment is balancing on the brink of unprofitability and in 2017 the situation became even worse. So, for example, loss ratio on OSAGO grew up to almost 80%, which was not observed for the last 5-6 years (Fig. 2.19). In this context, the average payout amount throughout the country is RUB 78,000, that is 10% higher than in 2016 (RUB 71,000)¹⁷⁷. Increase in the loss ratio impelled three big insurers to surrender a license for this type of activities, as a result OSAGO became less available for consumers.

Fig. 2.19. Movements of Main Indicators of OSAGO Market, RUB bln



Source: Bank of Russia

Substantial increase in payouts is evaluated by specialists as a result of hyperactivity of “traffic lawyers”, in particular, due to legislative innovations enacted in March 2017. As a rule, “traffic lawyers” are regarded by insurance companies as fraudsters that, in the opinion of insurance companies, cause financial damage to both such companies and consumers. “Traffic lawyers” repurchase insurance claims from drivers who have their vehicles damaged in the road accidents at the cost that is much lower than official insurance compensations payable to them. The consumer receives a substantially lower damage compensation and the “traffic lawyer” invoices insurance company for the entire amount of losses under OSAGO scheme as well as invoice for its own services, experts’ service and fines. As a result, the consumer loses confidence in the insurance companies being under influence of the “traffic lawyers” and receives less money compensation than due, while insurance companies lose billions of roubles paid to the “traffic lawyers”.

FOR REFERENCE

According to the Russian Association of Motor Insurers (RAMI), the share of payments under court judgments grew from 13.8% in 2016 to 18.2% in 2017. Together with this, the ratio of court fees to principal claim amount exceeded 100% and amounted to 109% in 2017¹⁷⁸. In physical terms, overhead expenses (penalties, fines, forfeits, moral damage, expert review fees and intermediaries’ fees) paid under court judgments in 2017 were equal to RUB 19.5 bln, while the amount of direct insurance compensations was RUB 17.9 bln. Thus, consumers lose substantial compensations due to them since often they do not even have a clue on the amounts payable. According to RAMI, only 20% of RUB 37.4 bln of total compensations were received by the consumers and RUB 30 bln came to the pockets of the “traffic lawyers”¹⁷⁹.

¹⁷⁷Russian Association of Motor Insurers Presented the Rating 2017 of the Most Struggling Regions in Terms of OSAGO: Newcomers in Top-20, 22 February 2018 // Official website of the Russian Association of Motor Insurers // http://www.autoins.ru/ru/about_rsa/news/rsa/index.wbp?article-id=E601C83D-075F-4DFD-9EF2-1C6BB6D59223.

¹⁷⁸RAMI Presented the Rating 2017 of the Most Struggling Regions in Terms of OSAGO: Newcomers in Top-20, 22 February 2018 // Official website of the Russian Association of Motor Insurers // http://www.autoins.ru/ru/about_rsa/news/rsa/index.wbp?article-id=E601C83D-075F-4DFD-9EF2-1C6BB6D59223.

¹⁷⁹RAMI Evaluated Losses of OSAGO Insurers Caused by Fraudulent Activities in Courts in 2017, 6 March 2018 // Official website of the Russian Association of Motor Insurers // http://www.autoins.ru/ru/about_rsa/news/rsa/index.wbp?article-id=E4F7F048-13EF-4C13-8282-97E0BB2F4715.

Distribution of the “traffic lawyer” services is partially promoted by dishonest employees of insurance companies who provide road accident databases to “traffic lawyers” for a consideration¹⁸⁰. In such cases activities of the “traffic lawyers” may affect not only those persons whose vehicles were involved in a road accident but all the rest users of OSAGO certificate as well. Insurers try to compensate losses caused by “traffic lawyers” and they plan to do this by means of tariff liberalization and increase in the OSAGO cost for the consumers. RAMI proposes to increase insurance rates in those particular loss-making regions where “traffic lawyers” are the most aggressive and to decrease rates in the trouble-free regions. It is suggested to cancel tariff surcharges that are used now and introduce other mark-ups determined on a case-by-case basis similar to fully comprehensive car insurance.

According to the Bank of Russia, the process of tariff liberalization will not be immediate, it will start in 2018 and take up several years¹⁸¹. In September 2017, draft amendments to the OSAGO Law were presented on the Ministry of Finance website¹⁸², which stipulate a choice among three types of OSAGO with the following coverage limits: RUB 500,000 (personal injury) and RUB 400,000 (property damage), RUB 1 mln limit and RUB 2 mln limit. Such classification will allow a consumer to choose the OSAGO option that fits the best. Moreover, an insurance agreement will be executed for a period of up to three years. Together with this, the project provides for the possibility of implementing telematics facilities¹⁸³, which allows reducing rates for prudent drivers since the rates are expected to be chosen on a case-by-case basis. The maximum rate level will be established by the Bank of Russia¹⁸⁴.

Moreover, for the purpose of counteracting the activities of “traffic lawyers” RAMI intends to inform tax authorities on substantial payments under court judgments, namely, the amounts of penalties and fines on which a recipient has to pay taxes. This measure may exert a negative impact on the service consumers, in particular, those who make use of the services of “traffic lawyers”. When the rights are assigned under a power of attorney, a consumer may be an ultimate recipient and will be liable for a tax even though such consumer does not receive any compensation under court judgment. In case of full transfer of rights and benefits, a “traffic lawyer” is the very same person to pay the tax, which in today’s practice may be quite high and this, in the RAMI’s opinion, will reduce the number of those who wish to make money on a court decision^{185,186}.

To counteract activities of the “traffic lawyers”, save for the measures described above, State Duma of the Russian Federation approved amendments to the OSAGO legislation stipulating the priority of compensations “in kind”, that is repair of a vehicle at the expense of the insurance company instead of money payment since March 2017 (applicable to OSAGO agreements executed from 28 April 2017)¹⁸⁷. However, this measure turned out to be not so efficient as expected because some conditions of providing “in kind” compensation often are difficult to meet, for example, those concerning service remoteness, repair quality and warranty¹⁸⁸. Together with this, according to the Bank of Russia, such type of indemnity may finally lead to increase in the average OSAGO compensation due to prohibition of using second-hand automotive parts for repair activities.

The Supreme Court of the Russian Federation also contributes to improving the consumer’s position with regard to OSAGO and anti-fraud activities. So, for example, some provisions of the OSAGO Law are made more specific. As a result, the consumer may apply upon loss occurrence to different divisions of the insurance company subject to compulsory notification of the insurer’s head office on all its applications and shall indicate in its application what types of expenses shall be covered. Now, insurance claims shall be forwarded by registered mail or certified mail or courier rather than by unregistered letter. These measures are to reduce the number of fraudulent claims¹⁸⁹.

It should be noted that occurrence of the “traffic lawyers” phenomenon was developed by insurers themselves, which delay consideration of insurance claims and underestimate compensation amounts. Vehicle owners started to make use of legal services to protect their interests. Meanwhile, all kinds of measures aimed at removing “doubtful” insurance companies from the market resulted in mass layoff of specialists deeply versed in jurisprudence who partially joined “traffic lawyers” having taken on board some advanced intermediation mechanisms.

The State Duma of the Russian Federation became interested in whether complaints concerning “traffic lawyers” being the cause of thumping losses of insurers are substantiated. On 24 October 2017, the State Duma Committee on Constitutional Legislation and State-Building represented by deputy Chairman Vyacheslav Lysakov forwarded an enquiry to the Ministry of Internal Affairs of Russia.

According to the said Ministry’s response, dated 17 November 2017, and as per the RAMI data in 2016 insurance companies paid RUB 26.3 bln of OSAGO compensations under court judgements and PJSC Rosgosstrakh accounted for 90% of total losses of this sector. However, unprofitability of PJSC Rosgosstrakh is caused by rapid drop of the number of sold OSAGO certificates (decrease by 6 mln) and extremely high payments awarded by court (approx. RUB 23 bln) rather

¹⁸⁰ The Price To Pay, 24 March 2017 // Kommersant <https://www.kommersant.ru/doc/3248519?query=%D0%A0%D0%B0%D0%B7%D0%B4%D0%BE%D0%BB%D0%B6%D0%BD%D0%B8%D1%82%D0%B5%D0%BB%D0%B8>.

¹⁸¹ OSAGO Losses To Be Included Into Certificate of Insurance. Insurers’ Damage Inflicted by Fraudsters and Traffic Lawyers Will Be Hung on Car Owners, 1 December 2017, Kommersant // <https://www.kommersant.ru/doc/3482646>.

¹⁸² Federal Law No. 40-FZ, dated 25 April, 2002, “On Compulsory Civil Liability Insurance of Motor Vehicle Owners”.

¹⁸³ The concept of vehicle telematics means the use of computer, sensor and telecommunication technologies for remote services in a vehicle.

¹⁸⁴ Ministry of Finance Refined OSAGO Reform. Draft OSAGO Changes Are Published, 14 September 2017 // Kommersant <https://www.kommersant.ru/doc/3410392>.

¹⁸⁵ OSAGO Losses To Be Included Into Certificate of Insurance. Insurers’ Damage Inflicted by Fraudsters and Traffic Lawyers Will Be Hung on Car Owners, 1 December 2017 // Kommersant <https://www.kommersant.ru/doc/3482646>.

¹⁸⁶ Corporate Problems To Be Solved By Unnamed Individuals. Oleg Sapozhkov About Measures To Return of OSAGO Profitability, 4 December 2017 // Kommersant <https://www.kommersant.ru/doc/3486060>.

¹⁸⁷ Federal Law No. 49-FZ, dated 28 March 2017, “On Amendments to Federal Law “On Compulsory Civil Liability Insurance of Motor Vehicle Owners”.

¹⁸⁸ OSAGO Compensations To Bring To Service Station. OSAGO Reform Effective Since 28 April 2017 // Kommersant <https://www.kommersant.ru/doc/3283735>.

¹⁸⁹ Supreme Court Balanced OSAGO. SC Plenum Resolution Adjusted In Favour Of Car Owners, 26 December 2017 // Kommersant <https://www.kommersant.ru/doc/3509126>.

than fraudulent activities. The Ministry of Internal Affairs (MIA) of Russia reports on RUB 16 bln excess of compensations over insurance premiums. Such costs and negative experience of a certain insurance company, in the opinion of the Ministry, are groundlessly declared by the All-Russian Insurance Association as a loss of the whole OSAGO market. The Bank of Russia informed RF MIA on inspections held at PJSC Rosgosstrakh Insurance Company, however, did not submit the inspection materials¹⁹⁰.

It is interesting that according to RAMI, in 2016 the police received 2,600 criminal complaints concerning insurance fraudulence and forgery of certificates of insurance. As a rough estimate, if we take a maximum permissible compensation of RUB 400,000, then the total amount of compensation under all declared claims would reach RUB 1.04 bln. This is as little as 0.6% of the total amount of OSAGO compensation. This miniscule share confirms that RAMI declarations on running at a loss of the whole OSAGO market because of the “traffic lawyers” are very exaggerated.

As a consequence, previous declarations of the insurance community on losses of RUB 50-70 bln in 2016-2017 due to activities of the “traffic lawyers” have no reasonable substantiation. Moreover, as the Ministry of Internal Affairs of Russia reports, criminal investigations show that worryingly every fourth OSAGO abuse is performed by insurance agents or insurance companies employees. It is also interesting that the insurance community never asked MIA of Russia for assistance in developing anti-fraud measures.

Among the measures suggested by MIA of Russia to eliminate the existing non-transparent situation in the OSAGO market, there is an improvement of security departments and legal departments of insurance companies, support of the idea to implement insurance detectives departments and inspection of financial activities of the insurer prior to rehabilitation thereof as well as vesting insurance companies with powers to verify the authenticity of the documents and data submitted to court relating to the vehicle, its owner and availability of the assignment agreement or representation contract prior to the commencement of litigation. The decision of the RF State Duma is imminent to apply to the Bank of Russia and Office of the Prosecutor General of the Russian Federation with a proposal to evaluate the legal position of RAMI with regard to issues of determination of damage to the RAMI compensation fund and procedure of compensation payments¹⁹¹.

FOR REFERENCE

The President of the Russian Federation gave Instruction, dated 18 March 2017, No. ПП-500 to intensify efforts of MIA of Russia aimed at counteracting insurance fraud and checking the procedure of considering insurers' applications and taking the respective measures including detection of corruption elements.

As a result of the activities held, there were 879 crimes revealed in the stated segment of insurance market for 9 months of 2017. More than a half of this number were performed in organized forms. As a rule, these are continuous multi-episode crimes provided for by several articles of the Criminal Code of the Russian Federation.

For instance, Department of MIA of Russia in Ulyanovsk Oblast suppressed activities of several criminal groups of the total number of 80 persons. 21 investigations were opened for the stated facts, 45 vehicles participated in fake car crashes were seized from the criminals.

The OSAGO segment balancing on the brink of unprofitability makes some insurance companies cease their activities, especially in the loss-making regions. The option of sales of electronic OSAGO certificates implemented in 2016 in the testing mode was meant to eliminate the lack of hard-copy forms and forgery thereof and to make electronic forms available for all individuals. From January 2017 sales of OSAGO certificates in electronic forms became a compulsory condition for working in this insurance market segment.

For these reasons websites of insurers and their professional associations (Russian Association of Motor Insurers) shall operate smoothly and continuously. There is no liability established for failure of websites of insurance companies and their professional associations. However, for failure to execute an agreement there is a risk of penalty for unjustified refusal to execute a public insurance agreement¹⁹².

The compulsory measure led to substantial growth of sales of the OSAGO certificates via the Internet. So, for example, according to the Bank of Russia, following the results of the third quarter of 2017 electronic sales of the OSAGO certificates grew by 703.1% if compared to the similar period of the preceding year. Total amount of insurance premiums under the OSAGO agreements executed via the Internet reached RUB 17.8 bln as of the end of September 2017¹⁹³. However, as a percentage ratio the share of insurance premiums on OSAGO received by insurance companies via the Internet was as little as 12.8% and troubled regions accounted for the major part of this amount¹⁹⁴. Together with this, the Ministry of Finance of Russia considers the possibility of the total switch from hard-copy OSAGO certificates to electronic ones, which will allow reducing the number of documents that a driver should have on hand at present. However, this initiative poses increasing fraud risks for the consumers. Moreover, an electronic certificate of insurance is difficult to inspect in real-time mode. In Moscow and Moscow Oblast Traffic Police officers use special tablet PCs while in the regions equipping of the Traffic Police is much leaner and stable communication is observed not everywhere throughout the country¹⁹⁵.

The initiative of the Bank of Russia to activate the electronic OSAGO certificate only upon expiry of 72 hours after buying

¹⁹⁰ CB Did Not Submit Materials of Rosgosstrakh Inspection to MIA, 24 April 2018 // TASS <http://tass.ru/ekonomika/5152823>.

¹⁹¹ State Duma Opinion: Insurers To Blame For OSAGO Unprofitability, 1 February 2018 // Autoreview <https://autoreview.ru/news/mnenie-gosdumy-ubytochnost-osago-vyzvana-samimi-strahovschikami>.

¹⁹² Bank of Russia Ordinance No. 4191-U, dated 14 November 2016, “On Requirements to Ensuring Smooth and Continuous Operation of Official Websites of Insurers And Professional Association of Insurers on the Internet for the Purpose of Executing Compulsory Insurance Agreements In Electronic Form”.

¹⁹³ Statistical Key Figures// Official website of the Bank of Russia https://www.cbr.ru/finmarket/supervision/sv_insurance.

¹⁹⁴ Insurance Market Remains Unchanged, 26 March 2018 // Expert <http://expert.ru/expert/2018/13/na-strahovom-rynke-bez-peremen>.

¹⁹⁵ OSAGO Being Erased From The Paper. Government Plans Total Switch To Electronic Certificates, 7 April 2017 // Kommersant <https://www.kommersant.ru/doc/3263457>.

may pose a problem for a bona fide OSAGO service consumer. This initiative is aimed at resolving the fraud problems of the insurers when a road accident perpetrator without the respective certificate of insurance buys it immediately after the accident and claims a loss event. However, a bona fide vehicle owner will be unable now to buy the certificate online on the same day. To do this, the consumer shall go to the insurance company office and show the vehicle¹⁹⁶.

A partially solved problem of lack of the OSAGO certificates may become acute again in the loss-making regions. The Single Agent system established in the mid of 2016 is aimed at regular distributing "loss-making" OSAGO certificates among insurance companies working in the loss-making regions. But at present, small insurance companies accumulate the OSAGO portfolio not thinking anything on its unprofitability, which may lead them in future to bankruptcy and non-payment growth. Within the given scenario, RAMI contemplates a withdrawal of the Single Agent system from some loss-making regions¹⁹⁷.

One more new risk for a consumer may be the decision of the Bank of Russia on admission of intermediaries to sales of electronic certificates of insurance by means of launching aggregator websites. At present brokers and agents are prohibited to take part in the sales of electronic certificates. Changes proposed by the regulator may increase the number of fraudulent and sham transactions in the electronic sales of OSAGO certificates. Even now illegal intermediaries are observed in the sales of electronic certificates.

FOR REFERENCE

In March 2017, about 30% of electronic certificates were bought through illegal intermediaries: the certificates were either acquired from a single IP-address or paid with a single card; the same phone numbers and fake e-mail addresses are used. Danger inherent to such illegal intermediaries is that they can cancel payments to the insurer and the certificate will become invalid. The consumer will be unaware of that till he/she applies to the insurance company for a compensation claim¹⁹⁸.

Due to the fact that limited supply of OSAGO services in the insurance market in the loss-making regions still was acute in 2017, the number of fake certificates in use and the number of drivers without certificates did not decrease in spite of novelties associated with sales of electronic certificates. According to RAMI, the number of consumers using fake OSAGO certificates runs to 1 million¹⁹⁹. However, in most cases the consumer does not even have a clue that the OSAGO certificate is invalid till the moment he/she faces the necessity to apply to the insurance company upon occurrence of loss.

Upon implementation of electronic certificates, the consumer has a problem to check the certificate validity. If the electronic OSAGO certificates are used widely, only the ability of the Traffic Police officers to check them against the RAMI database will protect the market from the spate of fake certificates. In addition to the issue of fake certificates, there is a problem of lack of OSAGO certificate for a vehicle under operation. According to RAMI, the number of active drivers without OSAGO certificate amounts to 2-4 mln²⁰⁰. Starting from the second half of 2017, the project was planned to check the drivers' having OSAGO certificate through speed cameras, for the time being only in Moscow²⁰¹. Due to limited awareness and low financial literacy consumers do not always know that validity of the certificate of insurance can be verified or do not know how to do this. This problem can even get worse after switching to electronic OSAGO certificate.

Novelties touched on the procedure of executing the European Accident Statement as well²⁰². Use of the European Accident Statement (EAS) for documenting road accidents involving not more than two vehicles and the loss amount not exceeding RUB 50,000 is quite widely distributed. According to RAMI, during 11 months of 2017 480,000 such applications were submitted to insurance companies and the share of drivers documenting road accidents without calling Traffic Police grew from 29.5% to 33% in 2017. In 2018, changes will apply to documenting small road accidents using EAS. The good thing here is that the minimum amount of disbursements under EAS will increase to RUB 100,000 (since 1 June 2018)²⁰³. However, there are some negative features of the forthcoming changes. For instance, the changes will touch on methods of the accident recording. It is assumed that one can record a road accident using either mobile application OSAGO Assistant, which is under development, or technical control facilities, in particular, automatic terminals Era-Glonass installed on all new vehicles and vehicles imported to the territory of Russia. Both methods are risk-bearing for consumers. In the first case this is the risk of new fraudulent schemes with fake road accidents. In the second case a consumer shall have to bear additional costs for improvement of technical control facilities which are used now²⁰⁴.

Special team of the Bank of Russia is engaged in development of OSAGO Assistant mobile app²⁰⁵. The app is expected to be active in 2018 and will constitute an electronic statement to be completed by parties involved in the accident and signed by digital signature. This app will allow transmitting photos directly to the insurers' database. It will facilitate and accelerate

¹⁹⁶ 72 Hours To Make It. OSAGO Certificates To Be Activated In Three Days After Sale, 12 July 2017 // Kommersant <https://www.kommersant.ru/doc/3352392>.

¹⁹⁷ OSAGO May Return To Deficit. Insurers Threaten To Wind Down Single Agent System In The Regions, 16 August 2017 // Kommersant <https://www.kommersant.ru/doc/3385392>.

¹⁹⁸ Intermediaries To Be Admitted To Electronic OSAGO. CB Speaks For Development of Aggregator Websites For Compulsory Insurance, 27 March 2017 // Kommersant <https://www.kommersant.ru/doc/3254003>

¹⁹⁹ Fraudsters Robbed 40 Billion On OSAGO // Utro.ru, 16 January 2017 // <https://www.utro.ru/articles/2017/01/16/1312395.shtml>.

²⁰⁰ Drivers Without OSAGO Certificate To Be Tracked Through Speed Cameras // e-moneynews.ru, 22 February 2017 // <http://www.e-moneynews.ru/voditeley-bez-polisa-osago-budut-otslezhivat-kameryi/>

²⁰¹ Cameras To Look Into OSAGO Certificate. On Moscow Roads Automatic OSAGO Check Can Be Launched, 1 February 2017 // Kommersant <https://www.kommersant.ru/doc/3207420>.

²⁰² European Accident Statement (European Statement, EAS) is the procedure of documenting a road accident without calling the Traffic Police. In other words, it means the possibility to document the road accident individually in order to apply to the insurance company and to obtain insurance compensation thereafter and to leave the place of accident as soon as possible to avoid road congestion. Such possibility has been in existence since a long time ago in the Russian Federation but it is still used inactively by parties involved in a road accident.

²⁰³ Federal Law No. 448-FZ, dated 29 December 2017, "On Amendments to Articles 11.1 and 12 of Federal Law "On Compulsory Civil Liability Insurance of Motor Vehicle Owners".

²⁰⁴ European Accident Statement Supplemented With Additional Options. Amendments To The OSAGO Law Adopted At The Second Reading, 21 December 2017 // Kommersant <https://www.kommersant.ru/doc/3502965>.

²⁰⁵ European Accident Statement Supplemented With Additional Options. Amendments To The OSAGO Law Adopted At The Second Reading, 21 December 2017 // Kommersant <https://www.kommersant.ru/doc/3502965>.

execution of the European Statement for the accidents involving not more than two vehicles, without personal injuries and with loss amount not exceeding RUB 100,000 (since 1 June 2018). However, RAMI warns that the app usage may trigger new risks of fraud including forgery of electronic signatures and unauthorized changes in the statement wordings. At present it is possible to transmit photos directly to the insurers' database using RAMI-developed DTP Europrotocol application. The application also provides instructions on completing the EAS but contains no electronic statement itself²⁰⁶.

Upon enactment of new traffic supervision regulation of the Ministry of Internal Affairs of Russia²⁰⁷ from 20 October 2017 OSAGO service consumers faced the problem of obtaining a road accident certificate. According to OSAGO rules approved by the Bank of Russia, the road accident certificate shall be submitted by drivers-participants of the accident to the insurance company to determine loss compensation for the aggrieved. However, from the stated date Traffic Police officers ceased to issue this statement. On 23 November 2017, official explanation of the Bank of Russia "On Application of Certain Provisions of Regulation "On OSAGO Rules" was published, according to which, the existing norms allow the insurer to perform all necessary actions if the application of the aggrieved person lacks an attached road accident statement but information on vehicles involved in the accident, their visual damages, drivers, OSAGO certificates of the accident participants is stated in the documents submitted to the insurer. On 24 March 2018, amendments to the Regulation on OSAGO Rules were enacted²⁰⁸, which cancels the necessity to submit road accident statements to the insurer.

A debatable novelty for the consumers became the decision of the Constitutional Court of the Russian Federation, which allows recovering deficient amount up to full cost of repair and spare parts in case an accident from the party that caused the damage. In spite of introduction of "in kind" compensation provided by the insurer such repair is not always possible. Earlier the aggrieved party had to pay the remainder for proper repair services. Now, such additional payments can be recovered from the guilty party. RAMI fears that such decision may increase the number of "road fights", fake car crashes and erode confidence in OSAGO²⁰⁹.

A positive novelty for the consumers is the possibility for vehicle drivers to have on hand instead of OSAGO certificate information printed on a hard copy on execution of the OSAGO agreement in electronic form.

Starting from 2017, in case of return by the insurer to the aggrieved party of compensation claim or direct loss compensation claim with the specified documents the established terms of examination by the insurer of the damaged property or wreckage and/or organization of technical expert examination thereof, independent expert examination (evaluation) as well as terms of payment by the insurer of insurance compensation or issue to the aggrieved party of repair authorization or forwarding to the aggrieved party of a substantiated claim denial shall be calculated from the date of repeated submission by the aggrieved party to the insurer of a compensation claim or claim of direct loss compensation with the respective documents²¹⁰. The stated change is associated with the risk of delay of the respective actions (issue of repair authorization, payment of compensation, etc) by the insurer.

Since 28 April 2017, legislative amendments²¹¹ have been effective, which are aimed at protecting rights of an individual holding the OSAGO certificate. So, for example, requirements are determined in relation to recovery repair activities including , inter alia: the term of repair of the damaged vehicle (not exceeding 30 business days from the date of submission of the vehicle); criteria of accessibility of the repair location for the aggrieved party; maintaining warranty obligations of the vehicle manufacturer. Moreover, in the repair activities it is not allowed to use second-hand or reconditioned components (parts, assemblies, units). Unless otherwise agreed upon between the insurer and the aggrieved party.

Recovery and repair of the vehicle is performed at service stations that have the respective agreements with the insurer and comply with the established requirements. If none of the service stations complies with the stated requirements, the insurer shall have the right to issue to the aggrieved party (with his/her consent) repair authorization with regard to any service station and in case of disagreement of the aggrieved party - to make compensation payment to cover losses. Upon consent of the insurer, the aggrieved party may independently arrange repair of its vehicle at the service station that has no repair performance agreement with the insurer.

Maximum route length from the road accident place or place of residence of the aggrieved party to the service station may not exceed 50 kilometres except for the cases when the insurer arranged and/or paid for transportation of the damaged vehicle to the repair place and back.

In case of such remanufacture, the indemnification amount shall be calculated net of the vehicle's fatigue and spare parts.

The minimum warranty period for remanufacture of a damaged vehicle amounts to 6 months, while for the bodywork and works related to the use of paints and varnishes – 12 months.

Any changes to the scope of remanufacture of a damaged vehicle, timing and conditions of such remanufacture shall be agreed upon by the maintenance station with the insurer and victim.

For violating the deadline of remanufacturing the vehicle, the insurer (in addition to other potential sanctions that may be imposed by the Bank of Russia) shall pay liquidated damages (penalty) at the rate of 0.5 % of the specified amount of insurance indemnification, but not to exceed the amount of such indemnification.

²⁰⁶ Road Accident Parties To Save Paper. OSAGO Assistant App To Be Launched Over The Coming Years, 8 November 2017 // Kommersant <https://www.kommersant.ru/doc/3460630>.

²⁰⁷ Order of the Ministry of Internal Affairs of Russia No. 664, dated 23 August 2017, "On Approval of Administrative Regulation of Performance by the Ministry of Internal Affairs of the Russian Federation of the State Function of Federal State Supervision Over Compliance of Traffic Participants With Legal Requirements of the Russian Federation Concerning Traffic Safety".

²⁰⁸ Bank of Russia Ordinance No. 4664-U, dated 25 December 2017, "On Amendments to Bank of Russia Regulation No. 431-R, dated 19 September 2014, "On Rules of Compulsory Civil Liability Insurance of Vehicle Owners".

²⁰⁹ Those Guilty Will Suffer From Those Aggrieved. Constitutional Court Permitted To Recover Deficient OSAGO Amounts From Road Accident Culprits, 11 March 2017, Kommersant <https://www.kommersant.ru/doc/3240164>.

²¹⁰ Federal Law No. 214-FZ, dated 23 June 2016, "On Amendments to Federal Law "On Compulsory Civil Liability Insurance of Motor Vehicle Owners".

²¹¹ Federal Law No. 49-FZ, dated 28 March 2017, "On Amendments to Federal Law "On Compulsory Civil Liability Insurance of Motor Vehicle Owners".

Any defects of remanufacturing a damaged vehicle pursuant to an agreement between the insurer and the victim in writing may be remedied either in kind or in cash.

The insurer shall bear liability for non-compliance by the maintenance station of the deadline of delivering a repaired vehicle to the victim, as well as for breaching any other remanufacture-related obligations.

In case of detecting a repeated (2 or more times during the year) violation by the insurer of its remanufacture-related obligations, the Bank of Russia may resolve to restrict indemnification of damage caused by such insurer in kind by up to 1 year.

An exhaustive list of cases is established, in which the insurer makes an insurance payment.

To ensure harmonization of court practice of applying the OSAGO law, which allows increasing legal certainty when protecting consumers' rights, the Supreme Court of the Russian Federation issued Resolution²¹². For instance, applicability of the Law "On Protection of Consumer Rights" is established clearly only to cases when a vehicle is used solely for personal, family, household and other needs not associated with income generating or other economic activities of the owner thereof. The said Law shall not apply to the relations between the aggrieved party and professional insurers' association in connection with compensation payments.

The Resolution also clarifies that in case of documenting a road accident without participation of the authorized police officers the insurer shall obtain data on the circumstances of damaging the vehicle as a result of the road accident, which are recorded using technical control facilities ensuring non-adjustable information registration (photographing or video recording of the vehicles and damages as well as data obtained using navigation devices operating with GLONASS technologies or other global navigation satellite systems).

Failure to meet the above requirements is not the ground for compensation denial, however, the amount of insurance compensation in this case may not exceed the ceiling amount of insurance compensation paid under simplified procedure of the road accident documenting.

The insurance company is entitled to the compensation denial if repair or scrapping of the damaged property prior to examination by the insurer and/or independent technical expert examination, independent expert examination (evaluation) of the damaged property does not allow establishing reliably the occurrence of the insured event and losses subject to compensation under the compulsory insurance agreement.

In July 2017, Law No. 197-FZ²¹³ was adopted, according to which it is suggested to change the procedure of dispute settlement for the insurer and the insuring party with regard to OSAGO. Now, pursuant to Article 141 of the OSAGO Law the insurer that insured civil liability of the person who caused damage shall compensate towards insurance compensation under the compulsory insurance agreement to the insurer that performed direct recovery of damages (DRD) the amounts that were paid to the aggrieved party according to the direct recovery of damages agreement. In case of any dispute between the insurers concerning the direct recovery of damages such dispute shall always be considered by the commission established by RAMI. The proposed procedure of dispute consideration shall not deprive the insurers of their right to take legal action: if any insurer disagrees with the commission decision or if the decision is not taken by the commission within 20 calendar days, the dispute shall be transferred to the arbitration court. The possibility of mediation of the insurers' disputes with regard to DRD including legal actions of consumers against insurance companies will allow decreasing the burden on the court system, disciplining insurers and reducing the number of such litigations in the insurance market.

Starting from 25 September 2017, the principle of direct recovery of damages (when the aggrieved party may apply for compensation to the insurer with which it has an insurance agreement and not to the insurer that insured civil liability of the offending vehicle driver) has been applied to road accidents involving two or more participants, thus improving the position of the individual-insuring party.

To enhance protection of consumers' rights and to implement passed laws, the Bank of Russia prepared a number of regulatory documents to be adopted in 2018.

Thus, one may highlight the following principal risks for OSAGO consumers:

- compensation denial by insurers to consumers under OSAGO schemes;
- acquisition of fake OSAGO certificates including those in electronic form;
- impossibility of receiving OSAGO compensation "in kind" due to existing restrictions;
- insurers refusal to issue the OSAGO certificate (due to alleged lack of certificate forms or other reasons) including the impossibility of executing an electronic certificate due to various reasons;
- activities of "traffic lawyers" resulting in the compensation underpayment to the consumer under the OSAGO agreement;
- increase in OSAGO rates on the grounds of alleged losses of insurers from the activities of "traffic lawyers" and other doubtful reasons;
- restrictions on application of warranty provisions;
- underestimated "human life value" under OSAGO agreements. Compensation in case of death of the aggrieved party under agreements for civil liability insurance of the hazardous facility owner for causing harm as a result of accident at the hazardous facility and carrier's liability insurance agreements amounts to at least RUB 2 mln and the same figure

²¹² Resolution of the Plenum of the RF Supreme Court No. 58, dated 26 December 2017, "On Application by Courts of Legislation on Compulsory Civil Liability Insurance of Motor Vehicle Owners".

²¹³ Federal Law No. 197-FZ, dated 26 July 2017, "On Amendments to Articles 14.1 and 24 of Federal Law "On Compulsory Civil Liability Insurance of Motor Vehicle Owners".

under the OSAGO agreement as little as RUB 500,000. In Germany, similar agreements stipulate in case of death the insurance compensation of EUR 7.5 mln and in some foreign countries compensations in case of death and injuries are paid without any limitations;

- insurer's license withdrawal;
- inconsistency of the legal framework concerning OSAGO and introduction of new insufficiently developed norms.



During 2017, the insurance market remained under both public and state surveillance, which resulted in substantial novelties in some insurance segments. However, adopted amendments are still insufficient to cover risks that an insurance consumer faces. Further efforts are required to mitigate risks of consumers in the insurance market and ensure transparent activities of insurance companies.

2.4. Changes in the Microfinance Institutions Market and Risks for Consumers

Market of microfinance institutions (hereinafter referred to MFI) in 2017 continued to develop at a rapid pace: according to the Bank of Russia, in 2017 aggregate microloan portfolio increased by 28% and reached RUB 112.8 bln. The consumer microloan portfolio amounted to RUB 88.8 bln showing 33.1% increase.

It should be noted that the number of active MFI borrowers as of 1 October 2017 was 8.3 mln²¹⁴.

FOR REFERENCE

According to Expert RA, following the results of 2017 the volume of the MFI microloan portfolio²¹⁵ grew by more than 35%: from RUB 88 bln to RUB 121 bln. Such a dramatic growth in 2017 (+35%) is primarily associated with accumulation of bad debts on the books of MFI (approx. RUB 15 bln or a half of the increment).

Movements of performance indicators of the microfinance market are influenced by national economic situation and decrease in availability of bank loans (toughening of requirements to borrowers, decrease in the number of small-scale regional banks) as well as raising public awareness on the MFI activities.

According to the survey of the Analytical Centre of National Agency for Financial Studies (NAFI), the level of awareness on the MFI activities increases: as of February 2017, 71% of respondents were aware of MFI while in 2016 - 45% and in 2013 - 22%²¹⁶. Among those aware of the MFI activities, 8% applied for their services during the last 2-3 years (in 2016 - 5%, in 2013 - 9%).

Typical MFI clients usually are residents of middle-size towns with the population of 100,000 to 500,000 (15%) and young people of 25-34 years (11%). As a rule, these people have a tarnished credit history and monthly revenue of RUB 30,000 to 40,000, which is not officially confirmed.

The microfinance market is still positively influenced by developing segment of online microloans as well as expansion of the state support of MFI.

FOR REFERENCE

In the Report on Digitalization of Short-Term Higher Rate Consumer Loans (STHRCL) the International Financial Consumer Protection Organisation (FinCoNet) presented risks for consumers and difficulties for supervision authorities.

For instance, in case of misapplication the digitalization may lead to aggregation of risks inherent in STHRCL provided through conventional distribution channels such as excessive indebtedness, inappropriate sales, insufficient transparency and unauthorized information disclosure. Such results are possible due to the following factors: lack of information and transparency, low financial and digital literacy of consumers, new participants and technologies as well as supervision issues.

There are some specific behavioural aspects associated with the STHRCL digitalization that may increase risks of excessive indebtedness: digitalization makes such types of loans more convenient, available and simple. Consumers are also attracted by anonymity and impersonal character of borrowing through digital channels.

The STHRCL digitalization creates special tasks for supervision authorities. Such tasks include the need to stay abreast of new technologies and innovations and ensure the possession by supervision authorities of sufficient resources and knowledge.

Regulatory voids or disputable transactions may also occur during cross-border issue of digital loans due to differences in legal and regulatory frameworks in different jurisdictions.

It is important that supervision authorities cooperate with each other and keep in touch with branch representatives and technical innovators to obtain information on new and developing risks and proper practice for the digital STHRCL regulation²¹⁷.

It should be noted the Bank of Russia has been a FinCoNet member since January 2017.

²¹⁴According to the data of the Central Bank of the Russian Federation (Review of Key Performance Indicators of Microfinance Institutions No. 3, 2017).

²¹⁵The portfolio volume means an aggregate volume of microloans on the books of MFI as of the certain date (including reserves and overdue microloans).

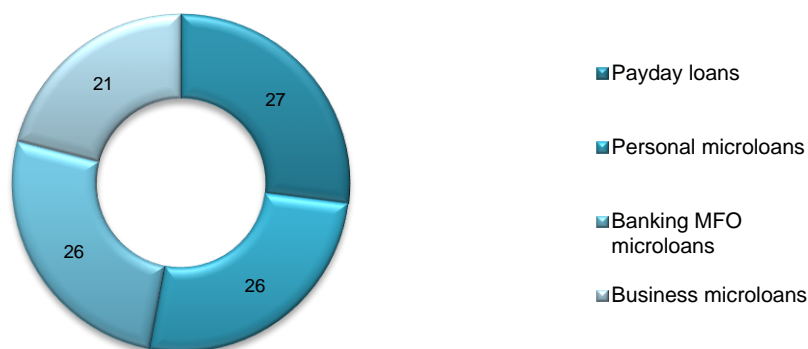
²¹⁶8% of Russians Make Use of Services of Microfinance Institutions, 2 November 2017 // Official website of NAFI Analytical Center <https://nafi.ru>.

²¹⁷ Report on Digitalization of Short-Term Higher Rate Consumer Loans. International Financial Consumer Protection Organisation (FinCoNet), November 2017 // International Cooperation Section of the official website of the Bank of Russia [https://www.cbr.ru/StaticHtml/File/36689/FinCoNet\(report\).pdf](https://www.cbr.ru/StaticHtml/File/36689/FinCoNet(report).pdf)

According to Expert RA, growth of the microloan portfolio volume is associated with accumulation of bad debts on the books of MFI (approx. RUB 15 bln or 45.5% of the increment), enhanced activity of “banking” MFI and leaving by small MFI of the market. Microloan portfolio deterioration increases the tension level between consumers and MFIs that closely interact with debt collectors traditionally disliked by the population.

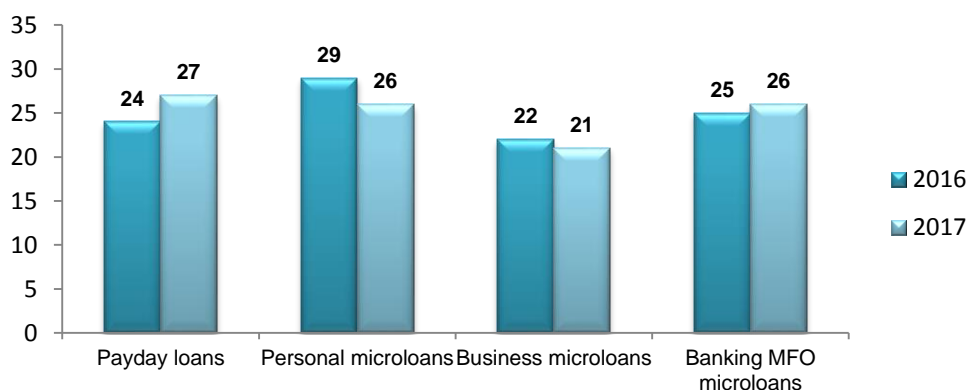
The highest growth (+50%) was specific for portfolio of payday microloans²¹⁸. The share of payday microloans in the total amount of the loan portfolio increased by 3 percentage points if compared to 2016 and amounted to 27% (Fig. 2.20, 2.21). According to the Bank of Russia, an average microloan granted to an individual in 2017 amounted to RUB 9,800 that is 8.7% higher than in 2016.

Figure 2.20. Structure of aggregate loan portfolio of microfinance institutions in 2017, %



RAEX (Expert RA) upon the results of MFI questionnaire survey ²¹⁹

Figure 2.21. Structure of aggregate loan portfolio of microfinance institutions in 2017, %



RAEX (Expert RA) upon the results of MFI questionnaire survey ²²⁰

The portfolio of consumer microloans ²²¹to individuals (except for “banking” MFI) grew by 13%. In general, the segment of consumer microloans (except for “banking” MFI) continued to stagnate - its share in the aggregate amount of the microloan portfolio in 2017 fell to 26% (in 2016 - 29%). The shares of microloans provided by MFI affiliated with big retail banks (“banking MFI”)²²²and microloans to SME²²³ in 2017 remained almost the same - 26% and 21% of the total microloan portfolio, respectively, providing support to the total growth of the microfinance market. An average amount of microloan granted to a legal entity was RUB 750,500, a self-employed person - RUB 663,900²²⁴.

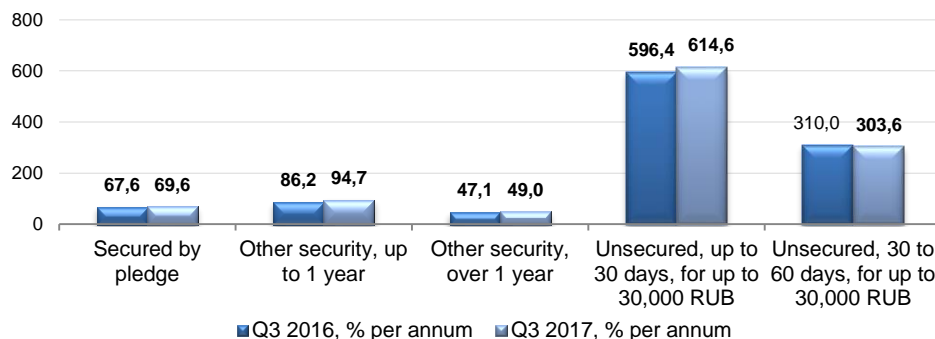
According to Expert RA, the volume of microloans granted in 2017 grew by RUB 35 bln or by 18% to reach RUB 230 bln (in 2016 - RUB 195 bln). According to the Bank of Russia, the volume of microloans granted in 2017 grew by RUB 61 bln or by 31.3% to reach RUB 256.1 bln (in 2016 - RUB 195.1 bln). The volume of IL granted in the reporting year was RUB 229.8 bln (RUB 171 bln in 2016) that is by RUB 58.8 bln or 34.4% higher. Given the usage of illegal practices by a number of companies, the substantial growth of microloan issue is accompanied by significant risks for consumers.

²¹⁸ Payday microloans (Payday Loans, PDL) mean microloans issued to individuals in the amount not exceeding RUB 45,000 for the period of up to two months.
²¹⁹ Microfinance Market Following The Results of 2016-2017: Time of Changes And New Challenges, 28 March 2018 // Official website of RAEX Rating Agency (Expert RA) <http://raexpert.ru>, 17 April 2017.
²²⁰ Microfinance Market Following The Results of 2017: New Challenges, 28 March 2018 // Official website of RAEX Rating Agency (Expert RA) <http://raexpert.ru>
²²¹ Consumer microloans (Installment Loans, IL) mean microloans issued to individuals in the amount exceeding RUB 45,000 for the period over two months.
²²² Banking MFI means microfinance institutions affiliated with credit institutions both on legal and economic grounds determined taking into account the principle of priority of economic content of operations over their legal form.
²²³ The portfolio of loans to small and medium enterprises (SME) contains microloans issued for entrepreneurial purposes to legal entities and self-employed persons.
²²⁴ According to the data of the Bank of Russia for III quarter of 2017.

Within 2017, mid-market values of true interest cost (TIC) increased on IL secured with a pledge; with other security (Fig. 2.22), as well as on the number of segments of unsecured microloans (for example, up to RUB 30,000 for the term of up to 30 days; from 61 to 180 days). It should be noted that mid-market TIC values on POS-microloans²²⁵.

The current laws stipulate that at the moment of execution of the loan agreement its TIC may not exceed the TIC value of the respective category of the consumer credit (loan) used in the respective calendar quarter by more than 1/3. High threshold value of cap rates on microloans even taking into account introduced restrictions is associated with substantial risks for consumers.

Fig. 2.22. Movements of mid-market TIC values on separate categories of microloans used in III quarter 2016 and III quarter 2017



Source: Bank of Russia

FOR REFERENCE

In the US payday loans are regulated by legislation of each state. To counteract usury some states limit annual percentage rate (APR) that may be charged by any creditor. Other states (14 states) prohibit such loans completely, while still others in contrast restrict rights of creditors to a small extent. In the most states APR is limited by Single Microloan Laws. The amount of a payday loan usually is USD 500 depending on the state. A microloan may be granted through stationary MFI or online²²⁶. To receive such microloan, the consumer shall have a bank account with a good history, permanent income revenue and pass an identification procedure²²⁷. The consumer shall issue a cheque for the loan amount, interest and commission fee and receive money. Repayment of the payday loan shall be in a lump sum on the day of receipt of salary or social security benefit or pension benefit. As a rule, when the loan is issued, the consumer's ability to repay other loans is not considered by MFI. The state legislation stipulates that maximum fee for granting a loan shall be within USD 10-30 per each USD 100 of the loan. Therefore, a two-week loan of USD 100 with USD 15 fee is issued at 400% p.a. In contrast, commission fee on a credit card is 12-30% p.a.

In Great Britain, legislative restriction of the cost of short-term loans is effective since 2015. Legal developments stipulate that a consumer may pay not more than 100% for the loan use (including all possible interest, fees and other payments). Day interest rate on the loan including its prolongation (not more than twice) shall not exceed 0.8%. In case of the loan delinquency, the consumer shall not pay commission exceeding £15. For loans for the period over 30 days the payment shall not exceed £24 per each £100.²²⁸ As a rule, the loan amount ranges from £50 to £1,000. To receive a payday loan, the consumer shall work at least 16 hours a week and have a bank account to which the microloan will be transferred. Some microfinance institutions also demand to present a debit card. No microloans are issued to consumers under 18. Such loans are also not issued in case of a district court decision on debts for the last 12 months, debt management plan and fact of the consumer's bankruptcy for the last 12 months²²⁹.

According to the Bank of Russia, in 2017 23.5 mln microloan agreements were executed, in a year this figure grew by 23.6%, where 35,000 out of them were non-IL agreements. Together with this, a trend of decreasing share of agreements with long-term repayment is observed. So, for example, in 2017, 8% of borrowers repaid the whole amount ahead of schedule (the data for 9 months of 2017) while in 2016 - 10% of borrowers. According to the forecasts for 2018, the share of borrowers who repay the loans early will fall to 6.5%-7% and this can cause serious tensions between consumers and MFI due to growing debt load of the population, which does not allow repaying early high rate loans.

As the Bank of Russia expects, the following mechanisms of the borrowers' protection from unjustified debt burden shall be used: improvements of the scoring models²³⁰, more responsible attitude of the creditors to the choice of borrowers and determination of the lending terms.

In the view of the microfinance market participants, average debt burden of an MFI borrower decreased by 20% for the last two years, which is much lower than the similar indicator of bank borrowers. Together with this, only 30% of MFI borrowers have more than one loan (the banking sector has a similar indicator of 36%). The number of debt-loaded MFI borrowers (3

²²⁵ POS-microloan means funds provided by MFI to a financial consumer on the grounds of microloan agreement without security of performance of obligations under such agreement against payment of goods (works, services) by means of transfer of such MFI funds to the bank account of the seller (provider) of the goods (works, services).

²²⁶ Consumer Financial Protection Bureau // <https://www.consumerfinance.gov/ask-cfpb/what-is-a-payday-loan-en-1567>.

²²⁷ Consumer Federation of America's information resource on payday lending for consumers and advocates // <http://www.paydayloaninfo.org/facts>.

²²⁸ Financial Conduct Authority. PS14/16: Detailed rules for the price cap on high-cost short-term credit // <https://www.fca.org.uk/publications/policy-statements/ps14-16-detailed-rules-price-cap-high-cost-short-term-credit>.

²²⁹ Official website of the credit products broker Dot Zinc Limited // <https://paydayloans.money.co.uk/how-to-apply-for-a-payday-loan.htm>.

²³⁰ System of Creditworthiness Evaluation (Credit Risks) of Individuals.

loans and more) is less 1% of the total number of MFI borrowers. Since the impact of MFI on the total debt burden of the population is allegedly insignificant. Moreover, over the last two years quality of MFI loans has been improving and the number of overdue loans is reducing following the results of the quarter. Therefore, MFI believe that they supply clients with good credit history for the banking sector²³¹, which, however, causes some doubts.

In 2017, microfinance market continued to consolidate. According to Expert RA, concentration of the total portfolio on 20 biggest MFI grew by 10 percentage points and amounted to 55%, concentration of the portfolio of 100 biggest MFI also continued to increase (+15 p.p.) and reached 82%. For consumers this situation means, on the one part, decline of competition and deterioration of the terms for borrowers and, on the other part, increase in supervision and market coverage possibilities of the state bodies, which allows timely revealing and suppressing any violations of the consumer rights.

In March 2017, the transitional period of separation of microfinance institutions into microfinance companies (hereinafter referred to as MFC) and microloan companies (hereinafter referred to as MLC)²³² came to end²³³.

There are high capital requirements to MFC (i.e., the type of MFI that is entitled to attract not only funds of its founders or members but, in contrast to MLC, investments of third parties-individuals by means of loan agreements for the amount of RUB 1.5 mln and more or by means of bond issue); together with capital adequacy ratio and liquidity ratio the following ratios shall be always complied with: maximum exposure per borrower or group of related borrowers and maximum exposure per MFC-related entity (group of entities). The total amount of microloans provided by MFI to a single borrower-individual is also restricted: for MFC - not more than RUB 1 mln, for MLC - not more than 0.5 mln. Therefore, the higher the risks for MFI consumers are, the more stringent requirements are established for MFI.

Legislative changes concerning separation of MFI, which took place in 2016, were aimed at developing proportionate risk-oriented supervision in the microfinance market and decreasing supervision burden in relation to small MFI.

Starting from July 2016, MFI could apply to the Bank of Russia for obtaining MFC status, however, less entities than expected managed to obtain the MFC status. So, for example, in the state registry as of 29 December 2017 there were 60 MFC (2.5% of the total number of MFI), 10% of them were regional funds for entrepreneurship support. In this context, according to the Bank of Russia, MFC account for 51% of the aggregate MFI loan portfolio.

Only big companies with confirmed capital of at least RUB 70 mln received the MFC status. Many companies could not receive the status due to lack of resources. This situation became one of the reasons of increase of shadow operations in the market - according to the expert estimates, following the results of 2017 almost one third of MFI went to shady business²³⁴ and consumers of such MFI are now facing increased risks.

Throughout 2017, 636 entities were introduced to the MFI registry: 631 entities as microloan companies, and 5 entities as microfinance companies. Together with this, 6 companies were not included into the MFI registry as MFC and 504 were not included into the registry as the MLC. The number of MFI entered into the state registry decreased by 317 entities or by 12% (28% a year ago) and amounted to 2,271 entities as of the end of 2017. Decrease rates of the MFI number go down since a withdrawal from the market of the companies that are unable to provide good quality services is to a large extent completed. Entities failing to comply with the established legal requirements including those that violate financial consumer rights are excluded from the state MFI registry.

According to Security Committee of MiR Self-regulating Organization, the number of illegal MFI in 2017 grew and almost reached the level of 6,600, which is three times higher than the number of MFI registered by the Bank of Russia²³⁵. In this context, the population owes to illegal MFI almost RUB 100 bln. Average portfolio of a single illegal creditor amounts to approx. RUB 10 mln. Over 9 months of 2017, the Bank of Russia revealed 1,132 companies operating outside the legal environment (in 2016 - about 1,400 companies)²³⁶. According to MiR SRO, the market of illegal microcredit providers consists primarily of individuals, where half of them have the individual entrepreneur status. This fact shows a clear need for further activities of state institutions in the microfinance market ensuring withdrawal of illegal creditors.

Increase in regulatory burden in 2016-2017 led to decline in profitability of microfinance business and growth of the market entry threshold for newcomers. Toughening regulation of the microfinance market may cause further growth of the number of illegal companies and this may negatively affect reputation of MFI. Reputational component of the MFI market exerts a great impact on its investment attractiveness and, as a result, its movements.

Together with this, according to the poll held by NAFI Analytical Center, in general, Russians begin to treat activities of MFI with less distrust: in 2016 distrust was expressed by 58% of the respondents and in 2017 — by 22%.

Cleanup of the market from illegal creditors is one of important tasks with regard to both protection of financial consumer rights and creation of favourable environment for development of the microfinance market. As one of the levers of influence over illegal MFI the Bank of Russia and Yandex have been implementing a joint project since June 2017, which carries out marking of websites of legal MFI in the Yandex search results.

Now, in the Yandex search results one can see a special marker (green circle with a check mark and inscription "CB RF

²³¹Resolution of XV National Forum on Legal Issues of Microfinance and XVI National Conference on Microfinance And Availability of Finance "Microfinance in Russia: Searching For Sustainable Solutions", Saint-Petersburg, 29 November, 1 December 2017 // Official website of the Russian Microfinance Center <http://conf.rusmicrofinance.ru/conf/2017-nov-piter/rezolyutsiya>.

²³²Federal Law No. 407-FZ, dated 29 December 2015, "On Amendments to Certain Legal Acts of the Russian Federation and On Invalidation of Certain Provisions of Legal Acts of the Russian Federation".

²³³Information of the Bank of Russia, dated 29 March 2017, "On Completion of Transitional Period For Microfinance Institutions" // Bank of Russia Bulletin No. 34, dated 5 April 2017.

²³⁴Microfinance Move To The Shadow. Regulatory Environment Toughening Turned Into Growth of Illegal Operations // Kommersant Newspaper No. 1, dated 9 January 2018, p.7

²³⁵Russians Owe to Black Market Microloan Providers Almost RUB 100 bln // Official website of RBC Information Agency <https://www.rbc.ru/>, 5 March 2018.

²³⁶Microfinance Market Following the Results of 2017: New Challenges // Official website of RAEX Rating Agency (Expert RA) <http://raexpert.ru>, 28 March 2018.

Registry”) informing a consumer that the marked website offers financial services of a company having the MFI status. Total number of views from the date of the project launch exceeded 12 mln (as of 30 November 2017)²³⁷.

In addition to the marking of websites of legal MFI, the Bank of Russia carried out blocking of websites of illegal MFI. In December 2016, the Bank of Russia was empowered to apply to domain name registrars for cease of delegation of domain names. According to the Bank of Russia, in 2017 in general across the country upon the regulator’s initiative over 800 fraudulent websites relating to financial markets were blocked including 62 websites of illegal MFI²³⁸.

Starting from 6 April 2018, information on addresses of official websites and e-mail has been given in the state MFI registry²³⁹. This regulator’s initiative will allow counteracting more efficiently illegal creditors and phishing websites, as well as enhancing consumers’ trust in MFI, in particular, in terms of online loans.

Due to the fact that illegal MFI are not supervised by the regulator and SRO, participation of other bodies in the cleanup of the microfinance market from illegal companies is of a particular importance.

Federal Tax Service of Russia also joined the campaign against illegal microfinance activities and through legal actions obliges entities that are excluded from the registry however continue to grant microloans to cease illegal activities and introduce amendments to the SSRLE²⁴⁰ on elimination from the entity’s name letters MFI not to mislead the borrowers as to legitimacy of such MFI

Rospotrebnadzor also provides MFI consumers with substantial support, opposing unilateral modification of ways of loan repayment²⁴¹. There is a common practice of microfinance institutions: loan agreements stipulate that MFI may unilaterally change the way of loan repayment (in particular, to modify the list of operators accepting payments). It should be noted that most payment systems independently determine fee for making payments and reserve the right to change rates unilaterally and deny service without giving reasons.

A change of the repayment mode may lead to increase of debt for the borrower, inter alia, due to the borrower’s failure to make payment in time in the ordinary way; delinquency may arise and result in penalty of up to 20% imposed by MFI.

Courts support the position of Rospotrebnadzor and financial consumers in disputes concerning unilateral change of the way of microloan repayment. Therefore, favourable for borrowers arbitration practice is developing. Rospotrebnadzor intends to continue supervision over market participants and hold them responsible in case of violations. Arbitration practice in favour of borrowers has also formed with regard to attempts of MFI to circumvent one of the legal requirements²⁴² - not to disturb a borrower at night.

FOR REFERENCE

During the presentation of Report “On Public Protection of Consumers in the Russian Savings Market”²⁴³ at the International Conference of Rospotrebnadzor (Protection of Financial Consumers: Challenges and Prospects in the Global Context) held on 20 October 2017, both new and existing problems of the MFI market were reviewed:

- *MFI introduce unilateral changes into the agreement, which make the consumer a weak party (solicitation of additional services);*
- *Most reviewed MFI use the false insurance mechanism to confirm their reliability declaring that investments in their products are insured and protected, however, terms of insurance are not published; risks against which the investments are insured are unknown; consumers are also misinformed by means of information and advertising materials, use of names that sound the same as Deposit Insurance Agency and images similar to the DIA’s logo;*
- *none of the entities of the sample posted on its website booklet of the Bank of Russia on MFI clarifying principles of their activities and respective risks.*

From 1 January 2017 MFI shall have no right to communicate with a borrower to collect overdue debt from 10:00 pm to 08:00 am on weekdays and from 08:00 pm to 09:00 am on weekends and public holidays. A violation of the stated provision entails penalty amounting up to RUB 200,000.

However, some MFI trying to circumvent legal restraints communicate with borrowers in improper time under the guise of advertising offers that are complemented with a collection reminder. According to the Bank of Russia, in January-February 2017, about 800 complaints were lodged by individuals against actions of MFI aimed at collecting debt with violations of the established requirements²⁴⁴. The Bank of Russia brought the biggest MFI to responsibility for such activities: the company was inflicted penalty in the form of fine of RUB 50,000 for sending messages to the borrower beyond the established timeframe. However, the established fine amounts will hardly stimulate MFI to comply with the legal requirements.

The number of complaints against MFI activities received by the Bank of Russia grew by 6% compared to that in 2016 and amounted to 12,600. In this context, the share of complaints concerning MFIs in the total number of complaints reduced by 2 percentage points. The largest number of complaints received regarding MFIs relates to the repayment of debt under the microloan agreement (59% of complaints against MFIs), as well as provision of microloans (15% of complaints against MFIs),

²³⁷ Vladimir Chistyukhin: “Enhancing Trust In Microfinance Field Is One of the Key Tasks of the Bank of Russia”, 30 November 2017 // Official website of Russian Microfinance Center <http://www.rmcenter.ru/about/news/5512>.

²³⁸ Bank of Russia Opened in Krasnodar Criminal Practice Analysis Center // Official website of RBC Information Agency <https://www.rbc.ru/>, 2 February 2018.

²³⁹ Bank of Russia Ordinance No. 4657-U, dated 21 December 2017

²⁴⁰ Single State Register of Legal Entities.

²⁴¹ Microloans To Be Repaid Under Agreement. Rospotrebnadzor Opposed Unilateral Actions of MFI // Kommersant newspaper No. 69 dated 20 April 2017, p.9

²⁴² Federal Law “On Protection of Rights and Legal Interests of Individuals in Recovery of Overdue Debts and On Amendments to Federal Law No. 230-FZ, dated 3 July 2016, “On Microfinancing and Microfinance Institutions”.

²⁴³ The Report was prepared by the Consortium as part of the Union of Public Associations “International Confederation of Consumer Societies” (ConfOP) and Consumers International within the framework of the research conducted from January to April 2017 to implement the Joint Project of the Russian Federation and the IBRD “On raising financial literacy and development of financial education in Russia”.

²⁴⁴ Ads Woke Borrowers Up. Microfinance Institutions Creatively Circumvented Debt Collector Law // Kommersant newspaper No. 9, dated 6 April 2017, p. 9

4% of complaints relate to theft of personal data²⁴⁵.

Market participants blame online loans for growth of the number of complaints about unauthorized use of personal data. For instance, in the first half of 2017 online loans accounted for 18% (about 2 mln) of the total number of loans issued in this period (11 mln), in 2016 the amount was 1.2 mln²⁴⁶.

FOR REFERENCE

In August 2017, the Consultative Group to Assist the Low Income Individuals published the survey "Consumer Protection in Digital Credit"²⁴⁷. Digital credit refers to credit products that are delivered via mobile phones and the Internet. The research covered more than 43 mln respondents in Africa, Asia and Latin America. The subject of research included microloans amounting to USD 10-50 for the term of 2-4 weeks at 6-10% per month.

Research results allowed determining the principal risks both for consumers and providers of digital credits. Thus, for consumers, there has been observed poor understanding of loan costs and the consequences of default or delay, and the risk of automatic obtaining following loans and impossibility of using a positive credit history is increased. In turn, credit providers insufficiently disclose prices and main credit terms and poorly assess creditworthiness of a specific borrower. As a consequence, credit providers face underperforming loan portfolio, low profitability, and loss of trust from customers, regulators, and the general public.

In general, use of digital credits may result in negative influence of outstanding small amounts on the credit history. In turn, incomplete or wrong information sent to credit bureau may also affect the borrower. Hence, borrowers shall be informed on the use of personal data and the credit history as well as on their right to check credit information and correct errors.

To steal personal data, phishing is often used when a full copy of the MFI's website is created. Another kind of identity theft is to hack personal area of the borrower on the website of an existing MFI, change card details, apply for a new loan and withdraw money. Losses are finally borne by MFIs. To confront active threats MFIs unite under the auspices of SRO into committees and join FinCert (division of the Bank of Russia in charge of countering cyber attacks). As the Bank of Russia reports, 46 MFIs out of 2,200 market participants have joined FinCert.

In 2017, amendments to Law "On Microfinancing and Microfinance Institutions"²⁴⁸ came into effective (MFIs name these amendments "three x" and "two x" law), according to which if repayment term under the agreement does not exceed 1 year, MFIs have no right to accrue interest after the amount thereof reaches threefold loan amount.

So, for instance, in case of RUB 5,000 loan, the borrower's debt in no circumstances shall exceed RUB 20,000. This amount includes the principal (RUB 5,000) and accrued interest (RUB 15,000 = RUB 5,000 x3).

The limitation as of the amount of interest shall not statutorily apply to liquidated damages (fines, penalties), as well as payments for the services rendered at extra charge.

The second limitation is related to delays in repaying a short-term microloan: MFOs may charge interest on the debtor only in respect of the remaining (non-paid) principal amount, however, such accrual shall cease, once interest reaches a double principal amount. Provided that MFOs may resume accruing interest only after the debtor has partially repaid the loan and/or interest due and payable. Liquidated damages (fines, penalties) shall accrue only in respect of a non-paid portion of the principal amount of loan.

For example, if a non-paid portion of the loan under an overdue loan agreement amounts to RUB 5,000, then the amount accrued on the borrower shall be RUB 15,000: principal amount of RUB 5,000 and accrued interest of RUB 10,000 RUB.

Each MFO shall insert information on such limitations on the first page of a short-term consumer loan agreement, before the table containing individual contractual terms and conditions.

For borrowers such changes mean decrease of maximum overpayment on the loan, for business entities profitability decrease of business models in the payday loan segment.

FOR REFERENCE

To enhance consumer protection, the Bank of Russia proposes to establish a single limit of the debt ceiling of the borrower under the consumer loan agreement in relation to the amount of the consumer loan (ratio) equal to 2.5-fold amount of the consumer loan and to prohibit upon reaching the said ratio to accrue and charge interest for use of the consumer loan, penalties (fine, forfeit), other payments and application to the borrower of any other responsibility measures.

Upon implementation of 2.5-fold ratio, it is proposed to continue to limit the borrower's debt ceiling: to introduce from 1 July 2019 twofold ratio and from 1 July 2020 -1.5-fold ratio.

The regulator also intends to introduce limitation of a daily interest rate equal to 1.5% per day with simultaneous application of the TIC limit and starting from 1 July 2019 to pursue further reduction of daily interest rate to 1% per day and to establish at the same time that interest rate under consumer loan agreement on any day of the loan use period shall not exceed TIC limit value effective for the respective category of the consumer loan as of the date of the agreement execution²⁴⁹.

In the opinion of the market participants, in addition to total decrease of the level of financial inclusion and growth of the "black market", administrative reduction of payments charged by creditors not differentiated with regard to loan categories will lead to

²⁴⁵ According to the Bank of Russia data for 9 months of 2017.

²⁴⁶ Microloans Got Into Hands of Wrong People. CB Revealed Risks of Data Loss From MFIs // Kommersant newspaper No. 184 dated 4 October 2017, p.8

²⁴⁷ <http://www.cgap.org/publications/consumer-protection-digital-credit>.

²⁴⁸ Federal Law No. 230-FZ, dated 3 July 2016, "On Protection of Rights and Legal Interests of Individuals in Recovery of Overdue Debts and on Amendments to the Federal Law "On Microfinancing and Microfinance Institutions".

²⁴⁹ Topical Issues of Microfinance Market: Prerequisites for Further Development, 13 February 2018 // Statement of Ilya Kochetkov, Director of Microfinance Market Department of the Bank of Russia, on the 4th International Conference for Financial Literacy and Financial Inclusion <http://finfin.rmcenr.ru>.

expansion of financial and legal scepticism, deterioration of payment discipline when a consumer believes that actually he/she may use the loan free of charge and scot-free for a long time in spite of repayment term established by the agreement. In such circumstances creditors will be motivated to lodge claims against the borrower as soon as possible to take legal action and apply to the bailiff service even if the borrower's debt amount is insignificant, which finally results in growing expenses of the borrower for compensation of the creditor's legal fees.

At the beginning of June 2017, the Bank of Russia issued information letter containing recommendations for financial institutions and self-regulated organizations active in the financial market on how to warn customers on websites imitating official websites of non-credit financial institutions²⁵⁰.

Together with this, Federal Supervision Agency for Information Technologies, Communications and Mass Media (Roskomnadzor) published clarifications with regard to use of passport details for illegal application for a microloan in favour of third parties. The communication states that lost documents, scanned copies and photocopies of passports are often used by offenders to apply for loans that will not be repaid. Together with this, debt collection procedures include introducing negative information into credit histories. Roskomnadzor suggests that affected individuals lodge a complaint in order to terminate debt collection under non-existent loan²⁵¹.

If the competent body receives complaints relating to the MFI activities on documenting such loans, it shall forward to MFI the demand on termination of unauthorized processing of personal data. Non-compliance with this demand may entail administrative proceedings against MFI (penalty of RUB 25,000 -45,000)²⁵².

As for protection of financial services consumers, preventive supervision is on the agenda now, that is prevention of inappropriate practices of entities. Unlike traditional supervision based on individuals' complaints, preventive supervision includes detection in the MFI activities any factor of possible consumer rights violations. In the first quarter of 2018, the regulator inspected 8 MFIs with a high level of consumer risk with regard to compliance with the legal requirements²⁵³.

To ensure thorough selection of borrowers by MFI for consumer lending, the respective legal acts are passed, which also promote further development of SME lending²⁵⁴.

In September 2017, the RF Supreme Court issued review of judicial practice on cases concerning financial services consumer rights protection²⁵⁵, which covers microfinance issues:

- charge of interest upon expiry of the agreement in the amount established by the agreement only for the its term is illegal;
- decrease by the court of the amount of interest for use of the microloan to the refinancing rate, that is lower than on any type of consumer loans provided by credit institutions to individuals, mid-market rates on which are calculated by the Bank of Russia is illegal.

Microfinance market participants persevere in perfection of MFI public image. For instance, in September 2017, the First All-Russian Contest of Socially Significant Projects Implemented by MFIs was held. According to the market participants, MFIs are engaged in improving financial literacy of the population and charity, as well as developing small business and taking part in social activities of small and medium-sized localities and public communities.

To decrease debt burden on individuals and as a result consumer risks, the Bank of Russia proposes to separate "payday loans" as a specific credit product to transform it into an unsecured loan for the term not exceeding 15 days and for the amount not exceeding RUB 10,000. At the same time, it is proposed to prohibit an increase in the term and amount of the agreement and to limit all payments on the loan (interest for use, commissions, penalties, etc.) by the total amount not exceeding RUB 3,000, if the loan amount is RUB 10,000; if the loan amount is smaller, then the amount of admissible payments decreases on a pro rata basis²⁵⁶.

In 2017, unfair practices involving the issue of microloans secured by real property, which resulted in loss of property by an individual, were observed more frequently. At present, any legal entity has the right to issue loans secured by real property (not more than 4 times a year). To ensure protection of individuals, the draft law is prepared according to which only entities supervised by the Bank of Russia or entities determined by DOM.RF (former Agency for Housing Mortgage Lending) will be able to issue mortgage loans. Rospotrebnadzor believes that legalisation of issue by MFIs of loans against property bears significant consumer risks.

In general, MFIs become a source of problems associated with debt collection as well as direct information provider for debt collectors. For individuals, the boundaries between activities of banks and MFIs are gradually fading. Now, consumers are paying less attention to the fact whether a financial institution is included into the registry. Loans granted by MFIs are associated with substantial risks for the population because of lower controllability of MFIs compared to banks; legalisation of granting loans by MFIs against security in the form of real property may result in substantial consumer risks. However, the microfinance market slowly but steadily becomes oriented to the consumer interests and problems of financial inclusion

²⁵⁰ Letter of the Bank of Russia No. IN-01-59/26, dated 6 June 2017.

²⁵¹ Clarifications with regard to use of passport details for illegal application for a microloan in favour of third parties, 20 November 2017 //Official website of Roskomnadzor <https://rkn.gov.ru/news/rsoc/news52266.htm>.

²⁵² Individuals To Be Deprived of Other Persons' Loans: Roskomnadzor Focused on Microfraud Problem // Kommersant newspaper No. 217, dated 22 November 2017, p.1

²⁵³ Interview of the Head of Consumer Rights Protection and Financial Inclusion Promotion Service of the Bank of Russia (information portal zaim.com, 3 April 2018).

²⁵⁴ Bank of Russia Ordinance No. 4406-U, dated 13 June 2017, "On Amendments to Bank of Russia Ordinance No. 4054-U, dated 28 June 2016, "On Procedure of Loan Loss Provisioning by Microfinance Institutions."

²⁵⁵ Review of the Judicial Practice in Cases Related to Protection of the Rights of Consumers of Financial Services (approved by the Presidium of the Supreme Court of the Russian Federation on 27 September 2017).

²⁵⁶ Topical Issues of Microfinance Market: Prerequisites for Further Development, 13 February 2018 // Statement of Ilya Kochetkov, Director of Microfinance Market Department of the Bank of Russia, on the 4th International Conference for Financial Literacy and Financial Inclusion <http://iifin.rmcenter.ru>.

(availability of financial services in terms of price, physical accessibility, range, mental availability) and safety of financial services.

Therefore, the following principal risks may be highlighted for consumers of microfinance services:

- low financial literacy of MFI clients that are unable to assess an entity and compare offers of different entities in terms of prices;
- high rates on microloans (Fig.2.22). For instance, in the third quarter of 2017 a TIC limit value of 799% was established for microloans up to 30 days for the amount of up to RUB 30,000. By comparison, in UK daily interest rate shall not exceed 0.8% (292% p.a.). For the loan use, a consumer shall not pay more than 100% of the loan amount including all possible interest, fees and other payments (in Russia - 300% for loans of up to 1 year, other payments are not included). To receive a payday loan, the consumer shall work at least 16 hours a week and have a bank account to which the microloan will be transferred. Some microfinance institutions also demand to present a debit card. Microloans are not issued to persons under 18 and individuals-bankrupts²⁵⁷. Some American states limit annual percentage rate (APR) that may be charged by any creditor on payday loans. Other states (14 states) prohibit such loans completely, while still others in contrast restrict rights of creditors to a small extent. In the most states APR is limited by Single Microloan Laws. To receive a microloan, the consumer shall have a bank account with a good history, permanent income revenue and pass an identification procedure²⁵⁸. Repayment of the payday loan shall be in a lump sum on the day of receipt of salary or social security benefit or pension benefit. The state legislation stipulates that maximum fee for granting a loan shall be within USD 10-30 per each USD 100 of the loan. Therefore, a two-week loan of USD 100 with USD 15 fee is issued at 400% p.a.
- weak level of consumer protection;
- growing debt burden on borrowers including overdue debt due to higher interest and loan prolongation;
- insufficient regulatory consumer protection upon occurrence of new types of microloans (online loans, etc.);
- doubtful practices of legal MFIs, in particular, unilateral changes of the microloan repayment modes;
- activities of illegal creditors breaching the current laws;
- fraudulent activities including those on the Internet as well as theft of personal data;
- adoption of new regulatory measures attended by new risks including legalisation of the issue by MFIs of property-secured loans;
- close cooperation of MFIs and debt collectors often involved in malpractices.



In the context of economic downturn and decreasing availability of bank loans, demand for services of MFIs goes up. In 2017, one could observe further strengthening of control over microfinance market both by the regulator, SRO and other competent authorities. Activities of MFIs included into the state registry become more transparent. Still one of the principal tasks with regard to financial consumer protection is the withdrawal of illegal creditors from the market and suppression of malpractices of legal MFIs.

2.5. Development of E-Commerce Payment Methods and Risks for Consumers

Development Trends of Payment Instruments and Cryptocurrencies

In 2017, the market of electronic commerce payment methods passed through rapid changes driven by global challenges and implementation of new technologies. Consumers more than ever prefer remote service channels and expect comfortable and tailored approach²⁵⁹. Artificial intelligence, cloud technologies, blockchain, virtual reality, biometric identification, Internet of Things, Big Data and many other innovations propel market to a new level.

Revolutionary changes in the e-commerce payment system market are associated, inter alia, with expanding scope of application of cryptocurrencies and digital tokens issued in the form of digital financial assets (DFA). A special feature of their circulation is a lack of the state regulatory framework and often no need to use conventional payment infrastructure of credit institutions.

In 2017, there was an upsurge in interest in cryptocurrencies, cost of some of them demonstrated solid growth. Different countries have different approaches to cryptocurrencies regulation in place: in some states they are prohibited, in others they are recognized as a payment instrument.

In Russia, an important step towards regulation of relations arising out of creation, issue, keeping and circulation of digital financial assets was made with draft law No. 419059-7 "On Digital Financial Assets" introduced into the State Duma of the Russian Federation on 20 March 2018²⁶⁰. The draft law is intended to make investing in digital financial assets more transparent and protect future investors.

According to the Draft Law, a digital financial asset is a property item in the electronic form created with the use of

²⁵⁷ Official website of the credit products broker Dot Zinc Limited // <https://paydayloans.money.co.uk/how-to-apply-for-a-payday-loan.htm>.

²⁵⁸ Consumer Federation of America's information resource on payday lending for consumers and advocates // <http://www.paydayloaninfo.org/facts>.

²⁵⁹ Survey: Bank Clients Become Younger And More Remote, 5 October 2017 // Banki.ru <http://www.banki.ru/news/lenta/?id=10041078>.

²⁶⁰ Draft Law No. 419059-7 "On Digital Financial Assets" // Automated System of Law-making Support [http://asozd2.duma.gov.ru/main.nsf/\(Spravka\)?OpenAgent&RN=419059-7](http://asozd2.duma.gov.ru/main.nsf/(Spravka)?OpenAgent&RN=419059-7).

cryptographic means. Title to such property is certified by introducing digital entries into the registry of digital transactions. Digital financial assets include cryptocurrencies and tokens. Digital financial assets are not recognized as a legal payment means in the territory of the Russian Federation. The Draft Law also contains a series of definitions:

- Cryptocurrency is a kind of digital financial asset created and recorded in the distributed ledger of digital transactions by this ledger members according to the rules of keeping the digital transaction ledger;
- Token is a kind of digital financial asset issued by a legal entity or an individual entrepreneur (issuer) to attract financing and is recorded in the digital transaction ledger;
- DFA exchange operator is a legal entity performing exchange of digital financial assets of one type for digital financial assets of another type and/or exchange of digital financial assets for rubles or foreign currency. Only legal entities may be DFA exchange operators.

A token of certain type may have only one issuer. Persons who are not qualified investors may purchase tokens for the amount not exceeding RUB 50,000 within a single issue.

It should be noted that owners of digital financial assets are entitled to perform operations on exchange of types of DFA and/or exchange of DFA for rubles, foreign currency and/or other property solely through the DFA exchange operator. DFA exchange transactions performed by unqualified investors shall be carried out only by means of crediting or debiting of DFA to/from special account opened by the DFA exchange operator.

An important step in ensuring consumer protection in the course of e-commerce by means of goods (service) aggregators was the adoption by the RF State Duma in the first reading, on 14 June 2017, of draft law No. 126869-7 "On Amendments to Law of the Russian Federation "On Protection of Consumer Rights", according to which there has been given the definition of the aggregator of information on goods (services) and determined the liability of the aggregator and seller (provider) for information transferred to the consumer. Goods (service) aggregator means an entity or an individual entrepreneur providing consumers on the Internet with a possibility in relation to certain goods (service) to familiarize themselves with information on the goods (service) being sold (provided) by the seller (provider) under sale and purchase contract (paid service agreement), as well as to execute with the seller (provider) a sale and purchase contract (paid service agreement) and to make preliminary payment for the stated goods (service) directly to the bank account of such entity (individual entrepreneur). As of 1 May 2018, the draft law was not passed yet.

To ensure uniform application by courts of legal norms, Regulation of the Plenum of the RF Supreme Court No. 48, dated 30 November 2017, "On Judicial Practice On Fraud, Misappropriation And Embezzlement Cases" was passed, outlining the following legal views associated, inter alia, with the use of bank cards and non-cash funds (some excerpts are provided):

- If an object of a crime in case of fraud is non-cash money including electronic funds, then within the meaning of clause 1 Notes to Art. 158 of the Criminal Code of the Russian Federation and Art. 128 of the Civil Code of the Russian Federation the action committed shall be considered as larceny. Such crime shall be deemed committed immediately upon withdrawal of funds from the bank account of their owner or electronic funds, which resulted in inflicting damage to the owner of the funds.
- Misappropriation of funds, other property of another person or acquisition of right thereto by way of presentation of other person's personal or other official documents depending on the object of the offense and other circumstances of the case is qualified as fraud respectively according to Art. 158.1, 159, 159.1, 159.2, 159.3, 159.5 of the Criminal Code of the Russian Federation (CC RF). If the perpetrator previously stole the stated documents, then its actions shall be additionally qualified according to part 1 Art. 325 of the CC RF (when an official document is stolen) or according to part 2 Art. 325 CC RF (when a passport or other important personal document is stolen);
- Actions of the person are qualified according to Art. 159.3 of the Criminal Code of the Russian Federation in cases when theft of property was committed with use of fake or belonging to other person credit, settlement or other payment card by providing an authorised employee of credit, trade or other institution with knowingly false data on possession of such card by the specified person on legal grounds or by concealing the fact of illicit possession of the payment card by such person;
- Theft of funds belonging to other person by use of previously stolen or fake payment card does not constitute a fraud if cash funds were issued through ATM without participation of an authorized employee of the credit institution. In this case, the action committed shall be qualified as a theft;
- Fraudulent activities relating to computer information, which are performed by means of unauthorized access to computer information or by means of creation, use and distribution of malicious computer programs require additional qualification according to Art. 272, 273 or 274.1 CC RF;
- In cases when theft is performed by use of registration data of the owner or other holder of property irrespective of the way of gaining access to such data (secretly or by deception, the culprit used the aggrieved person's phone connected to "mobile bank" service, logged in the system of Internet payments using known credentials of other person, etc.), such actions shall be qualified as theft if the culprit did not exert any illegal impact on the software of servers, computers or information and telecommunication networks. In addition to the above, change of data on the bank account state and/or cash flows resulted from the use by the culprit of credentials of the aggrieved person shall not be recognized as such impact.

In 2017, Rospotrebnadzor actively exercised its authorities with regard to consumer protection in the e-commerce payment system market. For instance, in March 2017, within the state information resource specialized in consumer protection, the following recommendations for individuals were published: 5 tips for the buyer if the seller has failed to deliver the goods purchased and paid

in the Internet shop (Table 2.1)²⁶¹.

Table 2.1. Recommendations to individuals: 5 pieces of advice to the purchaser if the seller failed to deliver goods acquired and paid in an online shop

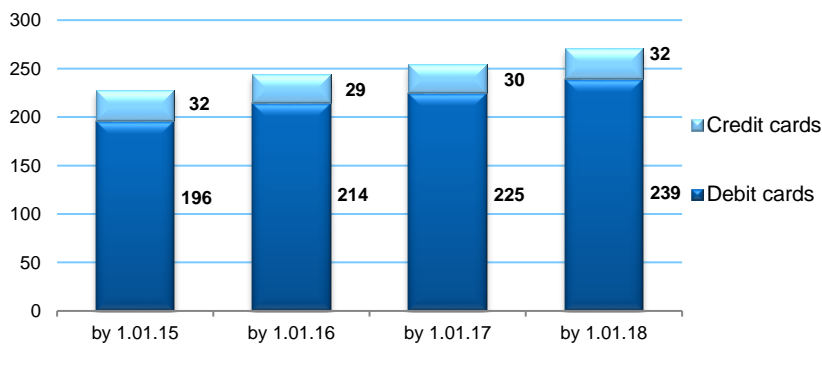
No.	Recommendations
1	All purchasers should be aware that in accordance with Article 23.1 of the Law “On the Protection of Consumer Rights” any sale contract providing for the duty of the consumer to pay for the goods in advance shall contain the provision on the period of transferring such goods to the consumer. If such goods are not provided in a timely manner, then the consumer may require: the provision of such paid goods during a newly established period or refund of the pre-paid amount for the goods that the seller failed to deliver. If the delivery period was agreed upon verbally, then such duty shall be fulfilled within a reasonable period or within 7 days from purchaser’s reminder that such reasonable period has elapsed. Use your rights and give a phone call or write an e-mail message to the seller, and the situation will probably be resolved within hours or days.
2	If verbal negotiations did not give a positive result, submit a written complaint to the seller. You may find the form of such complaint on the Internet or use a sample posted at http://zpp.rospotrebnadzor.ru . Try to explain your issue to the seller and handle the matter by referring to agreements with the seller and Russian laws (use this memo to learn about your rights).
3	In addition, many Internet resources enable resolving a dispute via special services. If the problem concerns a Russian online shop, then consumers may make use of the following services: A) NOTA is an independent association of commodity aggregators (https://nota-claim.ru/). It is a platform where one may report a counterfeit product purchased on the Internet. It was created by participating aggregators (eBay, Price.ru, Wikimart, Mail.Ru Goods and Yandex.Market). B) If an online shop is a member of the Association of Internet Trade Companies (AKIT) (click here to see the list of its members), then a dispute may be addressed by submitting an application at http://www.akit.ru/claims/ . C) Certain non-profit organizations also accept claims against online shops on a gratuitous basis. Among them is Runet’s Hotline of the Regional Non-Profit Organization Centre of Internet Technologies (ROCIT) (you may file an application here http://www.hotline.rocit.ru/). Such claims are also considered by the Organization of Protecting Consumer Rights Public Consumer Initiative (http://buyprotect.ru/goryachaya-liniya.html).
4	If a purchase was paid by a banking card, but the seller failed to deliver the goods on time, is not contactable or avoids interaction, the cardholder may address the lending institution requiring refunding cash on such disputable transaction. The matter is subsequently investigated by the bank and the relevant payment system (MIR, VISA, MasterCard, etc.).
5	If the matter is not handled with the seller, but you have the law on your side, please bear in mind that recourse to a court gives a positive result in 8 out of 10 cases. In accordance with the rules of selling goods remotely, any online seller shall furnish to the purchaser information about its address (location) and its full corporate name. Upon the results of the survey performed by Organization of Protecting Consumer Rights Public Consumer Initiative, 86% of sellers honestly comply with the requirement on disclosing information about them. Draw your attention to information about the seller at the state of examining its product range ²⁶² .

Bank Cards

As of the beginning of 2018, 395 credit institutions were engaged in the issue and/or acquiring of payment cards, which is by 44 institutions less than at the beginning of 2017²⁶³. Policy of the Bank of Russia for rehabilitation of the Russian banking sector leads to a gradual decline in the number of credit institutions engaged in the issue and/or acquiring²⁶⁴ of plastic cards.

According to the Bank of Russia, the number of bank cards issued by credit institutions in Russia is growing (Fig. 2.23).

Fig. 2.23. The number of bank cards issued by credit institutions in Russia, mln pcs



²⁶¹ 5 tips for the buyer if the seller has failed to deliver the goods purchased and paid in the Internet shop, 16 March 2017 // Official website of Rosпотrebnadzor http://www.rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=8030.

²⁶² Recommendations to individuals: 5 pieces of advice to the purchaser if the seller failed to deliver goods acquired and paid in an online shop // State-owned information resource in respect of protecting consumer rights <http://zpp.rospotrebnadzor.ru/news/federal/89537>, 28.03.2017.

²⁶³ Statistics. The number of credit institutions engaged in the issue and/or acquiring of payment cars // Official website of the Bank of Russia http://www.cbr.ru/statistics/p_sys/print.aspx?file=sheet012.htm.

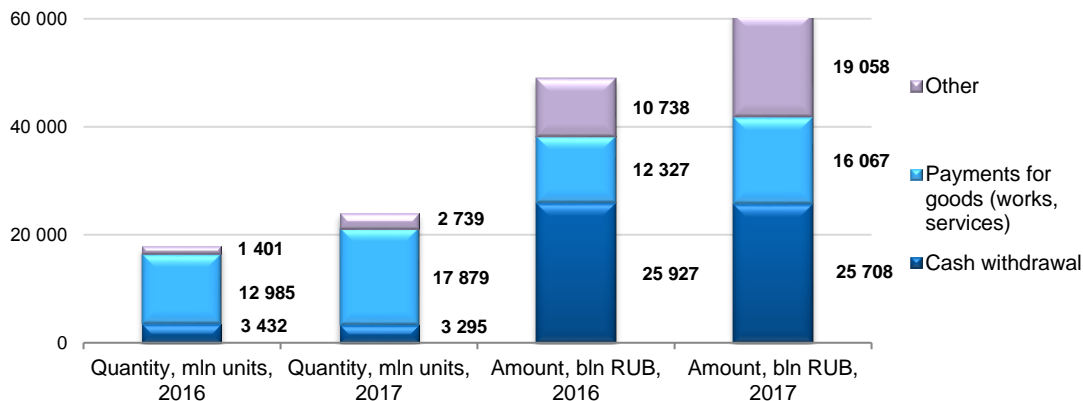
²⁶⁴ Acquiring means acceptance for payment of bank (payment) cards as a means of payment for goods, works, services via payment terminals.

Annual increment of issued payment cards is 6.5%, which is higher than increment rate in 2016 (4.5%)²⁶⁵. This fact increases consumer risks in the payment card segment.

The number of operations involving the use of bank card by individuals as a means of payment grows actively while the number of operations of cash withdrawal goes down (Fig. 2.24)²⁶⁶.

According to the data of the Bank of Russia on operations in the territory of the Russian Federation and outside with the use of payment cards issued in the territory of the Russian Federation, the number and volume of the respective operations show continuous growth. Indicators for 2017 grew by 34% with regard to the number of operations and by 24% with regard to the volume if compared to the same indicators for 2016²⁶⁷.

Fig. 2.24. Structure of operations in the territory of Russia with the use of cards issued by Russian credit institutions



Source: Bank of Russia

The share of payments for goods and services with bank cards in 2017 was approx. 75% of all transactions carried out by citizens of Russia using payment cards.

Plastic cards owners withdrew RUB 25,7 trillion from their card accounts in Russia during 2017, which is by 0.8% less than in the previous year. On the contrary, the volume of cashless payments with plastic cards grew by 52.3% and reached RUB 35.1 trillion. In this context, the volume of operations comprising payments for the goods, works and services rose by 30.3%, and that of other operations - by 77.5%²⁶⁸.

Growing volumes of other operations involving plastic cards is associated, inter alia, with remote transfers between individuals and banks' promoting deposits that are opened and replenished by depositors remotely. In this context, consumer risks become higher due to possible abuses on the part of the banks.

The international Visa and MasterCard payment systems account for the majority of payment cards issued in Russia. However, in 2017, a dynamic growth of the share of Mir card in the total number of issued cards was observed. As of March 2017, the share of Mir cards was as little as 1.2% of the total number of issued cards or approx. 3 mln pcs; as of 20 November 2017, this share grew to 10% (or about 26 mln cards), and NSPK JSC intends²⁶⁹ to bring the share of the Mir card to 20% in 2018²⁷⁰.

Success of the MIR national payment system is promoted by compulsory issue of Mir cards to the public sector employees and pensioners, which allows including into the client base of this system at least 33 mln users.

Furthermore, Federal Law No. 88-FZ²⁷¹ stipulates the obligation of credit institutions to ensure not later than 1 July 2017 acceptance of Mir cards in all their technical devices intended for making payments using payment cards including ATMs and in technical devices intended for making payments using payment cards of all entities, individual entrepreneurs with which such credit institutions have agreements on making settlements under operations with payment cards or national means of payment.

The obligation to ensure acceptance of payments for the goods (works, services) using the Mir card covers all sellers having revenue exceeding RUB 40 mln for the previous calendar year. This obligation does not extend to outlets without access to the Internet or mobile communication network and outlets having annual revenue below RUB 5 mln.

The MIR payment system includes 377 participating banks, over a year this figure grew more than twice (168 banks as of December 2016). Almost all participating banks are acquirers, 148 out of them issue Mir card. According to NSPK JSC, as of

²⁶⁵ Bank of Russia. Statistics. The number of payment cards issued by credit institutions broken down by card types, http://www.cbr.ru/statistics/print.aspx?file=p_sys/sheet013.htm.

²⁶⁶ Bank of Russia. Statistics. Main Indicators of National Payment System.

²⁶⁷ Review of Unauthorized Money Transfers in 2017 // Bank of Russia. FinCERT http://www.cbr.ru/StaticHtml/File/14435/survey_transfers_17.pdf.

²⁶⁸ Bank of Russia. Statistics. Main Indicators of National Payment System.

²⁶⁹ National Payment Card System Joint Stock Company (NSPK JSC) is the operator of MIR National Payment System.

²⁷⁰ NSPK Plans to Double Share of Mir Card in the Russian Market to Reach 20% in 2018 // Dmitry Rogulin, TASS, 20 November 2017 <http://tass.ru/ekonomika/4743396>.

²⁷¹ Federal Law No. 88-FZ, dated 1 May 2017, "On Amendments to Article 16.1 of the Law of the Russian Federation "On Protection of Consumer Rights" and Federal Law "On National Payment System".

the end of November 2017, Mir cards were accepted by 2.2 mln devices, which is 100% of the scheduled figure, including 196,752 ATMs, 172,824 cash points, 1,864,980 POS-terminals²⁷². A customer may pay with a Mir card in the majority of the biggest shopping centres and points-of-sale in Russia and in a number of Internet-shops.

Launch of co-badging projects together with international payment systems, such as Mastercard (“Mir-Maestro”), Japanese payment system (“Mir-JCB”) и Chinese payment system Union Pay will allow making payments using Mir cards abroad as well.

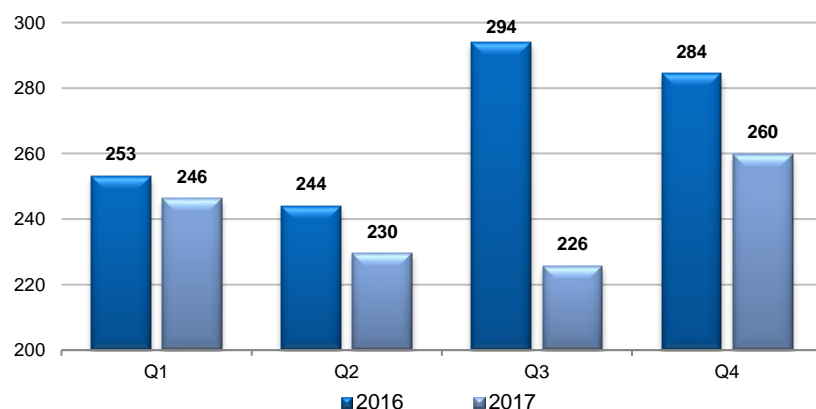
Furthermore, amendments introduced in 2017 into Federal Law “On National Payment System”²⁷³ provide for the procedure of cross-border money transfers in case of prohibition by a foreign state in relation to payment systems, operators of which are registered by the Bank of Russia, including ban on receiving transfers from the Russian Federation, ban on engaging service operators of the payment infrastructure located in the Russian Federation, and ban on participating in the payment systems. In such circumstances any cross-border money transfers without opening a bank account may be performed from the Russian Federation to such foreign state only provided that payment system operator, payment infrastructure service operators are directly or indirectly controlled by legal entities established according to the current laws of the Russian Federation.

Efforts of the State to implement national payment system decrease consumer risks associated with possible sanctions and inappropriate actions of the international payment systems, stimulate competition in the payment service market and expand consumer possibilities.

Along with international sanctions, new technologies were associated with significant risks for payment card users. Contactless payment systems, for example, Visa payWave and MasterCard PayPass have been operating in Russia for several years already. Contactless payment cards allow paying for purchases without a cardholder’s signature or without entering a PIN code if the amount does not exceed RUB 1,000 - it is enough to tap the card to the special terminal. At the same time, these technological innovations are attended with new consumer risks. So, for example, a consumer may not recognize the moment of payment and may need certain financial knowledge to avoid losses.

The total volume of unauthorized operations performed with payment cards issued in the territory of the Russian Federation in 2017 amounted to RUB 961.3 mln (Fig. 2.25), which is by 10.6% less than the same figure in 2016. Reduction in the volume of unauthorized operations for the reporting period in absolute terms amounted to RUB 114 mln (RUB 71.6 mln in 2016).

Fig. 2.25. Volumes of unauthorized money transfers in 2016-2017, RUB mln



Source: Bank of Russia

Moreover, the downward trend of 2016 with regard to unauthorized operations volume continues to persist. The said trend is determined, inter alia, by activities of money transfer operators aimed at developing the systems of detecting and counteracting unauthorized operations.

Efficient use of such systems improves quality of verification of a person who makes money transfer, resulting in suppressing malicious activities. Together with this, downward trends with regard to the number and volume of unauthorized operations evidence some slump of malicious activities that may be explained by active development of cryptocurrencies and switch of interest thereto²⁷⁴.

The above trends are indicative of existing conditions for growth of trust of population in bank cards. Together with this, advanced technologies in this sector set high requirements to financial and technical knowledge and literacy of users.

However, a number of problems relating to the use of bank cards are still not resolved including the following:

- absence of the banks’ obligation to notify the client what amounts of own funds and borrowed funds are spared for each operation under bank card including overdraft;
- absence of the banks’ obligation to inform the client on fee for transfer from one card to another;

²⁷²Mir Cards Account for 10% of the Market. First Results of PLUS Magazine Review “Payment Market of the Russian Federation in 2017” // Official website of PLUS magazine, 29 December 2017 <http://www.plusworld.ru/daily/platezhnyj-biznes/396030-2>.

²⁷³Federal Law No. 59-FZ, dated 3 April 2017, “On Amendments to Federal Law “On National Payment System”.

²⁷⁴ Review of Unauthorized Money Transfers In 2017 // Bank of Russia FinCERT, 2017, http://www.cbr.ru/StaticHtml/File/14435/survey_transfers_17.pdf.

- lack of information for consumers on full amount of the fee for withdrawal of funds in ATMs of third banks;
- unilateral increase by the bank of a credit limit on the card.

In the review of judicial practice on cases concerning protection of financial services consumer rights, dated 27 September 2017, Presidium of the RF Supreme Court outlined the following legal views on the usage of bank cards and remote bank services:

- debiting by the bank of funds from the client account shall be performed at the exchange rate and bank tariffs that were effective in the bank at the time of funds debiting from the bank card;
- if the instructions of the consumer regarding withdrawal of funds from the account are not followed, in accordance with Article 856 of the Civil Code of the Russian Federation, the bank must pay interest on this amount in the manner and in the amount provided for by Article 395 of the Civil Code of the Russian Federation;
- mobile operator is responsible for unauthorized issue of replacement SIM card with subscriber number of the user to another person resulting in receipt by such person of an access to the bank accounts of the individual using such subscriber number with the activated "mobile bank" service.

Remote Banking Service

In 2017, credit institutions made 161.8 mln payments of individuals for the amount exceeding RUB 3 trillion based on payment orders executed and transferred electronically. In quantitative terms this figure is by 14.6% higher than the figure for 2016, in terms of amount the increase equals 21.6%.

For making payments the Internet is widely used; in 2017, 107.4 mln payments were made via the Internet (increment of 22.7% if compared to 2016) for the total amount exceeding RUB 2.5 trillion (payment volume increment with regard to 2016 was 23%)²⁷⁵.

FOR REFERENCE

At present, the State elaborates the system allowing an individual to register once and become a client of any bank remotely (using information in the State Services portal (Gosuslugi)). Following the results of special survey held by NAFI Analytical Center in September 2017, 39% of respondents show positive attitude to this initiative; the number of those supporting the initiative is higher among young people of 18-24 years old (59%) and Internet users (44%). 43% of respondents assess this innovation negatively, this figure is higher among those who do not use the Internet (53%) and Russian citizens over 55 years old (52%).

More than a half of respondents would prefer to apply for all bank services in person. Among bank services that Russian citizens prefer or would prefer to receive remotely are payments and transfers (48% poll participants), account management (37%), obtaining a certificate of insurance (35%) and depositing funds to the account (32%). At that, personal visit to the bank is preferred for opening a bank account (78%) or deposit (74%).

According to the estimates of most people, the most convenient methods of client identification are those by fingerprint (34%) and by eye retina (17%). Other methods seem less convenient to the respondents: by face (11%), by voice (7%). Neither identification method is considered convenient by 18% of Russian citizens. The most reliable methods of identification are the same - by fingerprint (31%) and eye retina (27%). Less reliable methods - by face (6%) and by voice (2%). 20% of respondents do not consider reliable all methods listed above²⁷⁶.

Higher growth rates were observed in 2017 in relation to payments of individuals through customer devices of mobile communication. Through such devices 37.4 mln payments were made (increment rate was 60.7% compared to 2016) for the total amount exceeding RUB 121 bln (more than twofold increment compared to 2016).

Following the results of 2017, the share of payments via the Internet in the total amount of payments of individuals was 46%, the share of mobile payments - 16%. The share of payments via the Internet in the total amount of payments remains steady for the second year at the level of 27%, the share of mobile payments gradually grows from 0.7% to 1.3% of the total payments of individuals.

According to e-Finance User Index research published in 2016, 35.3 mln people (64.5% of the Russian Internet users) use Internet banking services in the territory of the Russian Federation²⁷⁷.

FOR REFERENCE

In 2017 FinCoNet carried out monitoring of introduction of supervision practices aimed at decreasing risks associated with online and mobile payment security.

In the new report supervision practices and initiatives developed for the purpose of solution of seven supervision tasks are considered, and quantitative analysis of 32 answers to questions of the global questionnaire is presented. Moreover, specific activities are proposed, which can be implemented by supervisory authorities.

Recognizing the fact that digital financial services are still the priority area requiring special attention of supervisory authorities and wishing to intensify discussion of this topic by the international community, FinCoNet offers supervisory authorities to use this report

²⁷⁵ Bank of Russia. Statistics. Data on payments under orders executed and transmitted electronically by clients of credit institution and the institution itself.

²⁷⁶ 39% of Russians Are Ready to Apply for Bank Services Via State Services Portal, 14 November 2017 // NAFI Analytical Center <https://nafi.ru/analytics/smozhet-li-udalennaya-identifikatsiya-sposobstvovat-perekhodu-rossiyan-na-distantsionnoe-bankovskoe/>.

²⁷⁷ e-Finance User Index 2016: the Number of Internet-Banking Users in Russia did not Change over a Year, 1 April 2016 // Web-payment.ru — specialized website on payment services, fintech startups and e-commerce <http://web-payment.ru/article/135/e-finance-user-index-2016>.

Results of the All-Russian polling of Internet users conducted by NAFI Analytical Center in July 2017 show that the majority of the Internet audience use Internet bank services (81%), while mobile bank services are used less often (69%)²⁷⁹. 64% of Internet banking users make use of the services once a month or more often, 17% - less than once a month. The share of users is higher among Russians of 35-44 years old — 86%, those who have higher education — 84% and also among residents of cities with population exceeding one million — 86%. Internet bank services are used less frequently by young people (aged 18-24 years - 70% of Internet bank users) and residents of towns with population below 100,000 - 77%. Mobile bank services are used by 69% of the Russian Internet audience. 52% make use of the Internet bank once a month or more often, 17% - less frequent than once a month. Among women such service is more popular than among men (72% and 66%, respectively). The share of mobile bank users is higher among young people (76% mobile bank users are young people of 25-34 years)²⁸⁰.

Among the most popular functions of mobile bank and Internet bank are payments for mobile communication (73% and 78% of users of these services, respectively) and tracking operations with a card or account (61% and 73%, respectively). Such services as money transfers to other people, payment for the Internet connection and transfers between the individual's accounts via the Internet bank were used by 61% of respondents. Mobile bank services were used for money transfers to third parties by 51% of respondents, for payment for the Internet connection - 46%, for transfers between the individual's accounts - 44%. 53% users made payments during online shopping via the Internet-bank, and 38% - via the mobile bank. The most rare operations performed via remote services are those associated with investment products and services) (not more than 2% of respondents)²⁸¹.

The following recent trends in the mobile banking for individuals should be mentioned:

- application of contactless payments based on Apple Pay и Samsung Pay apps. In doing this, the use of fingerprint scanner and encryption of registration data in these technologies ensures a significant improvement of payment safety;
- possibility of independent connection and disconnection of payment cards by a client via mobile apps;
- push notification replaces SMS;
- chats replace phone contact centre and e-mail;
- mobile apps have an increasing number of client scenarios²⁸².

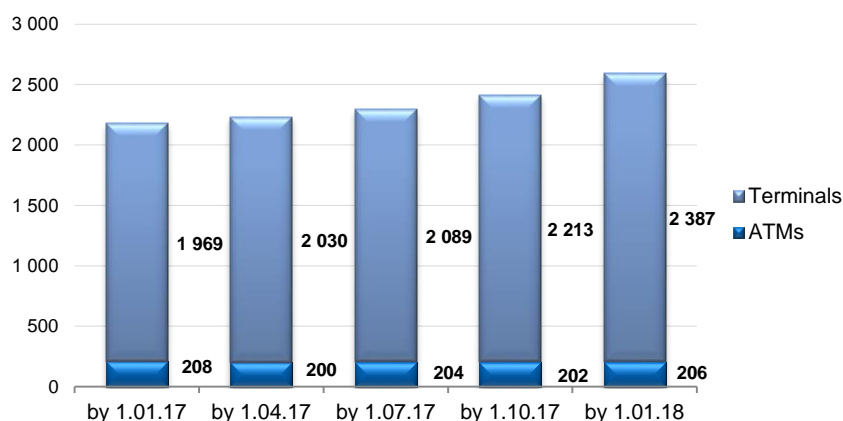
These trends provide for more opportunities for mobile banking users and bear certain risks that require a higher level of financial literacy of the users.

Hardware infrastructure of the remote banking system demonstrated the downward trend in relation to the ATM share and upward trend with regard to the share of electronic terminals (Fig. 2.26).

In 2017, total number of electronic terminals grew by 21.2% (418,000 units) and reached 2,387,000. In contrast, the number of ATMs went down by 0.7% (1,400) to 206,300. Together with this, the number of imprinters remained almost the same (17,400 units as of beginning of 2017 and 17,700 as of the end of 2017)²⁸³.

Traditional payment methods give way to remote banking channels that are growing more urgent due to the possibility of remote identification of bank clients.

Fig. 2.26. Movements in the number of electronic terminals and ATMs in Russia (thous. units)



²⁷⁸ Press release of International Financial Consumer Protection Organization, 20 November 2017 // International Cooperation Section of the official website of the Bank of Russia https://www.cbr.ru/Content/Document/File/36690/press_release.pdf.

²⁷⁹ Market of Retail Electronic Payment Instruments. Statistical Survey // Official website of NAFI Analytical Center, Moscow, 2017 // <https://www.nafi.ru/upload/iblock/0c5/0c59187fb8c98297148c19ee37cbdce1.pdf>.

²⁸⁰ Internet Bank Is More Popular Than Mobile Bank // Official website of NAFI Analytical Center, Moscow, 2017 <https://www.nafi.ru/analytics/internet-bank-bolee-vostrebovan-chem-mobilnyy-bank>.

²⁸¹ Market of Retail Electronic Payment Instruments. Statistical Survey // Official website of NAFI Analytical Center, Moscow, 2017 // <https://www.nafi.ru/upload/iblock/0c5/0c59187fb8c98297148c19ee37cbdce1.pdf>.

²⁸² Annual Survey of Efficiency of Mobile Bank Apps For Individuals Mobile Banking Rank 2017 // <http://markswebb.ru/e-finance/mobile-banking-rank-2017>.

²⁸³ Bank of Russia. Statistics. Main Indicators of National Payment System.

FOR REFERENCE

Experts say that further penetration of financial technologies may destabilize business of traditional banks and payment systems. So, for example, in the horizon of 2-3 years the share of traditional banking in the payment sector may reduce by 40% - the bank niche will be filled with high-tech companies able to satisfy client needs in this market to a greater extent.

Banks that are unable to be sufficiently flexible and to reform themselves will have to leave the market. The rest shall prove their relevance. At this point, alternative payment services - messengers, telecoms, social media, etc. - have to cooperate with banks, however, nobody guarantees that the situation never changes. It is highly likely that in future those banks that are unable to build around them the whole "ecosystem" of various communication channels will have to pay telecoms for such channels or perform bank operations for such companies without direct contact with clients. This may lead to reduction of the number of traditional banks and their share as well as their impact on the financial market as a whole.

Global tech giants do their best to develop additional payment methods. WhatsApp, Alipay, Facebook, Viber, Amazon and Russian companies Sberbank, Alfa-Bank, Tinkoff, Yandex and Qiwi have already announced the development and implementation of payment services. In case of Russian market players this means revolutionary services - the so-called marketplaces. In particular, the Bank of Russia creates express payment service on the basis of Masterchain platform being the common project of Fintech Association.

Marketplace of Sberbank and Yandex may serve an example of uniting banking and high-tech solutions. Companies expect that their project will successfully compete with global players such as AliExpress and Amazon. Together with this, Sber and Yandex continue to work on their own decisions concerning payment systems; the very same Yandex has been providing online acquiring and payment services on the Internet since 2002. Starting from 2016, Safe Transaction service has been ensuring reliability and safety of settlements on the websites where people offer goods and services, and in 2017 arbitrage service for clients of online shops is offered called "Buyer Protection". Since June 2017, companies have been able to accept payments using Yandex.Cash Desk service through Telegram messenger; it is the first decision of this type for the Russian market. As of February 2018, in the Yandex.Money service there are 35 mln wallets and over 75,000 Internet shops are connected to the Yandex.Cash Desk service.

In March 2018, the payment market experienced a new local outburst when Megafon launched payments from the mobile phone account. Nominally, payments are performed through the bank owned by Megafon, but the client deposits funds to the phone account and pays using Samsung Pay u Apple Pay apps²⁸⁴.

For instance, Law No. 482-FZ²⁸⁵ passed on 31 December 2017 stipulates a creation of the remote identification mechanism for bank clients using their biometric personal data. Pursuant thereto, banks are permitted to open and maintain accounts of individuals, provide loans to individuals, perform money transfers under such accounts upon client orders without their personal presence upon identification by means of ascertaining and verifying information on individuals using the uniform system of identification and authentication and uniform biometric system according to procedures established by Law No. 149-FZ²⁸⁶, provided that the following conditions are met simultaneously:

- an individual is not a person included in the list of entities and physical persons in relation to which there are available data on their implication in extremist activities or terrorism, or a physical person in relation to whom interdepartmental coordination body in charge of counteracting financing terrorism has taken decision on freeze (blocking) of funds or other property;
- in relation to this client or client operations the bank has no suspicions that he/she/they is/are connected with legalisation (money laundering) of criminally obtained income or financing terrorism.

FOR REFERENCE

First Deputy Chairman of the Bank of Russia Olga Skrobogatova: "If we look at global figures, we can see that 46% of clients do not visit bank offices now... These figures grow every year at a rapid pace. It means that we are making a transition to another information model when the services are provided to the client remotely, promptly and in a good manner irrespective of the client's location."

Soon in July 2018 upon registration of "impressions" of voice and face in the Single Biometric System, individuals will be able to open accounts with any banks from home and in 2019 the Bank of Russia plans to launch a marketplace²⁸⁷ via which individuals will be able not only to open bank accounts but also to purchase FLB²⁸⁸ and OSAGO certificates.

FOR REFERENCE

According to the estimates of global consultants, by 2025 banks may lose 20-60% of profits if they are unable to be on a par with leading digital companies by means of implementation of digital platforms and digital services. In the "Russian Banking Sector Outlook 2018" prepared by S&P Global Ratings, it is reported that Russian banks only recently have recognized potential risks and opportunities associated with digital transformation of the industry. According to the S&P estimates, average share of IT expenses in the total operating expenses of the bank will rise from 8%-10% at present to 15%-17% in the next three years. For those institutions that merely start to implement digital banking initial investments to development of the respective IT-systems

²⁸⁴ Smartphone Dominates the Bank , 9 April 2018 // Expert No. 15 (1071).

²⁸⁵ Federal Law No. 482-FZ, dated 31 December 2017, "On Amendments to Certain Legal Acts of the Russian Federation".

²⁸⁶ Federal Law No. 149-FZ, dated 27 July 2006, "On Information, Information Technologies And Protection of Information".

²⁸⁷ The system uniting platforms for the performance of financial transactions, boards for collecting and submission of information on financial products (services) and bots (specialized algorithm-based consultants) for selection of products (services) for end users - individuals.

²⁸⁸ Federal loan bonds.

| *may reach 40% of operating expenses.*

As the Bank of Russia reports, at present two banks test remote identification technology and starting from July 2018 the Unified Biometric System will be ready for connection. Thereafter biometric identification will gradually cover the entire financial market including brokers and management companies. It is important that biometric identification will be voluntary for both individuals and the banks.

Principal risks of use of biometric data for user authentication are explained by the fact that in case of loss or theft of such information it cannot be renewed. You can change your password if it was stolen or reissue a bank card if it was compromised. But you are unable to “reissue” your fingerprints or eye retina. Compromise of any biometric data will lead to impossibility of further safe use thereof.

By way of illustration InfoWatch Group of Companies points to frequent losses of biometric data in India. Identification system for citizens and residents of India - Unique Identification Authority of India (UIDAI) - is considered at present the biggest global biometric database. In May 2017, government organizations leaked about 135 mln data elements. Though, that time data were captured not by offenders but merely by Central Intelligence Agency²⁸⁹ (according to the WikiLeaks portal)²⁹⁰.

E-Money

In 2017, individuals made 9 bln of money transfers for the total amount of RUB 3.4 trillion without opening a payer's bank account (that is by 6.7% lower if compared to the level of 2016), within the territory of the Russian Federation for the amount of RUB 3.1 trillion (-6.8%), beyond the territory of the Russian Federation - RUB 228.5 bln (-5%)²⁹¹.

Principal risks of digital wallets are cyber threats and technical malfunctions and errors of computer systems of the issuer of electronic money.

Moreover, bearer instruments including anonymous e-wallets and prepaid cards may be used for the purposes of laundering of criminally obtained funds or financing terrorism. The Government of the Russian Federation is preparing amendments to legislative acts concerning money remittance to e-wallets and on prepaid bank cards only from the bank account. The Bank of Russia insists on prohibition of money withdrawal from e-wallets and prepaid cards, while Federal Financial Monitoring Service (Rosfinmonitoring) - on compulsory identification of their holders²⁹².

Digital Economics of the Russian Federation Program.

On 28 July 2017, the Government of the Russian Federation approved Digital Economy of the Russian Federation Program (Executive Order No. 1632-eo). To manage the program, the following five principal growth areas of the Russian digital economy were determined for the period of up to 2024: regulatory framework, human resources and education, creation of research competencies and technical capacities, information infrastructure and information security.

At present, action plans are approved for each growth area of the program. In particular, the following actions are scheduled for the areas of Information Infrastructure and Information Infrastructure²⁹³:

- to increase the share of individuals who improved their financial literacy level in the area of information security, media consumption and use of Internet services from 10% in 2018 to 50% by 2024;
- to reduce the share of internal network traffic of the Russian segment of the Internet routed through foreign servers from 50% in 2018 to 10% by 2024;
- to decrease an average downtime duration of state information systems resulted from cyber attacks from 65 hours in 2018 to 12 hours by 2024;
- to increase the share of households having broadband Internet connection (at least 100 Mb/s) up to 97% by 2024.

To implement the Digital Economy of the Russian Federation Program in February 2018 the Bank of Russia approved “Main Growth Areas of Financial Technologies for the Period of 2018-2020” stipulating a creation and development of remote identification platform, express payment platform, cloud service platform, new payment system of the Bank of Russia based on the uniform payment infrastructure, development of the National Payment Card System (NPCS), etc.

Risks of E-Commerce Payment Methods

E-commerce is one of the most dynamic and vibrant economic sectors and promotes expansion of the range of goods and services and their high availability to customers. In the context of growing sales via the Internet in the total retail turnover Rospotrebnadzor records annual increment of consumers' complaints against business entities engaged in sales of goods (works, services) via the Internet: while in 2012 there were 3,400 complaints, in 2017 the number of complaints increased dramatically to 11,600 (by 3.5 times).

Growth of complaints is not accidental. For instance, in the e-trade market, there is a number of malicious practices that erode consumers' trust and successful struggle with them requires maximum publicity, including, inter alia, the following:

- Shadow pricing. Some Internet shops (as well as service platforms) at the beginning of the purchase process provide buyers with insufficient information on the cost of goods or services;

²⁸⁹ US Central Intelligence Agency.

²⁹⁰ Fingerprint To Apply to the Bank // Expert No. 15 (1071), 9 April 2018.

²⁹¹ Bank of Russia. Statistics. The number of remote access accounts opened with credit institutions http://www.cbr.ru/statistics/print.aspx?file=p_sys/sheet009.htm.

²⁹² Wallets to Be Addressed By Name // Kommersant newspaper No. 12, dated 24 January 2018, p. 1

²⁹³ Action plans are approved by the Government Commission for IT use for the improvement of life standards and entrepreneurial environment (Minutes No. 2, dated 18 December 2017).

- Price discrimination. Different prices are presented to consumers depending on their location, watch history, price segment to which the consumer's mobile device belongs;
- Sophisticated rules and terms of sales of goods/rendering services. Rules and terms of sales of goods / rendering services often are voluminous and executed in a foreign language and consumers have no other choice but "to tick the box and hope for the best";
- Sophisticated procedure of damage recovery. Availability of compensation to a large extent depends on the country or region. Neither country has an absolute indemnity guarantee. There is no global system of damage recovery for consumers.

As mentioned in the "Strategy of State Consumer Rights Protection Policy of the Russian Federation for the Period of up to 2030"²⁹⁴, principal violations of consumer rights when purchasing goods (services) via the Internet are as follows:

- sales of hazardous goods non-compliant with compulsory requirements;
- non-delivery of paid goods (non-performance of paid services) under the agreement;
- breach of the term of delivery of goods (term of performance of services);
- sales of goods/services of improper quality or non-compliant with description (expectations);
- fraudulent misrepresentation to the consumer on properties of the goods;
- wilful non-disclosure or partial disclosure of information on the seller (manufacturer, provider);
- evasion from considering consumer's claims;
- failure to return (evasion from return) of funds paid by the consumer;
- denial of consumer's damage recovery (forfeit).

To prevent any unfair commercial practices of business entities that adversely affect consumers the Strategy stipulates, inter alia, the following:

- detection on the Internet of the websites used for fraudulent activities (phishing websites) including those in the personal data segment and restriction of users' access to such sites;
- upon request of the Bank of Russia, restriction of access to Internet websites operated in violation of the laws of the Russian Federation regulating relations in the financial market, including those for fraudulent activities in the financial market.

One of the principal risks of the remote banking for consumers is the risk of hacking and unauthorized access to the funds in accounts. In the first half of 2017, cyber criminals stole from bank cards of Russian citizens slightly more than RUB 1 bln, which is by two thirds less than in 2016²⁹⁵. Hackers invest up to 30%-40% of the funds stolen from the cards of individuals to studies aimed at further improving their criminal schemes²⁹⁶.

To mitigate the risks, state authorities improve regulatory requirements to the information security:

- On 8 August 2017, Federal Agency for Technical Regulation and Metrology (Rosstandard) approved national standard of the Russian Federation GOST R 57580.1-2017 "Safety of Financial (Banking) Operations. Protection of Information of Financial Organizations. Basic Framework of Organizational and Technical Measures" aimed at improving the protection of banks against cyber crimes and ensuring stable services to clients;
- Standard "Information Security of Banking System Organizations of the Russian Federation. Management of Information Security Risks At Outsourcing" STO BR IBSS-1.4-2018" (Order of the Bank of Russia No. OD-568, dated 6 March 2018, effective since 1 July 2018) has been adopted and put into effect; the Standard outlines information security risks of banks arising in the course of outsourcing and requirements to mitigation thereof²⁹⁷;
- In September 2017, the Bank of Russia proposed to expand the list of requirements to information protection when performing money transfers via the Internet including establishment of certain restrictions such as maximum transfer amount, list of possible transfer recipients, time of operation, geographic location of the devices with which operations are performed by the clients²⁹⁸.

In February 2018, the Bank of Russia opened Centre of Excellence for Counteracting Illegal Activities in the Financial Market in order to collect data and counteract entities working without license, pyramid schemes, fraudulent activities and other illegal activities in the financial market²⁹⁹.

In connection with the progress of digital technologies, e-commerce and electronic payments, Rospotrebnadzor continues to warn consumers on high exposure to different risks in these segments. So, for example, the authorized body in charge of consumer protection highlights the following principal risks for users of payment instruments, which are mostly electronic ones:

- risks of financial losses for payment service consumers;
- risks of purchase of the goods/services of low quality.

²⁹⁴ Executive Order of the Government of the Russian Federation No. 1837-eo, dated 28 August 2017, "On Approval of the Strategy of State Consumer Protection Policy of the Russian Federation for the Period of up to 2030".

²⁹⁵ Artyom Sychev: "The Number of Thefts From Bank Cards of Russians Shrunk By Three Times", 28 July 2017 // Official website of Izvestiya <https://iz.ru/624393/vitalii-soldatskikh/ot-misha-i-petya-v-rossii-postradali-vsego-30-kompiutero>.

²⁹⁶ Cyber Fraudsters Spend 40% of Stolen Funds for Research, 24 June 2016 // Official website of Izvestiya <https://iz.ru/news/619262>.

²⁹⁷ CB Sees Risk On the Side, 14 September 2017 // Official website of Kommersant <https://www.kommersant.ru/doc/3409810>.

²⁹⁸ Information Protection (Cyber Security) Policy of the Central Bank. Moscow, 13 February 2018 <http://www.tadviser.ru>.

²⁹⁹ CB Opened in Krasnodar the Centre Counteracting Illegal Activities in the Financial Market, 2 February 2018// Official website of TASS <http://tass.ru/ekonomika/4924750>.

The said risks are determined by the following:

- fraudulent activities of organized criminal groups specialized in high-tech crimes;
- cyber threats associated with unauthorized penetration to the virtual space and unauthorized impact on the information carriers (computer, smartphone) where the data are kept. Cyber threats include hacker attacks to individual information storage devices;
- insufficient level of information security ensured by providers in the market of payment instruments;
- low level of financial literacy of consumers;
- insufficient level of protection of clients' personal data ensured by credit and non-credit institutions - providers of payment services;
- insufficient informing by banks and non-credit organizations of their clients on safety rules relating to means of payment;
- technical failures and errors of payment terminals, ATMs, electronic means of payment;
- rapid development of digital technologies and slow response thereto on the part of state authorities for risk mitigation, informing consumers on risks and improvement of financial literacy of the population;
- no responsibility of the goods (services) information aggregators for authenticity of the information provided.

Principal risks associated with e-commerce payment methods are determined by low financial literacy of the population. According to the survey held by NAFI Analytical Center together with Russian Microfinance Centre and Citi Fund in January-February 2018, individuals do not always understand different aspects of activities of financial institutions and their products, and in turn, financial institutions overestimate the level of financial literacy of their clients. So, for instance, only 52% of Russians state that they understand quite well parameters of financial products, although 81% of representatives of financial institutions believe that parameters of financial products and services are clear for all consumers³⁰⁰.

Significant risks are inherent in payment instruments due to insufficient level of protection of clients' personal data ensured by providers of payment services. To mitigate the said risk, the Bank of Russia developed a draft ordinance that determines the list of safety threats while processing, collecting, storing and inspecting biometric personal data by state authorities, banks and other entities. The draft ordinance is drawn up in order to ensure security of both biometric data and rights of individuals during the work with personal data in the process of identification³⁰¹.

One more significant risk is the usage of consumers' personal data without notification, including such usage for the purpose of creating different models (assessment of consumer's creditworthiness, consumer's interests in the financial market, etc) based on Big Data.

Making cross-border purchases and cross-border payments is attended by high consumer risks as well. For instance, a Russian consumer being under protection of Russian law from the point of view effective civil law even upon receipt of a positive court decision under the dispute with a seller, provider or electronic platform-intermediary from another country will have to apply a long-term and difficult procedure of enforcement of the court decision. Taking into account quite low average amount of cross-border purchasing (according to different estimates, average amount of purchase in China is about RUB 1,000), it seems to be highly inefficient remedy for consumers under cross-border transactions.

Development of global cross-border trade is considered by many experts as a source of risks not only for consumers (with regard to ensuring safety and quality of goods as well as their correct choice taking in account language barriers) but macroeconomic risks of developing economies as well due to vulnerability of internal trade, lack of equal conditions for competition, possible protectionism³⁰².

Efficient protection of the consumer rights has got fundamental importance for shaping a competitive and transparent high-tech market of e-commerce payment instruments in the Russian Federation. Mechanisms of counteracting risks arising in the context of technological revolution and macroeconomic instability are vital for the State. In view of the above, Rospotrebnadzor considers it necessary to provide further improvement of its work on protection of the rights in course of supervision activities and applicable corrective actions.



In 2017, the market of e-commerce payment instruments passed through rapid changes driven by global challenges: change of consumer preferences and implementation of new technologies. For example, expansion of the DFA scope of application takes place in the context of absence of the respective state regulatory framework and forced usage of traditional payment infrastructure of credit organizations resulting in increased risks of consumers of e-commerce payment means and requires adequate measures to mitigate them. Cyber threats, fraud risks and low financial literacy level also cause concern.

³⁰⁰44% of Russians Need to Improve Their Financial Literacy Level, 20 February 2018 // Official website of NAFI <https://www.nafi.ru/analytics/44-rossiyan-ispityvayut-potrebnost-v-povyshenii-finansovoy-gramotnosti>.

³⁰¹ CB Determined List of Safety Threats for Operations with Biometrics 12 February 2018 // Official website of Interfax <http://www.interfax.ru/business/599532>.

³⁰² Official website of the Consumers International // <https://www.consumersinternational.org/news-resources/blog/posts/making-cross-border-e-commerce-work-for-consumers>.

2.6. Changes in Other Sectors of Financial Segment and Risks for Consumers

Pawn Shops

In 2017, a substantial reduction in the number of market participants was observed, however, loan portfolio of pawn shops continued to grow.

According to the Bank of Russia, in 2017, the number of pawn shops fell by 22% (-11.9% in 2016) or 1,633 entities (-1,002 in 2016) and equaled 5,782. It should be noted that in 2017 there was a wider exclusion of pawn shops from state registry of pawn shops (kept by the Bank of Russia according to clause 2 part 2 Art. 2.3 Law "On Pawn Shops"³⁰³ on the basis of data received from Federal Tax Service) than in 2016.

For 9 months of 2017, the volume of loans issued by pawn shops reached RUB 150.5 bln. An increment rate in comparison with the similar period of 2016 was 2.7%³⁰⁴.

Indebtedness of the individuals towards pawn shops as of 30 September 2017 equaled RUB 34.8 bln in terms of principal and decreased by 0.9% if compared to the similar period of 2016.

The number of borrowers in the third quarter went down slightly and as of the end of September 2017 equaled 2,754,000³⁰⁵.

Consumers of loans secured by valuable property are attracted by rates that are lower than those offered by MFIs and due to toughening of the requirements to the borrowers by banks and MFIs. Furthermore, MFIs that were very popular earlier began to lose clients because of close cooperation with debt collectors, which frightens away potential customers.

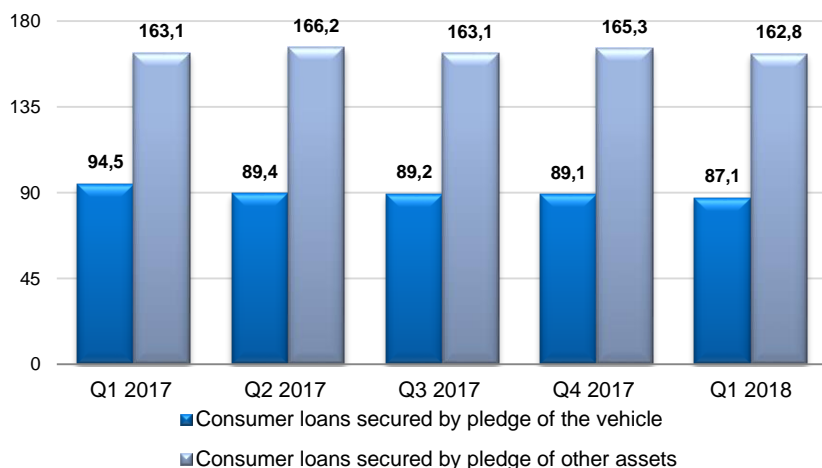
FOR REFERENCE

According to the estimates of National Association of Pawn Shops, as of the end of 2017, 20 mln persons or 14% of the population of Russia have ever obtained a loan in a pawn shop.

As the Bank of Russia reports, in the fourth quarter of 2017, a mid-market full cost of a pawn shop credit equaled 121.9%, for loans secured by vehicle pledge - 67.6%, respectively, and the TIC limit value is 162.6% and 90.2%, respectively (effective in II quarter 2018). Within the same period, the maximum TIC rate for microloans provided by MFIs was 615.1%, and the limit value - 820.1% (effective in II quarter 2018).

Movements of TIC limit values of pawn shops points to decrease in the limit value on loans of vehicle pawn shops. As for loans secured by other property pledge, there are no prominent trends of movements of TIC limit value (Fig. 2.27)³⁰⁶.

Fig. 2.27. Movements of TIC limit values of pawn shops, %



Source: Bank of Russia

Clients of pawn shops are usually individuals of working age from 30 to 60 years old. Most often borrowers apply for small amounts for a month on average. In 70% of cases, the client is a representative of the Russian middle class: a citizen permanently employed or owning a micro business, that is a person with a relatively stable income who do not always have enough money for personal needs or as working capital for business. In 90% of cases, a loan is issued against pledge of jewellery, in 5% of cases - against vehicle pledge, and in the rest cases - against pledge of antiques

³⁰³ Federal Law No. 196-FZ, dated 19 July 2007, "On Pawn Shops".

³⁰⁴ Pawn Shop Activities. Issue No.1, 13 February // Partner Project RBC+ <http://www.rbcplus.ru/news/5a7aa6427a8aa9233ef6084d>.

³⁰⁵ Armenia Ranked the First in Europe and Central Asia in Terms of Financial Literacy. <https://news.am/rus/news/360613.html>. Review of Key Performance Indicators of Microfinance Institutions for III Quarter 2017 // Official website of the Bank of Russia https://www.cbr.ru/finmarket/supervision/sv_micro.

³⁰⁶ Information on mid-market values of full cost of consumer loan (credit) // Official website of the Bank of Russia // <http://www.cbr.ru/analytics/?Prtd=inf>.

and even household appliances. More than 60% of pawn shop owners are women having jewellery.

Similar to banks and MFIs, pawn shops actively break new ground in online business - many of them have launched applications in App Store and Google Play: they allow extending loans, tracking the maturity date and learning other necessary information, which bears some risks for consumers. However, the specific features of this business do not allow pawn shops to make a full transition to online mode.

According to the survey held by NAFI Analytical Center in November 2017, over the last three years 8% of Russians have applied for the pawn shop services and in future 5% of Russian citizens plan to make use of them. Pawn shops are the most popular among residents of middle-size towns and big cities and those who manage a household. The highest share of those who have applied to pawn shops for the last three years lives in middle-size towns and big cities with the population of 50,000 - 500,000 (11%), the lowest share is formed by residents of Moscow and Saint-Petersburg (4%). It is interesting to know that in future less people are going to use the pawn shop services than today: in general 5% throughout the country.

Roughly speaking, there is a close relationship between demand for the services of pawn shops and the number of Russian residents who mention detention of wages. In the poorly developed financial infrastructure pawn shops in a number of regions and territories are hardly the only available way to receive a payday loan³⁰⁷.

Activities of "shady" pawn shops are attended by consumer risks. For example, clients often do not understand the difference between a pawn shop and a commission shop and in case of any conflicts project negative experience towards the pawn shop market. In a pawn shop, there is a pledge agreement combined with a consumer loan agreement, a client is given a grace period according to the Law "On Pawn Shops" - 30 calendar days to repurchase its property, while in a commission or second-hand shop the client does not have this right and beyond the repurchase term the item shall be sold immediately. Also, upon sale of the non-repurchased item the client of a pawn shop may receive positive difference between the sale price of its property and the claim amount of the pawn shop as of the date of sale³⁰⁸.

FOR REFERENCE

The Bank of Russia has revealed a new scheme that is implemented by pawn shops together with jewellery shops. According to the regulator, some players who arrange popular exchange campaigns "old for new" misinform people since they exchange fine jewellery items for lower quality ones. Market participants see nothing objectionable in such exchange if a hallmark is stated on new items - the client may examine it and make an informed decision³⁰⁹.

Pursuant to the regulatory framework³¹⁰, the pawn shop may not grant to new borrowers the funds received from clients towards loan repayment and interest payment, it shall deposit such funds to settlement account and immediately withdraw them back to grant a new loan with the funds received from a bank account. Market participants believe that compliance with this requirements causes loss to the pawn shop because bank fee for funds depositing/withdrawal approximately equals 2%-3%, meanwhile, such operations are to be performed almost every day and the bank fee is charged against the turnover of the pawn shop. One should take into account expenses for cash transportation, high risks associated with the trips from the pawn shop to the bank and back, time and labour costs. As a result, on a no-objection basis on the part of the Bank of Russia this requirement was not met by pawn shops.

However, on 23 May 2017, Volga-Vyatka Chief Department of the Bank of Russia forwarded to non-credit financial institutions the letter "On Application of Bank of Russia Ordinance No. 3073-U, dated 7 October 2013" reminding that loans shall be issued only out of cash receipts from the bank account of the entity (quote): "Issue by non-credit financial institutions of loans to individuals out of current receipts paid towards loan repayment and payment of interest on loans constitutes a breach of provisions of clauses 2 and 4 of the Ordinance".

If, nevertheless, pawn shops are obliged to comply with the Ordinance, experts predict total move of pawn shops to the "shady" sector, and this will substantially increase consumer risks.

To regulate the procedure of admission of the pawn shops to the financial market, namely, to ascertain that a legal entity acquires a pawn shop status from the date of introduction data thereon to the state registry of pawn shops and loses a pawn shop status from the date of exclusion of the above data from the stated registry, in February 2018 a draft law was published³¹¹. A pawn shop may be excluded from the registry without a court decision, which will allow responding promptly to any violations of consumer rights. The draft law also stipulates the grounds for exclusion of the pawn shop from the registry.

According to the draft law, a pawn shop shall not use the name that is coincident or is confusingly similar to the name of a pawn shop entered in the Single State Register of Legal Entities prior to state registration of the corresponding pawn shop. Moreover, the prohibition is established on the use in the trade name of the word "pawn shop" ("lombard") or words and phrases derivative thereof for the legal entities not included in the state registry of pawn shops and not intending to acquire the status of a pawn shop.

The Bank of Russia believes that the powers assigned to it by the draft law with regard to admission of pawn shops to the market are insufficient, since the absence of licensing of the pawn shop activities violates the rights of consumers: "It is difficult for borrowers to identify pawn shops, to understand whether the organization carries out pawn shop activities according to the

³⁰⁷ 8% of Russians Have Ever Used Pawn Shop Services, 22 February 2018 // Official website of NAFI Analytical Center <https://nafi.ru/analytics/8-rossiyan-polzovalis-uslugami-lombardov>.

³⁰⁸ Pawn Shops Vs Commission Shops: Unequal Battle // Information portal <https://zaim.com/articles/lombardnyi-biznes/lombardy-vs-komissionki-neravnyy-boy>.

³⁰⁹ Pawn Shops Have Got a Hallmark // Kommersant newspaper No. 56, dated 3 April 2018, p. 1.

³¹⁰ Bank of Russia Ordinance No. 3073-U, dated 7 October 2013, "On Cash Payments".

³¹¹ Draft Law "On Amendments to Certain Legal Acts of the Russian Federation" // Official website of draft legal acts <http://regulation.gov.ru/projects#npa=77794>.

law, whether it belongs to those pawn shops market participants that are subject to regulation by the Bank of Russia³¹².

FOR REFERENCE

According to US research company IBIS, there are over 5,000 pawn shops in the United States of America. Grace period and rates are restricted by law and pawn shops shall apply for a license³¹³.

At present, active work is carried out relating to the preparation and coordination of the "road map" of further market development to ensure consumer protection, to arrange the activities of pawn shops and to reduce administrative burden upon them. The "road map" covers the period of up to 2020.

In particular, in the "road map" project, market participants propose to change the duty of insuring of the pledged items to the right to do this (introduction of voluntary insurance of pledged property) resulting in increase of consumer risks. In spite of the legal provision of compulsory insuring by pawn shops of pledged property, such type of insurance is not compulsory for insurance companies. Insurance companies often consider as high risk pledges of pawn shops. Due to this fact insurance companies reluctantly offer insurance of pledged property of pawn shops thereby putting under risk not only the pawn shops, but also end users who will not be able to receive their property back in case of loan repayment if such property was stolen or damaged as a result of fire or other accidents.

To settle a difficult situation with the prescribed insurance of the property pledged to the pawn shop, the All-Russian Insurance Association (ARIA) prepared draft methodical recommendations on insurance of the pawn shop market participants. So, for example, insurers insist that repositories and safes of pawn shops are to be as secure as those of the banks. According to the pawn shop market participant, in case of introduction of the draft almost all pawn shops may face liquidation³¹⁴.

In the long-term, it is planned to differentiate the overall cost of a pawn shop loan depending on term and type of pledge, which in general is in line with the interests of consumers³¹⁵.

One more innovation is the upcoming compulsory use of cash register equipment (hereinafter referred to as "CRE") while up to present a pawn ticket and a consumer loan agreement were enough. However, Association of Development of Pawn Shops (hereinafter referred to as "ADPS") believes that introduction of CRE may lead to mass violations of law by pawn shops and withdrawal of legal players from the market. Compliance with the requirement concerning CRE is also related with significant expenses: RUB 30,000 per shop, and total expenses of the market participants will exceed RUB 600 mln.

In 2017, representatives of the Bank of Russia observed a positive trend in activities of pawn shops: repudiation of unfair practices, increase in operation transparency, wish to perform important social functions, automation of business processes, decrease in level of operational risks, increase in quality of the administrative and external reporting³¹⁶.

FOR REFERENCE

Since 2014, the number of cases involving pawn shops settled by arbitration court has grown by 3.5 times. On average, 6.6 cases was per each entity. The number of applications of entities as a claimant grew by 2.3 times, and the number of cases with the entities as a defendant increased by 4.3 times.

Zaim.com received this statistics upon analysis of the commercial case file at kad.arbitr.ru. Jurisdiction of arbitration courts with regard to pawn shops includes settlement of disputes with legal entities, public and municipal authorities, all cases of bankruptcy. In 2017 in comparison with 2016, a slight decrease by 20% was observed, generally due to participation of pawn shops in court trials as defendants. The number of suits remains at the same level.

The majority of cases consists of civil and administrative proceedings. In 2017, the share of administrative proceedings increased considerably: while previously it did not exceed 35% of the total number, in 2017 it reached 55%.

Bankruptcies account for a quite a little share - 2%-3%. Although the absolute trend is an upward trend, however, in 2017 there was some decrease — only 28 cases against 42 cases a year before.

Out of total number of 1,117 arbitration cases concerning pawn shops, in 2017 the Bank of Russia participated in 445 cases (40%): mainly as the claimant — 355 cases, the defendant (pawn shops dispute decisions and the imposed penalties) — 81 cases. A still high figure is explained by continuous cleanup of the market from "deadheads", which has been going on since 2015³¹⁷.

In 2017, Rospotrebnadzor continued to monitor and control the activities of pawn shops. To inform the consumers, the instruction "Pawn Shop Lending" is posted on the state information resource on consumer protection (<http://zpp.rospotrebnadzor.ru/handbook/other/memos/49807>).

Thus, one may highlight the following principal risks for pawn shop consumers:

- non-compliance with terms of the grace period established for repurchase of the property;
- non-receipt of positive difference between the sale price of the property and the claim amount of the pawn shop as of the date of sale in case of sale of the non-repurchased property;
- unreasonably high interest on loans (exceeding TIC limit value);

³¹² Pawn Shops Came Out of the Shadow <http://www.rbcplus.ru/news/5a7aa6427a8aa9233ef6084d>.

³¹³ Pawn Shop Activities. Issue No.1, 13 February // Partner Project RBC+ <http://www.rbcplus.ru/news/5a7aa6427a8aa9233ef6084d>.

³¹⁴ A Topical Issue: What Pawn Shops Discuss in December 2017, 11 December 2017 // Information portal Zaim.com <https://zaim.com/news/novosti-dlya-lombardov/goryachaya-povestka-cto-obsuzhdayut-lombardy-v-dekatre>.

³¹⁵ Pawn Shop Activities. Issue No.1, 13 February // Partner Project RBC+ <http://www.rbcplus.ru/news/5a7aa6427a8aa9233ef6084d>.

³¹⁶ CB Managed to Clean up Pawn Shop Market, 30 March 2018 // Information portal Zaim.com <https://zaim.com/news/novosti-dlya-lombardov/tsb-udalos-razobratsya-s-rynkom-lombardov>.

³¹⁷ Court Session: Arbitrage Practice on Pawn Shops for 2014-2017 // Information portal Zaim.com <https://zaim.com/articles/lombardnyi-biznes/dela-idut-arbitrazhnaya-praktika-lombardov-2014-2017>.

- absence of insurance of the pledged property;
- non-submission of complete set of documents when formalising the loan;
- illegal commercial practices of pawn shops including doubtful campaigns (for example, exchange campaigns “old for new” when consumers may be misinformed on the attributes of “new” articles);
- activities of Internet fraudsters creating fake websites similar to websites of the existing pawn shops to collect illegally personal data and to charge funds from individuals;
- illegal practices of pseudo pawn shops - commission shops and individuals imitating pawn shop activities including absence of moratorium on sale of pledged property within one month and increased interest.

Consumer Credit Co-operatives

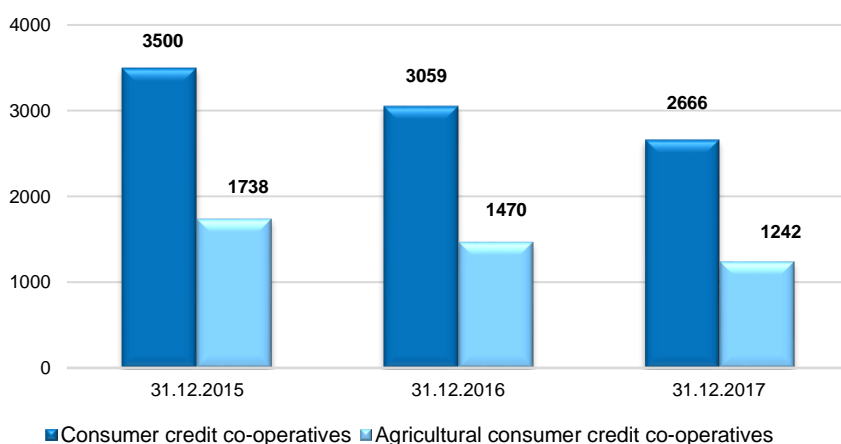
Nominally, relations arising out of loan agreement between consumer credit co-operative and a person being a shareholder of this co-operative are not governed by provisions of the Law “On Protection of Consumer Rights”³¹⁸. Consequently, activities of such consumer credit co-operatives (hereinafter referred to as “CCC”) bear additional risks for individuals.

As a result of activities of the Bank of Russia, aimed at cleaning up the credit cooperation market from unscrupulous participants, the number of CCCs as well as the number of agricultural CCCs goes down (Fig. 2.28). Thus, in 2017 the number of CCCs decreased by 12.8% (-12.6% compared to 2016), and the number of agricultural CCCs decreased by 15.5% (-15.4% compared to 2016).

FOR REFERENCE

Rospotrebnadzor has repeatedly warned individuals on the need of intensive thinking on the issue of money transfer to CCC and recommended to think twice before taking such a decision, however, individuals still lodge claims concerning activities of CCC to the divisions of Rospotrebnadzor. The situation turns worse since Rospotrebnadzor has no powers to protect the rights of individuals who are co-operative shareholders.

Fig. 2.28. Movements in the number of consumer credit co-operatives and agricultural consumer credit co-operatives



Source: Bank of Russia

For the period from 1 July to 30 September 2017, CCC loan portfolio (less provisions made on the principal) went down by RUB 0.3 bln or by 0.6% if compared to the second quarter of 2017. In III quarter of 2017, an insignificant growth of the total number of CCC shareholders was observed. The volume of funds attracted by CCC from their shareholders in III quarter of 2017 decreased by 1.6% from RUB 68.1 bln to RUB 67.0 bln. For the period from 30 June to 30 September 2017, there was an increase in the loan portfolio of agricultural CCC (hereinafter referred to as “ACCC”) from RUB 13.7 bln to 14.4 bln, or by 5.1%. The volume of funds attracted by ACCC from their shareholders in III quarter of 2017 increased by 6.7% from RUB 10.4 bln to RUB 11.1 bln. In III quarter of 2017, some growth of the total number of ACCC shareholders was also observed³¹⁹.

About 40 unscrupulous CCCs were revealed in 2017. In the future, it is planned to continue the CCC market cleanup from the participants acting in bad faith. An illustration of this market prospects can be taken from the Western countries: in US 49% of population make use of the services of CCC, and their assets approach USD 1 trillion, while in Russia the number of CCC service consumers is much lower. In spite of some unscrupulous market participants, the majority of CCCs are engaged in real economic activities.

To enhance protection of the CCC service consumers, it is planned to reform the existing system of guarantee of savings of the co-operative members. So, for example, all credit co-operatives attracting personal savings shall become members of

³¹⁸ Review of the Judicial practice in Cases Related to the Protection of the Rights of Consumers of Financial Services approved by the Presidium of the Supreme Court of the Russian Federation on 27 September 2017).

³¹⁹ Review of Key Performance Indicators of Microfinance Institutions for III Quarter 2017 // Official website of the Bank of Russia https://www.cbr.ru/finmarket/supervision/sv_micro.

the guarantee system and introduce their representatives to the governance bodies of such system³²⁰.

FOR REFERENCE

At present, the Bank of Russia together with the interested financial market participants is implementing the project "Improvement of Regulation and Development of Credit Cooperation Market" with the strategic objective of the "formation of the steady market of credit cooperation with a wide range of financial services". Estimated duration of the project: from July 2015 to May 2019.

The project assumes increase by 2019 of the total assets of credit cooperation up to RUB 120 bln, vesting of credit co-operative members with the right to receive compensation in the established amount for personal savings in case of the insured event occurrence as well as 20% increase in the funds raised from non-members of CCC.

To achieve the stated targets, it is planned to establish a common system of protection of savings of CCC members, improvement of compliance with cooperation principles, expansion of a range of financial services provided by consumer credit co-operatives³²¹.

Within the framework of the project "Improvement of Regulation and Development of Credit Cooperation Market", the Bank of Russia prepared the public report for public consultations to determine the approaches to improvement of the existing system of the CCC members savings protection in Russia, which will comply with the best global practices, provide reliable protection of legitimate rights and interests of consumers of financial services and also will be acceptable for financial service providers. Pursuant to the report, the following is proposed:

- create a single system guaranteeing safety of personal savings (hereinafter referred to as the "guarantee system");
- establishment of compulsory membership in the guarantee system for all CCCs attracting personal savings of individuals being-co-operative shareholders with the number of members of 200 or more (if the CCC has less than 200 members, it may join the guarantee system free of charge);
- for CCC not involved in the guarantee system, it is proposed to introduce an obligation to inform their shareholders in writing that agreements of attracting personal savings executed with such shareholders are not covered by the guarantee system and to establish more stringent restrictions on attracting personal savings;
- compensation funds formed by existing CCC SRO will be transferred to a special legal entity - Guarantee Fund subject to compulsory compliance with its designated use - that is payment of compensations to CCC shareholders on savings loans³²².

FOR REFERENCE

At the end of 2017, control over the CCC market was toughened due to detection of a large-scale fraudulent scheme that caused damage exceeding RUB 7.5 bln with the number of affected people of 25,000. It became apparent that numerous SROs in the market are unable to ensure protection of the co-operative shareholders. The Bank of Russia will strengthen requirements to SRO, but this measure will not ensure return of lost funds to the CCC members since the respective regulatory framework does not exist.

The fraudulent scheme revealed in 2016 was suppressed in summer 2017. An informal group having signs of a pyramid scheme included an insurance company, 22 CCCs and more than 60 legal entities that are not accountable to the Bank of Russia.

Following the results of field audits performed by the Bank of Russia, it was established that funds raised from the population were transferred to the controlled entities, obtained loans were applied towards performance of scheme operations, obligations were performed at the expense of new shareholders, and 90% of the entities were technical entities with a bad financial position.

Experts point out that return of deposited funds to the aggrieved shareholders will be troublesome as investments in the CCC are not insured. The Bank of Russia is investigating the issue of improving the mechanism of material liability to shareholders and creation of the guarantee system for savings of the CCC members taking into account specific features of the credit cooperation market³²³.

In 2017, the Bank of Russia together with the CCC market participants discussed development prospects of the sector. Change of the procedure of withdrawal by co-operative members of their accruals in case of deterioration of the CCC financial position will become one of the important innovations. It is supposed that a shareholder will be able to receive his/her share back only after approval of the annual financial statements and for a year will bear joint and individual liability. However, in case of implementation of this approach, there is a risk that funds of shareholders for a long time will get caught up in the CCC. Now, a CCC shall, within 3 months, settle account with a shareholder who applied for cessation of membership.

Market participants mention that at present the mechanism of joint and individual liability of the CCC members is inactive. When the situation in the co-operative gets worse, a part of shareholders submits withdrawal applications, take their money and cease to bear liability for further activities of the co-operative, only the remaining members will be held liable.

The CCC market participants discuss actively the upcoming systems of savings insurance and stabilization of the CCCs. However, the main question is whether they will be financed wholly or partially at the expense of the market participants is not resolved yet. At present, savings of the CCC shareholders are not insured³²⁴.

In August 2017 the document "Requirements To Content of Basic Standard On Protection of Rights and Interests of

³²⁰ CB Took Co-operatives in Hand // Kommersant newspaper No. 225, dated 4 December 2017, p.8

³²¹ Improvement of Regulation and Development of Credit Cooperation Market // Official website of the Bank of Russia https://www.cbr.ru/finmarket/projects/projects_perfection.

³²² Development of Guarantee System in Credit Cooperation Market. Report for public consultations. July 2017 // Official website of the Bank of Russia http://www.cbr.ru/analytics/ppc/consultation_paper_170726.pdf.

³²³ CB To Regulate Co-operative Activities // Kommersant newspaper No. 227, dated 6 December 2017, p.1

³²⁴ Shareholder Exit to be Restricted // Kommersant newspaper No. 3 dated, 11 January 2018, p.8

Individuals and Legal Entities - Recipients of Financial Services Provided by Members of SRO in Financial Market Involving Consumer Credit Cooperatives” was issued³²⁵. On the grounds of the stated Requirements, the SROs developed and the Bank of Russia approved on 14 December 2017 the Basic Standard regulating protection of rights and interests of individuals and legal entities - recipients of financial services provided by members of SRO in the financial market involving CCC.

The Standard determines the basic principles of protection of rights and interests of financial consumers and establishes requirements by which a CCC shall be guided in the course of its business activities. In particular, the principles are established, which regulate the provision of financial services consumers with information of advertising character on activities of a credit co-operative as well as the procedure and terms of submission upon the consumer’s demand of documents (their copies) connected with execution and performance of the loan agreement, agreement on transfer of personal savings and requirements about timely informing the financial consumer on delinquency under the loan agreement and consequences of non-performance of debt repayment obligations under the loan agreement. Quite important is the duty to disclose information that CCCs are not the members of the system of compulsory insurance of individuals’ deposits. The stated novelties shall improve the level of protection the CCC shareholders rights.

Therefore, one may highlight the following principal risks for individuals being shareholders of consumer credit co-operatives:

- absence of the guarantee of the CCC members’ savings;
- unreasonable credit policy pursued by CCCs when funds of shareholders are placed with unreliable clients;
- activities of unscrupulous CCCs resulting in impossibility of return of units by individuals being CCC shareholders;
- fraudulent activities when the CCC mechanism is used for creation of pyramid schemes.

Self-Regulation of Financial Markets

In 2016, the Law “On Self-Regulating Organizations in the Financial Markets” was enacted. The said Law is focused on more stringent regulation of relations in the financial markets through the self-regulation mechanism. In the complex environment of exercising by public authorities of operating control over activities of numerous organizations in the financial market the use of the self-regulation mechanism takes on particular importance. The said Law covers, inter alia, insurance companies, microfinance institutions, consumer credit co-operatives, agricultural consumer credit co-operatives.

The adopted law governs the relations arising out of acquisition and termination by non-profit organizations uniting the financial institutions, of the status of self-regulatory organizations in the financial market, exercise by them of the rights and duties, interaction of SROs and their members with the Bank of Russia, federal executive authorities, executive authorities of constituent entities of the Russian Federation, local governments³²⁶. The Law stipulates purposes of activities of SROs, procedure of acquisition of the SRO status, requirements to the SRO standards and the view of the regulations committee in charge of corresponding type of activity of the financial institutions at the Bank of Russia. Financial institutions shall become members of a SRO.

The approved basic standards are compulsory for all financial organizations carrying out the corresponding type of activity irrespective of their SRO membership. The Bank of Russia keeps a single registry of SROs.

FOR REFERENCE

As of 13 April 2018, the Single Registry of Self-Regulating Organizations in the Financial Market contains 21 entities including 8 CCC SROs, 3 MFI SROs, 1 SRO of insurance organizations, 1 SRO of insurance brokers.

Together with development and implementation of basic standards, control of their observance, assistance to the organizations in their interpretation and application, the most important functions of the SRO are identification upon notices from SRO members of illegal creditors, interaction with law enforcement and authorized bodies, tracking of changes in the behavioural models of SRO members, timely suppression of negative tendencies, distribution of useful practices and ensuring financial consumer protection.

At the end of 2017, the Law was adopted³²⁷, which increases the transitional period for receipt of the status of the self-regulating organization of CCC from 2 to 4 years and extends till 1 January 2020 the period of non-application towards agricultural CCC of the requirements of the Law “On Self-Regulating Organizations in the Financial Market” on compulsory SRO membership. In the explanatory note to the relevant draft law, it is specified that the stated approach “will allow reducing tension in the market, keeping the services of credit co-operatives available in the context of compliance with high requirements to the market participants and making a smooth transition to the CCC SRO”.

At present, the work is being carried out on integration of the best behavioural practices to the activities of financial institutions at the level of basic standards developed by SROs. In February 2017, the Bank of Russia adopted “Requirements To Content of Basic Standard on Protection of Rights and Interests of Individuals and Legal Entities - Recipients of Financial Services Provided by Members of SRO in Financial Market Involving MFIs”³²⁸.

The basic standard shall contain, inter alia, the following:

- minimum scope of information provided to consumers of financial services (including prospective consumers);
- procedure of providing information to financial consumers;

³²⁵ Bank of Russia Ordinance No. 4490-U, dated 14 August 2017, “On Requirements To Content of Basic Standard On Protection of Rights And Interests of Individuals and Legal Entities - Recipients of Financial Services Provided by Members of SRO in Financial Market Involving Consumer Credit Cooperatives”.

³²⁶ Briefing Note prepared by State Legal Directorate of the Administration of the President of the Russian Federation.

³²⁷ Federal Law No. 426-FZ, dated 28 December 2017, “On Amendments to Certain Legal Acts of the Russian Federation”.

³²⁸ Bank of Russia Ordinance No. 4278-U, dated 3 February 2017, “On Requirements To Content of Basic Standard on Protection of Rights and Interests of Individuals and Legal Entities - Recipients of Financial Services Provided by Members of SRO in Financial Market Involving Microfinance Institutions”.

- procedure of creditworthiness evaluation of financial consumers;
- requirements to the number of amendments to the consumer microloan agreement concerning extension of the repayment period under the agreement with a single consumer of financial services during one year;
- principles of providing advertising information on the MFI activities;
- rules of interaction between MFI and a consumer of financial services;
- minimum service standards for financial services consumers;
- requirements to the MFI employees involved in direct interaction with financial services consumers;
- procedure of MFI's considering applications from financial services consumers;
- forms of exercise of the rights of financial services consumers to pre-trial settlement procedure;
- procedure of the SRO's control over the compliance by the SRO members with the requirements of the Basic Standard;
- provisions on separating application of the Standard norms when granting loans for purposes associated with entrepreneurial activities and for consumer purposes;
- terms and procedure of applying the Standard in case of executing by a third party acting in the name, on behalf and at the expense of MFI of a financial service agreement with a borrower.

According to the stated requirements, in June 2017 the Basic Standard On Protection of Rights and Interests of Individuals and Legal Entities - Recipients of Financial Services Provided by Members of SRO in Financial Market Involving Microfinance Institutions was adopted. The Basic Standard for Risk Management of Microfinance Institutions was also approved³²⁹, as Russian Microfinance Centre reports, the Basic Standard for Operation Performance in the MFI Market is also prepared.

In July 2017, a list was adopted containing basic standards and requirements to the content thereof, which are to be developed by SRO active in the financial market and involving insurance organizations and insurance brokers as well as the list of operations (content of the types of activities) of insurance organizations and insurance brokers in the financial market subject to standardization³³⁰.

So, for example, SRO involving insurance organizations shall develop the following Basic Standards on:

- corporate governance;
- internal control;
- protection of rights and interests of individuals and legal entities - recipients of financial services provided by members of the self-regulating organizations involving insurance organizations;
- performance of operation in the financial market.
- SRO involving insurance brokers shall develop the following Basic Standards on:
- protection of rights and interests of individuals and legal entities - recipients of financial services provided by members of the self-regulating organizations involving insurance brokers;
- performance of operation in the financial market.

In August 2017, requirements were adopted to the content of the Basic Standard on protection of rights and interests of individuals and legal entities - recipients of financial services provided by members of SRO in the financial market involving CCC³³¹. On the grounds of the stated Requirements, on 14 December 2017 the Basic Standard was adopted regulating protection of rights and interests of individuals and legal entities - recipients of financial services provided by members of SRO in the financial market involving CCC.

The principal risk of consumers regarding SROs of the financial market is the risk of inadequate control by SRO over activities of its members, which may entail violations of the rights of individuals -consumers of services of the SRO members.

Credit Reporting Institution

In October 2017, the Bank of Russia prepared Report for public consultations "On Development Strategy of Credit Reporting Market".

Proposals on reforming credit reporting agencies (hereinafter referred to as "CRA") with regard to implementation of debt burden ratio of the borrower are developed in pursuance of subclauses a) and b) clause 3 of List of Instructions of the President of the Russian Federation No. Pr-2563, dated 28 December 2016. The specified instructions are focused on the establishment of an obligation of credit institutions and non-credit financial institutions to verify possible obligations of an individual under loan agreements at the time of delivery of a consumer loan to such individual and also restriction of the creditor's rights for outstanding debt recovery under the consumer loan agreements if at the time of conclusion of this agreement the ratio of monthly income of the borrower and his/her monthly total debt obligation exceeds the limit value established by the Bank of Russia. Implementation of the instructions shall substantially increase the level of financial consumer protection.

Consequently, among the targets of development of the CRA market presented in the Report there is a decrease in debt load, that is non-admission of critical excess of the debt obligation level over revenues resulting in inability to service and repay debts. A key issue will be alignment of the data composition in the CRA, format of their presentation and transfer. This

³²⁹ Basic Risk Management Standard of Microfinance Institutions (approved by the Bank of Russia, Minutes No. KFNP-26, dated 27 July 2017).

³³⁰ Bank of Russia Ordinance No. 4467-U, dated 12 July 2017, "On List of Basic Standards and Requirements to Content Thereof to be Developed by Self-Regulating Organizations Active in the Financial Market and Involving Insurance Organizations and Insurance Brokers and on List of Operations (Content of Types of Activities) of Insurance Organizations and Insurance Brokers in the Financial Market Subject to Standardization".

³³¹ Bank of Russia Ordinance No. 4490-U, dated 14 August 2017, "On Requirements To Content of Basic Standard On Protection of Rights And Interests of Individuals and Legal Entities - Recipients of Financial Services Provided by Members of SRO in Financial Market Involving Consumer Credit Cooperatives".

will make credit records more relevant both for creditors and individuals who show low interest at the moment.

As of 13 April 2018, in the State Registry of Credit Reporting Agencies there were 15 CRAs. It is proposed to separate several systemically important CRAs and to collect data on the debt and payment burden on all credit record subjects through such CRAs. It is also offered to determine a unified format of the credit report by including therein such parameter as universal credit rating score similar to the scoring evaluation of FICO Score used in the US CRAs.

In its Report, the Bank of Russia recommends to give to citizens the chance to request their credit records once a year free of charge not only through CRAs but also in electronic form through the Single Portal of State Services. This will increase the level of the individuals' awareness of their credit records.

In 2017, the problem of creditors' errors committed at transmission of data on obligations towards CRA intensified, due to which disciplined borrowers receive loan denial or loans are granted on terms less favourable if compared to the previously performed obligations. There is also a problem of failures at the database merge, for example, when upon closing of one bank the another one takes its debtors. Thus, such erroneous debts may enter the statistics. At the same time, a credit record represents the key parameter for the borrower's assessment though banks consider also the variety of other indicators, for example, data on the alleged borrower on social media, data on trips, payment of utility bills. It should be noted that an error in the credit record can always be corrected, but to identify such error one should regularly check their credit record, and it is better to rectify the damaged reputation through the small loans. Once in 10 year credit record is reset to zero.

In March 2018, draft law No. 427003-7 "On Amendments to Federal Law "On Credit Histories" was registered (not adopted as of 1 May 2018). Pursuant to the draft law:

- branches of Russian credit institutions located outside the Russian Federation are exempt from the liability to provide information to Russian CRAs as a source of credit history;
- it is proposed to specify the concept "credit (loan) agreement" used in the law by means of inclusion therein of the bank account agreement stipulating making payments from the account irrespective of the lack of funds (account crediting);
- procedure and ways of use of the digital signature, when receiving by users of their credit histories, are established;
- the possibility of remote inquiry and obtaining credit records is established;
- increase from 2 to 6 months is provided for the period of validity of consent given by the subject of credit record to access to information contained in the principal part of the credit history;
- extension of the list of agreements is provided upon execution thereof the validity of consent given by the subject of the credit history to access to the credit history is prolonged for the term of validity of such agreements. The important factor reducing risks of creditors and increasing their protection is the possibility of receiving from CRA of information on the debt load and payment discipline of providers during the entire period of validity of the agreement being the basis of obligations;
- decrease from 5 to 3 years (to the limitation of action period) is provided for the period of storage of consent given by the subject of credit history to access to information contained in the principal part of the credit history, etc.

Therefore, with regard to the activity of the institution of credit histories, it is possible to specify the following principal risks that consumers face:

- errors of creditors in the process of transmission of data on the obligation performance by the borrowers;
- unauthorized access of an individual to his/her credit history;
- lack of the individual's interest in his/her credit history that may lead to additional costs in case of credit needs due to low financial literacy;
- low availability of credit history on a free basis for the individual.

Counteracting Pyramid Schemes

Activities of pyramid schemes still represent a substantial risk for financial consumers. Law enforcement agencies suppose their number exceeds one hundred. Today, pyramid schemes are active mostly in the regions with low financial literacy of the population.

FOR REFERENCE

According to the survey conducted by NAFI Analytical Centre in October 2017, the share of the Russians who correctly identify a pyramid scheme in the list of possible savings and investment tools doesn't change over the time: the figure doesn't exceed 28% over the last 10 years.

Residents of cities with the population exceeding one million give the correct answer more frequently than others (36% defined a pyramid scheme correctly), residents of small towns with the population of 50,000-100,000 - less frequently (15%)³³².

An average lifecycle of pyramid schemes reduced to three months. Earlier it was from 7 to 10 months³³³. The majority of pyramid schemes moved to online environment accumulating funds via online payments.

Pensioners and low-income categories of population who wish to solve their financial problems by means of fast accumulation of funds and investments still remain the main victims of pyramid schemes.

³³² 72% of Russians did not Recognize Pyramid Scheme, 20 November 2017 //Website of NAFI Analytical Center <https://nafi.ru/analytics/72-rossiyan-ne-smogli-raspoznat-finansovuyu-piramidu>.

³³³ Moved to Africa // Rossiyskaya Gazeta RG.RU, 27 February 2017 // <https://rg.ru/2017/02/27/ushcherb-ot-finansovyh-piramid-v-rossii-sokratilsia-v-35-raza.html>.

As a rule, financial pyramids attract the clients with the bright advertising, presentable offices located often in the place of former bank offices, representative consultants and logos similar to bank ones. Often pyramid schemes are organized under the guise of MFIs engaged in attraction of money under loan agreements or under the guise of organizations helping with lending with other organizations and also under the guise of Forex brokers which actually do not bring the client funds to the foreign exchange market.

Recommendations about identification of pyramids schemes are posted on the website of the Bank of Russia (<https://www.cbr.ru/reception/faq/finp>), together with information material "Beware of Pyramid Schemes!" (https://www.cbr.ru/finmarkets/files/protection/booklet_200516.pdf). There are several features common for all "pyramid schemes":

- absence of license for funds attracting;
- promise of high yield by several times exceeding the market level;
- yield assurance (prohibited in the market of securities);
- massive advertising in the mass media, on the Internet;
- absence of information on financial position of the entity;
- disbursements to new participants out of funds previously paid by other depositors;
- absence of own fixed assets, other high cost assets;
- absence of clear determination of the entity's activities.

However, presence of the specified features is not a sufficient ground for drawing a valid conclusion that the entity is a "pyramid scheme". For law enforcement and supervision authorities such features constitute a red flag and a ground for performing inspections.

In 2017, 137 entities having features of the pyramid scheme were identified; and according to preliminary estimates, their activities caused damage for the amount of RUB 1 bln. In 2016, 180 such entities were revealed, the damage amounted to RUB 2 bln, in 2015 - 200 entities which caused damage for approx. RUB 5.5 bln. Starting from 2014, the Bank of Russia has been identifying fraudulent organizations engaged in illegal attracting funds of individuals. Information on such organizations is forwarded to the law enforcement authorities.³³⁴. Therefore, reduction in the number of pyramid schemes bear evidence of positive outcomes of strengthened control over pyramid entities.

FOR REFERENCE

Federal Fund for Protection of the Rights of Depositors and Shareholders suggests to equate to pyramid schemes the companies that don't guarantee the yield of investments promised to individuals and to increase punishment for organization thereof by up to 10 years of imprisonment. The document is forwarded to the Bank of Russia and the Ministry of Finance of Russia. The regulator supported the initiative. Toughening of punishment for financial fraud is necessary, as well as the mechanism of compensation of losses, experts say³³⁵.

To protect consumer rights and to prevent fraudulent activities of pyramid schemes against the population in 2016, the State Duma of the Russian Federation adopted the law³³⁶ stipulating administrative liability for organization and advertising of pyramid schemes as well as the law³³⁷ stipulating criminal liability for organization of pyramid schemes on a large and especially large scales.

It is important to note that previously law-enforcement agencies also prevented financial pyramids from operating. However, in the absence of a special law, arrangers of financial pyramids were held liable under Article 159 "Fraud" of the Criminal Code of the Russian Federation, under which the relevant measures could only be taken after the appearance of victims. As a rule, by that point of time the principal cash funds had already been taken by swindlers out of the pyramid, which rendered their refund to the victims almost impossible.

After introducing the relevant regulation, there occurred the possibility to prevent financial pyramids from operating prior to the appearance of victims, to punish their organizers and those who distributed the relevant ads.

The Law No. 54-FZ³³⁸ has established administrative liability for organization or performance by any person of activities of attracting cash funds and/or other property of individuals and/or legal entities, under which payment of income and/or provision of any other benefit to persons whose cash funds and/or property was attracted earlier is made on account of attracted cash funds and/or other property of other individuals and/or legal entities in the absence of any investment and/or any other legal entrepreneurial or other activities related with the use of attracted cash funds and/or property in the amount comparable to the amount of attracted cash funds and/or property, if such acts do not constitute a criminal offence. The stated offence entails a fine for individuals amounting to RUB 5,000-50,000, for officials - RUB 20,000 -100,000; for legal entities - RUB 500,000 - 1 mln.

The administrative liability is also introduced for public distribution of information containing the details about the attractiveness of participating in such activities, including with the use of mass media and/or data communications networks,

³³⁴ CB: Damage From Activities of Pyramid Schemes in 2017 Amounted to RUB 1 Billion, 26 March 2018 // Banki.ru <http://www.banki.ru/news/lenta/?id=10354757>.

³³⁵ 10 Years Imprisonment Proposed for Pyramid Schemes, 4 January 2018 // Information portal of Izvestiya newspaper <https://iz.ru/686566/anastasiia-alekseevskikh/za-finansovye-piramidy-predlagaiut-sazhat-na-10-let>.

³³⁶ Federal Law No. 54-FZ, dated 9 March 2016, "On Amendments to the Russian Federation Code of Administrative Offenses".

³³⁷ Federal Law No. 78-FZ, dated 30 March 2016 "On Amendments to the Criminal Code of the Russian Federation and Article 151 of the Criminal Procedure Code of the Russian Federation".

³³⁸ Federal Law of 9 March 2016 No. 54-FZ "On Making Amendments to the Code of Administrative Offences of the Russian Federation".

including the Internet.

Law No. 78-FZ³³⁹ introduces criminal liability for organizing the activities of attracting cash funds and/or other property under two types of criminal offences:

- organization of activities of attracting cash funds and/or other property of individuals and/or legal entities on a large scale (more than 2.25 mln rub), under which payment of income and/or provision of any other benefit to persons whose cash funds and/or property was attracted earlier is made on account of attracted cash funds and/or other property of other individuals and/or legal entities in the absence of any investment and/or any other legal entrepreneurial or other activities related with the use of attracted cash funds and/or property in the amount comparable to the amount of attracted cash funds and/or property;
- such offence combined with attracting cash funds and/or other property of individuals and/or legal entities on an especially large scale (more than 9 mln rub.).

The maximum punishment for committing the said offences is imprisonment for the term of up to 6 years with limitation of freedom for the term of up to 2 years.

Regulatory changes facilitate suppression of advertising and public distribution of information of the alleged attractiveness of participation in a pyramid scheme and ensure the possibility of taking repressive measures with regard to attracting funds to the pyramid schemes prior to the occurrence of aggrieved persons. However, significant reduction in activities of financial pyramids will hardly happen as regulatory innovations counteract only certain types of pyramid schemes and mechanisms of their work³⁴⁰.

Financial Advertising

According to Federal Antimonopoly Service (FAS) of Russia, violations in advertising of financial services account for 15% of the total violations relating to advertising. If we talk about offline advertising - television, outdoor and printed advertising, this information is usually placed in the bottom of the image and printed in small font. In the Internet advertisements such text is also printed in illegible font or absent. It should be noted that if in the financial services advertisements at least one term is given, which affects the cost of the service for a client, all other terms shall also be specified³⁴¹.

FOR REFERENCE

Foreign supervisory authorities and international organizations pay much attention to ensuring consumer protection when advertising financial services. So, for example, on 14-15 November 2017 in Tokyo (Japan), Annual Meeting of FinCoNet was held with the round table devoted to advertising of financial services as one of topical issues of financial consumer protection.

Representatives of 22 supervisory authorities, three agencies - FinCoNet observers— and five invited organizations from the Asian region participated in the meeting³⁴².

Since 2018 advertisements of companies supervised by the Bank of Russia will be monitored by the regulator together with FAS of Russia. An agreement on information exchange was signed in June 2017³⁴³. Additional regulation is developed, which will allow the Bank of Russia to promptly transfer to FAS information on corresponding violations revealed during behavioural supervision and to receive feedback on the measures taken. According to expert estimates, if banks receive not only penalties from FAS of Russia, but also the recommendations of the Bank of Russia, it may change the situation with advertising in the financial market and increase the level of financial consumer protection.

Full-scale activities under the Agreement began in 2018 when the Bank of Russia started the implementation of behavioural supervision with the scheduled evaluation of interaction between financial organizations and consumers of financial services. Close cooperation with the Bank of Russia is extremely important for FAS of Russia since it guarantees a coherence of operations of two regulators, more information on revealed violations, consistency of approaches³⁴⁴.

In April 2018, it was reported that FAS of Russia together with the Bank of Russia discuss introduction of the ban on use of information on direct or indirect state participation in authorized capital in the ads of financial services. As a rule, banks can promise "the best offer" in their ads due to the fact that they are state-owned and potentially more stable³⁴⁵.

On 29 January 2018, draft law No. 375242-7 "On Amendments to Article 28 of the Federal Law "On Advertising" was submitted for consideration by the State Duma of the Russian Federation, pursuant to which it is proposed to supplement the Law "On Advertising" with the following norm: "Advertising of services of the microfinance institutions shall contain information on the amount of interest rate for use of the microloan (in the per cent per annum), the sum and term of repayment of the microloan, list of all additional expenses of the borrower connected with receipt, service and repayment of the microloan, penalties for violation of term of the microloan repayment".

Thus, one may highlight the following principal risks for consumers with regard to financial advertising:

³³⁹ Federal Law of 30 March 2016 No. 78-FZ "On Making Amendments to the Criminal Code of the Russian Federation and Article 151 of the Criminal Procedure Code of the Russian Federation".

³⁴⁰ State Duma Declares War Against Pyramid Schemes // All-Russian Public Organization Finpotrebsouyz, 20 February 2016 // http://finpotrebsouz.ru/regionalnye-podrazdeleniya/region_detail.php?ELEMENT_ID=4161.

³⁴¹ FAS: Financial Service Ads Shall Contain Not Only Interest rate, 8 February 2018 // Information portal Banki.ru <http://www.banki.ru/news/lenta/?id=10271759>.

³⁴² Press release of International Financial Consumer Protection Organization, 20 November 2017 // International Cooperation Section of the official website of the Bank of Russia https://www.cbr.ru/Content/Document/File/36690/press_release.pdf.

³⁴³ Agreement on Interaction Between Central Bank of the Russian Federation and Federal Antimonopoly Service (executed in Moscow on 8 June 2017, No. BR-D-40/559).

³⁴⁴ CB Will Read the Ads // Kommersant newspaper, No. 22 dated 7 February 2018, p.7

³⁴⁵ In Russia Use of Information on State Ownership in Ads of Banks May Be Prohibited, 3 April 2018 // Gazeta.ru https://www.gazeta.ru/business/news/2018/04/03/n_11368298.shtml.

- lack in the advertisement of material terms affecting the cost of financial service when one or several terms of the financial product is/age given;
- misinformation of the population on real parameters of the financial service;
- advertising of services of doubtful entities including the so-called “debt cancellers” promising elimination of debts which may only deteriorate the situation of the financial consumers.



In reporting year regulation of the market of services of pawn shops and other financial services became tougher. Public authorities plan further improvement of the regulatory framework and withdrawal of unscrupulous participants from the financial market. However, regulation toughening leads to expansion of the "grey" market. Entities unable or not wishing to comply with new requirements pass to such market putting consumers at new risks and requiring focused attention from Rospotrebnadzor with regard to educational activities among the population.

3. Participation of Rospotrebnadzor in the International Cooperation for Financial Consumer Protection

3.1. Development of Activities of the United Nations Organization in the Field of Financial Services Consumer Protection



The legislation of the Russian Federation on protection of consumer rights including financial consumer rights is developed on the basis of United Nations Guidelines for Consumer Protection (hereinafter referred to as the “UN Guidelines”) adopted in 1985 at the meeting of the UN General Assembly.

The United Nations Guidelines for Consumer Protection (UNGCP) as revised in 2015 cover physical safety; promotion and protection of consumers’ economic interests; safety and quality of consumer goods and services; access to essential goods and services; effective dispute resolution and redress; consumer education and awareness raising programs; promotion of sustainable consumption; measures related to specific areas; e-commerce; financial services, and national consumer protection policy.

Within the framework of the United Nations Conference on Trade and Development (hereinafter referred to as UNCTAD), the new version of the UN Guidelines established Intergovernmental Group of Experts on Consumer Protection Law and Policy (hereinafter referred to as the “Intergovernmental Group”), which main purpose is assessment of application of the UN Guidelines.

On 3 and 4 July 2017, the Second Session of the Intergovernmental Group was attended by representatives of 78 countries including representatives of Rospotrebnadzor³⁴⁶. Among key topics there were electronic commerce and digital economy including elimination of barriers for e-commerce development and enhancement of consumers’ trust in digital economy.

During the session the possibility was discussed concerning establishment of the institution of the consumer rights commissioner or regulatory bodies authorized to recover damage inflicted to consumers, activities of which shall be based on the objective criteria such as access to justice, convenience of usage of such mechanisms, promptness, costs and efficiency.

Special consideration was given to discussion of the *Report on National and Regional Implementation of the United Nations Guidelines for Consumer Protection*.

For example, in India growth of digital literacy of the population is observed along with increase in the number of Internet users. Since one of the priorities is protection of consumers of digital services including those in rural areas, special attention is paid to the issues of logistics and digital advertising. Furthermore, experience in establishing consumers’ organization having an official consultative status with the government and receiving financing from the consumer well-being fund arose much interest. Main functions of the organization include collection of information from consumers and transfer thereof in the aggregate form to the state authorities.

FOR REFERENCE

On 4 to 11 February 2018, representatives of Rospotrebnadzor performed a study trip to India to investigate the experience in protection of rights of financial consumers³⁴⁷.

During the trip, meetings with representatives of various state bodies and public organizations of India engaged in the consumer rights protection took place, namely:

- *Department of Consumer Affairs, the Ministry of Consumers Affairs, Food and Public Distribution of India;*
- *Reserve Bank of India;*
- *Banking Ombudsman of the state of Rajasthan;*
- *National Consumer Dispute Redressal Commission in Delhi;*
- *the Consumer Unity and Trust Society (CUTS);*
- *voluntary public organization for consumer education Consumer Voice, etc.*

During the trip, the following aspects were identified being interesting for analysis and suitable for transfer to the Russian practice. Consideration of consumer disputes in India belongs to the competence of special commissions acting similarly to courts (National Commission for Settlement of Consumer Disputes, state commissions for settlement of consumer disputes). Commissions have divisions specialized in certain groups of disputes (for example, disputes on medical services, financial services, etc.). Such specialization allows ensuring more qualified and prompt settlement of consumer disputes.

Enforcement of decisions of the commissions is tracked by specialists of such commissions (not a separate special service³⁴⁸). As a result, commissions are interested in taking understandable and enforceable decisions and damage recovery process takes less time.

Liability for non-compliance with the decision of the consumer dispute commission is quite strict. For example, initial non-execution of taken decisions entails penalties, while deliberate non-execution - arrest of the culprit and seizure of its property (in

³⁴⁶ http://unctad.org/meetings/en/SessionalDocuments/ciclpinf2_en.pdf.

³⁴⁷The trip was performed under Contract No. FEFLP/QCBS-4.8, dated 29 August 2016, “Activities on Enhancing Mechanisms of Interaction of State Bodies, Financial Market Regulators and Public Organizations in Protection of Rights of Financial Services Consumers” within the framework of Joint Project of the Russian Federation and the IBRD “On raising financial literacy and development of financial education in Russia”.

³⁴⁸ In Russia - Federal Service of Court Bailiffs.

doing this, release on bail is prohibited).

Activities for improvement of financial literacy in India are to a large extent focused on rural population, people with low level of education as well as active involvement of citizens into safe use of modern payment methods (plastic cards, online banking, etc.). Printed materials, videos and billboard advertisements are used. Activities for improvement of financial literacy carried out in India are very much similar to the Russian projects. However, Indian colleagues focus to a greater extent on the needs of the rural population.

In India, threshold value is established with regard to the aggregate amount of interest payable by consumers for the use of credit resources. At present, the amount of interest payable may not exceed 24% of the granted loan. Charging extremely high interest on the loans similar to interest charged by Russian MFIs is impossible in India. This experience may be integrated to the Russian practice if the required changes to the regulatory framework are introduced.

It is necessary to note that major public organizations in charge of consumer protection enjoy significant working experience and receive grants including those from the state budget to finance their expenses.

During the Second session of the Intergovernmental Group a project of global consumer protection map was presented, which is intended to become an open and generally available online tool. It will allow gaining information on the global level on the legislation, institutions and policies in the consumer protection sector.

FOR REFERENCE

During the meeting, the Consumers International suggested the following steps to support implementation of the UN Guiding Principles³⁴⁹:

- support of regional programs in the Middle East, in Latin America and North Africa;*
- update of the Consumer Rights Protection Manual³⁵⁰;*
- joint discussion of the UN Guiding Principles with representatives of international and regional business as well as bodies in charge of conducting economic and trade policy;*
- accumulation of experience of different countries in applying the UN Guiding Principles associated with regulation assessment and institutional structure;*
- elaboration of recommendations and providing practical information to all stakeholders interested in developing similar initiatives in their countries.*

During the meeting, the memorandum “Boundaries of Voluntary Expert Reviews of Legislation and Policies for Consumer Rights Protection” was presented. Reviews are aimed at learning lessons and obtaining advice from foreign colleagues. At least the review shall include the following: selection of candidates for the review, consultations with the stakeholders, self-assessment, post-review activities including presentation of outcomes to the stakeholders within the framework of information and educational activities and preparation of the roadmap on recommendations.

While conducting an expert review, a country can apply for the UNCTAD support for potential buildup. The country can arrange international cooperation with other bodies in charge of consumer protection and in doing so strengthen its potential and law enforcement practice. Conducting reviews by a lot of countries allows accumulating and sharing advanced law enforcement practice, thus bringing together regulatory frameworks of different countries including legislation on protection of financial consumer rights.

It should be noted that Association of Southeast Asian Nations (ASEAN) also pursues expert reviews. It prepared Strategic Action Plan For Consumer Rights Protection for 2016-2025, which stipulates approval of the principles at a high level within mechanisms of ASEAN expert reviews, expansion of rights and opportunities of consumers, enhancement of confidence in cross-border operations and response to the consumers' fears within the framework of the ASEAN integration mechanisms.

FOR REFERENCE

The following major issues of e-commerce in the developing countries can be highlighted:

- weak Internet infrastructure;*
- false information and unfair marketing practices in relation to both goods/services and prices thereof;*
- lack of clear and sufficient information on the seller's identity and location, on goods and services;*
- data safety and online fraud;*
- impossibility to cancel electronic payments;*
- lack of basic IT skills and financial literacy;*
- problems with dispute settlement procedures, etc.*

One of the key issues of the meeting agenda of the Intergovernmental Group was protection of consumers' rights in the electronic commerce. In the e-commerce, there are usually three stages of relations between consumers and sellers: presale stage, process of sale and post-sale stage. At the first stage, principal risks are the lack of updated and accurate information on the goods and services as well as on the respective sellers.

The most commonly encountered problems in the process of sale are unfair contract terms, unsafe online payments and need for protection of data and personal information including as relating to non-monetary operations. At the post-sale stage, consumers

³⁴⁹ Intergovernmental Expert Group on Consumer Protection 2017. Comments from Consumers International // http://unctad.org/meetings/en/Contribution/cicplp2nd_c_ci_en.pdf.

³⁵⁰ For details on the Manual, see Report On the Status of Financial Consumer Protection in 2016.

may face difficulties trying to get in touch with the seller or business entity. Possible remedies of the consumers at this stage include providing cooling-off period during which the buyer is entitled to refuse online purchase as well as limitation of the consumer's responsibility in the digital market.

Internet users with the help of alternative mechanisms of dispute settlement may resolve legal conflicts privately. According to the data of 2013, 32% of countries have alternative dispute settlement mechanisms in the e-commerce area³⁵¹. Among them mediation and arbitration are the most frequently used. It should be noted that a decision taken in the arbitration process may be legally binding³⁵².

FOR REFERENCE

In Mexico in 2008 the mechanism of online dispute settlement was launched under the auspices of the Office of the Federal Prosecutor for Consumer Disputes. This mechanism provides consumers who bought goods or services online or by ordinary way with access to paperless and bureaucracy-free mediation procedure that allows lodging claims and settling them via Internet-platform³⁵³.

In Brazil in 2014 online mediation procedure was arranged that ensures direct exchange of opinions between consumers and service providers to settle disputes online. At present 80% of complaints are settled online. Average term for complaint settlement is 7 days. Only those companies that pass voluntary and official registration in the system may use this mechanism³⁵⁴.

The European Union in 2016 launched the platform for settlement of disputes relating to online shopping via the Internet³⁵⁵.

Main components enhancing the consumers' confidence in the e-commerce are given below:

- establishment of proper Internet infrastructure;
- establishment of solid regulatory and institutional framework;
- adaptation of the existing regulation system to the specific requirements of e-commerce;
- ensuring efficient law enforcement;
- ensuring consumer protection in the e-commerce at the same level as in other sectors;
- applying the requirement on full disclosure of all necessary information on entities, goods, services and operations;
- ensuring safety of electronic payments, personal data protection and privacy of consumers;
- prevention of unauthorized use of the consumers' personal data;
- authenticity of ratings and feedbacks published on the Internet;
- providing consumers with access to the efficient mechanisms of dispute settlement and indemnification;
- consumer education activities and expansion of their rights;
- ensuring goods delivery and aftersales service;
- ensuring regional and international cooperation to prevent business malpractices.

At the session of the Intergovernmental Group an issue was raised on discussion during the second session of establishment of e-commerce working group. Accordingly, it is necessary to investigate certain aspects of consumer protection in this area and provide report on the performed activities and recommendations during the third session. The working group is likely to operate under the leadership of one or more member states of the respective stakeholders on a voluntary basis with the assistance of the UNCTAD Secretariat.

It is assumed that new working group will examine examples of efficient cooperation in the cross-border electronic commerce; distribution of bona fide commercial practices concerning consumer protection in the e-commerce; efficiency of online campaign on consumer education.

3.2. Activities of Group of Twenty and Organization for Economic Cooperation and Development



In March 2017, with in the framework of Summit of the Group of Twenty (G20) the first Summit devoted to consumer protection issues took place under the title "Building A Digital World Consumers Can Trust". The Summit coincided with the World Consumer Rights Day on 15 March. Organizations in charge of consumer protection from more than 50 countries participated in the Summit.

During the Summit a proposal was made to create special tools for supporting consumers of digital services. This activity was addressed to the OECD, Consumers International and other stakeholders. Furthermore, along with problems some advantages of digital services were mentioned including lower prices to some goods and services. One of the most important outcomes of the Summit was the necessity to ensure confidence of consumers in protection of the their rights in the digital space by the state.

Moreover, the Project was developed outlining recommendations on expansion of rights and opportunities of consumers in the digital world (Building A Digital World Consumers Can Trust. Proposed recommendations from the

³⁵¹ http://unctad.org/meetings/en/SessionalDocuments/cicplpd7_en.pdf.

³⁵² <http://www.consumers.ftc.gov/articles/0162-alternative-dispute-resolution>.

³⁵³ <http://concilianet.profeco.gob.mx/Concilianet/comoconciliar.jsp>.

³⁵⁴ <http://www.consumidor.gov.br>.

³⁵⁵ <http://ec.europa.eu/consumers/odr/main/index.cfm>.

consumer movement to the G20 member states³⁵⁶). UN Guiding Principles provided the basis for recommendations. Recommendations contain 10 items (Table 3.1).

Table 3.1. Recommendations of the Summit on issues of consumer rights protection in the context of the digital world consumers can trust

Recommendation	Narrative
Regulatory framework	Regulatory framework shall be established in all G20 states for protection of the consumer rights including online mode
Responsible business conduct and role of supervision authorities	Digital providers shall be liable for digital protection of the consumer rights
Access and accessibility	All consumers shall have access to the reasonably priced and good quality Internet connection
Information disclosure and transparency	Information on digital products and providers shall allow consumers to find promptly the most important things
Bona fide use and responsibility	Information on digital technologies and providers shall allow consumers to find promptly the most important things
Digital education and awareness	Digital education and awareness shall facilitate an informed decision taking by a consumer including risk management
Safety and reliability	Consumers shall be completely protected from fraudulent activities or misuse. Companies shall provide necessary updates for safety and productivity within the reasonable term after sales
Data protection and online privacy	Consumers shall be able to control their personal data and privacy. Impact of algorithms on digital services and products shall be clear
Complaints and damage recovery	Damage recovery for online transactions shall not be less than for other forms of trade
Competition and choice	The necessary environment shall be created for competitive markets to offer consumers the required number of providers of digital services and ease of choice.

At the Summit, Rospotrebnadzor took part in discussion of major topics³⁵⁷:

- strengthening international cooperation including elaboration of common approaches to the digital economy regulation and settlement of disputes involving consumers primarily taking into account its cross-border segment;
- search for the most efficient methods and ways of building consumer's trust in digital economy;
- protection of personal data and safety on the Internet as an essential component of e-commerce for consumers.

FOR REFERENCE

The personal data issue in the context of financial services becomes very challenging today, since banking institutions are the main buyers of personal data of any kind. Among principal risks for consumers one can highlight forcing to give consent to data transfer from mobile operators, lack of choice when using a mobile app because it gets access to the phone directory and geolocation data.

In 2017, the Consultative Group to Assist Low Income Population together with a number of international organizations studied relation of consumers of India to protection of their personal data³⁵⁸. 30 men and 20 women aged 18-80 years with daily income of USD 1-10 took part in the survey.

The survey showed that residents of India appreciate confidentiality. However, consumers are ready to share transaction data or personal music preferences on certain terms. As for sharing data, consumers would like to be asked by providers for their consent to data collection. Respondents did not always understand the terms of the personal data use and regularly ignored important issues. Those persons who cannot read or write would like to have more visual, verbal or video forms of consent.

An important survey outcome was wish of the consumers to have the right to withdraw their consent or change the form of consent to personal data processing if providers transmit them to third parties. If there are cases of causing harm as a result of violation of the data confidentiality, consumers were interested in bringing to responsibility of the service providers, damage recovery and receipt of compensation in full.

Therefore, it may be concluded that consumers in India are interested in the legal approach to personal data protection, which is to be supported by the state by means of adoption of the required legal acts that automatically guarantee personal data protection and confidentiality. Moreover, it is necessary to establish a system of humane justice that shall be available, reliable and efficient.

Representatives of Rospotrebnadzor told about measures taken in Russia to enhance security of consumers in the e-commerce including issues of consumer informing and education and creation of the state information portal on consumer

³⁵⁶ http://www.bmjv.de/G20/DE/ConsumerSummit/_documents/Downloads/Empfehlungen_EN.pdf;jsessionid=F5D1557179851C3CC5600150784FC41F.1_cid289?__blob=publicationFile&v=1.

³⁵⁷ http://www.rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=8031.

³⁵⁸ Privacy on the line What people in India think about their data protection and privacy // https://dalberg.com/system/files/2017-11/Privacy%20on%20The%20Line%20Final%20161117_1.pdf.

right protection.

The Summit participants agreed with the Russian thesis that development of the cross-border electronic commerce promotes rapid global distribution of both advantages and risks for consumers. Absence of boundaries for such risks requires development of practical mechanisms of the intergovernmental cooperation among states and exchange of information among regulators.

Rospotrebnadzor proposed to consider the opportunity to launch a project aimed at improving digital literacy of consumers as well as to create a single global information resource where consumers from all countries may obtain organized information on all national and transnational consumer organizations, state bodies for consumer right protection, methods of filing claims and Internet forums for consumer dispute consideration.

Moreover, Rospotrebnadzor considered the opportunity to study together with OECD and UNCTAD prospects of elaboration of common approaches and mechanisms of international interaction of state bodies in the process of settlement of disputes arising out of cross-border e-commerce³⁵⁹.

FOR REFERENCE

Indicators of Consumer Protection and Empowerment in the Digital World were prepared to the Summit for Consumer Right Protection in the Digital World³⁶⁰. Principal indicators are outlined in 8 talking points.

Development and expansion of digitalization process require consumers' trust in the digital markets.

To enhance trust of consumers, it is necessary to attract attention to the market demand (first of all, data confidentiality and safety, recovery of damage, digital literacy, etc.).

The UN Guiding Principles shall be used as a regulation framework.

Relevant data and justified indicators are necessary to systematically improve the situation of the consumer right protection and their empowerment.

UNCTAD created a useful foundation for indicators development being the source for indicators of digital consumers protection (Table 3.2).

Indicators and methodology of data collection are given for several items.

To provide necessary short-term data, polls shall be used.

G20 shall initiate the process of developing the common methodology of data provision in the mid- and long-term.

Table 3.2. Examples of indicators

Access (indicators and data are available)	
Access to networks	
Share of population having access to high-speed mobile network	Share of population having access to high-speed fixed broadband network
Mobile communication distribution	
Share of population using high-speed mobile network	Share of population using high-speed fixed broadband network
Affordability	
Prices of high-speed mobile network	Prices of high-speed fixed broadband network
Usage	
Share of population using Internet	
Economic interests (indicators and data are unavailable yet)	
Sufficiency of competition legislation and enforcement thereof	
Satisfaction of experts with competition legislation that considers special features of digital economy	Satisfaction of experts with enforcement of competition legislation
Consumer experience	
Level of freedom in different ICT sectors	Satisfaction of consumers with the possibility to choose another provider in case of dissatisfaction with services
Change of consumers' behaviour	Consumers' concerns for personal prices and price discrimination
Safety of products and obligations (indicators and data are unavailable yet)	
Sufficiency of legislation on safety and obligations and enforcement thereof	
Satisfaction of experts with legislation on safety and obligations	Existence of regulatory bodies in charge of safety

³⁵⁹ http://www.rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=8031.

³⁶⁰ http://www.bmjv.de/G20/DE/ConsumerSummit/_documents/Downloads/Studie.pdf;jsessionid=F5D1557179851C3CC5600150784FC41F.1_cid289?__blob=publicationFile&v=1.

Existence of monitoring system for the market of digital products and services including independent assessment	Satisfaction of experts with enforcement of legislation on safety and obligations
Business conduct	
Level of compliance of business entities with safety standards in presale arrangements	Level of monitoring by business entities of their products in the market
Availability of the procedures of goods withdrawal from the market	
Safety of information and computing technologies	
Number and gravity of recorded cases of insecurity of digital products and services	
Data protection and privacy (indicators and data are partially available)	
Sufficiency of legislation on data protection and confidentiality and enforcement thereof	
Satisfaction of experts with legislation on data protection and confidentiality	Level of compliance of legislation with the best practices
Availability of regulatory bodies in charge of data protection and confidentiality	Presence of common actions against breaches of legislation on data protection and confidentiality
Status of data and confidentiality protection	
Number and gravity of recorded cases of data integrity breach	Number of secure Internet-servers (per 1 mln persons)
Consumers' concerns for confidentiality issues	Consumers' concerns for data protection issues

In 2017 G20/OECD Working Group for Protection of Financial Consumer Rights issued working paper characterising the relation of Behavioural Economics and Financial Consumer Protection³⁶¹. The paper lightens the process of development and application of the behavioural economics with a focus on protection of financial consumers. It discloses behaviour of people when taking financial decisions as well as state policies of applying different consumer behavioural models. Together with this, the paper establishes the relation between behavioural economics and economically effective policy of consumer right protection (Table 3.3).

Table 3.3. Consumer trends and their examples

Consumer trends	Examples
Heuristic behaviour model	Investment of pension savings in equal parts to all available funds rather than thorough choice of a single fund
Current bias	Excess borrowings for current consumption
Dependence on benchmarks and loss minimization	Consumers perceive additional insurance as cheap one, since it is sold together with the services that have incomparably high prices
Regrets and other emotions	Purchase of expensive needless insurance for emotional security
Self-confidence	Overconfidence in good choice of offers
Excessive extrapolation	Use of unrepresentative observations for the forecasts
Tendency towards forecasting	Consumers believe that their forecasts and preferences will remain unchanged over the time
Mental expectations	Consumers may save at lower rate and borrow at higher rate
"Narrowing of boundaries" effect	Taking investment decisions on each asset rather than on the entire portfolio
Persuasion and social influence	Consumers rely on financial advice and think nothing about fee for such advice
Endowment effect ³⁶²	Consumers will hardly change the bank even if they are aware that the financial service does not meet their requirements

Behavioural economics also promotes competition in the financial market, thus influencing the consumers positively. Behavioural economics is mentioned in the Effective Approaches to Support the Implementation of the High-level Principles of Financial Consumers Protection with regard to implementation of Principle 10 about competition. So, for example, in France the term within which individuals may change credit insurance agreement is prolonged. To mitigate the results of some consumer trends methods stated in Table 3.4 are used.

In general, behavioural economics contributes to determination of optimal solutions to problems caused by psychological aspects of taking decisions by consumers. It is an ancillary tool to the existing methods and remedies available to financial consumers.

³⁶¹ <https://www.oecd-ilibrary.org/content/paper/0c8685b2-en>.

³⁶² In English "endowment effect" means a psychological effect of ownership (possession).

Table 3.4. Methods of mitigating consumer trends

Methods	Examples
Default parameters	Automatic participation of employees in some pension schemes by means of preselected parameters
Determination of specific characters	Informing consumers on additional expenses in the transaction currency rather than in percentage ratio thereto
Specific feature effect	Presentation to the consumers of the most important aspects only concerning financial services including provisional estimates

FOR REFERENCE

In 2017, the World Bank published new version of Good Practices for Financial Consumer Protection 2017³⁶³. The first version was issued in 2012.

Over five years, the topic of financial consumer protection has become one of the priorities all over the world and accumulated experience including as relating to digital financial services, additional risks for consumers and new forms of protection of their interests is translated into updated practices. Practices of 2017 include new approaches to financial consumer protection, survey results, elements of efficient information disclosure, examples of proper business conduct, new digital channels, innovative products and business models as well as new types of financial service providers.

The Practices consist of four chapters and three appendices broken down by types of financial products and services (compared to version of 2012):

<i>Good Practices for Financial Consumer Protection 2012</i>	<i>Good Practices for Financial Consumer Protection 2017</i>
<i>Banking sector</i>	<i>Deposits, credit products and services</i>
<i>Securities</i>	<i>Insurance</i>
<i>Insurance</i>	<i>Private pension funds</i>
<i>Non-banking credit institutions</i>	<i>Securities</i>
<i>Private pension schemes</i>	<i>Retail payment services</i>
<i>Credit report systems</i>	<i>Credit report systems</i>
	<i>Financial possibilities</i>

Each practice includes key elements to be considered and taken into account by each interested state. Together with this, the practice contains detailed explanations on its purposes and tasks as well as case studies from different countries. Each chapter includes the following provisions of the proper practices (compared to the version of 2012):

<i>Structure of chapters of Good Practices for Financial Consumer Protection 2012</i>	<i>Structure of chapters of Good Practices for Financial Consumer Protection 2017</i>
<i>Financial consumer protection institutions</i>	<i>Regulatory framework including basic principles of control and supervision</i>
<i>Information disclosure and sales practice</i>	<i>Information disclosure and transparency</i>
<i>Maintenance and keeping of a client account</i>	<i>Fair attitude to a buyer and business conduct</i>
<i>Protection of consumers' personal data and information. Dispute settlement mechanisms</i>	<i>Data protection and confidentiality</i>
<i>Warranty and compensation system</i>	<i>Dispute Settlement Mechanisms</i>
<i>Financial literacy and consumers' powers</i>	
<i>Competition</i>	

Within the framework of the G20 Summit held in Germany in 2017, OECD published report "Ensuring Financial Education and Consumer Protection for All in the Digital Age" devoted High-Level Principle 6.

The Report highlights major opportunities of digital financial services for unbanked and previously financially excluded population:

- extending reach and access to new types of financial services;
- lowering costs and making financial services more affordable to all social groups;
- more convenient and secure transactions;
- providing a seamless experience tailored to individual needs and facilitating usage of financial services.

Pursuant to the Report, there is a global upward trend in the use of mobile financial services due to the following factors:

- in 3 years' time global mobile connections could reach 8.9 mln and the number of smartphones - 5.8 mln;
- digital financial services are currently available to over 60% of the world's population, particularly in the form of mobile

³⁶³ <https://openknowledge.worldbank.org/handle/10986/28996>.

services;

- but there are still 2 mln adults without an account with a financial institution today;
- digital financial services encompass payments, transfers, mobile insurance, credit and savings;
- digital financial services are offered not only by financial institutions but also by telecoms, post offices.

At the same time, major threats have emerged due to the spread of digital financial services (Table 3.5).

Table 3.5. Digital Risks and Potential Issues

Groups of risks	Risks	Potential Issues
Market-driven risks	New types of fraud, misuse and mis-selling	1. Lack of consumer trust in digital financial services, financial system and technological innovations 2. New types of exclusion from digital financial services sector for certain population groups (pensioners, women, SME, first time users of such services) driven by particular policies of the market participants (digital credit/insurance denials) 3. Excess reliance on digitally delivered credit or over-indebtedness of particular groups (youth, students, low-income segments) 4. High customer vulnerability to phishing schemes, social engineering scams, account hacking attacks, data theft
	Data safety and confidentiality	
	Digital profiling	
	Extremely rapid access to (often high-cost) short-term credit	
Regulation and supervision-driven risks	Non-transparent mechanisms of information disclosure and damage recovery	3. Excess reliance on digitally delivered credit or over-indebtedness of particular groups (youth, students, low-income segments) 4. High customer vulnerability to phishing schemes, social engineering scams, account hacking attacks, data theft
	Cross-border selling	
	Lack of transparency of activities of financial service providers, various level of their responsibility	
Consumer-driven risks	Increased digitalisation of daily life	
	Low financial and digital literacy	

To mitigate risks stated in Table 3.5, regulators shall consider the following options:

- assess the capacity of existing consumer protection system to mitigate harm to consumers and promote their financial wellbeing;
- ensure flexible financial education strategies to address emerging issues and challenges;
- increase overall levels of financial literacy from a young age.

Report “G20/OECD INFE Report on Adult Financial Literacy in G20 Countries” was also prepared within the G20 Summit in Germany. The Report underlines that there is considerable scope for improvement in overall levels of financial literacy of the population across G20 countries. Average score of financial literacy is just 12.7 out of possible 21. Financial literacy is evaluated based on three criteria: basic financial knowledge, behaviour and attitudes. Pursuant to the survey, Russian Federation has the following status “the (first) national strategy is being implemented” together with Brazil, Canada, France, Turkey.

The Report summarizes the following distinctive features of the financial literacy level of the population across G20 states. The majority of G20 countries have a national strategy in place and several have revised their strategies to take into account developments of financial and digital service markets. At the same time, many people in all countries do not have basic financial knowledge. Only 48% of adult population could answer 70% of the financial knowledge questions correctly (the minimum target score). When choosing financial services, the most important parameters for consumers are minimum payment to repay the credit and management of pension savings. Four in ten people do not understand what diversification means. Only 27% of respondents were able to both calculate simple interest and recognise the additional benefit of compounding over five years. Furthermore, the survey once more showed the difference in knowledge across men and women: women had lower score.

The way in which people choose financial services is a particular concern: as little as 15% compare across terms of financial providers. At the same time, on average, people who hold cards and deposits have higher levels of financial literacy than those who don't. Taking into consideration the above, more refined policy guidance will be developed soon in line with sophisticated nature of digital financial services.

In the course of G20 activities, Rospotrebnadzor prepared and announced a policy brief of the Russian Federation containing a number of practical initiatives to be implemented on the G20 site in partnership with OECD and/or UNCTAD, which, inter alia, highlights the importance of development of the digital literacy of the population. It should be noted that Russia initiated discussion of the consumer protection theme in the G20 format.

FOR REFERENCE

In 2017, the World Bank performed the survey: “The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution”³⁶⁴. This is the third survey starting from 2011 (the second one was published in 2014). The survey shows how people in more than 140 countries use accounts, credit products and various payment tools.

³⁶⁴ <http://globalfindex.worldbank.org/#GF-ReportChapters>.

In 2017, globally the share of adult respondents owning an account was 69% (in 2014 - 62%, in 2011 - 51%). Increase in availability of financial products and services is driven by growing digital payments, a new generation of online financial services and focused attention thereto of regulators and lawmakers. Still there is a substantial gap between high-income and developing economies: the share of financial consumers is 94% and 63%, respectively. However, 52% of adults sent or received digital payments in 2017 (42% in 2011).

Globally, about 1.7 bln adults remain unbanked — without an account with a financial institution or via a mobile money provider (over 50% of all unbanked adults are women). Nearly half of this figure live in just seven developing economies: Bangladesh, China, India, Indonesia, Mexico, Nigeria, and Pakistan. Two-thirds of unbanked adults have a mobile phone, thus, having access to financial services.

The survey reports about some advance in women gaining access to financial services. For example, in India gender gap between men and women who have an account shrank by 6% points over the past period (the gap was 20% in 2014). This happened thanks to occurrence of biometric identification cards. In most countries there is a gap of 7 percentage points between the shares of women and men who have a bank account and this figure is unchanged since 2011 (65% and 72%, respectively).

Moreover, Rospotrebnadzor contributed a lot into preparation of the final Summit communique of the G20 leaders, which included, at the suggestion of the Russian party, provisions on consumer protection in the context of digital economy. At present, issues of uniform regulatory approaches to digital economy are discussed with direct involvement of Rospotrebnadzor on different international forums including UNCTAD and OECD³⁶⁵.

In April 2017, Rospotrebnadzor took part in the 93rd session of the OECD Committee for Consumption Policy. During the Committee's meeting, preliminary results of the OECD survey were considered, which were devoted to the consumer's trust in platforms of equal participants (where citizens carry out transactions). A round table meeting devoted to cross-border cooperation between the states included discussion of scenarios of possible assistance to be rendered to each other by authorized bodies in charge of consumer protection from the different countries. Delegates of the Committee almost unanimously supported the decision on closer cooperation of the states on protection of consumers from fraud when performing cross-border transactions. Special attention was also paid to the international exchange of information on outcomes of the activities on counteracting deceptive practices. Practical approaches to these issues will be elaborated by the Committee soon.

Russian delegation also presented a special report on the state and future prospects of the national system of consumer protection. Experience of the Russian Federation in judicial consumer protection arose much interest³⁶⁶.

3.3. Activities of Member States of the Eurasian Economic Union



In 2017, member states of the Eurasian Economic Union (EEU) continued to work hard on the creation of common financial environment. At the meeting of the Consultative Committee for Financial Markets the structure of the Concept of Creation of EEU Common Financial Market (hereinafter referred to as the "Concept") was approved; the Concept is one of the fundamental documents that will form the basis of the regulatory framework of the EEU common financial market³⁶⁷ and allow ensuring free movement of capital and services throughout the Union.

The Concept defines main objectives, tasks and the directions of formation of the common financial market, stages and actions for their realization, the legal basis of its functioning, procedure of information exchange and administrative cooperation of regulators of the financial market as well as tasks and powers of a supranational body for regulation of the EEU common financial market.

Together with the Concept at the meeting the draft of "road map" was considered intended for formation of the EEU common exchange space being one of its structural elements. The draft road map consists of four sections and contains all necessary aspects of exchange trade in financial instruments in the EEU. It means mutual admission of brokers and dealers, mutual recognition and admission of financial instruments, common system of information disclosure, electronic interaction on the unified formats and integrated settlement and clearing system.

Furthermore, at the meeting some sections were approved in the Plan of Harmonization of the EEU State Legislation in the Financial Sector (the Plan) including securities market, insurance and banking sectors, which also serves as a legal framework for formation of the common financial market. According to the Plan, harmonized requirements to activities of the financial market participants, their admission to the financial markets will be adopted and also conditions for coordination of uniform requirements to financial consumer protection will be provided.

One more important document was the draft agreement on interaction on exchange of data being part of credit records, which will contribute to the development of cross-border lending within the EEU.

At the beginning of 2017, it was planned to develop recommendations "on determination of approaches to the common consumer protection policy" in the EEU countries including issues of distance selling and transactions via the Internet. The best national and international practices were utilized including those of personal data protection³⁶⁸.

In November 2017, the Board of the Eurasian Economic Commission approved common approaches to consumer protection in online commerce. The document developed in the form of recommendations will provide consumers with all necessary and reliable information about the goods. Thus, they will be able to take an informed decision, while shopping

³⁶⁵ http://www.rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=9437.

³⁶⁶ http://www.rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=8197.

³⁶⁷ Pursuant to the EEU Treaty, the common financial market shall be organized in the banking, insurance and securities segments by 2025.

³⁶⁸ <http://www.eurasiancommission.org/ru/nae/news/Pages/16-03-2017-2.aspx>.

online, and to evaluate costs correctly. Finally, the list of requirements to the information posted on the websites was compiled:

- data on main consumer attributes and technical specifications of the goods;
- data on the goods price and conditions of purchase;
- data on the warranty period, useful life or best before date;
- information on the right to terminate the contract and claim damages if within the scheduled term defects of the performed work (service) are not eliminated by the provider or if deviations in the work (service) from the contract terms or other defects of the work (service) are essential and unrepairable.

It is proposed to formalise the possibility of remote dispute settlement and establishment of requirements to the contract terms and execution of contracts with the consumer including font size of the text and information specified in the contracts. Moreover, each country shall determine the responsibility to be borne by the seller who did not provide to the buyer complete and reliable information about goods (works, services)³⁶⁹.

FOR REFERENCE

In April 2017, Sberbank Corporate University held the meeting of experts on consumer protection issues, during which new economic models of consumption were discussed together with global regulatory practices with regard to distance selling.

At the end of the meeting the event participants were presented the concept of the platform of relations between new economy companies in the e-commerce and consumers developed by the working group consisting of representatives of Rosпотребнадзор, Sberbank and Yandex.

Cross-border trade, e-commerce and the "golden age" of the digital economy require elaboration of completely new mechanisms of consumer protection including schemes of cooperation between countries³⁷⁰.

Eurasian Economic Commission (EEC) will continue its participation in the global dialogue on consumer protection issues within the framework of events under the UN auspices.

In October 2017, Presidents of EEU states approved Main Areas of Implementation of Digital Agenda of the Union up to 2025, which set out the boundaries of digital integration and mechanisms of implementation thereof. It is planned to launch the first project in course of implementation of the EEU digital agenda associated with digital tracking, which will establish terms for mutual digital exchange and interaction first of all in the trade. It will be useful for the state authorities as well. It is assumed that digital traceability will allow business, consumers and public authorities to see all way of goods from manufacturer to the buyer and to simplify interaction of all participants of the chain. Among other matters, digital trade will also be developed³⁷¹. In 2018, the goods traceability project will be presented to the high level working group dealing with digital issues of the EEU and EEC Council.

On 7 June 2017, the second meeting of the Consultative Committee of the Eurasian Economic Commission on consumer protection of the EEU member states took place, at which draft recommendations of the Commission on common approaches to the agreed by EEU member states consumer protection policy for remote sales of goods (works, services) were approved. Draft provisions will be applied by member states in regulation of this segment at national level.

FOR REFERENCE

Rospotrebnadzor elaborated a draft law concerning regulation of activities of the platforms aggregating information on goods or services and also formation of common approaches to consumer protection in the context of electronic trading within the Eurasian space and the CIS.

Moreover, the meeting considered and approved the EEC-prepared Review of main activities for increasing the efficiency of interaction of authorized bodies of the EEU member states in charge of consumer protection.

Furthermore, the meeting considered proposals of the Russian Federation concerning introduction of amendments to the Treaty on the Eurasian Economic Union regarding specification of EEC consumer protection competences, was provided with information on functions and powers of EEC and authorized bodies of member states on unfair competition identification, and approved the outcomes of the Working group developing legal acts on consumer protection established within the Consultative Committee.

The meeting participants outlined priorities of further cooperation and confirmed the importance of the work that is being performed with due account for national priorities resulting in efficient implementation of the coordinated consumer protection policy.

On 7 December 2017, at the third meeting of the Consultative Committee on consumer protection issues of the EEU member states, participants of the meeting discussed the recent changes to the legislation of the EEU states concerning consumer rights protection including application of the updated UN Guidelines for protection of consumer interests; Russian Federation took active part in preparation of the new version of the said UN Guidelines. Special attention was paid to vulnerable categories of the population and consumers of digital goods and services. During the meeting specialists of Rospotrebnadzor presented a detailed report on experience of consistent implementation of decisions taken upon consideration of the issue "On National System of Consumer Rights Protection" at the meeting of the Presidium of the State Council of the Russian Federation held on 18 April 2017³⁷².

³⁶⁹ <http://www.eurasiancommission.org/ru/nae/news/Pages/21-11-2017-2.aspx>.

³⁷⁰ http://www.rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=8108.

³⁷¹ <http://www.eurasiancommission.org/ru/nae/news/Pages/11-12-2017.aspx>.

³⁷² http://www.rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=9310.

EEC representatives continue their active participation in the international events discovering best practices of regulation of financial consumer protection issues. In April 2017, they took part in the seminar “Cooperation of EEU member states with OECD in the context of development of the Union integration agenda. Possibilities of usage of OECD best practices in the EEU activities”. Participants considered practices of the EEU member states in applying the OECD recommendations which cover best practices of regulation of different segments of economic relations. Following the seminar results, the expediency of applying existing international regulatory practice within the Union will be determined.

In May 2017 in Armenia, EEC representatives participated in the annual international conference “Financial Ombudsman Institution: Strengthening of Public Trust And Expansion of Financial Mediation”. International experts in consumer protection discussed introduction of alternative ways of dispute settlement involving consumers, specific features of international arbitration, main directions of consumer protection when performing money transfers and insurance transactions.

The conference members confirmed the importance of practical experience of the Republic of Armenia in development of institutions of financial consumer rights protection, increase in information transparency in the financial markets and development of financial literacy of consumers in the EEU territory.

Upon the discussion, an agreement was reached on developing the cooperation of financial ombudsman institutions operating in the EEU member states with EEC for joint activities aimed at exchanging experience on topical issues of alternative ways of resolving disputes involving consumers in the financial service market, as well as improving and harmonizing national regulation of financial consumer protection³⁷³.

In July 2017, EEC representatives took part in the second meeting of the UNCTAD Intergovernmental Group of experts in legislation and policies on consumer protection. The Commission specialists reported on implementation of the agreed policy on consumer protection within the EEU.

In September 2017, EEC participated via teleconference in the first meeting of the international Working Group on consumer protection in the e-commerce. Among main issues relevant for both the Union countries and the rest of the world, there were the necessity of elaboration of common approaches to the regulation of consumer protection in the e-commerce, determination of mechanisms of resolving cross-border disputes and ensuring protection of personal data of the consumers participating in digital transactions.

In October 2017, on the site of the Moscow Exchange the second International Conference for Financial Consumer Protection “Territory of Financial Safety” was held. It was organized by the Eurasian Economic Commission together with Federal Social State Foundation for Protection of Rights of Depositors and Shareholders.

One of the sessions was devoted to new challenges in the area of consumer protection in the context of digital technological revolution in the financial market, where, among other issues, big data, blockchain, cryptocurrencies and digitalization were discussed³⁷⁴.

During the Conference, the EEC representative noted that ensuring conditions for effective functioning of the common financial market of the countries of EEU, creation of the integrated system of financial regulation, increase in stability of a financial system are strategically interconnected with ensuring protection of interests of consumers of financial services in the EEU countries.

The conference participants came to the conclusion that close coordination of efforts of the regulators of the EEU financial markets and professional community in the area of protection of rights of investors and financial consumers is essential in the long-term. This will be the prerequisite of efficient buildup and performance of the EEU common financial market³⁷⁵.

In October and December 2017, the EEC took part via teleconference in the first and second meetings of the international Working Group on protection of rights of vulnerable and disadvantaged consumers. The first meeting of the international Working Group launched the global activities for consumer protection of socially vulnerable categories of population and priorities were defined which require an integrated research to develop coordinated decisions in this area of high social importance. In the second meeting of the Working Group best consumer protection practices of the states were discussed with regard to the stated priorities previously developed with assistance of the EEC.

3.4. Development of the Activities of the Member States of the Commonwealth of Independent States



According to the Strategy of Economic Development of the Commonwealth of Independent States (hereinafter referred to as the CIS) for the period of up to 2020, one of the areas of cooperation between the member states shall be provision of citizens with equal opportunities to protect consumer rights. The CIS member states consider the initiatives on increase of the legal literacy level and development in citizens of sustainable skills of reasonable consumer behaviour as necessary and significant component of the national consumer protection system.

As noted in the Report "On the Activities of the Advisory Council for the Protection of Consumer

³⁷³ http://www.eurasiancommission.org/ru/act/txnreg/depsanmer/consumer_rights/Pages/default.aspx.

³⁷⁴ <http://www.eurasiancommission.org/ru/nae/events/Pages/4-10-2017-k.aspx>.

³⁷⁵ http://www.eurasiancommission.org/ru/nae/news/Pages/17_10_17_1.aspx.

Rights in the CIS Member States" (hereinafter referred to as the Advisory Council) ³⁷⁶ published in 2017, the CIS member states face the urgent tasks related to the development of new mechanisms for consumer protection in specific areas of consumer legal relations (e-commerce, financial, public services, international tourism, passenger transportation services, etc.)

Issues on improving the coordination of cooperation between public authorities and public consumer organizations of the CIS countries were discussed in June 2017 in the city of Cholpon-Ata, Kyrgyz Republic at the 12th Meeting of the Advisory Council. A.Yu. Popova, Head of the Federal Service for the Oversight of Consumer Protection and Welfare (Rospotrebnadzor), has informed the participants about the meeting of the Presidium of the State Council of the Russian Federation held on 18 April 2017, which discussed the effectiveness of the national system for consumer protection and development of the strategy for public policy in this area. Particular attention at the meeting of the Advisory Council was given to the digital economy. Members of the Council were informed in detail about Russian initiatives on the issues related to consumer protection in e-commerce prepared within the framework of the Group of Twenty³⁷⁷.

The next meeting of the Advisory Council was held in October 2017 in Chisinau, the Republic of Moldova. Within the framework of the agenda of the event, topical issues were discussed in the field of protection of the rights and economic interests of consumers, as well as the most significant developments in the field of consumer protection that occurred between the meetings of the Council. During the discussion, it was noted that a number of CIS member states are currently implementing the reforms aimed at finding the optimal operation of the consumer protection system.

The Russian Federation informed the Council members about the ongoing work to improve consumer protection mechanisms in such important areas as e-commerce and consumer judicial protection. Particular attention was paid to the State Policy Strategy of the Russian Federation in the Field of Consumer Protection for the Period up to 2030. Participants expressed interest in studying and applying the Russia's experience in improving the financial literacy level of the population and in informing citizens under conditions of emerging new risks in the market of goods and services. The issues of operation, content filling and improving the effectiveness of the Rospotrebnadzor's web resource on consumer protection aroused great interest. Participants discussed the possibility of completing the portal with information received from the CIS member states ³⁷⁸.

Continuous efforts to protect the rights of consumers of financial services in the CIS area are made not only within the framework of the Advisory Council, but also with the participation of international organizations. For instance, on 29 June 2017 in Moscow, the three-year project of Technical Assistance to Financial Education for the CIS countries (OECD / INFE) ³⁷⁹ was presented. The Ministry of Finance of Russia provides financial support to this project.

The project is aimed at researching and analysing the level of financial literacy in the CIS countries, developing methods for implementing and evaluating effective financial education strategies as a supplement to financial methods of consumer protection. Some areas of the Project will address the issues of improvement of the financial literacy in target groups: youth and migrants.

The project will offer practical recommendations for the development, implementation and evaluation of the effectiveness of national financial education strategies in Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyz Republic and Tajikistan. The project is implemented with the support of the Ministry of Finance of Russia, which shared its experience in organizing and conducting a successful project to improve financial literacy. In addition, the participants shared experiences in implementing projects on financial education, outlined the challenges facing their countries.

Within the framework of interaction of the CIS countries with the OECD, an OECD conference on financial education in the CIS countries was held in Minsk on September 19-20, 2017, during which participants from Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan analyzed the state of their national financial education strategies and talked about ways to improve them³⁸⁰. The conference laid the foundation for a practical dialogue between the OECD and the financial departments of the CIS countries on the possibilities of using financial education to solve economic problems. Access to the information on the state of national financial education strategies and constant contact with OECD experts enables participants to develop the most effective tools for developing and implementing financial literacy projects. Overall effective policy of financial education will allow developing in the CIS countries a culture of sound financial behaviour, which is a prerequisite for improving the quality of life of citizens and guarantee the development of a stable financial system.

It should be noted that in the CIS member states, consumer protection is an integral part of public policy. Each state has created basic legal and organizational mechanisms for the effective implementation of this socially significant function.³⁸¹ A number of states are continuing reforms aimed at finding the optimal operation of the system for protecting consumer rights.

Below is an overview of the most significant events and initiatives in the development of national systems for protecting consumer rights and improving the financial literacy of the population of the CIS member states over the past year.

³⁷⁶ http://rospotrebnadzor.ru/deyatelnost/zpp/sng/public/?ELEMENT_ID=9318.

³⁷⁷ http://www.rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=8480&sphrase_id=1112046.

³⁷⁸ http://www.rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=9042.

³⁷⁹ <http://xn--80aaeza4ab6aw2b2b.xn--p1ai/for-smi/press/news/-proekt-oesr-o-tekhnicheskom-sodeystvii-finansovomu-obrazovaniyu-byl-prezentovan-dlya-stran-sng/>.

³⁸⁰ <http://xn--80aaeza4ab6aw2b2b.xn--p1ai/for-smi/press/news/paternalizm-stran-sng-snizhaet-finansovuyu-otvetstvennost-grazhdan/>.

³⁸¹ Report "On the Activities of the Advisory Council for the Protection of Consumer Rights in the CIS Member States".



In autumn of 2017, the institution of the Bank Ombudsman was established in Azerbaijan, which is designed to facilitate the resolution of disputes between banks and their clients without resort to courts, which strengthens confidence in the banking system.³⁸² Over 160 cases were considered, some of which were resolved in favour of bank clients.

The Bank Ombudsman has the right to resolve financial disputes for the amount of up to 3.000 manats. Before applying to the Bank Ombudsman, a client shall file a complaint to the bank, which is obliged to respond within a month. 30 days after sending the complaint to the bank or 60 days after receiving the answer, a person has the right to apply to the Ombudsman.

The following conditions must also be met in order to apply to the Bank Ombudsman:

- there is no effective final court judgement on the subject matter of the dispute;
- repeated application on the same issue is not allowed;
- subject matter of the dispute must not be more than two years old;
- application shall not be related to the general banking activity, range of services and interest policy;
- subject matter of the dispute shall not include a criminal or administrative violation;
- complaint must be addressed to existing banks.

It is important to note, that the Ombudsman works not only with the existing contracts, but also with those whose validity term expired two and more years ago. In 2018, Azerbaijan plans to adopt the Law "On Financial Ombudsman".

In 2017, Azerbaijan summed up the first results of the Strategic Roadmap for the Development of Financial Services in Azerbaijan (hereinafter referred to as the Road Map) approved in 2016.³⁸³ The monitoring report on the implementation of the Roadmap indicates that the key responsible parties (the Central Bank of Azerbaijan and the Chamber for Supervision of Financial Markets) has completed only 4% of the activities. On a 100% scale, the Central Bank has implemented only 38% of the envisaged activities, and the Chamber - 28%. The key responsible parties have completed the activities only for two of the five strategic goals outlined in the Roadmap: development of a financial system - 7%, development of financial markets - 8%. The greatest progress was achieved by state bodies in terms of capitalization and provision of liquidity in the banking system (50%), strengthening of the mechanism for regulating and supervising insurance activities (50%), improving the knowledge and skills of experts working in the financial sector (50%), literacy of consumers and protection of their rights (50%)³⁸⁴.

In 2017, Azerbaijan launched a unified call-centre of the "155" support service. Currently, the centre processes requests of citizens in three languages (in Azerbaijani, Russian and English) including those on financial services³⁸⁵.

The Association of Banks of Azerbaijan (hereinafter referred to as the ABA) established the Financial Literacy Council in 2017. ABA carries out activities related to financial literacy mainly through its subsidiary - Azerbaijan Bank Training Centre (hereinafter referred to as the ABTC). The purpose of the Council is joint discussion and coordination of planned works on financial literacy. The Council represents the leaders of member banks (members of the management board, etc.). Currently, there are 19 Azerbaijani banks in the Financial Literacy Council ³⁸⁶.



Within the framework of the **National Strategy of Financial Education, Armenia** has been holding for several years large-scale events of the annual program "Month of My Finance" (hereinafter referred to as the Month), which are designed to draw the attention of the Armenian public to issues of personal funds management and generally raise awareness about finance. The month includes both general theoretical and practical activities. Therefore, the joint efforts of a number of organizations and agencies - the Central Bank of the Republic of Armenia, the Union of Banks of Armenia, the Deposit Guarantee Fund, and certain commercial banks - regularly provide financial education to schoolchildren and students, media representatives and general public, since each and all have to face the above-mentioned range of issues on a daily basis. The number of participants in the Month is growing: in 2016 there were 5 thousand participants and 35 partners, in 2017 - 9.8 thousand participants and 55 partners, respectively. ³⁸⁷

The events of the Month are mainly held within four main themes:

- Finance for children and schoolchildren;
- Debt and loan (debt management, various types of loans);
- Insurance (types, advantages and disadvantages of insurance);
- Savings (destination, management and placement).

During the Month, numerous thematic competitions are organized and held, including the creation of new or improvement of available financial products.

The project "Month of My Finance" of the Central Bank of Armenia and the Yerevan City Tour program of the Yerevan Municipality, from 19 April to 15 May 2017, provided 8 tours to the branches of financial institutions for university undergraduates from finance and banking faculties and schoolchildren interested in this field ³⁸⁸.

In April 2017, the Central Bank of Armenia and the International News Agency "News-Armenia" also presented the joint

³⁸² <http://www.ombudsman.gov.az/en>.

³⁸³ Azerbaijan has identified 5 strategic goals for the development of financial services up to 2020 // http://aze.az/news_azerbaydzhan_opredelil_5_138786.html.

³⁸⁴ <https://www.trend.az/business/economy/2803144.html>.

³⁸⁵ <https://news.day.az/society/989854.html>.

³⁸⁶ <https://www.trend.az/business/economy/2744064.html>.

³⁸⁷ <https://armenpress.am/rus/news/895192>.

³⁸⁸ <https://shabat.am/ru/article/129102/Dlya-molodih-lyudey--zainteresovannih-bankovskoy>.

project "Financial Literacy", within the framework of which the Agency added "Wallet" section on its website providing training in certain financial literacy skills in unobtrusive and accessible form. The goal of the project is to use the method of entertaining tests and fascinating articles to teach the population of the country how to wisely use the services of financial market participants, manage finances efficiently with the help of innovative technologies, take care of money, avoid unnecessary waste and debts, and keep savings properly. In addition, financial awareness helps people to orient themselves in the various financial services offered today, not to make mistakes and not to become a victim of fraud.

Armenia was the first of the CIS countries to open the office of the Financial Ombudsman. The number of applications to the Financial Ombudsman for support in resolving financial disputes grows annually, as well as the amount of financial compensation that citizens receive. Over 9 years of activity, the Office of the Ombudsman (from January 2009 to 24 January 2018) received 20,376 complaints from citizens. About 70% of complaints concerns insurance companies, with most of them (80%) being related to the Compulsory Motor TPL Insurance (OSAGO). 73.38% of the total number of cases was resolved in favour of consumers, who received more than 1.2 billion drams in compensation. In 2017 only, 5,020 complaints were received, of which 4,368 - against financial institutions, which is 6.02% higher than in 2016. In 2017, 1,672 applications were accepted for consideration; with the office's help 82% of cases were decided in favour of clients.

The Office of the Ombudsman conducted a survey among its clients in 2017 to evaluate the quality of services provided. 811 respondents took part in the survey, 63% of them aged 20-45. The survey showed that 62% of respondents apply to the Ombudsman's office personally. In 2018, the Office of the Ombudsman intends to introduce an electronic system for receiving and processing complaints, which will reduce the time for consideration of complaints from the statutory 28 days to 20 days.³⁸⁹

Belarus conducts systematic and coordinated work to improve the financial literacy of all segments of the population.



The Interdepartmental Coordinating Council for the Improvement of the Financial Literacy of the Population, which includes representatives of the National Bank, the Ministry of Finance, the Ministry of Economy, the National Academy of Sciences of Belarus, the World Bank, the Association of Belarusian Banks and Commercial Banks, as well as other bodies and organizations, is the main implementator of the state policy in the area of improvement of the financial literacy of the population.

In the period from 27 March to 2 April 2017, Belarus hosted the Week of Financial Literacy under the slogan of "Learn. Save. Earn (Learn. Save. Earn.). On 28 March 2017, within the framework of the Week there was an international online conference for Belarusian schoolchildren and their peers from Romania and Macedonia. The children discussed issues of financial literacy, told about how they manage their personal finance. On 30 March 2017, BELKART together with the National Bank of the Republic of Belarus presented the book for children on financial literacy, which was drawn up by them jointly.

On 15 December 2017, the National Bank of the Republic of Belarus announced the winners of the Annual Republican Financial Literacy Olympiad for students of the 10th-11th grades, which had about 32,000 participants. The Olympiad is one of the most ambitious national events for the improvement of financial literacy. The main objective of the Olympiad is to popularize knowledge in the field of finance, develop students' practical skills in using financial instruments, and develop new forms of career guidance work.³⁹⁰

The Association of Belarusian Banks (hereinafter referred to as the Association) also actively participates in the implementation of measures to improve the financial literacy of the citizens of the Republic of Belarus, working on its own program to promote financial knowledge and increase the availability of banking services. Within the framework of the joint project "Assistance to the Development of Microfinance in the Republic of Belarus" ³⁹¹ between UNDP and the National Bank, the Association's employees have drawn up the "Personal Finance Manual". The Association, the National Bank and the "Komsomolskaya Pravda" newspaper have published "Money Alphabet" for children of junior and school age. Employees of the Association have adapted for Belarus the "Financial Literacy" personal finance manual of the New Economic School.



Kazakhstan became the first country among the CIS member states seriously tackling the issues of financial literacy and financial education of consumers.

Also, fingramota.kz information and training web portal was created within the framework of the State Program for Improving Financial Literacy. The Portal contains all the training materials developed under the Program available for download. News, financial reviews, information and analysis materials are updated on a continuous basis. The web portal also includes an online consultant and a collection of the financial market regulations. It also provides reference information on financial institutions, their products and services. There is a free hotline where anyone can get advice on financial services.

Kazakhstan released "Smart Game", the first educational computer game in the country aimed at improving the financial knowledge of the population. The game allows players to expand their financial knowledge in the areas of banking, insurance, pensions, and also discover in practice the principles and mechanisms of exchange trade. The game is developed for both PCs and mobile devices, and available for downloading online and forwarding via e-mail.

According to the Concept for the Development of the Financial Sector up to 2030, the National Bank of the Republic of Kazakhstan (hereinafter referred to as the NBRK) is called upon to coordinate efforts of central, local state bodies and mass media to raise the level of financial literacy of the citizens of the Republic of Kazakhstan.

The website of the National Bank of the Republic of Kazakhstan contains a section on the protection of the rights of consumers of financial services. Consumers can familiarize themselves with the procedure for filing and consideration of applications to the NBRK on issues falling within its competence, various kinds of information messages of the NBRK and

³⁸⁹ <http://newsarmenia.am/news/koshelek/finansovyy-ombudsmen-na-strazhe-vashikh-interesov-itogi-goda-obnadezhivayut/>.

³⁹⁰ <http://www.fingramota.by/ru/news/post/1446>.

³⁹¹ United Nations Development Program (hereinafter referred to as UNDP).

memos on the provision of financial services. Among other things, the website contains calculators for loan annual effective interest rates, return on deposits, prospective borrower's budget, monthly payment schedule by differentiated and annuity methods.

The NBRK conducts regular work through the placement of appropriate explanatory information in the mass media, participation in conferences and thematic TV and radio broadcasts, as well as analysis of the effectiveness of the NBKR's policy on improvement of the financial literacy of the population.

In 2018, as part of the Program for Improvement of the Financial Literacy of the Population, the NBKR plans to conduct a sociological study of the level of financial literacy as an indicator of the effectiveness of the implementation of the Program and a kind of "starting point" for the development and implementation of subsequent policy documents in the area of improvement of the financial literacy of the population.³⁹²

The NBKR has developed the program to improve the financial literacy of the population for 2016-2020, which will involve interested government agencies, financial institutions, the Association of Banks of Kazakhstan, the Association of Financiers of Kazakhstan, public organizations, the Academy of the Regional Financial Centre of Almaty City and non-governmental organizations. Within the framework of the Program, it is planned to conduct studies on the level of financial literacy of the population; work with target groups; publication of memos on financial services; posting online in conjunction with banks and Kazpost JSC the information on rates on loans and deposits, etc.

On May 6, 2017, the President of Kazakhstan signed a number of statutes aimed at protecting the rights of consumers of financial services. In particular, the Law of the Republic of Kazakhstan "On Debt Collection Activities" and the Law of the Republic of Kazakhstan "On Amendments and Additions to Certain Legal Acts of the Republic of Kazakhstan on Debt Collection Activities".

The aforementioned statutes have expanded the powers of the Bank Ombudsman, which was established in 2011. Now the Bank Ombudsman is entitled to consider disagreements, without the right to make decisions, arising between the borrower being an individual and the person to whom the right (claim) was assigned under the bank loan agreement or microlending agreement concluded with such borrower, on the basis of the borrower's request. For the purposes of complete and thorough consideration of applications received from borrowers, the law obliged third parties to interact with the Bank Ombudsman and provide any information requested by the Bank Ombudsman upon application of the borrower, whose obligations under the bank loan agreement or the microlending agreement were acquired by it ³⁹³.

On September 7-8, 2017, Almaty hosted the first Kazakhstani microfinance Forum "Improvement of the Financial Literacy as a Driver in Social and Economic Growth" organized by the KMF microfinance institution with the support of the National Bank of the Republic of Kazakhstan, the Association of microfinance institutions of Kazakhstan and the Association of Financiers of Kazakhstan, which was attended by experts from Kazakhstan, Kyrgyzstan, Georgia, Belarus and Russia.

The main topics of the Forum included the following: improvement of the financial literacy, foreign experience in implementing financial literacy programs, financial education for schoolchildren and students, financial literacy of entrepreneurs, opportunities for consolidation and interaction of the state and business in the implementation of financial literacy programs.³⁹⁴



In June, 2017, Kyrgyzstan enacted new Law "On the National Bank of the Kyrgyz Republic, Banks and Banking Activity". The new legislative framework significantly strengthened the norms of supervisory activities of the National Bank of the Kyrgyz Republic (hereinafter referred to as NBKR) (risk-based supervision), as well as protection of the rights and interests of clients (responsible lending). The new legislative framework also introduced the legislative norms regulating the terms for organizing banks' activities within the framework of Islamic financing, and updated requirements with regard to countering money-laundering and financing of terrorist activities.

The NBKR's website has a section (<http://www.nbkr.kg>) for consumers of financial services providing the relevant information, including memos ("Memo for bank card holder", "Memo for a depositor", etc.) Online portal "Financial Literacy" (<http://finsabat.kg/>) created by the NBKR within the framework of the program of improving the level of financial literacy of the population also continues to operate.

In the period from 4 to 6 January, from 28 to 30 March, from 1 to 3 November 2017, the National Bank, together with the German Savings Bank Foundation, organized the second, third and fourth stages of trainings for secondary school teachers in the fundamentals of financial literacy. This project is a pilot project of the NBKR and is being implemented in Kyrgyzstan since 2015 within the framework of the Memorandum on Long-Term Cooperation between the Savings Banks Foundation for International Cooperation and the NBKR. The project is aimed at training young professionals in the field of banking. Starting from 2016, the "Banking. Dual Professional Training of Bank Employees" project of the German Savings Bank Foundation includes a new direction - implementation of the Program for Improvement of the Financial Literacy of the Population of the Kyrgyz Republic, in particular, improvement of the financial literacy of school-age children. About 400 teachers were trained in just four stages ³⁹⁵.

From 27 March to 2 April 2017, Kyrgyzstan hosted the "World Money Week" under the motto "Learn. Save. Earn!" The week was held under the coordination of the NBKR and the assistance of state bodies - the Ministry of Education and Science, the State Agency for Youth, Physical Education and Sports, the Deposit Protection Agency, public organizations - the Development Policy Institute, the Union of Banks of Kyrgyzstan, the Association of microfinance institutions, - German Society for International Cooperation (GIZ), International Finance Corporation (IFC); commercial banks, financial, credit and other

³⁹² Informational message of the National Bank of Kazakhstan dated 7 September 2017, <http://www.nationalbank.kz>.

³⁹³ <http://bank-ombudsman.kz/archives/4150>.

³⁹⁴ <http://afk.kz/ru/news/povyshenie-finansovoj-gramotnosti-kak-faktor-soczialno-ekonomicheskogo-rosta.html>.

³⁹⁵ According to the "Financial literacy" portal <http://finsabat.kg>.

institutions.

During the "World Money Week" in Kyrgyzstan, the participating organizations, having united in one initiative group, conducted about 700 events, which were attended by more than 28 thousand children and young people, as well as 12 thousand adults; total coverage of the population was at least 1.6 million people.

The Ministry of Finance, the Deposit Protection Agency, commercial banks hosted welcome days, and everyone was able to see their work from the inside. Among other things, the NBKR told about the protective properties of national banknotes and coins³⁹⁶.



In **Moldova**, private banking institutions perform the majority of functions on improvement of the financial literacy.

In particular, the Moldovan Bankers League pays constant attention to the financial education and literacy of the Moldovan banking employees as a factor necessary to improve the quality and competitiveness of banking services by organizing various training programs for banks, including such topics as efficient branch management, modern techniques of selling banking products, economic analysis in the process of lending, risk and liquidity management, etc.³⁹⁷

Also, the "Financial Literacy for Youth" program launched in July 2015 is still underway in the Republic of Moldova. For instance, from 24 February to 25 February 2017, 15 students from three Universities of Moldova: "A. Rousseau" (Beltsy), "B. Petriceicu Hasdeu" (Cahul) and the Academy of Economic Studies (Chisinau) took part in a seminar on financial literacy skills³⁹⁸.



The International Finance Corporation, a member of the World Bank Group, in cooperation with the National Bank of **Tajikistan** and the financial institutions of the Republic on 14 December 2017 summed up the first three years of joint work to implement the Program on Raising the Level of Financial Literacy of the Population in the Republic of Tajikistan (2014-2017)³⁹⁹. Currently, the Program has 15 partner financial institutions, which provided training modules, video materials, tools for household income and expenses accounting, visual aids in the form of comics, and a series of video and audio clips to improve the financial literacy of the population. One of the most important results of the Program: more than 15,000 people, including 6,700 women, have been trained. Over the first half of 2017, more than 300 thousand consultations were provided.

The National Bank of Tajikistan is one of the key partners of this Program and takes an active part in disseminating materials on financial literacy among the population. The National Bank of Tajikistan presented the results of activities on financial literacy, noted the importance of increasing the level of financial education of the population for the financial sector as a whole, and the inclusion of issues on the financial literacy improvement in the Development Strategy of the Republic of Tajikistan for the period up to 2030.

The re-examination of the level of financial literacy carried out following the implementation of the Program demonstrated an increase in the number of citizens with savings by 6% (40% in 2017 compared to 34% in 2013), almost 4% more respondents noted that they fit into the planned budget⁴⁰⁰.



In April 2017, within the framework of the "Improvement of the Financial Literacy of the Population in Uzbekistan" project (being implemented by the Central Bank of Uzbekistan in conjunction with the Financial Sector Development Agency and the German Society for International Cooperation (GIZ) since 2014⁴⁰¹), the Central Bank of the Republic of **Uzbekistan** (hereinafter referred to as the CBRU) held a joint final meeting of advisory and working groups consisting of representatives of 23 ministries and institutions. The meeting discussed the 5-year plan of the activities on implementation of the above project. The program includes the conceptual framework of the budgeting, monitoring and evaluation. Particular attention was paid to gender issues. Within the framework of the program, a number of ministries and departments organized pilot trainings for trainers. In February 2017, trainings were held for the teachers of the regional institutes of advanced training that are part of the system of the Ministry of Public Education.

Starting from 2018, the CBRU and the International Finance Corporation, in conjunction with the Chamber of Commerce and Industry and the Association of Banks of Uzbekistan, in cooperation with commercial banks of the country, are planning to launch a financial literacy program for small businesses, private entrepreneurs and general public. One component of the program will be fully devoted to improving the financial literacy of the population.

As expected, the initiative will be implemented through various channels. One of the advantages of the program is that training will be combined with work. This is achieved through the use of modern e-learning methods: for example, part of the trainings will take place in the auditoriums of "Norma" Centre for Professional Development, other part - through webinars. By the end of the program, each student will have to pass a qualification exam⁴⁰².

The Service for the Protection of the Rights of Consumers of Banking Services has been established in accordance with Decree of the President of the Republic of Uzbekistan No. UP-5269, dated 9 January 2018, "On Measures for the Fundamental Improvement of the Activity of the Central Bank of the Republic of Uzbekistan" under the Department for Work with Individuals and Legal Entities of the Central Bank. The main tasks of the Service are protection of the rights and legitimate interests of

³⁹⁶ <http://finsabat.kg/?p=5093>.

³⁹⁷ <http://asros.ru/public/files/14/13621-sbornikanaliticheskikhmaterialov.pdf>.

³⁹⁸ <https://caritas.md/ru/educatie-financiara-pentru-tineri-2017>.

³⁹⁹ <http://nbt.tj/ru/news/459495>.

⁴⁰⁰ <https://cibt.tj/ru/news/item/17-nbt-ifc-kibt-i-finansovye-institut-y-prodolzhat-rabotu-po-povysheniyu-finansovoy-gramotnosti-naseleniya>.

⁴⁰¹ https://www.norma.uz/nashi_obzori/cb_iniciiruet_proekt_po_povysheniyu_finansovoy_gramotnosti_grajdan.

⁴⁰² <http://www.cbu.uz/ru/press-tsentr/press-relizy/2017/11/95839>.

consumers of banking services; increase of financial inclusion; and raising the level of financial literacy of the population and business entities. Herewith, the banking services will be deemed to include the services provided by commercial banks, microlending companies and pawnshops. And consumers of banking services will be deemed to include individuals, individual entrepreneurs, and legal entities.

In the course of its activities, the Service will consider complaints related to violations of consumer rights by commercial banks, microlending companies and pawnshops, and implement measures to eliminate such violations and restore the rights of consumers.

In terms of increasing the availability of financial services from credit institutions, it is planned to carry out activities in the credit and financial system to improve the culture of banking services, provide innovative banking services to meet the needs of clients and build public confidence in the banking system.

The CBRU intends to carry out systematic work to improve the norms of legislation aimed at protecting the rights of consumers of banking services and improve the quality of banking services, as well as measures to improve the financial literacy of the population and business entities.⁴⁰³

3.5. The main results of the implementation of the Joint Project of the Russian Federation and the International Bank for Reconstruction and Development



Starting from 2011, Rospotrebnadzor actively participates in the Joint Project of the Russian Federation and the International Bank for Reconstruction and Development "On raising financial literacy and development of financial education in Russia" (hereinafter referred to as the Project).

One of the main result of the Project last year was the approval of the Strategy for Improvement of the Financial Literacy in the Russian Federation for 2017-2023, which was the starting point for a new stage in the implementation of the state policy on financial education (see more in Sub-Section 7.1). The development of the Strategy for Improvement of the Financial Literacy of the Population in the Russian Federation was based on conducted studies and surveys of the level of

financial literacy.

The work on studying the financial behaviour of citizens continues in the framework of the Project. For instance, in the autumn of 2017, a field survey of the "payday loan" segment (PDL) with a sociological component was launched to study the matter of how the use of this kind of borrowed funds affects the financial well-being of consumers.

According to Rospotrebnadzor, over the past 5 years, the number of applications from consumers of financial services has increased by almost 50%. Last year, every fifth matter of consumers of the services market was related to the financial sector.

In this regard, in October 2017, with the participation of representatives of the Ministry of Finance, Rospotrebnadzor and the executive authorities of Moscow opened a 24-hour permanent hotline of Rospotrebnadzor in Zelenograd to address violations of the rights of consumers of financial services.⁴⁰⁴ Now everyone can ask their question at any time of the day.

In November-December 2017, more than 8 thousand applications were received by the Hot Line from consumers of financial services ⁴⁰⁵. Most calls came from residents of Moscow, Moscow Oblast and St. Petersburg. The five regions in terms of number of applications (excluding the capital regions): Krasnodar Krai, Republic of Tatarstan, Republic of Bashkortostan, Samara Oblast, Nizhny Novgorod Oblast. The vast majority of complaints, applications and inquiries was related to consumer lending, debt load, insurance, and payment services. Almost every tenth call was related to microfinance services. It is expected that during the peak periods, the hot line will be receiving up to 10 thousand calls every month, and, under normal conditions, the call centre will be able to process up to 7-8 thousand calls each month.

Ability to get prompt consultations and explanations on the issues of protection of the rights of consumers of financial services will facilitate the procedure for citizens to file complaints and applications, and increase the general level of awareness of the public about their rights, as well as the activities of Rospotrebnadzor in this field ⁴⁰⁶.

As in previous years, Rospotrebnadzor employees together with experts, tutors, scientists and educators regularly conduct consumer consultations, open lessons in schools and universities, training seminars, competitions, school olympiads, demonstrations of special educational videos. Within the framework of the Project in 2015-2016, there were distributed more than 7.5 million booklets and posters from the "WantCanKnow" series, teaching aids for children and students, containing visual recommendations and explanations on the purchase and use of financial services.

On the eve of the World Consumer Rights Day, which was held in 2017 under the "Consumer Rights in the Digital Age" motto, the employees of Rospotrebnadzor opened the All-Russian E-Commerce Hotline ⁴⁰⁷.

Representatives of the Project participated in the exhibition of the IV All-Russian Meeting of Extended Education Workers, which was held in Moscow from 11 December to 13 December 2017. The stand presented information and reference materials, useful advice on financial literacy. The experts of the Project conducted a financial literacy workshop: they told about the main formats implemented in the main regions participating in the Project, shared experiences, tools and

⁴⁰³ <http://www.cbu.uz/ru/deposit-and-credit>.

⁴⁰⁴ 8 800-100-29-26.

⁴⁰⁵ <http://xn--80aaez4ab6aw2b2b.xn--p1ai/for-smi/press/news/boleee-8-tsyach-zvonkov-postupilo-za-dva-mesyatsa-na-goryachuyu-liniyu-dlya-potrebiteley-finansovoykh>.

⁴⁰⁶ http://www.rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=9120.

⁴⁰⁷ http://www.rospotrebnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=8988.

mechanisms for teaching children and young people the basics of financial literacy.⁴⁰⁸

In 2017, the Good Ideas Fund successfully continued its work by offering support to local initiatives on improvement of the financial literacy of the population. Within the fourth round of competitive selection of the initiatives of the Good Ideas Fund, the Ministry of Finance of Russia has accepted applications⁴⁰⁹ for financing of the projects aimed at raising the level of financial literacy, protecting the rights of consumers of financial services and conducting an awareness-raising campaign.



One of the significant events of the Project in 2017 was the first International Conference called " Financial Consumer Protection: Global Challenges and Prospects " supported by FBK Grant Thornton. The conference was attended by representatives of regulatory bodies and public organizations in the field of consumer rights protection from the CIS and far abroad.

The participants of the Conference got acquainted with the best practices of state regulation in the field of protection of the rights of consumers of financial services and discussed the possibilities of application thereof in the Russian Federation. Particular attention was paid to discussing such issues as ensuring awareness of citizens about the principles of responsible consumer behaviour, including obtaining digital financial services, improvement of the financial literacy, protection of socially vulnerable categories of citizens, as well as judicial and extrajudicial practice in resolving consumer disputes with financial institutions.

In addition, the annual public report on consumer protection in the financial sector was presented at the Conference, which was also prepared with the participation of FBK Grant Thornton. The report reveals the legislative and practical aspects of consumer protection with respect to the financial sector. The report was the fifth in a row, and, like the previously published ones, was highly appreciated by Russian and foreign experts.

From 16 to 17 November 2017, Sochi hosted the All-Russian Conference: "Improving Financial Literacy in the Russian Federation: from the Implementation of the Project of the Ministry of Finance of Russia to Launch of the State Strategy." The Conference was attended by the representatives of the Ministry of Finance of Russia, the Central Bank of the Russian Federation, Rospotrebnadzor, the Project, 9 pilot regions participating in the Project, as well as 40 regions. The participants at the Conference discussed the strategy of improvement of the financial literacy and development of the roadmap for its implementation. During the event, 9 regions participating in the Project received awards for active participation in the events of the Week of Savings.

FOR REFERENCE

The "Money Doesn't Buy Happiness" miniseries, which was filmed in the framework of the Project with the support of the Ministry of Finance of Russia, premiered on TV Centre on 22 October 2017.

The plot of the miniseries reveals several "financial stories" that teach consumers to wisely manage their personal finances, avoid "debt traps". In general, the film promotes the formation of the audience's understanding of the basic rights and responsibilities of consumers of financial services.

The film covers 5 main topics relevant to the financial services industry:

- *safe use of ATMs:*
 - *keeping in secret PIN Code, CVC-code, card number,*
 - *use of ATMs in safe places,*
 - *ability to recognize scammers,*
- *credit cards and responsible use of loans:*
 - *decisions on large purchases, especially with the use of borrowed funds, should be taken in a balanced manner,*
 - *it is important to assess the need for the desired thing and carefully study the loan agreement,*
- *car loan:*
 - *it is important to weigh your capabilities and analyze all the upcoming payments,*
 - *it is probably better to save money on the car yourself or find the most cost-effective option,*
- *issues of debt servicing - guarantees and debt collectors:*
 - *the guarantor is responsible for the actions of the person, whose obligations he guarantees, therefore he must monitor the accuracy of his payments and be ready to repay his debts in case of insolvency;*
 - *if there are problems with the repayment of the loan, you should immediately contact the bank, describe the problem and ask for an opportunity to resolve it, because attempts to hide from the creditors may entail serious consequences,*
- *microfinance services:*
 - *microloans should be limited to small amounts and a very short period, as interest rates on them are high and in case of difficulties with repayment of the loan the amount of debt grows very quickly,*
 - *There are MFIs that do not comply with the laws,*
 - *consumer risks in this sector are very high.*

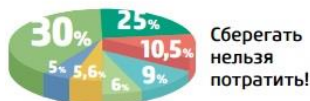
The film materials were included in educational videos on financial literacy and protection of the rights of consumers of financial services and were posted on the official website of the Ministry of Finance of Russia⁴¹⁰ and on the official channel of the Project

⁴⁰⁸ <http://xn--80aaeza4ab6aw2b2b.xn--p1ai/for-smi/press/news/proekt-minfina-na-meropriyatii-dlya-rabotnikov-dopolnitelnogo-obrazovaniya1>.

⁴⁰⁹ <http://goodideasfund.ru>.

⁴¹⁰ <https://www.minfin.ru/ru/om/ingram/directions/campaign>.

Employees of Rospotrebnadzor continue to improve their knowledge and skills in protection of the rights of consumers of financial services, including through modern information technologies. In 2017, there were two large-scale waves of e-learning on the basis of specifically developed System for Electronic Training in Protection of the Rights of Consumers of Financial Services. The System for Electronic Training uses the Rospotrebnadzor Infoteka database, the materials of which were updated and supplemented with additional test assignments and video clips. More than 1,100 remotely trained employees of Rospotrebnadzor from all regions of the Russian Federation successfully passed the weekend testing.



The All-Russian Online Olympiad on Financial Literacy for the different age categories of students was held for the first time in 2017 within the framework of the Project⁴¹¹. The purpose of the Olympiad was to improve the financial literacy of the younger generation of the Russian Federation, promote the development of financial literacy in the education system, raise the level of knowledge about the socio-economic sphere among teachers and students of grades 5-11, and improve secondary vocational education.

The Olympiad included the following types of assignments:

- choose one correct answer from the set of proposed answers,
- choose all correct answers from the proposed list,
- restore the correct sequence of events or actions,
- restore the matching (of terms and definitions, images and names),
- sort (different terms),
- solve the problems and provide respective explanations, etc.

More than 7,500 users have registered for the Olympiad. According to Yandex.Metrics, the Olympiad covered 85 regions.

Good news for mobile enthusiasts is the release of FinSovet mobile app developed under the Project⁴¹². Starting from 15 December, the mobile app is available for download for free at Google Play and App Store. The app includes the main topics of interest to a consumer in the financial market:

- fundamentals of financial knowledge,
- income planning,
- spending management,
- personal savings and pensions,
- loans and credits,
- investment,
- insurance,
- financial risks and security,
- consumer protection.

The app contains more than 100 articles, 400 terms, 60 step-by-step guides, which, in a compressed form, answer practical questions about financial services. The app also contains additional materials: sample contracts, extracts from statutes, receipts, forms of claims and complaints, as well as links to external sources.

Monhetkin free mobile app, which teaches the basics of budget management, was developed specifically for students of grades 2-8.



The main purpose of this app is to teach how to maintain the budget from an early age. It is expected that this will help to raise a more responsible attitude to personal finances from an early age and will become the key to forming a generation of financially literate and active citizens. The app also allows learning how to plan costs and revenues.

The app is available for free at App Store and Google Play. Specially developed website <https://монеткины.рф> allows users to get acquainted with cases for teachers and parents, which will help them work in the app with their children.

FOR REFERENCE

Within the framework of the Project, the National Agency for Financial Studies (NAFI) conducted a survey of rural residents on the use of loan products⁴¹³. A quarter of respondents use loan products: 26% of rural residents use cash loans, 24% use POS-loans, 14% use credit cards, and 16% borrow from family members, relatives, friends.

The most common reasons for the loan are large purchases - 57% and daily needs - 25%.

One-third of the rural residents interviewed never took loans. The most common reasons are reluctance to live in debt - 33%, inadequate income level - 22%, expensive loan servicing and high interest rate - 22%. Herewith, every fifth person has a deposit, mainly in a bank (98%).

The most common financial product for rural residents is bank cards. 58% of respondents use them, which is lower in comparison

⁴¹¹ <https://olimpiada.oc3.ru>.

⁴¹² <http://xn--80aaeza4ab6aw2b2b.xn--p1ai/for-smi/press/news/finsovet-mobilnyy-pomoshchnik-v-upravlenii-finansami>.

⁴¹³ <https://www.nafi.ru/analytics/selskie-zhiteli-polzuetsya-finansovymi-uslugami-no-zhaluyutsya-na-ikh-slozhnost>.

with 63% of labor migrants who have bank cards. Among the reasons for such a demand for bank cards, residents noted the lack of necessity - 63%, lack of extra money for signing up - 11%, lack of sufficient information about the product - 11%.

In general, respondents in rural areas estimate their financial literacy as low in 72% of cases. Respondents name the media as the main source of knowledge.

In the opinion of Guzeliya Imayeva, the General Director of NAFI Analytical Centre, "improving access to finance for rural residents will be happening through the development of remote identification and remote financial services."

In February 2017, within the framework of the Project, there was a contest for the best interview with financiers among the teams of students from grades 10-11 of general education schools and students of vocational colleges in five regions: Republic of Tatarstan, Stavropol Krai, Krasnoyarsk Krai, Kemerovo Oblast and Volgograd Oblast. Applications for participation in the contest were submitted by 52 schools and 15 colleges, which formed 627 teams.

The objective of the contest was to choose the topic on financial literacy relevant to the team of the region or municipality, conduct a sociological survey, discuss the results with an authoritative financier and form the interview materials (text, audio or video) and hand them over to a jury consisting of the representatives of the financial executive authorities, heads of financial institutions, social experts and journalists writing on financial topics.

The results of the Project implementation have been widely acknowledged by international institutions, forums and professional organizations due the systematic improvement of the financial literacy of the population, introduction of training programs in the fundamentals of finance and development of dedicated financial literacy aids for schoolchildren.

In 2017, the Project won IABC Gold Quill Awards 2017 in the "State Communication Programs" and "Special Events" nominations⁴¹⁴. The award of the Association of Business Communicators IABC Gold Quill Awards recognizes the best works in the field of business communications from around the world.

The project also made it into the final of the international competition Child and Youth Finance International Global Inclusion Awards within the framework of the Global Partnership Forum for Financial Accessibility of the Group of Twenty.

The CYFI Secretariat has included the Project in the best projects prepared by countries from different regions. Russia made it into the final in the Europe and Central Asia along with Romania, Latvia, Georgia and Azerbaijan.

The project was noted for a holistic and systematic approach to improving the financial literacy of the entire country, including children, youth, teachers and parents, as well as the introduction of finance topics at all levels of the education system.



In addition, the Project won "PRyanik of the Year" award in the "Mass Education" nomination, which was coincided with the day of PR Professionals⁴¹⁵. During the implementation of the Project, about 20 million people took part in various educational events on financial literacy. Over 900 tutors for the adult population have been trained in the Project, over 4,500 people have received training in financial literacy, including teachers, library workers, and others.

The project was also awarded a diploma for cooperation and support of the Moscow Financial Forum - 2017. The Project's display booth was presented at the forum, thanks to which the participants of the forum learned in detail about the federal loan bonds for the population, issued teaching aids on financial literacy for schoolchildren, "вашифинансы.рф" portal, "Week of Savings", as well as All-Russian Exam on Financial Literacy⁴¹⁶.

In 2017, the project received the "Financial Prestige" award, the only interregional award in Russia awarded to financial institutions based on the results of popular vote, inspections and independent assessments of the Expert Council, which includes representatives of regional authorities and professional organizations. The award was established in 2012 by the Tomsk Oblast Finance Department and the "Your Personal Finances" project with the support of the non-profit partnership for the development of "Finance Communications Information" financial culture. Citizens vote for the most comfortable customer service, convenient and profitable mortgage lending, the best websites of financial, credit, investment and insurance companies.⁴¹⁷



Therefore, the events and activities of the Project contribute to raising the level of financial literacy of the population and improving financial education, as well as generally strengthening the regulatory and methodological framework for protecting the rights of consumers of financial services, ensuring accessibility and greater transparency of financial services in the Russian Federation. According to Andrey Bokarev, the Project Director, who heads the Department of International Financial Relations of the Ministry of Finance of Russia, it was decided to extend the project up to the end of 2020 in order to ensure the widest possible dissemination of products and materials already created within its framework throughout the country.⁴¹⁸



In 2017, international organizations continued to pay great attention to the issues of electronic commerce, consumer protection and interests in the purchase of digital financial services, development of provisions of national legislation of countries taking into account the UN Guidelines, creation of the


⁴¹⁴ <http://xn--80aaeza4ab6aw2b2b.xn--p1ai/for-smi/press/news/proekt-minfina-rossii-po-povysheniyu-finansovoy-gramotnosti-nagrazhden-premiyu-iabc-gold-quill-award>.

⁴¹⁵ <http://xn--80aaeza4ab6aw2b2b.xn--p1ai/for-smi/press/news/proekt-minfina-rossii-po-povysheniyu-finansovoy-gramotnosti-nagrazhden-pryanikom-goda>.

⁴¹⁶ <http://xn--80aaeza4ab6aw2b2b.xn--p1ai/for-smi/press/news/proekt-po-povysheniyu-finansovoy-gramotnosti-naseleniya-byt-otmechen-na-mff-2017>.

⁴¹⁷ <http://xn--80aaeza4ab6aw2b2b.xn--p1ai/for-smi/press/news/proekt-minfina-rossii-po-finansovoy-gramotnosti-podderzhal-ezhagodnyuyu-mezhregionalnuyu-premiyu-fina>.

⁴¹⁸ http://minfin.ru/ru/press-center/?id_4=35078&area_id=4&page_id=2119&popup=Y.



global online map of consumer protection.

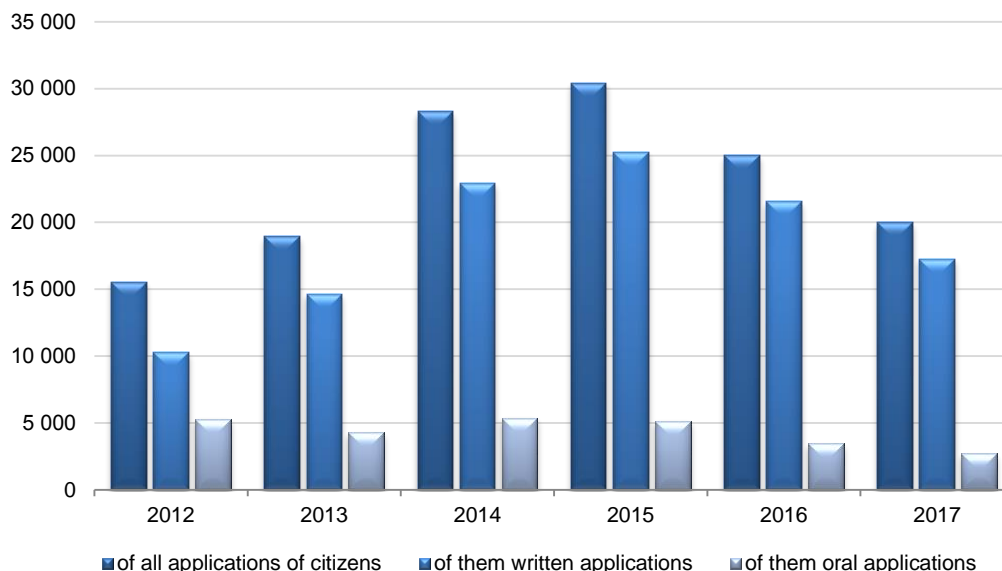
Active participation of Rospotrebnadzor in international cooperation provides an opportunity to present the best Russian practice in the field of protection of the rights of consumers of financial services and financial education of citizens, contributes to the development of practical mechanisms for interstate interaction and information exchange, including on the development of cross-border electronic commerce and regulation of the digital economy.

4. Results of the Rospotrebnadzor's activities and court practice in the field of protection of the rights of consumers of financial services

4.1. Consideration of applications and statements from consumers

During 2017, Rospotrebnadzor and its territorial bodies received 24,058 applications related to the rights of consumers of financial services, 19,965 of which came from citizens: 17,259 written and 2,706 oral applications (Figure 4.1). In total Rospotrebnadzor and its territorial bodies considered 23,358 applications, 19,479 of which came from citizens.

Figure 4.1. Movements in the number of citizens' application to Rospotrebnadzor on the issues of protection of the rights of consumers of financial services



Source: Rospotrebnadzor

Efforts by Rospotrebnadzor and increased attention to the protection of the rights of consumers of financial services by the RF Supreme Court (starting from 2012) led to a certain decrease in application, consumers began to complain less to the administrative body and apply more to the court. The next surge in the number of applications in 2014-2015 was caused by general destabilization of the financial market (problems of currency borrowers, etc).

Oral applications of citizens in recent years constitute no more than 10-15% of the total number of applications. In 2017, there were 2,706 such applications, which is 21.5% less than in 2016. Basically, these applications are considered in public reception offices functioning in the Central office⁴¹⁹ and regional offices of Rospotrebnadzor. This form of work with consumers is equivalent to a personal consultation (art. 13 of the Law "On the procedure for consideration of addresses of citizens of the Russian Federation"⁴²⁰) and is an effective tool for rapid consultation of consumers that not requiring administrative intervention. "Hot line" is similarly organized to work with consumers. If a citizen requires a response, for example in the form of a control activity, he is advised to send a written request (its registration is carried out directly in a personal reception).

Dynamics of appeals of consumers of financial services in a total volume of appeals received by Rospotrebnadzor, has always been small, in 2017, 4.5%.

In 2017, the number of applications with respect to the provision of financial services sent by Rospotrebnadzor to other bodies for consideration within their competence decreased by 18%, in 2016, there were 7,699 of such redirected applications, which in general corresponds to the stabilization of the situation on the financial market.

In turn, in 2017, the Bank of Russia received 122.3 thousand applications with respect to credit institutions, as well as 121.9 thousand complaints contained in applications against non-credit financial institutions and participants in corporate relations, which is by 22% more than the number of complaints received in 2016. Figure 4.2 shows the distribution of complaints by types of supervised subjects in 2017.

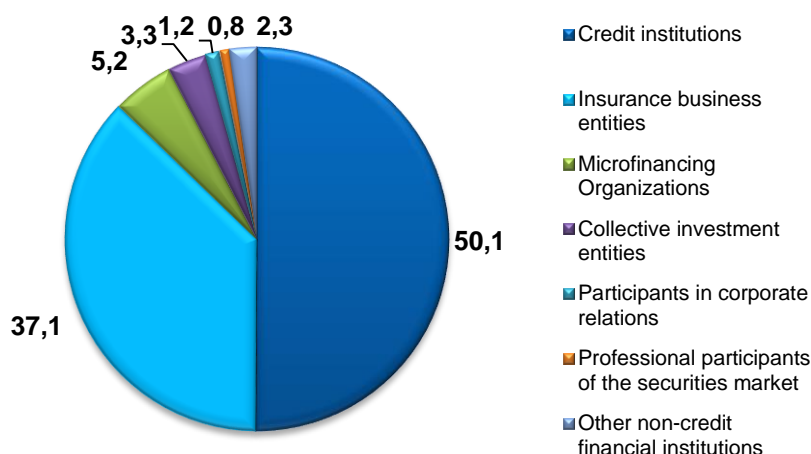
The structure of the applications of citizens to Rospotrebnadzor has traditionally been dominated by the applications related to the violation of consumer rights by banking institutions - 13,808 applications (72%) and insurance institutions - 3,298 applications (17%). The number of application of citizens who were dissatisfied with the services rendered by insurance institutions in 2017 decreased by 31% (in 2016 there were 4,798 of such applications), which may be related to the active work of the Bank of Russia in this area. In 2017, there were considered 764 applications related to the activity of payment agents (4% of the total number of applications of consumers of financial services considered), last year there were 943 of such applications.

⁴¹⁹ Regulation on Public office of Rospotrebnadzor // The official web-site of Rospotrebnadzor <http://rospotrebnadzor.ru>.

⁴²⁰ Federal Law of 02.05.2006 No. 59-FZ "On the Procedure for Consideration of Addresses of Citizens of the Russian Federation".

The structure of consumer applications by types of financial services considered by Rospotrebnadzor in 2017 is presented in Figure 4.3.

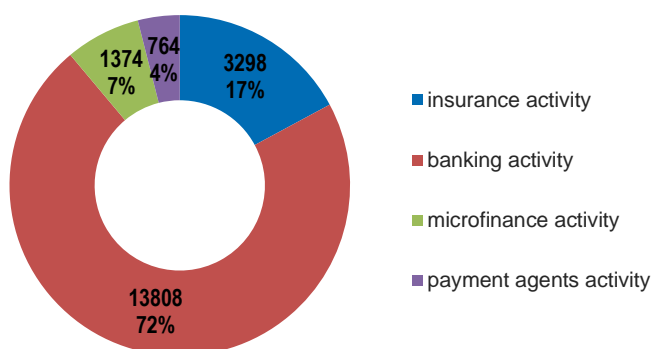
Figure 4.2. Distribution of complaints by types of supervised subjects in 2017 (%)



Source : Bank of Russia

The largest number of complaints received by the Bank of Russia against credit institutions relates to issues of consumer lending, the main topics of which are problems with loan repayment (37%), as well as mortgage lending (14%) and use of bank cards and ATMs (8%).

Figure 4.3. Appeals by types of financial services conducted by Rospotrebnadzor in 2017



Source: Rospotrebnadzor

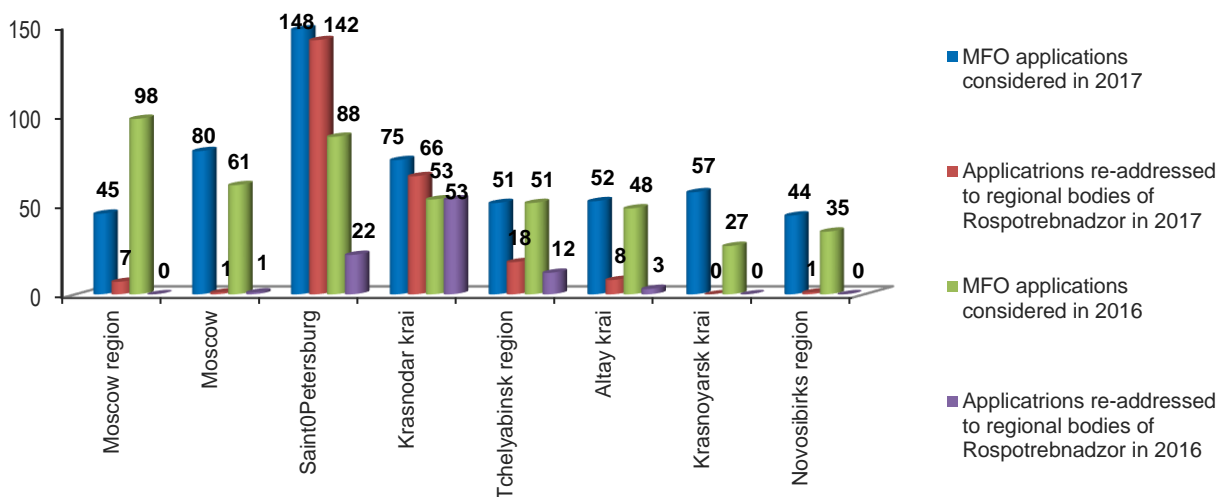
Regarding complaints about the activities of microfinance institutions (MFIs), the Bank of Russia has provided the following statistics: number of complaints as compared to 2016 increased by 6% equaling 12.6 thousand complaints. The largest number of complaints received regarding MFIs relates to the repayment of the debt under the microloan agreement (59% of complaints against MFIs), as well as provision of microloans (15% of complaints against MFIs).

In turn, according to Rospotrebnadzor, the number of complaints processed with respect to the actions of MFIs in 2017 decreased by 23% (from 1,456 applications in 2016 to 1,374 - in 2017, or by 7% of the total number of applications of consumers of financial services considered). The activity of MFIs in the regions is shown in Figure 4.4.

In 2017, 48.6% applications of consumers of microloans (668 out of 1,374 applications) after consideration were redirected by the territorial bodies of Rospotrebnadzor in accordance with subject matter jurisdiction. A small number of applications of the category in question (in 2017, 10 of 1,374 applications, or 0.7 (11%) resulted in supervisory activities with respect to MFIs.

The continuing trends in complaints against the actions of MFIs may become grounds for increasing the work on improvement of the financial literacy of the population, especially groups of citizens with low incomes being actual or potential consumers of MFIs' services.

Figure 4.4. Appeals of financial consumers on MFIs in several regions of the Russian Federation



Source: Rospotrebnadzor

Negative dynamics of applications in respect of insurance companies in 2017 (by 31% less than in 2015) may be accounted for by the activities of the Bank of Russia designed to protect the rights of users of financial services and minority shareholders by actively addressing complaints of users of insurance services.

With the general increase in the number of complaints registered by the Bank of Russia against non-credit financial institutions in 2017, as compared with 2016, there was a redistribution of the share of complaints broken down by sectors of the financial market. Therefore, the share of complaints against the activities of insurance institutions reduced by 4 pp in comparison with 2016, the share of complaints against microfinance institutions decreased by 2 pp, and against subjects of collective investments - increased by 5 pp.

According to the results of 2017, there was a significant (by 68%) decrease in the number of complaints about the hard selling of additional services and refusal to conclude a contract for Compulsory Motor TPL Insurance (OSAGO). Herewith, the number of complaints related to the use of the Bonus-Malus System (BMS) when concluding OSAGO contracts remains at high level (more than 38 thousand complaints in 2017, which amounted to almost 50% of all complaints related to OSAGO).

The Bank of Russia also notes an increase in the number of complaints on a new topic related to the issues of concluding OSAGO contract in the form of an electronic document (e-policy). The share of such complaints was 25% of all complaints related to OSAGO.

The number of complaints about disagreement with the amount of insurance compensation grew significantly (by 52%).

Petitions of public associations of consumers on issues of providing financial services to individuals form a separate category of applications.

For instance, in 2017, Rospotrebnadzor received from the public associations of consumers 15 applications regarding the protection of the rights of consumers of financial services, of which 8 (53.3%) - with respect to banking institutions, 6 (40%) — with respect to insurance institutions, 1 (6.7%) - with respect to microfinance institutions, herewith there were no complaints received regarding the activities of payment agents. In 2017, out of 15 appeals from public associations of consumers, none became the basis for an inspection, and only one became the basis for an administrative investigation. For comparison, in 2016, there were 5 and 2 of such applications respectively.

Analysis of the work with consumer application by all types of violations in the regional context shows that consumers of financial services in the Sverdlovsk Oblast, Krasnoyarsk Krai, cities of federal significance Moscow and St. Petersburg (5.8%, 5.4%, 7.4 % and 5.9 % of all considered applications, respectively) are the most active. Herewith, top-10 subjects of the Russian Federation in terms of the number of applications account for 8,688 applications, or almost 44.6 (7% of all considered application of consumers, Figure 4.5).

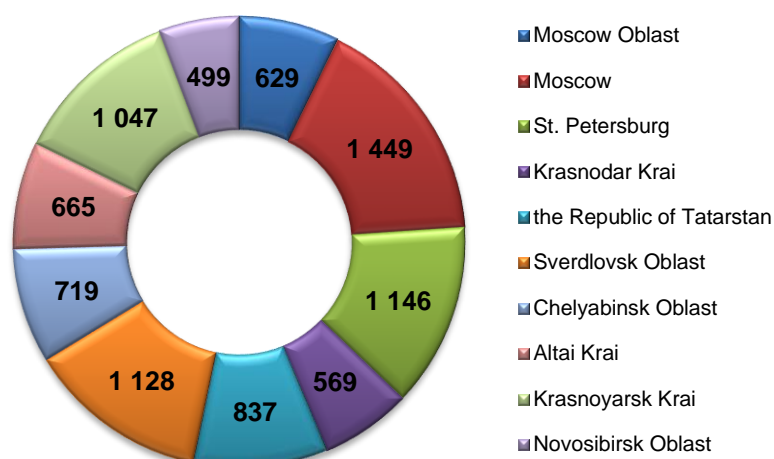
In reviewing the regional structure of consumer applications to Rospotrebnadzor in respect of financial organizations, it is important to consider the following. The top positions in terms of the number of applications addressed to regions indicated in Figure 4.5 are mainly represented by complaints against banking organizations and insurance companies.

In Saint Petersburg, Moscow Region, Tatarstan, Krasnoyarsk Krai and Moscow individuals actively complained against acts of all types of financial organizations, on which Rospotrebnadzor keeps its statistical accounting. Provided that an indisputable leader of addressing complaints is Moscow that outran Saint Petersburg in 2017. Out of 1,449 applications addressed by the Department of Rospotrebnadzor for Moscow, 967 applications dealt with the activities of banking organizations, 218 – insurance companies, 80 – MFOs and 149 – payment agents.

Saint Petersburg and Sverdlovsk region also boast, which is objectively explained by the citizens living in these regions who are distinguished by the most active social positioning and financial literacy. As regards the activities of MFOs and payment agents in 2016, the largest number of applications was addressed by the Department of Rospotrebnadzor for

Moscow region and Saint Petersburg – 45 and 148; 49 and 66 applications respectively. The allocation of individuals' applications handled by regional offices of Rospotrebnadzor in 2017 is given in Table 4.1 (per separate constituent entities of the Russian Federation) and Table 4.2 (per separate federal districts).

Figure 4.5 . Applications of consumers of financial services in 10 regions of the Russian Federation



Source : Rospotrebnadzor

Table 4.1. Structure of individuals' applications addressed in 2017 by regional offices of Rospotrebnadzor in separate constituent entities of the Russian Federation per types of financial services

Constituent entity of the Russian Federation	Total applications	of which in respect of:			
		Insurance companies	Banking organizations	MFOs	Payment agents
Saint Petersburg	1,425	238	1,099	88	149
Sverdlovsk region	1,410	295	921	43	9
Moscow	1,374	210	896	61	18
Krasnoyarsk Krai	1,290	234	1,007	27	44
Chelyabinsk region	945	102	792	51	23
Rostov region	770	156	545	69	4
Krasnodar Krai	762	153	541	53	16
Nizhny Novgorod region	750	146	526	58	22
Moscow region	747	105	531	98	46
Tyumen region	644	71	548	25	12
Republic of Bashkortostan	633	186	312	74	7
Republic of Tatarstan	491	94	270	36	33
Volgograd region	489	184	282	18	16
Samara region	460	105	294	10	10
Saratov region	414	83	299	32	24

Source: Rospotrebnadzor

Top regions in 2017 in terms of the number of complaints to Rospotrebnadzor regarding the actions of banking institutions: Moscow (967 applications), Krasnoyarsk Krai (844), Sverdlovsk Oblast (749) and St. Petersburg (725) - 7%, 6.1%, 5.4% and 5.3% of all application against banks, respectively.

Table 4.2. Structure of individuals' applications addressed in 2017 by regional offices of Rospotrebnadzor in separate federal districts of the Russian Federation per types of financial services

Federal district	Total applications	of which in respect of:			
		Banking organizations	Insurance companies	MFOs	Payment agents
Volga Federal District	4,696	1,201	2,924	326	217
Siberian Federal District	4,695	850	3,458	230	157
Central Federal District	4,689	792	3 368	262	172

Source: Rospotrebnadzor

Top regions in 2017 in terms of the number of complaints to Rospotrebnadzor regarding the actions of insurance institutions: Sverdlovsk Oblast (247 applications), Moscow (218), Altai Krai (191) and St. Petersburg (165) - 7.5%, 6.6%, 5.8% and 5% of all applications of the category in question, respectively. In 2016, Sverdlovsk Oblast was the leader in terms of the number of complaints regarding the actions of insurance institutions, herewith, in 2017, the number of applications decreased by 16,3%.

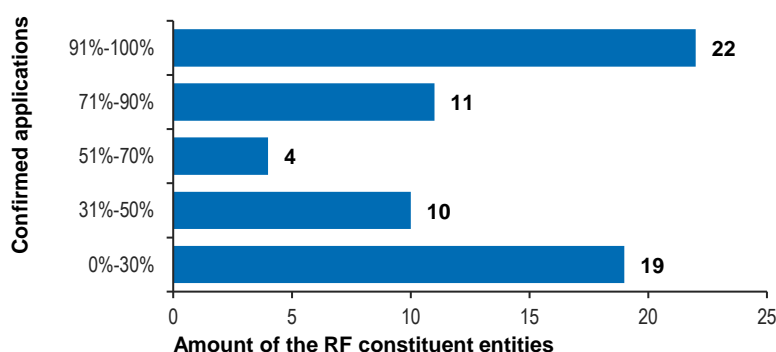
The greatest number of consumer complaints related to the activities of payment agents were filed by the residents of the Moscow Oblast (66 applications), St. Petersburg (49), Krasnoyarsk Krai (26) and the Republic of Tatarstan (25) - 8.6%, 6.4%, 3.4% and 3.3% (2) respectively of the total number of complaints against payment agents. In 2016, top regions included St. Petersburg (152 applications), Perm Krai (59), Novosibirsk Oblast (48) and Moscow Oblast (46).

Most of the claims in 2017 regarding the activities of microfinance institutions to Rospotrebnadzor were filed by the residents of St. Petersburg (148 applications), Moscow (80), Krasnodar Krai (75) and Krasnoyarsk Krai (57) - 10.8 (4%, 5.8 %, 5,5% и 4.2% of all applications with respect to MFIs, respectively. Top leaders in this category in 2016: Murmansk Oblast (129 applications), Moscow Oblast (98) and St. Petersburg (88). Therefore, one of the leaders of the past year in terms of the number of complaints about the actions of MFIs (St. Petersburg) was joined by Krasnodar Krai and Krasnoyarsk Krai, as well as Moscow Oblast. Such movements show that problems with MFIs to date are associated with the occasional activity of MFIs in different regions.

Analysis of Rospotrebnadzor's stats shows that in 2017 the total number of applications in the Russian Federation that resulted in inspections and administrative investigations amounted to 823 applications (3.5 % of all applications), in 2016 - 1,388 applications (4.8% of all applications). As a result of inspections and administrative investigations, the violation of the rights of consumers of financial services was confirmed in 615 cases (74.7%), which is higher than in the previous reporting period (61.4%). Herewith, in 19 regions no complaints were identified that could serve as a basis for conducting an inspection or an administrative investigation. This trend may mean that the "quality" of applications has deteriorated, and the adoption of administrative decisions by the bodies of Rospotrebnadzor in assessing the validity of the applicants' arguments has increased. This may also be due to changes in legislation (discussed in more detail in next Sub-Section 4.2 of this Report).

"The quality " of the processing by the territorial bodies of Rospotrebnadzor of the applications from the consumers of financial services and the adoption of administrative decisions on them is represented by the distribution of constituent entities of the Russian Federation according to the proportion of confirmed applications in the total number of applications that resulted in inspections and administrative investigations (Figure 4.6).

Figure 4.6. Number of subjects of the Russian Federation by a share of confirmed appeals became a basis for inspections and administrative investigations in a whole number of appeals



Source: Rospotrebnadzor

This distribution does not include the regions, which have no identified complaints resulting in an inspection or an administrative investigation.



Therefore, in 2017, the number of applications of citizens - consumers of financial services to Rospotrebnadzor and its territorial bodies decreased as compared to 2016. The number of consumer applications regarding the activities of banking, insurance and microfinance institutions, as well as payment agents, has decreased. Applications related to violation of consumer rights by banking institutions still hold a significant share among all applications of consumers of financial services. Herewith, the level of substantiation of the applicants' arguments fell against the backdrop of the increased effectiveness of the adoption by Rospotrebnadzor experts of the decisions based on the results of the consideration of applications.

4.2. Supervisory activities

Main indicators of Rospotrebnadzor control activity under financial consumer protection are presented in Table 4.3.

Table 4.3. Dynamics of the key supervisory performance indicators of Rospotrebnadzor

Indicator	2012	2013	2014	2015	2016	2017
Supervisory measures taken	1,785	1,807	1,606	1,461	1,666	1 000
of them scheduled ones	515	601	365	411	362	335
Violations revealed	5 946	8 232	5 575	5 420	7 083	6 443
Number of administrative investigations	880	721	672	550	433	536
Administrative offence reports completed	1,644	2,063	2,199	1,866	2,040	2470
of them upon the results of administrative investigations	707	589	539	498	360	501
Orders on bringing to administrative liability issued	1,353	1,595	1,853	1,999	2,271	2 217

Source: Rospotrebnadzor

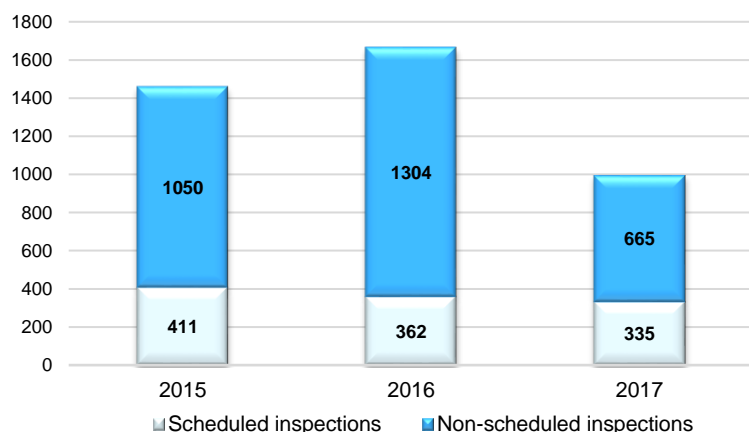
In 2017, Rospotrebnadzor carried out 1,000 supervisory activities with respect to compliance with consumer protection legislation in the financial sector, which is 40% less in comparison with the previous year (in 2016, 1,666 inspections were conducted).

As predicted in the previous reporting period, a sharp decrease in supervisory activities occurred due to unscheduled inspections (Figure 4.7) and is related to the enacted on 1 January 2017 new edition of Article 10, Part 2 of Federal Law No. 294-FZ, dated 26 December 2008,⁴²¹ according to which an unscheduled inspection may be conducted only "in case of an application to a body exercising federal state supervision over consumer rights protection by the citizens, whose rights were violated, provided that the applicant has applied for the protection (restoration) of his/her violated rights to the legal entity, an individual entrepreneur, and such application was not considered, or the applicant's claims were not satisfied".

This change in the procedure for the implementation of federal state oversight in the field of consumer rights protection was greeted by human rights defenders ambiguously. However, it is impossible to deny that, from a strategic point, this should lead to a positive result, since citizens will be interested in resolving issues using their civil consumer preferences, including the right to pre-trial settlement of a dispute under civil proceedings, in particular, through the filing of a claim.

⁴²¹ Federal Law No. 294-FZ, dated 26 December 2008, "On Protection of the Rights of Legal Entities and Individual Entrepreneurs in the Conduct of State Control (Supervision) and Municipal Control" as amended by the Federal Law No. 277-FZ, dated 3 July 2016, "On Amending the Federal Law "On Protection of the Rights of Legal Entities and Individual Entrepreneurs in the Conduct of State Control (Supervision) and Municipal Control", and the Federal Law "On Strategic Planning in the Russian Federation".

Figure 4.7. Structure of inspections of financial organisations conducted by Rospotrebnadzor in 2017 by types of control activities



Source: Rospotrebnadzor

As shown by the movements of the main indicators of the supervisory activities of Rospotrebnadzor given in Table 4.3, the results of administrative activities are weakly dependent on consumer complaints: despite a significant decrease in the number of supervisory activities (both scheduled and unscheduled), the number of violations identified as a result of inspections remains at approximately the same level (about 6-8 thousand violations per year), and the number of established administrative violations is increasing. This confirms the conclusion made in previous reporting periods about the increase in the effectiveness of administrative and supervisory activities of Rospotrebnadzor at the expense of internal resources (improving the skills of employees, improving the methodology, etc.)

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In 2017, Rospotrebnadzor sent to its territorial bodies the Instructional and Methodological Letter "On Regulatory Enforcement Practice in the Field of Financial Services" in connection with the approval on 27 September 2017 by the Presidium of the RF Supreme Court of the "Review of Judicial Practice in Cases Involving the Protection of the Rights of Consumers of Financial Services".

Herewith, Rospotrebnadzor not only brought up the relevant position of the RF Supreme Court on a number of issues related to the protection of the rights of consumers of financial services, but also recommended that the territorial divisions follow this Letter when exercising monitoring and supervision over the activities of retail trade organizations during the organization and conduct of respective scheduled and unscheduled inspections (in compliance with the provisions of Federal Law No. 294-FZ, dated 26 December 2008), as well as when deciding whether to conduct the relevant administrative investigations in the manner governed by the rules of the Code of Administrative Offenses of the Russian Federation.

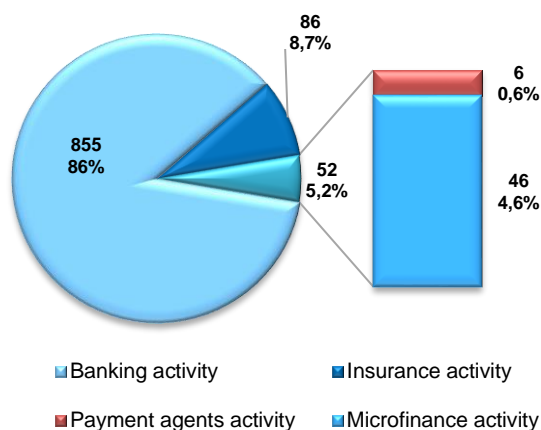
Despite the overall reduction in the number of supervisory activities, the structure of inspections in 2017 by types of activities of subjects has changed insignificantly (Figure 4.8.).

As before, the maximum share of supervisory activities falls on the banking sector. Herewith, as compared to 2016, the number of inspections of banking institutions decreased from 1,367 to 855 (by 37.5%), while the share of banks increased in the structure of inspections by 3 pp (from 83% in 2016 to 86% in 2017). In 2017, the number of inspections of payment agents' activity sharply decreased - only 6 of such inspections were conducted (in 2016, - 55). The number of inspections of insurance institutions decreased significantly (by 44.5%), in 2017, there were 86 inspections carried out against 155 in the previous reporting period. The number of inspections of microfinance institutions (MFIs) decreased by 25%, from 61 in 2016 to 46 in 2017, while the share of MFIs remained approximately the same in the structure of inspections (for comparison, in 2016 the share of MFIs was 4%).

Recently, the Bank of Russia actively carried out the reorganization of the banking sector, which led to a reduction in the total number of banking institutions (for details, please see Section 2 of this Report). This also contributed to a decrease in the indicators of supervision carried out by Rospotrebnadzor (in its part) in the financial market. Herewith, it can be assumed that observed movements of the structure of Rospotrebnadzor's inspections in the financial market is primarily attributable to the peculiarities of the organization of inspections, namely the three-year cycle of scheduled supervisory activities (Article 9, Part 2 of Federal Law No. 294-FZ, dated 26 December 2008). Therefore, we can expect that in the subsequent reporting periods the number of inspections will increase again.

Indirectly, this conclusion is confirmed by the structure of the inspections given in Table 4.4, including taking into account the dynamics of the indicators for the year. Thus, in relation to the previous reporting period, the share of unscheduled inspections decreased across all activities of inspected subjects: banking activity by 10.9 pp, insurance activity by 11 pp, microfinance activity by 27.6 pp., the activity of payment agents - by 5.7 pp. Therefore, the structure of inspections of financial organizations in 2017 was largely influenced by the indicators of scheduled supervision.

Figure 4.8. Structure of inspections of financial organisations conducted by Rospotrebnadzor in 2016 by types of financial services



Source: Rospotrebnadzor

Table 4.4. Structure of control (supervisory) measures taken per regional offices of Rospotrebnadzor in respect of financial organizations in 2017, per types of activities of targets

Type of activity	Number of inspections			Share of non-scheduled inspections
	scheduled	non-scheduled	total	
Activities of payment agents	273	582	855	68,1
Microfinance activities	43	43	86	50
Insurance activities	15	31	46	67,4
Banking activities	1	5	6	83,3

As already indicated, in 2017, the general trend of increasing the effectiveness of supervisory activities conducted by Rospotrebnadzor (its territorial bodies) in the market of financial services to consumers continues.

The proportion of inspections, which revealed violations, in the total number of inspections reached on average 71.8% (in 2016 - 59, 3% in 2015 — 62.6%). Violations were discovered during 284 out of 335 scheduled inspections (84.8 (9%), and during 434 out of 665 unscheduled inspections (65.3%).

Herewith, it should be noted that, in the previous reporting periods, the detectability of violations (ratio of the inspections, during which violations of mandatory requirements were detected, to the total number of inspections) during the unscheduled inspections conducted on the basis of applications from adversely affected consumers of financial services was of the same order: 65.3% in 2017, 53.3 % in 2016 and 55.5% in 2015. This circumstance confirms the previous conclusion that the legislative introduction of the mandatory pre-court dispute settlement procedure prior to the consumer's application to Rospotrebnadzor to initiate an unscheduled inspection led to a reduction in the number of such inspections, but did not affect the quality of such applications, as the improvement of consumer and financial literacy of citizens due to incentives to independently settle disputes with providers of financial services can not be manifested quickly, this is an expected positive effect in the medium and long term.

In 2017, detected violations were distributed by separate types of activity of financial institutions - subjects of inspections, as follows: banking - in 650 out of 855 inspections (76%), insurance - in 59 out of 86 inspections (6%), microfinance - in 34 out of 46 inspections (73.9%), activities of paying agents - in 5 out of 6 inspections (83.3%).

Detection of violations for the last three reporting periods in the context of certain types of financial activity of the subjects of inspections is presented in Figure 4.9.

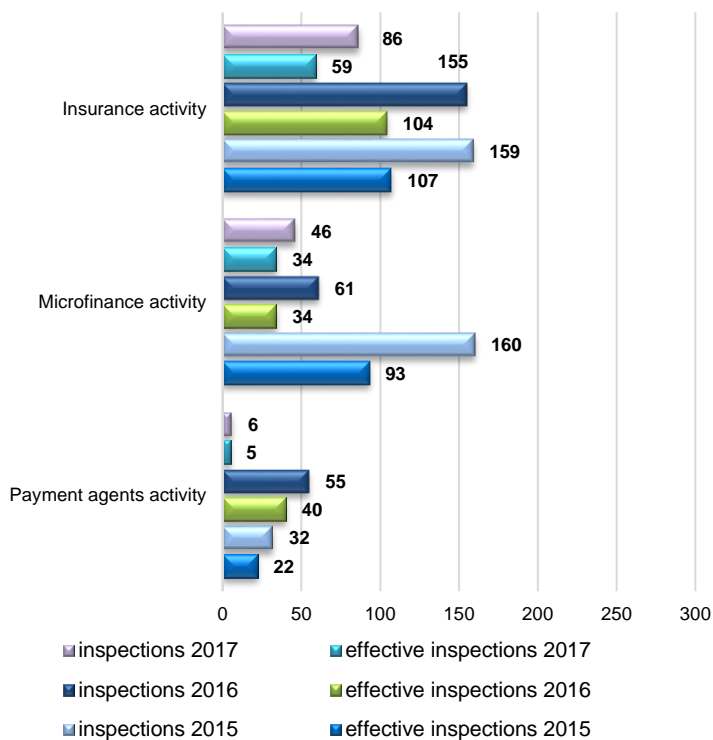
In total, according to the results of the inspections carried out in 2017, there were 6,443 violations discovered, which constitutes 91% of the same indicator in 2016 (7,083 violations). It can be seen from Table 4.3 that the movements of absolute indicators of detected violations clearly "follows" the movements of supervisory activities, therefore a slight decrease in indicators in relation to 2016 may be due to an objective decrease in the number of inspections.

As in the previous two reporting periods, about 57.5% of detected violations (3,710 violations) were related to non-compliance with the Law "On Protection of Consumer Rights" ⁴²² (in 2016 - 54%, in 2015 - 56%), the remaining 2,729 violations were related to violation of mandatory requirements established by other regulations of the Russian Federation in the field of

⁴²² Law of the Russian Federation No. 2300-1, dated 7 February 1992, "On Protection of Consumer Rights".

consumer relations.

Figure 4.8. Dynamics of Rospotrebnadzor's inspections and violations revealed in 2015-2017 by types of financial services



Source: Rospotrebnadzor

Also, most of the violations of the rights of consumers of financial services were falling under Articles 8-10, 12 of the Law "On Protection of Consumer Rights" (right of consumers to information) and Article 16 of the Law "On Protection of Consumer Rights" (free choice of goods, works, services). In a similar Report of Rospotrebnadzor for 2015⁴²³, it was noted that violations of the requirements of purely "financial" Article 16.1 of the Law "On Protection of Consumer Rights" (forms and payment procedure) are included in the violations of "other articles of the Law", there is no separate statistical accounting for this type of violation. This feature was preserved in the departmental statistical reports of Rospotrebnadzor in 2017.

The effectiveness of inspections (the number of detected violations of mandatory requirements per one inspection) in 2017 with respect to financial services increased sharply and constituted 6.4 violations per one inspection (for comparison: in 2016 - 4.3; in 2015 - 3.7; in 2014 - 3.4; in 2013 - 4.6; in 2012 - 3.3). The effectiveness by the types of activity of financial institutions being subjects of inspections in 2017 was as follows: banking - 6.3 violations per one inspection, insurance - 5.9, microfinance - 9.7, activity of paying agents - 6.

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In 2017, average effectiveness of the Rospotrebnadzor's inspections in the consumer market was 2.7 violations per one inspection.⁴²⁴

Such indicators of the effectiveness of inspections, in addition to the previous conclusion on improving the effectiveness of federal state supervision in the field of consumer rights protection at the expense of the internal resources of Rospotrebnadzor, indicate that violations of consumer rights recorded in the financial market are well known and easily qualified (there are no new varieties of offenses, as rule, associated with the emergence of new financial services and products). Herewith, the notability and ease of qualification does not simplify proving the fact of the offense and the guilt of an unscrupulous participant in the financial market, which can be evidenced by the indicators of the Rospotrebnadzor's practice of establishing administrative offenses.

In 2017, there was a change in the trend of decrease in the number of administrative investigations (Table 4.3): in total, there were 536 administrative investigations during the reporting period. It can be assumed that the increase in this indicator is due to the factors already mentioned: increased professionalism of the Rospotrebnadzor's employees, development of established regulatory enforcement practices with the methodological assistance of Rospotrebnadzor to its territorial bodies, introduction of mandatory pre-court dispute settlement procedure for citizens before applying to Rospotrebnadzor to initiate an unscheduled inspection.

Rospotrebnadzor was commencing cases concerning administrative offences independent of supervisory activities.

⁴²³ The Rospotrebnadzor's Report "On the State of Consumer Protection in the Financial Sector in 2015" / Ministry of Finance of the Russian Federation - p. 332.

⁴²⁴ According to Rospotrebnadzor's data (Form of Sectoral Statistical Observation No. 1-17).

Therefore, the introduction of mandatory pre-court dispute settlement procedure for citizens could not but stimulate such practices, including through administrative investigations. So, if the consumer of financial services, who considers himself to be adversely affected, applies to Rospotrebnadzor without filing a claim to the provider of respective services, this will constitute the grounds for refusing to conduct an unscheduled inspection, but does not prevent the initiation of an administrative offense case, if essential elements of an administrative offense are seen in the events reported by citizen. Administrative investigation is a convenient form of responding to such messages from consumers of financial services, in cases where the presence of an administrative offense is in doubt and needs additional investigation (without conducting an unscheduled inspection).

The Rospotrebnadzor's Report "On the State of Consumer Protection in the Financial Sector in 2015" notes that administrative investigations as procedural institution are intended to eliminate the defects of the evidentiary basis of the existence of an administrative offense. The more incomprehensible the situation with the qualification of events is, the greater the need for an administrative investigation in the presence of formal grounds is ⁴²⁵.

Table 4.5 shows that in 2017 the number of carried out administrative investigations has increased in relation to all specializations of participants in the financial market, except for the activities of payment agents. However, the indicators of administrative activities of Rospotrebnadzor in respect to payment agents are traditionally low, because, due to the peculiarities of the provisions of Article 37 of the Law "On Protection of Consumer Rights", in most cases, the responsibility for settlements with consumers is directly vested in the providers of services (works) and sellers, even when financial intermediaries are used in such settlements. Herewith, regulatory enforcement practice under Article 16.1 of the Law "On Protection of Consumer Rights" related to acquiring ⁴²⁶ and formally related to the category of financial intermediation, is still in the stage of forming. Complaints of consumers to this kind of service are still rare; as of the end of 2017, there is no available data on the respective administrative investigations by Rospotrebnadzor, during which the legal status is assessed for all participants in acquiring.

Table 4.5. Dynamics of administrative investigations performed by Rospotrebnadzor in 2014–2017 in respect of financial organizations, per types of activities

Type of activity of the party liable	Administrative investigations performed			
	2014	2015	2016	2017
Banking activities	484	418	344	366
Insurance activities	148	85	28	38
Microfinance activities	28	40	53	121
Activities of payment agents	3	2	4	3

Source: Rospotrebnadzor

FOR REFERENCE

Rulings of the RF Supreme Court No. 302-AD15-5871, dated 22 June 2015, in case No. A78-7960 / 2014 and No. 302-AD15-8115, dated 31 July 2015, in case No. A78-7700 / 2014 confirmed the legality of the actions of the Rospotrebnadzor Division in the Zabaykalsky Krai, which imposed liability under Article 14.7 of the Code of Administrative Offenses of the Russian Federation on individual entrepreneur S.N.G. for the sale of goods by means of non-cash payment (bank card) at a price higher than for cash.

Having examined the case materials, having evaluated the evidence supplied, being guided by the provisions of the above-mentioned norms of law and having examined the terms of the agreement concluded between the entrepreneur and the bank for settlements on transactions with the use of bank cards, the courts concluded that the actions of the company contain the elements of the alleged administrative offense, while lawfully pointing out the illegality of charging consumer a higher price for the goods than the price established by the contract of retail sale, as well as imposing on consumer the entrepreneur's expenses arising from the acquiring agreement.

The case on an administrative offense was initiated on the basis of the complaint of the adversely affected consumer, no administrative investigation was conducted.

Rospotrebnadzor Division in the Zabaykalsky Krai proceeded from the general requirements of Article 10 of the Law "On Protection of Consumer Rights". Starting from 5 May 2014, the norms of Article 16.1, Clause 4 of the Law "On Protection of Consumer Rights" prohibit, when paying for goods (works, services), to the seller (provider) to set different prices in relation to one type of goods (work, services), depending on the method of payment by cash or in the form of non-cash settlements.

The steady increase in the number of administrative investigations conducted against MFIs shows that this area of financial activity is still in the focus of supervisory bodies, being the most risky for consumers of financial services. The various schemes used in microlending are often complex and non-transparent, so administrative investigations are considered as the most effective tool for legal assessment and qualification of relevant events.

⁴²⁵ Article 28.7 of the Code of Administrative Offenses of the Russian Federation establishes the formal grounds for commencing a case on an administrative offense through an administrative investigation.

⁴²⁶ Acquiring means acceptance for payment of bank (payment) cards as a means of payment for goods, works, services via payment terminals (POS-terminals, mPOS-terminals, imprinters, etc.)

In 2017, there was confirmed a traditionally high share of investigations, during which violations were found - 89.7% (in 2016, 2015 and 2014 - 79.2%, 85.3% and 80.2% respectively). If during an administrative investigation the event of an administrative offense is confirmed, a protocol on an administrative offense shall be drawn up.

In 2017, territorial bodies of Rospotrebnadzor drew up 501 protocols on an administrative offence upon termination of administrative investigation concerning a financial institutions, (in 2016 - 360 , in 2015 - 498), which constitutes 20.3% in the total number of protocols on an administrative offence .

In total for the year 2017, regional offices of Rospotrebnadzor prepared 2,470 administrative offence reports (2,040- in 2016) in respect of financial organizations, including 1,767 reports in respect of agents of banking activities, 398 reports on respect of microfinance organizations, 257 reports in respect of insurance companies and 10 reports in respect of payment agents.

In respect of violations detected by Rospotrebnadzor in the financial market, 2,217 orders on imposing an administrative punishment were issued in 2017 (in 2016 and 2015 – 1,271 and 1,999 orders respectively), including the imposition of 1,797 administrative fines totalling RUB 25.87 million and the issue of 420 warnings. Of them, administrative punishments were imposed per the following types of financial activities: 1,457 – agents of banking activities, 483 – microfinance activities, 231 – insurance activities and 63 – activities of payment agents. Judgements on the assignment of administrative punishment were issued on 10 elements of administrative offenses, among which, as in the previous reporting period, Part 1 of Article 14.4, Part 1 of Article 14.5, Parts 1, 2 of Article 14.7, Parts 1 and 2 of Article 14.8 of the Code of Administrative Offences of the Russian Federation (Table 4.6) were applied the most often.

In the course of considering cases on administrative offences in the market of financial services in 2017 Rospotrebnadzor made 519 submissions on eliminating the reasons and conditions that enabled committing an administrative offence, of which 374 were addressed to lending institutions, 89 to microfinance organizations, 53 to insurance companies and 3 to payment agents.

Table 4.6. Application by Rospotrebnadzor of certain elements of administrative offences in respect of financial organizations in 2017, per types of activities

Total orders on imposing an administrative punishment	including under the provisions of the Code of Administrative Offences of the Russian Federation					
	14.4 Part 1	14.5 Part 1	14.7 Part 1	14.7 Part 2	14.8 Part 1	14.8 Part 2
Total	38	19	59	38	437	1 194
including per types of activities of the party liable:						
Banking activities	31	9	51	37	305	870
Insurance activities	4	1	5	1	58	134
Microfinance activities	3	9	3	0	72	188
Activities of payment agents	1	1	1	0	3	53

Source: Rospotrebnadzor

Therefore, in 2017, the issues of violations of consumer rights to information, as well as inclusion of terms that infringe the legitimate rights of consumers have not lost their relevance.

Some examples from the administrative judicial practice Rospotrebnadzor are listed in Table 4.7 .

Table 4.7. Infringements of the rights of consumers, which served as the basis for the rendering by arbitration courts of awards in favour of consumers of financial services when challenging the administrative actions of the territorial bodies of Rospotrebnadzor in 2017

Category of the case	Examples of judicial practice
Decisions on bringing to responsibility under Article 14.8, Part 2 of the Code of Administrative Offences of the Russian Federation (inclusion in the contract of the terms infringing the consumer's rights established by the law)	<p>Clause 19 of the Review of Judicial Practice in Cases involving the Protection of the Rights of Consumers of Financial Services (approved by Presidium of the RF Supreme Court on 27 September 2017).</p> <p>Bringing the organizations providing financial services to administrative responsibility provided for by Article 14.8, Part 2 of the Code of Administrative Offences of the Russian Federation , for the inclusion in the loan agreements of the terms that infringe the consumer's rights, in comparison with the rules established by the legislation in the field of consumer protection, is recognized to be lawful.</p> <p>Ruling of the Arbitration Court of the Moscow District dated 12 May 2017 No. F05-4971 / 2017 in case No. A40-106784 / 2016.</p> <p>Ruling: The satisfaction of the claim is denied, because in the circumstances set forth in the case materials, the courts reasonably indicated the presence in the</p>

Category of the case	Examples of judicial practice
	<p>actions of the insurance institution of the elements of an administrative offense, the responsibility for which is provided for by Article 14.8, Part 2 of the Code of Administrative Offenses of the Russian Federation , a fine of 20 thousand rubles was imposed by the Division of Rospotrebnadzor in Moscow within the limits of the sanction.</p> <p>Ruling of the Arbitration Court of the Moscow District dated 31 July 2017 No. F05-10526 / 2017 in case No. A40- 237430 / 2016.</p> <p>Ruling: The determination on bringing to administrative responsibility under Article 14.8, Part 2 of the Code of Administrative Offenses of the Russian Federation and the order on elimination of violations of the legislation of the Russian Federation in respect to the bank are lawful, an administrative fine of 10 thousand rubles is imposed within the limits of the sanction.</p> <p>Ruling of the Arbitration Court of the Volga District dated 14 November 2017 No. F06-26146 / 2017 in case No. A49-3277 / 2017.</p> <p>Ruling: The complaint of microlending institution shall not be subject to satisfaction, because the Division of Rospotrebnadzor in the Penza Oblast had lawfully issued a determination on bringing to administrative responsibility under Article 14.8, Part 2 of the Code of Administrative Offenses of the Russian Federation in the form of a fine of 15 thousand rubles and an order on the elimination of the reasons and conditions that contributed to the commission of an administrative offense .</p>
<p>Rulings on bringing to responsibility under Article 14.8, Part 1 of the Code of Administrative Offenses of the Russian Federation (violation of the right of the consumer to obtain necessary and reliable information about the goods (work, service), the manufacturer, the seller, the provider and the mode of their operation).</p>	<p>Ruling of the Arbitration Court of the West Siberian District dated 10 February 2017 No. F04-7120 / 2017 in case No. A46-10088 / 2016 .</p> <p>Ruling: The Division of Rospotrebnadzor in the Omsk Oblast had lawfully issued the decision with respect to the bank on bringing to administrative responsibility provided for by Article 14.8, Part 1 of the Code of Administrative Offenses of the Russian Federation , in the form of an administrative fine of 5 thousand rubles .</p> <p>Ruling of the Arbitration Court of the Far Eastern District, dated 30 May 2017, No. F03-1550 / 2017 in case No. A37-1602 / 2016.</p> <p>Ruling: having established the presence of fault of the bank in the committed offense, observance of the procedure and limitation period of bringing to responsibility, conformity of the size of the imposed fine with the sanction provided for by Part 1 of Article 14.8 of the Code of Administrative Offenses of the Russian Federation, the courts of the first and appellate instances came to the correct conclusion that there were no grounds for recognizing unlawful and revoking the determination of the Division of Rospotrebnadzor in the Magadan Oblast.</p>
<p>Determinations on bringing to responsibility under Article 14.7, Part 2 of the Code of Administrative Offenses of the Russian Federation (misleading consumers about the consumer properties or quality of the goods (work, services) in the production of goods for sale or in the sale of goods (work, services))</p>	<p>Ruling of the Arbitration Court of the Urals District dated 6 December 2017 No. F09-6954 / 17 in case No. A60-3808 / 2017.</p> <p>Ruling: the courts came to a justified conclusion that there are legal grounds for issuing a determination with respect to the bank by the Division of Rospotrebnadzor in the Sverdlovsk Oblast on bringing to administrative responsibility under Article 14.7, Part 2, Article 14.8, Parts 1, 2 of the Code of Administrative Offenses of the Russian Federation in the form of a fine in the amount of 250 thousand rubles.</p>

According to the data of Rospotrebnadzor⁴²⁷, in 2017, credit institutions had appealed against 573 determinations out of 2,217 determinations on the imposition of administrative punishment issued by Rospotrebnadzor's territorial bodies in respect to financial institutions, or 25.8 (8% (for comparison: in 2016, 2015, 2014 banks had appealed against 26.2%, 23%, 29.8% of determinations, respectively).

In 2017 , out of 573 complaints of the banking institutions examined by court of the first instance in respect to the rulings on the imposition of an administrative penalty by Rospotrebnadzor, 79 were revoked by the court, or 13.8% (in 2016, 61 determinations were revoked, or 10.2% of the total number of bank complaints to the court, in 2015 - 77, or 16.7%, respectively). Out of 330 appellate complaints, court of the second instance issued 212 rulings, or 64.2%, in favour of Rospotrebnadzor (for comparison: in 2016 - 85.8%, in 2015 - 76.3%). Out of 60 cassational appeals, 31 rulings of the court of the third instance, or 51.7%, were in favour of Rospotrebnadzor (in 2016 - 68.6%, in 2015 - 76.3%), all 4 supervisory complaints were ruled in favour of Rospotrebnadzor (for comparison: in 2016, 3 out of 4 supervisory complaints were ruled in favour of Rospotrebnadzor).

The general conclusion of the given data comes down to the following: In 2017, the activity of banking institutions on appealing the Rospotrebnadzor's determinations on the imposition of administrative punishment for violating the rights of consumers of financial services had increased, herewith the share of complaints of banks to the actions of Rospotrebnadzor

⁴²⁷ According to internal statistics (letter from Rospotrebnadzor, dated 10 November 2008 , No. 01 / 12725-8-32 "On the Practice of Applying by Courts of the Legislation on the Protection of Consumer Rights (in the Cases Involving the Territorial Bodies of Rospotrebnadzor)").

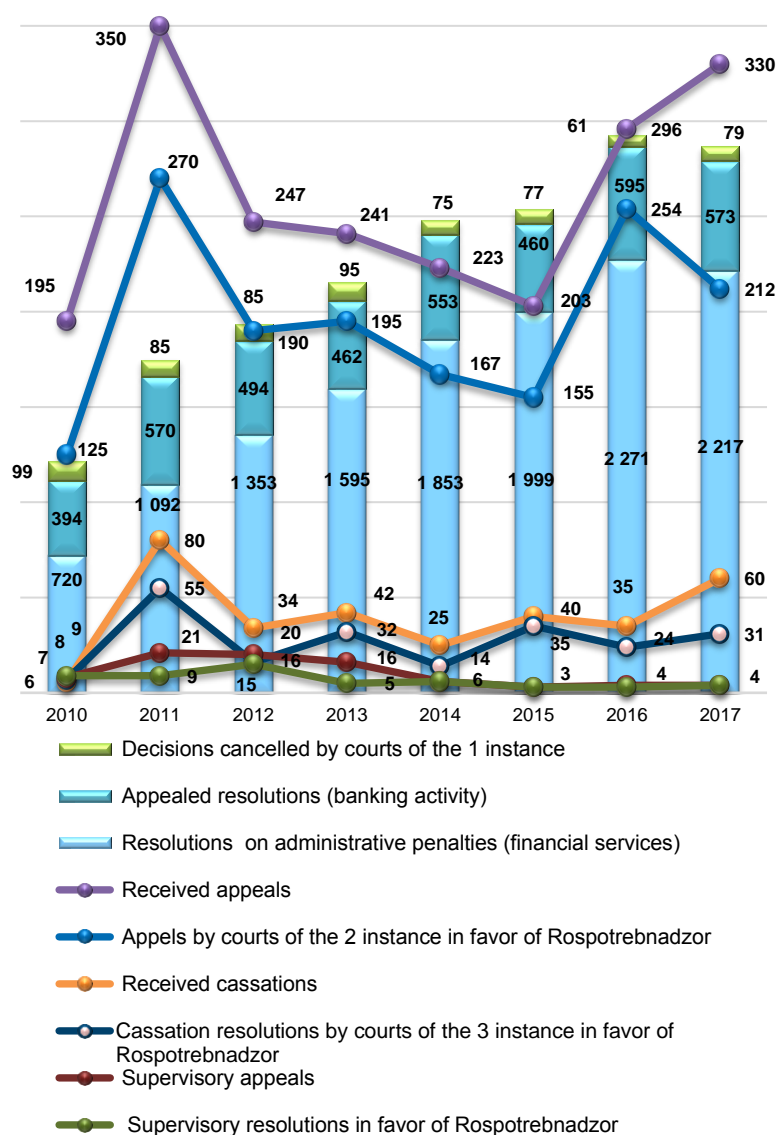
satisfied by courts had increased as well. There are no obvious reasons for some reduction in the sustainability of administrative decisions of the Rospotrebnadzor in courts of appeal and supervisory instances. However, it can be assumed that the observed situation resulted from the addition of several diverse factors, including the typification of the detected violations of the rights of consumers of financial services, with the transfer of Rospotrebnadzor's advanced regulatory enforcement practices to other regions, and the readiness of banking institutions to defend their business approaches to the end in court. Typically, this confrontation between business representatives and government supervisors, regardless of formal decisions of judicial authorities, leads to the sanitation of the consumer market, an increase in the average level of legality by eliminating disputes from the practice of financial service providers in order to reduce the attention of the supervisory authority, that is, in any case it has a positive effect for citizens in the long term.

The infographics of the dynamics of the court practice of Rospotrebnadzor in the area of administrative decisions in the market of financial services to consumers is shown in Figure 4.10.



The movements and correlation of the main indicators of supervisory (oversight) activity of Rospotrebnadzor in the field of financial services in 2017 indicates an increase in its effectiveness, mainly due to the mobilization of internal resources, such as the involvement of qualified employees in the legal evaluation of disputes between consumers and financial service providers, as well as methodical assistance of Rospotrebnadzor to its territorial bodies.

Figure 4.10. Dynamics of Rospotrebnadzor's administrative activities in financial consumer protection



Source: Rospotrebnadzor

4.3. Arbitrage practice

According to Article 17, Clause 1 of the Law "On Protection of Consumer Rights", consumer protection is carried out by court. The procedure for judicial consumer protection is generally defined in the provisions of the Code of Civil Procedure of the Russian Federation, although the Law "On Protection of Consumer Rights" also contains a number of provisions setting out the peculiarities of courts' consideration of civil cases of this category (for example, Article 13, Clause 6 of the Law establishes a fine for non-compliance in a voluntary manner with the satisfaction of the legitimate requirements of a consumer). All this in the aggregate have determined the active interaction of the RF Supreme Court and Rospotrebnadzor in order to improve the mechanisms for protecting the rights and legitimate interests of consumers in courts.

In the current reporting period, the interaction moved to a new level in connection with the meeting on 18 April 2017 of the Presidium of the State Council on the development of the national consumer protection system, which resulted in the issuance of a corresponding list of instructions of the President of the Russian Federation, which included a number of provisions relating to consumer protection issues in courts ⁴²⁸.

Despite the fact that these decisions are of a general nature, they are directly related to protecting the rights and legitimate interests of consumers of financial services, which is confirmed by the events of 2017. For a better understanding of this relationship, it is necessary to first consider the results of judicial protection of the rights of consumers of financial services in the current reporting period, including with the participation of Rospotrebnadzor.

According to the statistical reports of the RF Supreme Court on the civil cases in the "consumer protection" category (based on contracts with financial and credit institutions) (Table 4.8), in 2017, only 83,277 civil cases on the protection of the

⁴²⁸ List of instructions of the President of the Russian Federation, dated 25 May 2017, No. Pr-1004GS // <http://kremlin.ru/acts/assignments/orders/54580>.

rights of consumers of financial services were submitted to the courts of general jurisdiction, which is 23.4% of the total number of civil cases (355,385). Of these, 19,321 civil cases were instituted under suits of legal entities, including state bodies (23.2% of civil cases in the category in question "financial services", and 57.5% of the total number of civil cases), 1,418 civil cases - on the basis of the prosecutor's inquiry. For comparison: in 2015, 7,700 civil cases (2.5 times less) were instituted under suits of legal entities, including state bodies, on the basis of the prosecutor's inquiry - 99 civil cases (14.3 times less). Therefore, more than half of civil cases against consumers are initiated under the suits of financial institutions, which obviously follows from the specifics of financial services - only in this form of public relations consumers may act not only as a protected right holder but also as a debtor. It is obvious to assume that the activity of financial institutions to collect debts via the courts from consumers of their services has led to a sharp increase in the corresponding activities of the prosecution authorities aimed at protecting citizens as the weakest party of consumer legal relations (the powers and procedure for participation of the prosecutor in the civil process as a whole are stipulated in Article 45 of the Code of Civil Procedure of the Russian Federation and the Order of the Office of the Prosecutor General of Russia No. 475, dated 10 July 2017, "On Ensuring the Participation of Prosecutors in Civil and Administrative Legal Proceedings").

During 2017, 60,449 civil cases of this category were considered with a ruling (court order) being issued, which is 2 times less than in 2015 (121,294 cases), of which, with the decision to satisfy the claim - 36,558 civil cases, or 60.5% of the cases examined (for comparison: in 2015 - 67,463 cases or 55.6% respectively). Total amount of money, including non-pecuniary damage, awarded under satisfied suits amounted to 4,062.73 million rubles, which is 18.6% less than in 2015 (7,205.6 million rubles). The average recovered amount per one satisfied claim in the area of financial services in 2017 was 119,280 rubles (average recovered amount for claims of the "consumer protection" category - 132,839 rubles). In the current reporting period, average recovered amount per one satisfied claim under disputes arising from contracts with credit institutions amounted to 111,131 rubles, with providers of other financial services - 216,657 rubles, other contracts with financial and credit institutions - 131,698 rubles.

Therefore, despite the measures taken by insurers against lawyers specializing in protecting the rights of consumers of financial services, first of all, the "traffic lawyer", the amounts won by court action in the insurance sector (per one claim) still significantly exceed the corresponding amounts in the area of consumer lending, making the category of disputes with insurers economically attractive for human rights defenders.

Table 4.8. Results of consideration by courts of general jurisdiction of civil cases of the "consumer protection" category (based on contracts with financial and credit institutions), first instance, in 2017

Category of cases	Total cases received in the reporting period			Cases considered in the reporting period (with the issuance of a court decision or order)					Interlocutory rulings issued	Amounts awarded for collection	
	Total	under the suits (applications) of legal entities, incl. state bodies	on the basis of the prosecutor's inquiry	Total	from the "total" group with satisfaction of the claim	Share of satisfied claims	from the "with satisfaction of the claim" group with the issue of the court order	from the "total" group with refusal in satisfaction of the claim		on satisfied claims, including non-pecuniary damage, million rubles	Average recovered amount per one satisfied claim, rubles
2017											
Total*	355,385	33,584	1,418	302,070	241,019	79.8%	30,046	61,051	3,259	32,016.75	132,839
including based on the contracts in the field of:											
services of credit institutions	63,126	13,405	14	60,449	36,558	60.5%	14,230	23,890	58	4,062.73	111,131
financial services (excluding credit institutions)	3,024	263	2	2,665	1,705	64%	296	965	1	369.4	216,657
other agreements with financial and credit institutions	17,077	5,653	9	15,773	10,605	67.2%	5,280	5,165	11	1,396.66	131,698
Total	83,227	19,321	25	78,887	48,868	62%	19,806	30,020	70	5,828.79	119,280
* For reference											

Source: RF Supreme Court

Table 4.9. Separate indicators of the results of consideration by courts of general jurisdiction of civil cases in the "consumer

protection" category (based on the contracts with financial and credit institutions) in 2017

Category of cases	Disputes settled through mediation	Civil cases completed during the reporting period	Amount of asserted claims (according to the number of cases completed)						Court expenses, million rubles	
			Up to 50 thousand rubles	From 50 to 100 thousand rubles	From 100 to 300 thousand rubles	From 300 to 500 thousand rubles	From 500 thousand to 1 million rubles	Over 1 million rubles	Legal costs	State fee
2017										
Total*	138	360,761	381,464	36,856	37,471	11,494	11,730	8,665	511.2	400.8
including based on the contracts in the field of:										
services of credit institutions	4	67,271	41,299	9,913	7,345	1,043	833	637	23.3	27.2
financial services (excluding credit institutions)	0	3,166	782	279	272	76	127	110	5.2	2.1
other agreements with financial and credit institutions	0	17,591	17,901	2,373	2,260	385	319	287	7.8	8.2
Total	4	88,028	59,982	12,565	9,877	1,504	1,279	1,034	36.3	37.5
* For reference										

Source: RF Supreme Court

Table 4.9 shows that the application of mediative procedures in the field of consumer relations is still of a solitary nature, herewith all cases registered in the reporting period (4 cases) relate to disputes between credit institutions (banks) and their clients.

The most frequent are the disputes within the jurisdiction of magistrate courts with a sum of claims up to 50 thousand rubles. In total, in 2017, 59,982 of such civil cases in the financial services sector were considered, or 15.7% of the total number of cases of this category (381,464). Herewith, most disputes considered by magistrate judges are the disputes of consumers with credit institutions - 41,299 cases, or 68.9%, and with microfinance institutions - 17,901 cases, or 29.8%. This also confirms the conclusion made earlier that consumers' disputes with insurers belong to the category of "more expensive" disputes, although, as in other categories, the consideration of insurance cases by magistrate judges is the most common (in 2017 - 782 cases in the category of up to 50 thousand rubles).

Rospotrebnadzor has the right to initiate civil cases in defence of the rights and legitimate interests of specific consumers, a group of consumers, an indefinite range of consumers (Article 40, Sub-Clause 7, Clause 4, Article 46 of the Law "On Protection of Consumer Rights"). In addition, Rospotrebnadzor may be brought before the court to participate in the case, or may enter into the case on its own initiative or on the initiative of the persons participating in the case, to give an opinion on the case in order to protect the rights of consumers (Article 47 of the Code of Civil Procedure of the Russian Federation and Article 40, Clause 5 of the Law "On Protection of Consumer Rights").

Giving the opinion on a civil case for consumer protection is the most common and the most effective form of Rospotrebnadzor's participation in courts, especially in the protection of the rights of consumers of financial services.

This is due to the fact that legal proceedings between consumers and providers of financial services in most cases are pecuniary and personal. Therefore, the possibilities of filing suits in defense of the rights and legitimate interests of consumers, which are always non-pecuniary, are minimized (see Clause 20 of the Plenum of the RF Supreme Court, dated 28 June 2012, No. 17⁴²⁹). Suits in defense of specific consumers require "the relevant request (s) expressed in the complaint (s) filed (submitted) in writing" by interested consumers (Clause 21 of the Plenum of the RF Supreme Court No. 17, dated 28 June 2012), and require full participation of representatives of Rospotrebnadzor, and therefore these kind of proceedings are very time-consuming (for Rospotrebnadzor). While the opinion on a civil case for consumer protection may be sent to court in writing without the attendance of the Rospotrebnadzor's representative (Clause 27 of the Plenum of the RF Supreme Court No 17, dated 28 June 2012).

As noted in the previous similar Report⁴³⁰, the practice of involving Rospotrebnadzor to give opinions on civil cases developed in courts objectively showed that such opinions are systemic in nature. The opinion on a civil case given by Rospotrebnadzor (its territorial body), even taking into account the specific legal relations of the disputing parties, is nevertheless aimed at giving an indirect legal assessment of the authorized federal state body in the field of consumer rights protection with respect to the relevant type of legal relations. This feature leads to the fact that a court, once having obtained a conclusion on a specific civil case, may subsequently do without involving Rospotrebnadzor's representatives in similar processes in order to achieve the most effective consideration of court cases (it seems obvious that the fewer participants there are, the easier it is to comply with the requirements of the procedural legislation).

In 2017, Rospotrebnadzor gave 1,330 opinions on civil cases in order to protect the rights of consumers of financial

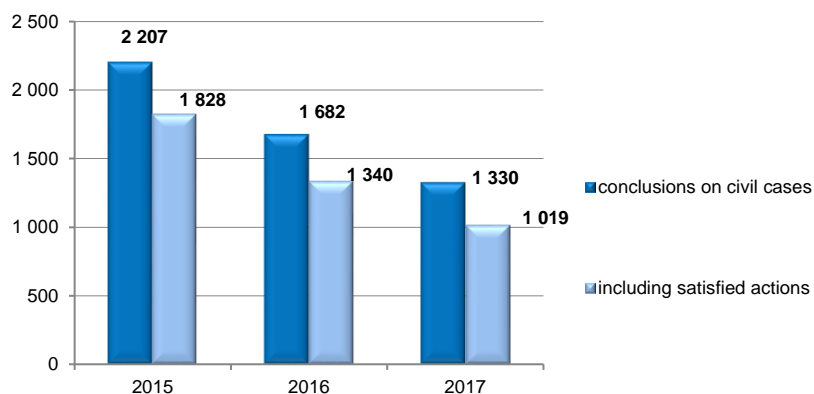
⁴²⁹ Ruling of the Plenum of the RF Supreme Court No. 17, dated 28 June 2012, "On Consideration by Courts of Civil Cases on Disputes on the Protection of Consumer Rights".

⁴³⁰ Report of Rospotrebnadzor "On the State of Consumer Protection in the Financial Sector in 2015" / Ministry of Finance of the Russian Federation - p. 326.

services, which is 20.9% less than in 2016 (1,682). Therefore, the tendency to reduce this type of participation in courts of Rospotrebnadzor remains with the same effectiveness. The share of rulings rendered by courts in favour of consumers of financial services in cases of provision of an opinion by Rospotrebnadzor in 2017 was 76.6%, or 1,019 favourable rulings per 1,330 opinions (in 2016 - 77.9%) (Figure 4.11).

The structure of the practice of giving opinions in courts on consumer protection by the territorial bodies of Rospotrebnadzor has slightly changed in 2017 relative to previous years, together with a decrease in absolute indicators, litigations with the participation of banking institutions continue to prevail, while the number of opinions on microloans is growing (Figures 4.12, 4.13).

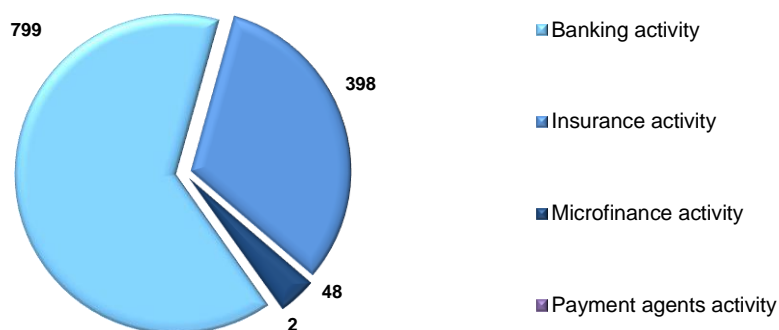
Figure 4.11. Dynamics of Rospotrebnadzor's conclusions for financial consumer protection in 2015 – 2017



Source: Rospotrebnadzor

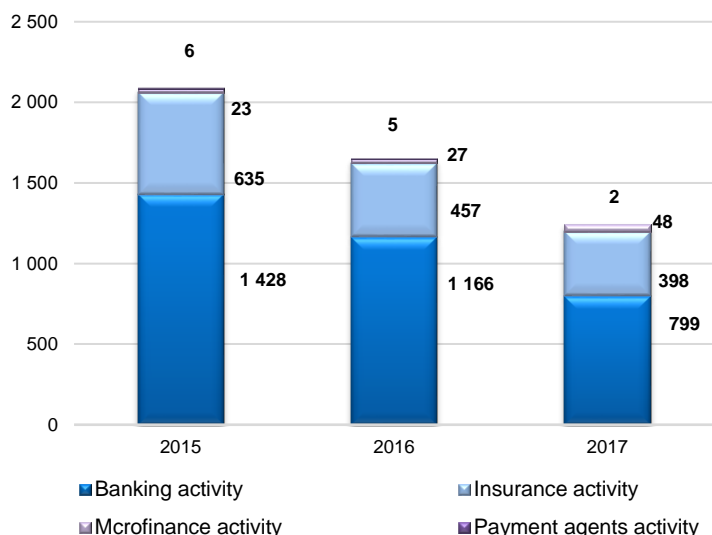
In 2017, the territorial bodies of Rospotrebnadzor sent to the courts 82 suits in defense of the rights of specific consumers of financial services, which is by 28% less than in 2016 (114 suits). Of these, 59 suits (72%) were satisfied by courts in whole or in part (in 2016 - 76.6%, in 2015 — 60,8 %) (Figure 4.14).

Figure 4.12. Structure of regional offices' conclusions by types of financial activities in 2017



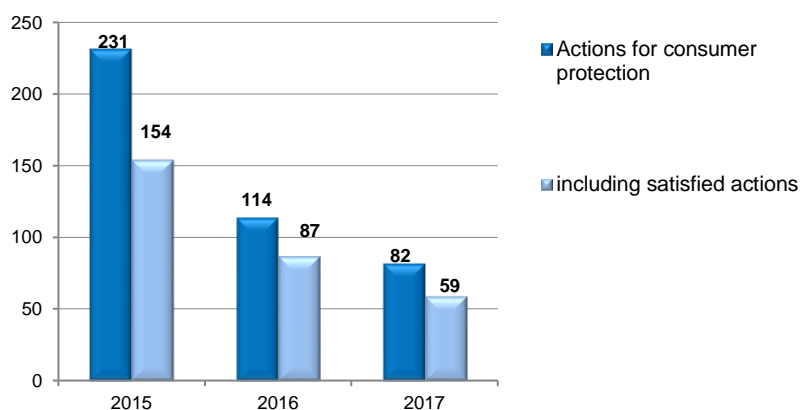
Source: Rospotrebnadzor

Figure 4.13. Dynamics of regional offices' conclusions by types of financial activities in 2015-2017



Source: Rospotrebnadzor

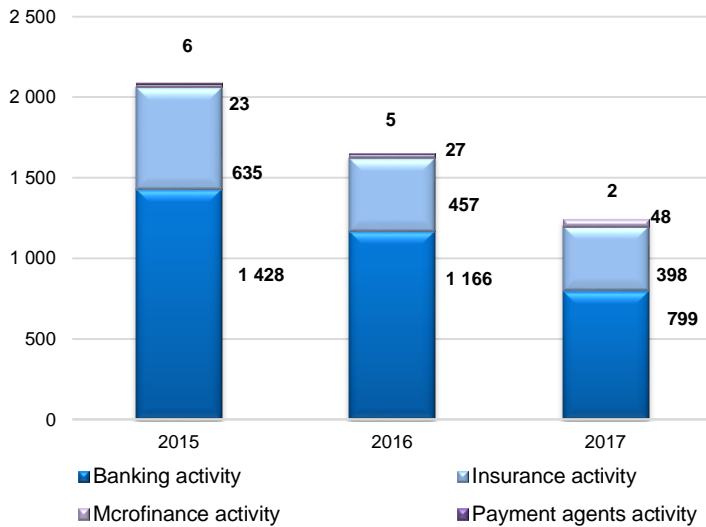
Figure 4.14. Dynamics of Rospotrebnadzor's actions for protection consumers of financial services in 2015 – 2017



Source: Rospotrebnadzor

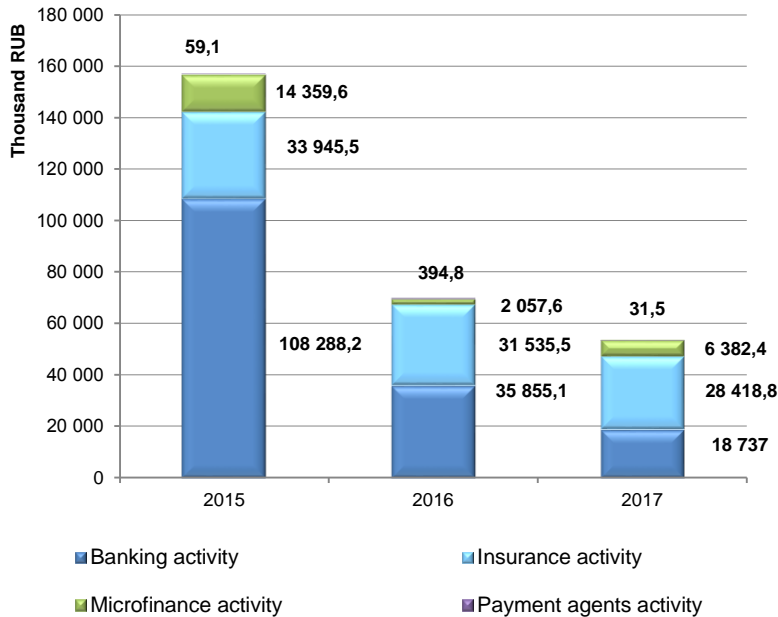
In 2017, upon considering civil cases on financial consumer protection involving regional offices of Rospotrebnadzor, consumers were awarded RUB 60,1 million, of which RUB 2.1 million as redress of moral damage (in 2016– RUB 71.5 million and RUB 2.9 million, in 2015 – 165 million and 19.5 million respectively). The diagrams below show the allocation of amounts awarded to consumers per forms of Rospotrebnadzor participation (Figure 4.15) and per types of disputable financial services (Figure 4.16). Provided that the reduction of amounts awarded is evidently caused by the decreased contribution of Rospotrebnadzor to cases involving consumers and providers of financial services.

Figure 4.15. Allocation of funds awarded to financial consumers in 2015-2017 by forms of Rospotrebnadzor's participation



Source: Rospotrebnadzor

Figure 4.16. Allocation of funds awarded to financial consumers in 2015-2017 by types of financial activities



Source: Rospotrebnadzor

In 2017, territorial bodies of Rospotrebnadzor sent 38 lawsuits to the courts in defence of the rights and legitimate interests of an indefinite range of consumers of financial services (in 2016, 32 lawsuits were filed, in 2015 - 37), of which 14 suits (36.8%) were satisfied by courts (in 2016 - 6 or 18.8%, in 2015 - 9 or 24.3% respectively) (Figure 4.17).

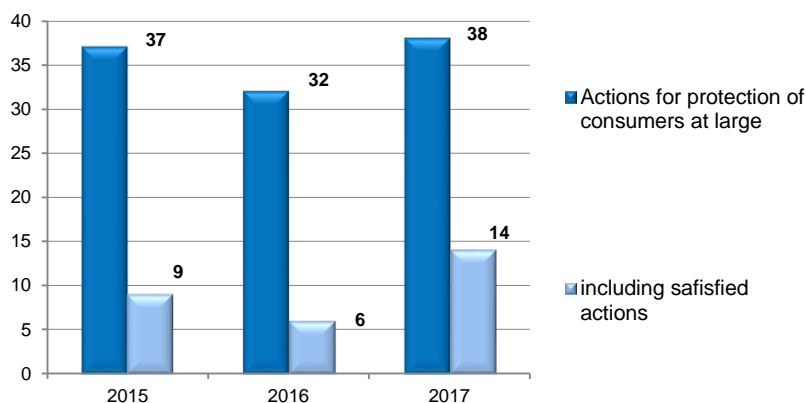
Judicial practice of cases on consumer protection, including cases with Rospotrebnadzor's (its regional offices') participation in all statutory forms of such participation, will be published on the State consumer protection data resource at the "Judicial practice" <http://zpp.rospotrebnadzor.ru/adjudications/federal>.

In the last reporting period, it was concluded that the negative movements of the judicial participation of Rospotrebnadzor in courts is largely determined by the stabilizing influence of giving explanations to courts in the form of Resolutions of the Plenum of the RF Supreme Court, for which reason the courts and participants in the proceedings (parties, representatives, etc.) feel less need for a respective involvement of experts from Rospotrebnadzor.

Taking into account the analysis of the given statistical data for 2017, it can be concluded that Rospotrebnadzor's participation in litigations related to consumer protection is generally of a selective, precedent nature. This conclusion is consistent with the logic of the powers of Rospotrebnadzor enshrined in Article 40 of the Law "On Protection of Consumer Rights", according to which the initiation of civil cases by Rospotrebnadzor in consumer protection (legitimate interests of an indefinite range of consumers) is considered as one of the forms of its administrative activity. While consumer protection as a

type of protection of private law is exercised by courts and only by courts (Article 17 of the Law "On Protection of Consumer Rights").

Figure 4.17. Dynamics of Rospotrebnadzor's actions for protection consumers at large in 2014 – 2016



Source: Rospotrebnadzor

The main motive of Rospotrebnadzor for participation in the judicial process is the formation of a legal position on the typical situation in the market of financial services to consumers, the creation of an appropriate judicial precedent and the maximum dissemination of information about it through all available channels (instructional and methodological letters of Rospotrebnadzor, websites of Rospotrebnadzor and its territorial bodies, State Online Resource in the Field of Consumers Rights Protection⁴³¹, consumer counselling centers, annual state reports on consumer protection, reports of Rospotrebnadzor on the protection of the rights of consumers of financial services, etc.) for the formation of a similar regulatory enforcement practice.

A separate category is work with vulnerable groups of consumer citizens. These categories basically form the practice of Rospotrebnadzor's participation in protecting the rights of specific consumers.

As already mentioned earlier, disputes between consumers and providers of financial services are highly individualized, which minimizes the possibility of filing claims by Rospotrebnadzor in defense of a group of consumers. However, against the backdrop of instability in financial markets, multiple bankruptcies of credit institutions and insurers, the role of class action (collective) suits increases, the possibility of filing of which is a unique feature of the legislation of the Russian Federation on consumer protection. However, the formation of this kind of regulatory enforcement practice is strongly hindered by underdevelopment of the relevant norms (in fact, class action suits are only mentioned in Article 45 of the Law "On Protection of Consumer Rights", as well as the possibility of their filing follows from the meaning of Article 40, Clause 4, Sub-Clause 7 of the Law "On Protection of Consumer Rights", and Article 46 of the Code of Civil Procedure of the Russian Federation).

Herewith, it is obvious that since consumer protection is exercised by courts of general jurisdiction with the prevalence of proceedings before the magistrate judges, the above mentioned and many other topical issues of consumer protection should be solved systematically with the direct involvement of the RF Supreme Court. This circumstance became the subject of discussion at the aforementioned meeting of the Presidium of the State Council on the development of the national system for the consumer protection on 18 April 2017. It resulted in the publication of the List of Orders of the President of the Russian Federation, which included corresponding instructions to the Government of the Russian Federation, including in cooperation with the RF Supreme Court⁴³² (see also Table 1.3 in Sub-Section 1.2 of this Report).

For instance, Clause 1 (b) of Instruction No. Pr-1004GS to the Government of the Russian Federation regards the introduction of legal mechanisms for protecting the rights and legitimate interests of consumer groups in courts (class action suits).

In fulfillment of this instruction, the Ministry of Justice of Russia developed a draft federal law "On Amendments to Certain Legal Acts of the Russian Federation Regarding Regulation of the Procedure for Considering Class Action Suits", which provides for the introduction of amendments, including in the Code of Civil Procedure of the Russian Federation, regarding:

- the procedure for recourse to a court of a group of persons with a class action suit (including in cases of disputes over consumer protection);
- representation on cases on protection of rights and legitimate interests of a group of persons;
- requirements to statement of claim submitted in defense of the rights and legitimate interests of a group of persons;
- the actions of a judge in preparing the case for protecting the rights and legitimate interests of a group of persons for trial.

According to Clause 4 of Executive Order No. Pr-1004GS, the Government of the Russian Federation, in conjunction with the RF Supreme Court, had to consider raising the maximum amount of claims for property disputes arising in the field of consumer protection that are subject to jurisdiction of magistrate judges.

⁴³¹ State Online Resource in the Field of Consumers Rights Protection, <http://zpp.rospotrebnadzor.ru>.

⁴³² List of Instructions of the President of the Russian Federation No. Pr-1004GS, dated 25 May 2017.

In fulfillment of this instruction, the RF Supreme Court drafted and submitted to the State Duma of the Russian Federation draft federal law No. 383208-7 "On Amendments to the Code of Civil Procedure of the Russian Federation, the Arbitration Procedural Code of the Russian Federation, the Code of Administrative Proceedings of the Russian Federation and Certain Statutes of the Russian Federation"⁴³³, which, inter alia, provides for an increase in the maximum amount of claims for property disputes arising in the field of consumer protection, up to 100 thousand rubles.

Clause 5 of Order No. Pr-1004GS of the RF Supreme Court in order to strengthen consumer protection recommends to regularly summarize the judicial practice in this area, including in cases related to consumer protection in the financial services market, and in disputes arising from consumer loan agreements.

In accordance with the above Instruction, the RF Supreme Court had included to all the reviews of the judicial practice of the RF Supreme Court approved by the Presidium of the RF Supreme Court in 2017 (No. 1, dated 16 February 2017, No. 2 dated 26 April 2017, No. 3 dated 12 July 2017, No. 4 dated 15 November 2017, No. 5 dated 27 December 2017⁴³⁴) an analysis of judicial precedents in the field of consumer protection, and also published two reviews dedicated to financial services :

Review of the Judicial practice in Cases Related to the Protection of the Rights of Consumers of Financial Services approved by the Presidium of the RF Supreme Court on 27 September 2017 (Review dated 27 September 2017);

Review on Specific Issues of Judicial Practice Related to Voluntary Insurance of Property of Citizens approved by the Presidium of the RF Supreme Court on 27 December 2017 (Review dated 27 December 2017).

Among other things, the Review dated 27 September 2017 notes that "the field of financial services rendered by banks and other organizations is currently characterized, on the one hand, by an increase in the number of services rendered to the population, and on the other hand, by the presence of risks associated with, among other things, not always the conscientious behaviour of participants in the financial market.

The RF Supreme Court carry out systematic work to summarize the practice of considering various categories of cases related to consumer protection."

As previously stated, in connection with the publication of the Review, dated 27 September 2017, Rospotrebnadzor prepared and sent to its territorial bodies an appropriate instructional and methodological letter, in which it drew particular attention to the following legal positions expressed in the rulings and decisions of the RF Supreme Court.

1. On the return of insurance premiums upon termination of the insurance contract associated with the loan agreement (in case of early repayment of the loan).

In accordance with the provisions of Article 958 of the Civil Code of the Russian Federation, in the event that the operation of an insurance contract is terminated prematurely due to the lack possibility of the occurrence of an insured event and the termination of the existence of an insured risk, the insurer is entitled only to a portion of the insurance premium proportional to the time during which the insurance was in effect and, and in the case when there is still possibility of the occurrence of the insured event, and the insured risk has not ceased to exist, but the insured waives the insurance contract, the insurer has the right to the entire insurance premium paid, unless otherwise provided for by the contract.

The provisions of Clause 2 of the said Article on the refusal of the insured from the contract by virtue of express reference by the law shall be applied only when the effect of this contract has not ceased on the grounds specified in Clause 1 of this Article - due to the lack of possibility of the occurrence of an insured event and the termination of the existence of an insurance risk.

According to Article 9 of the Law "On the Organization of Insurance Business in the Russian Federation", the insurance risk represents a supposed event, the case of the occurrence of which is to be insured against (see Clause 1), and the insured event represents the occurrence of an event foreseen by an insurance contract or by the law, at the occurrence of which the insurer shall make an insurance payment to the insurant, insured party, beneficiary or other third party (see Clause 2).

Therefore, upon full repayment of a loan, there is no possibility of an event at which an insurer would have an obligation to make an insurance payment in the amount of long debt, the existence of an insurance risk is terminated, there is no insurable interest, property interests related to default on a loan agreement in case of death or disability of the insured as a result of an accident.

As pointed out by Rospotrebnadzor, these findings are supported by judicial practice (in particular, the Ruling of the RF Supreme Court, dated 12 April 2016, No. 49-KG15-25).

In turn, in accordance with Article 16, Clause 1 of the Law "On Protection of Consumer Rights", the terms of the contract that infringe the consumer's rights in comparison with the rules established by laws or other legal acts of the Russian Federation in the field of consumer protection shall be recognized as invalid.

Since the refusal of the insurance company to pay money upon termination of the insurance contract does not constitute the elements of an administrative offense and may not serve as a basis for conducting an appropriate inspection with respect to such business entity, we draw attention to the fact that in the event that there are recovery claims to the financial services provider (including, relationships under life and health insurance contracts) due to causing property damage, violation of the deadlines for the fulfillment of contractual obligations and failure to settle the dispute voluntarily, it is possible to resolve it exclusively in court.

2. On the recognition of certain terms of the contract as infringing the rights of consumers.

In accordance with the Review, dated 27 September 2017, the following terms are recognized as infringing the rights of

⁴³³ As of 1 May 2018, is under consideration.

⁴³⁴ <http://www.supcourt.ru/documents/practice/?year=2017>.

consumers and form the elements of an administrative offense punishable under Article 14.8, Part 2 of the Code of Administrative Offenses of the Russian Federation:

- the bank's right to change the terms of the deposit agreements (interest rate on deposits, tariffs) unilaterally by placing this information in the immediate vicinity of the cash desk servicing clients;
- establishment in the loan agreement the date of fulfilment of the borrower's obligations in full amount on the date of receipt of funds (in case of wire transfer) to the account of the creditor (person authorized by the creditor), or the date of the cash deposit to the creditor's cashier (in case of cash deposit) in the amount of the balance of the loan amount, loan interest accrued but not paid as of the above-stated date of fulfilment of obligations (inclusive), as well as the amount of penalty (if any). These terms regarding the payment procedure directly contradict Article 37 of the Law "On Protection of Consumer Rights" and set a date that is unfavourable to the consumer when the payment obligation is deemed to have been fulfilled.

In the context of assessing the fairness of the terms of the agreement on the provision of financial services to consumers, it should also be noted that the Review, dated 27 December 2017, with reference to Article 16 of the Law "On Protection of Consumer Rights", specifically stated that "in case of doubts regarding the interpretation of the terms of the contract stated in the policy and the insurance rules and the impossibility to establish the actual common will of the parties, taking into account the purpose of the contract, a contra proferentem interpretation, most favourable for the consumer, shall be applied, especially when these terms were not individually agreed with customer".

The Review dated 27 September 2017 (Clause 7) and the Review of the Judicial Practice of the RF Supreme Court approved by the Presidium of the RF Supreme Court on 16 February 2017 No. 1 (Clause 3) covers cases of application of the most contentious norm of Article 28, Clause 5 of the Law "On Protection of Consumer Rights". The essence of the legal position of the RF Supreme Court is reduced to the fact that this rule is generally used in the field of financial services to consumers (including banking and insurance services), but in each particular case, the court should pay attention to the existence of special rules to be applied on a priority basis. For instance, in the cases related to the services of banks on the placement and withdrawal of bank deposits considered in the Reviews, the RF Supreme Court indicated that "by virtue of Article 856 of the Civil Code of the Russian Federation, in cases of untimely crediting to the account of funds received by the customer or their unreasonable debiting by the bank from the account, as well as failure to comply with the instructions of the client on the transfer of funds from account or on their withdrawal from the account, the bank shall pay interest on this amount in the manner and in the amount provided for in Article 395 of the Civil Code of the Russian Federation", therefore, under such circumstances, Article 28, Clause 5 of the Law "On Protection of Consumer Rights" is not applicable.

In 2017 issues related to the protection of the rights of consumers of financial services were addressed in two Resolutions of the Plenum of the RF Supreme Court.

Clause 4 of the Resolution of the Plenum of the Supreme Court of the Russian Federation, No. 54, dated 21 December 2017, "On Some Issues of Applying the Provisions of Chapter 24 of the Civil Code of the Russian Federation on the Substitution of Persons in the Obligation on the Basis of a Transaction" postulates an interesting conclusion for consumer protection that by virtue of Article 384, Clause 1 of the RF Civil Code, unless otherwise provided for by law or contract, the original creditor's claim shall pass to a new creditor to the extent and on the terms, which existed at the time of the transfer of such claim. In particular, the rights that ensure the fulfillment of the obligation, as well as other rights related to the claim, including the right to interest, shall pass to the new creditor. The original creditor may not assign to a creditor more rights than it has itself. However, on the basis of the law, the new creditor, by virtue of its special legal status, may have additional rights that were not available to the original creditor, for example, the rights provided for in the Law "On Protection of Consumer Rights".

Interest in this case is aroused by the circumstance that the Law "On Protection of Consumer Rights" considers as the right holder exclusively the consumer citizen, herewith in the consumer relations the provider of financial services, for example, the bank, may, in a narrow sense, be a creditor (in the context of Article 819 of the Civil Code of the Russian Federation), but, in the general sense, is at the same time always a debtor (in the context of Article 308 of the Civil Code of the Russian Federation). In addition, during the assignment in the consumer market, as a rule, there is a change of the financial service provider, i.e. the debtor in the logic of the Law "On Protection of Consumer Rights". Therefore, the position of the RF Supreme Court in this part needs additional explanation, which, perhaps, will be done in future Judicial Practice Reviews on specific examples.

Herewith, the meaning of this Clause is, to some extent, disclosed in the Resolution of the Plenum of the RF Supreme Court No. 56, dated 26 December 2017, "On the Application by Courts of the Legislation on Compulsory Civil Liability Insurance of Motor Vehicle Owners". Indeed, in recent years, instances of assignment in vehicle insurance market have become widespread, when in a contractual relationship there is a substitution not of the provider of financial insurance service, but a citizen as a consumer. Often, a new party in the contract of Compulsory Motor TPL Insurance (or Comprehensive and Collision Insurance / Voluntary Motor TPL Insurance) is a citizen who has special skills in litigations with insurance institutions (so-called "traffic lawyer"). Therefore, there is provided a reasonable position expressed in Clause 71 of the Resolution of the Plenum of the Supreme Court of the Russian Federation No. 56, dated 26 December 2017, according to which the rights of the adversely affected person to compensation of harm to life and health, non-pecuniary damage and to the penalty stipulated by Article 161, Clause 3 of the Law on Compulsory Motor TPL Insurance and Article 13, Clause 6 of the Law "On Protection of Consumer Rights", as well as the rights of the consumer stipulated by Article 17, Clause 2 of the Law "On Protection of Consumer Rights" may not be assigned under the claim assignment agreement (Article 383 of the Civil Code of the Russian Federation). The amount of compensation for non-pecuniary damage awarded by court and the penalty stipulated by Article 161, Clause 3 of the Law on Compulsory Motor TPL Insurance and Article 13, Clause 6 of the Law "On Protection of Consumer Rights" may not be assigned under the claim assignment agreement to any person."

From the point of view of the development of judicial protection of the rights of consumers of financial services, the most interest in Resolution No. 56 of the Plenum of the RF Supreme Court, dated 26 December 2017, is aroused by Clause 83, which postulates that the penalty for failure to comply voluntarily with the claims of the adversely affected person based on the provisions of Article

161, Clause 1, Parag. 5 and Clause 3 of the Law on Compulsory Motor TPL Insurance, shall be recovered in favour of the adversely affected person. If a court satisfies the claims asserted by public associations of consumers (their associations, unions) or local authorities in defense of the rights and legitimate interests of a particular adversely affected consumer, 50% of the amount of the penalty determined by court, by analogy with Article 13, Clause 6 of the Law "On Protection of Consumer Rights", shall be recovered in favour of the said associations or bodies, regardless of whether they asserted such claim (Article 6, Clause 1 of the Civil Code of the Russian Federation)".

As a result, the judicial practice, together with the corresponding methodological work of the RF Supreme Court and Rospotrebnadzor , once again confirm the conclusion about the effectiveness of judicial protection of the rights of consumers of financial services as an institutional instrument for the implementation of consumer policy.



In 2017, the results of protecting the rights of consumers of financial services in courts of general jurisdiction should be generally recognized as positive, taking into account the special powers and role of Rospotrebnadzor as an administrative body, as well as the increasing participation of the Supreme Court of the Russian Federation in ensuring the legality in the market of financial services to consumers.

5. The practice of informing in the filed of protection of the rights of consumers of financial services

5.1. Implementation of the educational function of Rospotrebnadzor

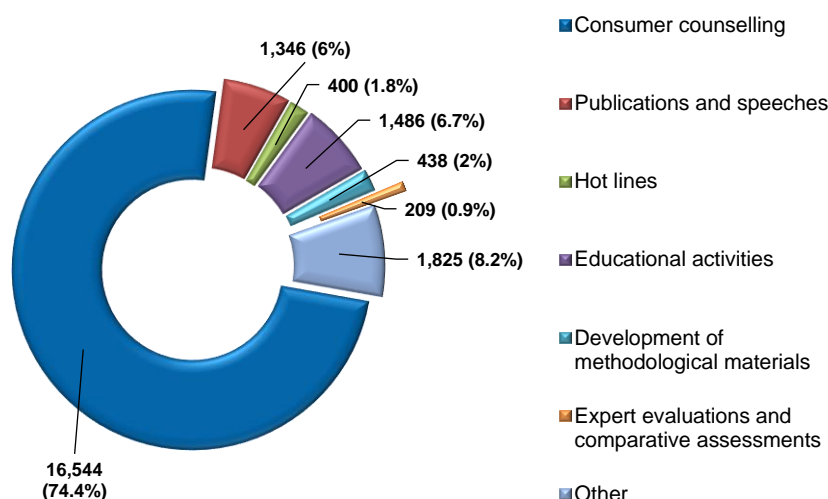
The aim of consumer consultation centres created at the federal budget-funded health care institutions is to ensure the exercise of Rospotrebnadzor's educational function associated with providing necessary information and advice to financial consumers⁴³⁵. In these days, as part of the system of notifying and advising the population on issues of protecting consumer rights (hereinafter the "System"), there exist 85 consultation centres and 557 consultation points for consumers in 85 constituent entities of the Russian Federation that explain the rights and duties of consumers, as well as the issues of law enforcement practices in the financial sphere. Consultation centres and points are operated by 809 employees (in 2016, there were 564 consultation points involving 795 specialists).

In 2017, events in the area of financial services held in Rospotrebnadzor's consultation centres and points amounted to 5% of the total number of events, or 22,248 events (in 2016, 24,544 events were held, or 5,3%). Of them, 16,544 are consultations, including 1,826 ones involving preparation of draft documents (applications, complaints, lawsuits, etc.); 3,878 notification events, including 1,346 publications, 400 hotlines, 1,486 presentations as part of educational activities, 438 developed teaching aids and 209 expert opinions which is significantly higher than the relevant indicators of the previous year (Figure 5.1).

Table 5.1. Movements of individual indicators of the work of the counselling centres for consumers in 2015-2017⁴³⁶

Category	2015	2016	2017
Consumer counselling	15,892	20,046	16,544
Publications and speeches	1,346	1,266	1,346
Hot lines	191	358	400
Educational activities	967	1,878	1,486
Development of methodological materials	367	696	438
Expert evaluations and comparative assessments	235	300	209

Figure 5.1. The structure of activities in the field of financial services conducted in the counselling centres and points of Rospotrebnadzor in 2017



Source: Rospotrebnadzor / Federal State-Funded Healthcare Institution Federal Centre for Hygiene and Epidemiology under Rospotrebnadzor

Traditionally, the largest share of work falls within conventional counselling of consumers - 74.4% of the total number of activities in the field of financial services in 2017 (in 2016 - 81.7%, in 2015 - 85%). Almost 40% of consultations (6,552 out of 16,544) were provided in 8 subjects of the Russian Federation (Table 5.2).

⁴³⁵ Order of Rospotrebnadzor of 06.04.2009 No.318 "On improving of consumer informing and consulting system".

⁴³⁶ According to the Centre for Coordination and Methodological Support for the Development of Consumer Counselling Centres // Official website of the Federal State-Funded Healthcare Institution Federal Centre for Hygiene and Epidemiology under Rospotrebnadzor <http://fcgie.ru>.

Table 5.2. Best indicators of advising consumers of financial services in 2016 in terms of the number of consultations given in separate consultation centres for consumers⁴³⁷

No.	Consultation centre for consumers based on the regional institution of Rospotrebnadzor	Number of consultations in the area of rendering financial services to the population	Share in the total volume of consultations performed by the relevant Rospotrebnadzor institution	Share in the total volume of consultations in the area of financial services per the Russian Federation
1	Federal Budgetary Healthcare Institution Centre of Hygiene and Epidemiology in the Sverdlovsk Region	2 364	13,7%	14,3%
2	Federal Budgetary Healthcare Institution Centre of Hygiene and Epidemiology in the Krasnodar Krai	755	4,4%	4,6%
3	Federal Budgetary Healthcare Institution Centre of Hygiene and Epidemiology in the Republic of Tatarstan	683	5%	4,1%
4	Federal Budgetary Healthcare Institution Centre of Hygiene and Epidemiology in the Saratov Region	657	10,5%	4%
5	Federal Budgetary Healthcare Institution Centre of Hygiene and Epidemiology in the Arkhangelsk Region	648	26,6%	3,9%
6	Federal Budgetary Healthcare Institution Centre of Hygiene and Epidemiology in the Novosibirsk Region	560	7,9%	3,4%
7	Federal Budgetary Healthcare Institution Centre of Hygiene and Epidemiology in the Krasnoyarsk Krai	456	8,4%	2,8%
8	Federal Budgetary Healthcare Institution Centre of Hygiene and Epidemiology in the Altai Krai	429	3,9%	2,6%

In addition, 1,826 consultations were given to consumers of financial services with the preparation of drafts of legally relevant documents on the subject of counselling, while the best indicators were achieved in Sverdlovsk Oblast (326 consultations), the Republic of Tatarstan (150) and the Orenburg Oblast (121).

In 2017, the number of publications and speeches in relation to the previous reporting period has insignificantly increased (in 2017 - 1,346, in 2016 - 1,248). The increase was observed both in the number of publications and speeches on websites (in 2017 - 947, in 2016 - 883), and in print, on radio and television (in 2017 - 399, in 2016 - 377) (Figure 5.2).

In 2017, the practice of arranging hot lines continued: 272 (68%) out of 400 hot lines have been arranged by counselling centres (in 2016 - 230, or 64.2% of the 358 hot lines). The most active in the current reporting period were Orenburg Oblast, Tver Oblast and Saratov Oblast with 93, 47 and 43 hot lines, respectively.

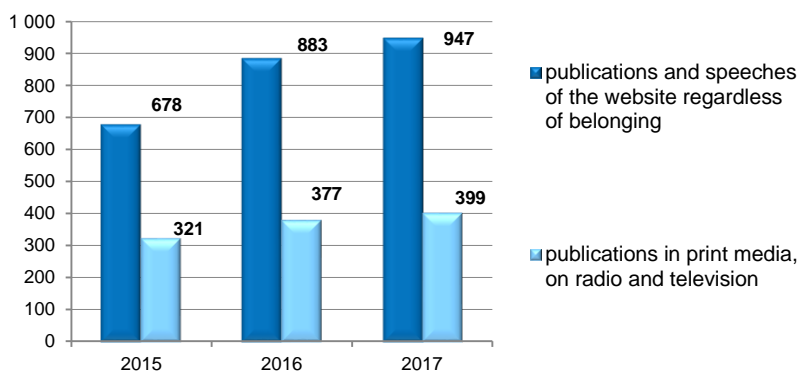
Out of 209 expert evaluations and comparative assessments conducted in 2017 in the field of financial services, 54 expert evaluations (25.8%) were conducted in the counselling centres and 155 (74.2%) - in the counselling points for consumers.

The structure of expert evaluations and comparative assessments (Figure 5.3) indicates that the majority of expert evaluations and assessments (79.4%) was conducted for the purpose of ensuring oversight in the field of consumer protection (Article 16, Part 3 of Federal Law No. 294-FZ, dated 26 December 2008⁴³⁸). Herewith, in 2017, no studies (expert evaluations) based on applications of business entities were recorded, which is understandable - financial institutions traditionally perceive Rospotrebnadzor (its subordinate organizations, their experts) as their opponent.

⁴³⁷ According to the Centre of Coordination and Methodological Support of the Development of Consultation Centres for Consumers // Official website of the Federal Budgetary Healthcare Institution Federal Centre of Hygiene and Epidemiology of Rospotrebnadzor <http://fcgie.ru>.

⁴³⁸ Federal Law No. 294-FZ, dated 26 December 2008, "On Protection of Rights of Legal Entities and Individual Entrepreneurs when Exercising Government Oversight (Supervision) as well as Municipal Oversight".

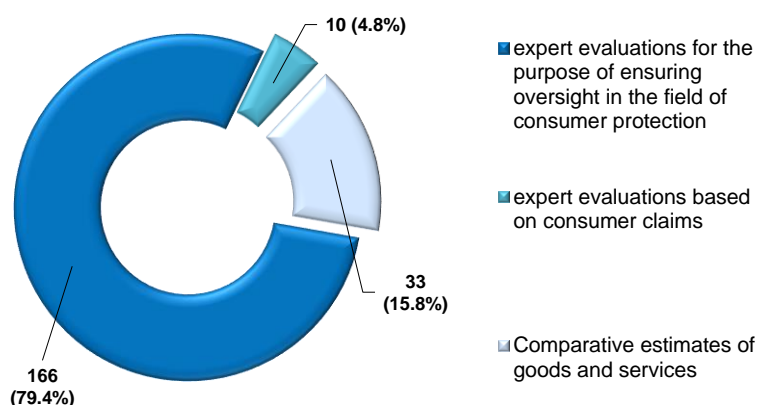
Figure 5.2. Movements of publications and speeches on the protection of the rights of consumers of financial services prepared by employees of the Rospotrebnadzor's counselling centres and points in 2015-2017



Source: Rospotrebnadzor / Federal State-Funded Healthcare Institution Federal Centre for Hygiene and Epidemiology under Rospotrebnadzor

As in the previous reporting period, the largest number of expert evaluations in the field of financial services was conducted in Sverdlovsk Oblast - 150, or 72% of the total for the Russian Federation, including 31 expert evaluations in the counselling points. A significant contribution to the overall result was made by the Orenburg Oblast with 26 expert evaluations and Krasnoyarsk Krai - 17 expert evaluations.

Figure 5.3. The structure of evaluations and comparative assessments conducted in the counselling centres and points of Rospotrebnadzor in 2017



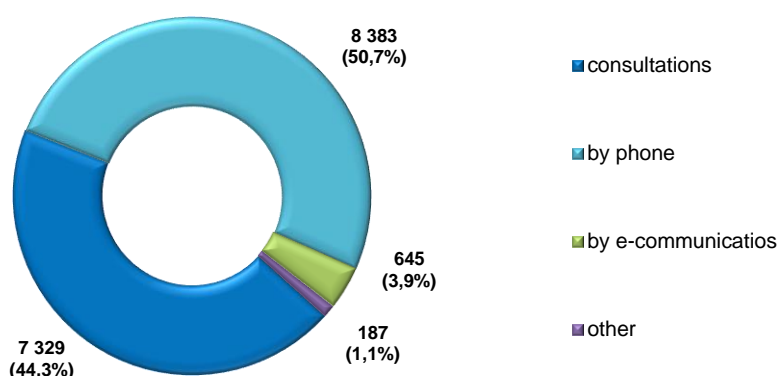
Source: Rospotrebnadzor / Federal State-Funded Healthcare Institution Federal Centre for Hygiene and Epidemiology under Rospotrebnadzor

The structure of the consultations given to consumers on the provision of financial services using different types of communication practically did not change in relation to the previous years (Figure 5.4). However, the trend towards an increase in consultations using electronic communications in 2017 continued with a 1.3-fold increase (from 493 to 645 consultations) and 2.3-fold in relation to 2015 (282 consultations). These are still incommensurably small indicators against the background of traditional types of counselling (through personal appointments and by phone), however, it should be noted that the type of counselling (through electronic communications) under consideration is almost the only one showing positive dynamics in the current reporting period.

Attention is drawn to the fact that more than half of "electronic" consultations (337 out of 645, or 52.2%) were conducted in only two constituent entities of the Russian Federation - Saratov Oblast (183) and Novosibirsk Oblast (154). Therefore, despite the high dynamics, this type of counselling is still exceptional and rely more on the "human factor" expressed in this case in the technical knowledge of specific employees in consumer counselling centres (this conclusion has already been noted in similar Reports for the previous reporting periods) .

Out of 16,544 consultations 8,962 consultations (54.2%) were provided in the counselling centres and 7,582 consultations (45.8 %) - in the counselling points. Of these, 7, 329 consultations were given during personal appointments (2,145 , or 29 .3 %- by employees of the counselling centres; 5,184 , or 70. 7 % , - by employees of the counselling points). 8,383 consultations were given by phone (5, 060, or 60.4%, - by employees of the counselling centres; 3, 323 , or 39.6%, - by employees of the counselling points). With the use of electronic communications, in 2017 645 consultations were given (374, or 58%, - by employees of the counselling centres; 271, or 42%, - by employees of the counselling points).

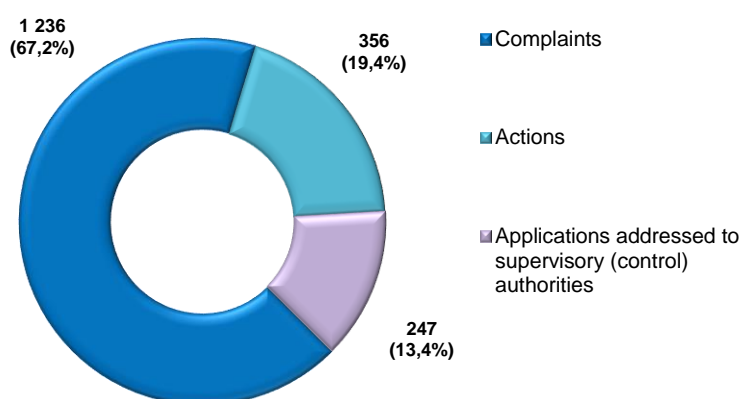
Figure 5.4. The structure of consultations on financial services issues delivered to consumers at Rospotrebnadzor's consumer consultation centres and offices in 2017 by types of communications with consumers



Source: Rospotrebnadzor

As before, the most in-demand is the assistance of employees in preparing claims and suits in court (Figure 5.5). Herewith, practical assistance of this kind is in demand in the counselling centres, which, as a rule, are in "walking distance" from consumers. For instance, out of 1,826 consultations, the drafts were prepared for: 922 documents (50.5%) - by employees of the counselling centres and 904 documents (49.5%) - by employees of the counselling points. Out of 1 236 claims: 589 (47.7%) - were drawn up by employees of the counselling centres and 647 (52.3%) - by employees of the counselling points. Out of 356 statements of claims, 192 (54%) were drawn up in the counselling centres and 164 (46%) in the counselling points. Out of 247 draft applications to the supervisory bodies , 127 (51.4%) were drawn up by employees of the counselling centres and 120 (48.2%) - by employees of the counselling points.

Figure 5.5. The structure of consultations on financial services issues delivered to consumers at Rospotrebnadzor's consumer consultation centres and offices in 2017 by types of documents



Source: Rospotrebnadzor

The main results of the activity of the counselling centres and points in the constituent entities of the Russian Federation on working with consumers of financial services by separate areas of informing and counselling are shown in Table 5. 3.

Table 5.3. Educational activities of the counselling centres and points in the constituent entities of the Russian Federation in 2017⁴³⁹

Directions of educational activities	Comment
Counselling for the consumers of financial services	Absolute leadership in the number of consultations in the field of financial services for 2013- 2017 is held by Sverdlovsk Oblast (2,364 consultations, in 2016 - 2,239 consultations, in 2015 - 1,291, in 2014 - 1,518), including during personal appointment - 1,435 consultations (in 2016 - 1,315 and by phone - 902 consultations (in 2016 - 926). The Krasnodar Region continues to rank second with 755 consultations (in 2016 - 1,002 consultations, in 2015 - 1,159, in 2014 - 1,213). The Republic of Tatarstan with 683 consultations is at the third place , Saratov Oblast and Arkhangelsk Oblast with 657 and 648 consultations, respectively, are close to it. The Saratov Oblast and Novosibirsk Oblast were the most advanced in 2017 with 183 and 154 "digital" consultations respectively (consultations with the use of electronic communications).

⁴³⁹ According to the Centre for Coordination and Methodological Support for the Development of Consumer Counselling Centres // Official website of the Federal State-Funded Healthcare Institution Federal Centre for Hygiene and Epidemiology under Rospotrebnadzor <http://fcgie.ru> .

Directions of educational activities	Comment
Drafting documents based on the results of consultations of consumers of financial services	<p>The documents were most actively drawn up, as before, in the Sverdlovsk Oblast - 326 documents (in 2016 - 373, in 2015 - 183). The second and third places were occupied by the Republic of Tatarstan with 150 documents and the Orenburg Oblast with 121 documents.</p> <p>The maximum number of claims was also drawn up in Sverdlovsk Oblast - 170 (in 2016 - 174) and the Republic of Tatarstan - 118 claims .</p> <p>The Sverdlovsk Oblast is also the first in terms of the number of suits drawn up - 87 (in 2016 - 135); the second and third positions are held by Orenburg Oblast and Volgograd Oblast with 29 and 22 suits respectively . In the last reporting period, Volgograd Oblast was on the second place with 33 suits.</p> <p>The largest number of drafts of applications to the supervisory bodies in 2017 was compiled in Sverdlovsk Oblast - 69 (in 2016 - 64) and the Republic of Tatarstan - 29 applications.</p> <p>Therefore, in the current reporting period, the Sverdlovsk Oblast and the Republic of Tatarstan are leading in this category with a large margin in terms of indicators among other constituent entities of the Russian Federation.</p>
Publication of materials and speeches on financial services	<p>In 2017, Irkutsk Oblast (137), Sverdlovsk Oblast (127) and Saratov Oblast (111) Oblast retained leadership in terms of the number of published materials and speeches (in 2016 - 112, 95 and 84 publications and speeches , respectively)</p> <p>The Republic of Buryatia was again the leader by the number of publications on the website in 2017 - 85 (in 2016 - 76), the second and third places are held by Sverdlovsk Oblast and Republic of Mordovia with 81 and 74 publications respectively. Sverdlovsk Oblast was also the leader in this category in 2015 .</p> <p>For the third year in a row, Irkutsk Oblast with 71 publications (in 2016 - 47 , in 2015 - 36) and Saratov Oblast with 55 publications (in 2016 - 38, in 2015 - 33) have been keeping the first and second places in terms of the number of publications in print, on radio and television. As in the previous reporting period, in 2017, Tver Oblast was on the third place with 46 publications (in 2016 - 33), the same result was shown by Sverdlovsk Oblast - 46publications.</p>
Arrangement of hot lines	<p>In 2017, Orenburg Oblast retained the first place in terms of the number of hot lines with a maximum of 93 (in 2016 - 77), the second and third places were occupied by Tver Oblast and Saratov Oblast with 47 and 43 hot lines, respectively. In 2016, Saratov Oblast was the second with 35 hot lines. It should be noted that 87 out of 93 hot lines in the Orenburg Oblast were arranged at the counselling points for consumers.</p>
Educational activities (round tables, conferences, seminars and other types of training)	<p>In this category, in 2017, the leadership was retained by Saratov Oblast and Vladimir Oblast, which had switched places - the first was Saratov Oblast with 392 events (in 2016 - 407), followed by Vladimir Oblast with 146 events (in 2016 - 514 events) . In the current reporting period, they organized 36.2% of the events (538 out of 1,486).</p> <p>The third place in 2017 was held by Sverdlovsk Oblast with 117 events. All three of the listed constituent entities entered the Top-3 mainly through holding seminars and other forms of training.</p> <p>In terms of the organization of round tables, conferences, public events, the best indicators were shown by Saratov , Ulyanovsk Oblast and the Republic of Buryatia with 46, 29 and 26 events, respectively. The Republic of Buryatia, by this indicator , enters the Top-3 for the third consecutive year(in 2016 - 42 events , in 2015 - also 42).</p> <p>In terms of other types of educational events (seminars, etc.) in 2017, in addition to previously listed Saratov Oblast, Sverdlovsk Oblast and Vladimir Oblast (346, 111 and 71 events, respectively), good results were shown in the Voronezh Oblast, Ulyanovsk Oblast, Orenburg Oblast, the Republic of Kalmykia, Altai Krai and Primorsky Krai (53, 50, 45, 44, 42 and 41 events, respectively).</p>
Development of methodological materials	<p>In 2017, Saratov Oblast retained leadership in the "development of methodological materials on the topic of financial services" category, having developed 107 materials (in 2016 - 102). Orenburg Oblast with 43 materials is on the second place. Proactiveness was also shown by Irkutsk Oblast and Tver Oblast, having developed 23 materials each, Altai Krai - 22 materials, Sverdlovsk Oblast - 20, Republic of Mordovia - 19 materials.</p>
Expert evaluations and comparative assessment of financial services	<p>Expert evaluation and comparative assessment of financial services were conducted in 2017 in 8 constituent entities of the Russian Federation (in 2016 - 9 , in 2015 -6). All three years (2015-2017), Sverdlovsk Oblast holds absolute leadership with 150 expert evaluations (in 2016 - 215, in 2015 - 92). In the current reporting period, the second place was held by Orenburg Oblast with 26 expert evaluations, the third place - Krasnoyarsk Krai with 17 expert evaluations. In 2017, there were 7 expert evaluations and comparative assessments in the field of financial services conducted in Tver Oblast.</p> <p>In Sverdlovsk Oblast , out of the above-mentioned 150 expert evaluations (comparative assessments), 131 were conducted in the counselling points, of which 91 - for the purpose of ensuring supervision in the field of consumer protection.</p>

In April 2018, draft Federal Law No. 435063-7 "On Amendments to the Law of the Russian Federation "On Protection of Consumer Rights" Regarding the Improvement of the State Policy in the Field of Consumer Protection" that proposed at the level of the basic federal law to determine specific ways of filing consumer complaints, including by providing, in an imperative manner, the opportunity for citizens to file complaints through Multifunctional Centres for Provision of State and Municipal Services (MFCs), was submitted to the RF State Duma for consideration.

Currently, the norm on the possibility of filing complaints from consumers is optional, which, as explained in the explanatory note to the draft law, has led to the lack of ubiquitous organization of such work in all MFCs and placed consumers in various regions of the Russian Federation in an unequal position. The proposed changes to the law will allow citizens to appeal against actions related to violation of various quality and safety requirements by means of a new procedure convenient for them, which will provide an effective form of public oversight and an additional procedure for prompt response to protect the rights of citizens.

Also, this draft law provides for the possibility of provision counselling in the MFCs on consumer protection. The provision proposed by the draft law creates a legal basis for the implementation on a systematic basis in all regions of the country of the pilot project of Rospotrebnadzor (in conjunction with the Bank of Russia and the Ministry of Economic Development of Russia) to organize the consumer counselling at the MFCs, which includes both the presence of special consultants on consumer protection issues and

the introduction of an automated search for the information useful to consumers.

In addition, the draft law proposes to vest in the executive bodies of the constituent entities of the Russian Federation and local governments the right to develop respective regional and municipal programs for consumer protection. Herewith, it is contemplated that Rospotrebnadzor will be responsible for the approval of methodological recommendations on the development and implementation of regional and municipal programs on ensuring consumer rights.

Results of the analysis of the activity of the counselling centres and points for consumers in the constituent entities of the Russian Federation, their support and preparation of proposals for optimizing the information interaction of the regional structures of Rospotrebnadzor on the protection of the rights of consumers of financial services in 2017 also reflected in the results of the remote survey conducted with the support of the consultants from FBK LLC.

67 consultation centres (81% of all Rospotrebnadzor consultation centres for consumers) took part in the remote survey. Upon the results of the survey, almost all consultation centres emphasized positive changes during the year 2016 in the system of notifying and advising consumers of financial services.

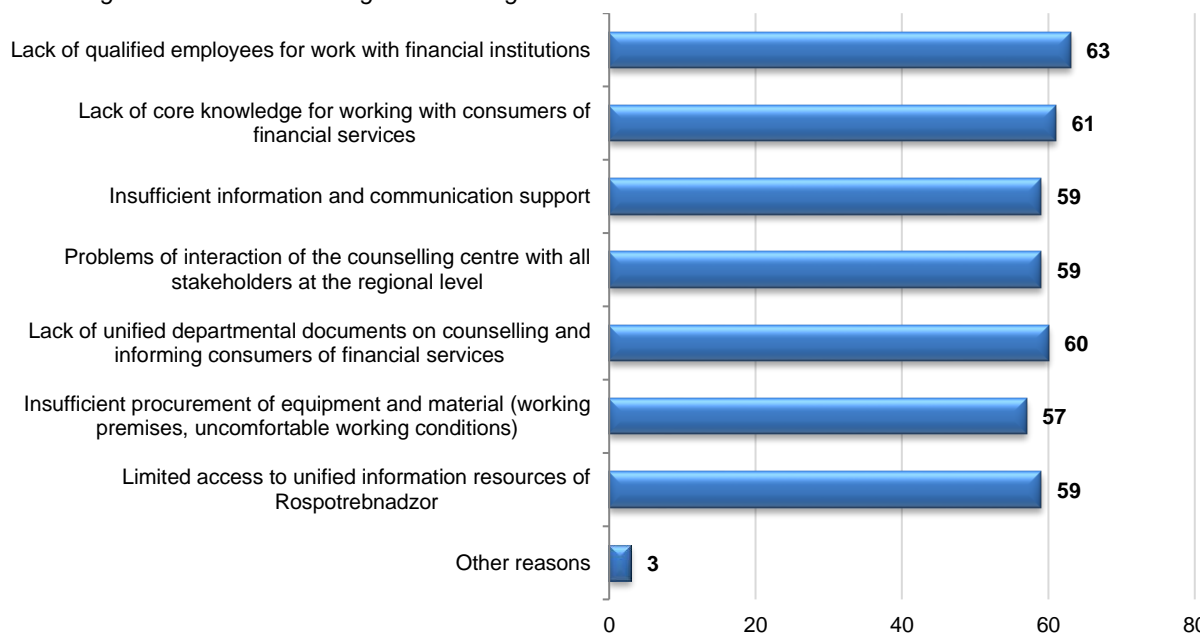
The greatest number of positive answers relates to the changes in the qualifications and staffing (including the improvement of employees' skills) - 50 counselling centres, or 74.6% of the number of respondents. Progress in the field of equipment and material procurement was noted by 48 regions (71.6%). Improvement of information technology support was noted by 39 counselling centres (58.2%). The counselling centres also noted positive dynamics in the development of the arrangement and technologies of counselling (35 regions, or 52.2% of respondents) and improved interaction (34 regions, or 50.7%).

The counselling centres noted the following issues with advising the consumers of financial services as the most urgent:

- 94% of surveyed counselling centres noted the lack of qualified employees for working with consumers of financial services;
- lack of specialized knowledge to work with consumers of financial services (91% of the counselling centres);
- problems of interaction of the counselling centre with all interested parties at the regional level (89.5%).

In addition to these problems, in 2017, employees of the counselling centres noted insufficient information and communication support , limited access to unified information resources of Rospotrebnadzor, insufficient procurement of equipment and material (working premises, uncomfortable working conditions), as well as a lack of unified departmental documents for counselling and informing consumers of financial services (Figure 5.6).

Figure 5.6. The number of the counselling centres that noted problem areas that prevent further improvement of the work of the counselling centre on the counselling and informing consumers of financial services



The majority of the consumer counselling centres (56.6% of who answered the corresponding questionnaire) noted a reduction in the number of consultations of consumers of financial services.

Therefore, the results of the remote survey are generally in line with statistical data of Rospotrebnadzor and Federal Budgetary Healthcare Institution Federal Centre of Hygiene and Epidemiology of Rospotrebnadzor and show potential areas of future development of the system of notifying and advising consumers of financial services.



Comparable in the last three years indicators of counselling in the field of protection of the rights of consumers of financial services indicate that the employees involved in this area have reached the optimum degree of workload. Therefore, increasing the effectiveness of work in this area of activity with the participation of Rospotrebnadzor can and should be achieved both by increasing the number of employees in the counselling centres and points for consumers, and from new directions of relevant activities, in particular, by involving in the work with consumers of financial services multifunctional centres and local governments.

5.2. Departmental standards for counselling the consumers of financial services

In 2017, Rospotrebnadzor, with the support of the consultants from FBK LLC, continued work on improving the methods of consumer consulting on financial services. The main attention was paid to the actualization of the already established standards of consumer counselling based on the results of application in practical work in the counselling centres and points, as well as changes in legislation.

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16 standards have been developed, including the following: "Entry into the Facility Agreement under the Condition of Mandatory Life and Health Insurance", "Recovering Payments for Maintaining a Loan Account", "Inclusion into the Agreement of Provisions Establishing the Bank's Right to Unilateral Amendments to the Facility Agreement", "Collection of the Facility Fee by the Bank", "Collection of Liquidated Damages or Early Redemption Penalty by the Bank", "Bank Deposit Agreement", "Vehicle Insurance", "Loan Agreement with MFO", "Lending to Individuals by Pawn Shops", "Special Aspects of Payroll Banking Cards", "Peculiarities of Credit Cards", "Using a Banking Card", "Opening a Bank Account and Related Settlements", "Mortgage Lending", "Bankruptcy of Individuals, other than Individual Entrepreneurs", "Restoration of Infringed Rights, Freedoms and Legal Interests of Consumers of Financial Services".

During December 2017 - February 2018, the FBK LLC consultants conducted another remote survey to analyze the changes in of the activities of the regional counselling centres for consumers. In of the questionnaire to be filled out, special attention was paid to the application and further improvement of the Unified Counselling Methodology and informing consumers of financial services, as well as departmental standards.

The results of the remote survey once again confirmed the importance for the employees of the counselling centres of standard documents, which combine and clarify the main provisions of the legislation of the Russian Federation, thereby providing a unified approach to the definition of ways to protect and restore the violated rights of consumers of financial services in the counselling centres of Rospotrebnadzor. More than 95% of the counselling centres that took part in the survey use the drafts of departmental consulting standards developed by Rospotrebnadzor with the support of the consultants from FBK LLC in the course of counselling the consumers of financial services.

More than 91% of the counselling centres that participated in the survey use drafts of departmental standards when advising consumers on the phone, during personal appointments, by e-mail or during field consultations. Employees of 72% of the counselling centres apply these documents in the preparation of claims, lawsuits, complaints to the Bank of Russia and Rospotrebnadzor. In 61% of the counselling centres, departmental standards for consulting consumers of financial services are used in the preparation of information materials for consumers of financial services; in 58% - in the improvement of the skills and training of the employees of the counselling centres and points. It is worth noting that 43% of the counselling centres that participated in the remote survey use the developed departmental standards in all areas of work related to the protection of rights and informing consumers of financial services.

According to specialists of consultation centres that participated in such remote survey, official standards are an important addition to information materials on financial services in the form of memos for consumers, posters, booklets, brochures, video clips and electronic presentations. Official standards are of a more specialized, applied nature and allow promptly providing to the consumer a substantiated response on the merits of the issue specified in an application.

Employees of more than 90% of the counselling centres surveyed consider it expedient to extend the proposed approach to the standardization of counselling with the use of the Unified Methodology and departmental standards for counselling consumers of financial services to the consumer counselling in general.

The proposals received from the counselling centres for the follow-up revision of the existing drafts of departmental standards for consulting consumers of financial services based on their practical application mainly concerned the following topics:

- termination of the contract of voluntary life and health insurance on the initiative of the insured (including cases of the refusal of the insurance institution to pay the consumer an insurance amount under the personal insurance contract for lending);
- program of joining to the collective insurance contract and the procedure for its termination;
- practical application of the citizen's right to waive the insurance contract within 14 days from the date of conclusion thereof;
- hard-selling of investment insurance services;
- hard-selling of additional services when concluding an insurance contract;

- illegal actions of debt collectors and control (supervision) of the Federal Bailiff Service over their activities;
- overdraft facility and cases of occurrence thereof;
- unilateral change in the terms of the loan agreement by the bank in the event of a merger of banks.

FBK LLC also received the comments of employees of the counselling centres on the following matters: update of the drafts of departmental standards in connection with the introduction of changes in legislation, as well as proposals on the possible topic of additional standards for counselling consumers of financial services, namely:

- correction of credit history damaged through the fault of the financial institution;
- protection of rights and legitimate interests of individuals in the debt collection activities under;
- payment services provided by payment agents;
- fraud in financial markets.



The uniform methodology and departmental standards for advising consumers of financial services form part of a unified system for informing and advising consumers in the counselling centres and points of Rospotrebnadzor. According to the employees of the counselling centres, the range of issues subject to standardization is constantly expanding, and therefore the proposed approach to standardization can be extended to consumer counselling in general.

5.3. The best Russian practice of counselling and informing consumers of financial services

This subsection was prepared based on the results of a remote survey conducted by LLC FBK's consultants in December 2017-February 2018 within the framework of Joint Project of the Russian Federation and the IBRD "Financial Education and Financial Literacy Project in the Russian Federation". The survey yielded important information about achievements and innovations in the consumer advisory centres' operations in the following areas:

- Improvement of staffing qualification and expertise;
- Improvement of information and technological support;
- Improvement of material and technical support;
- Development of counselling methods and technologies;
- Improvement of consumer consultation centre's cooperation.

In regard to these areas of improvement, below are good practices developed by consumer advisory centres in some regions of the Russian Federation who wished to share their 2017 results and innovations.

Improvement of qualifications and staffing, including improvement of the employees' skills

Positive changes in the qualifications and staffing notes most of the counselling centres who took part in the survey.

Employees of the counselling centres from more than 40 regions of the Russian Federation underwent further training, including remote training based on the programs of Non-State Educational Institution of Further Vocational Education Network Academy:

- "Protection of the rights of consumers of financial services in the Russian Federation";
- "Financial institutions and other professional participants in the financial market".

12 employees from *Altai Krai* were trained in the Financial University under the Government of the Russian Federation for working with consumers on the following topics: personal and family finances; investments; insurance; pension provision; tax issues; protection of the rights of consumers of financial services.

Employees of the Department of Consumer Rights Protection in Rostov Region were trained on the basis of the Autonomous Nonprofit Organization of Further Vocational Education National University of Modern Technologies (Volgograd).

Counselling centres regularly host training seminars for new and existing employees of the counselling centres and points, for example, in such regions as: *Tver Oblast; City of Moscow; Republic of Mordovia; Orenburg Oblast; Republic of Tatarstan, Sverdlovsk Oblast* and others.

Also, the counselling centres, for example, in the city of *Moscow and Stavropol Krai*, regularly hold meetings to discuss the issues of consumer counselling, as well as current changes in the legislation in the field of consumer protection, including the consumers of financial services, and the practice of application thereof. In *Orenburg Oblast*, employees of the Consumer Protection Department of the Division of Rospotrebnadzor in Orenburg Oblast attend similar meetings.

Separately, it is worth noting that the professionals in the field of protection of the rights of consumers of financial services with ever increasing frequency join the staff of the counselling centres. In addition, staff of the counselling centres in such regions as *Krasnodar Krai and Rostov Oblast* includes the employees engaged in scientific activities, including those on the protection of the rights of consumers of financial services.

Improvement of information technology support

Practically, all counselling centres are actively working to improve information and technological support expressed in the

installation of new and regular updating of the software used, as well as reference and information systems; improvement of relevant sections of the websites of Federal State-Funded Healthcare Institutions; development of the remote counselling system; popularization of the activity of the counselling centres and points through social networks.

More than 30 constituent entities of the Russian Federation have the technical capability of remote consumer counselling via web technologies (e-mail, information kiosks, Skype, and social networks).

As part of the survey, about 13 counselling centres noted the installation of electronic information kiosks within the framework of the project "On raising financial literacy and development of financial education in Russia".

In their work, the employees of the counselling centres and offices actively use such reference and legal systems as Garant and Consultant Plus, while applying their internet versions for the most timely familiarization with the current changes in legislation and judicial practice.

In *Tver Oblast*, the employees of the counselling centres and points use the State Online Resource in the Field of Consumers Rights Protection⁴⁴⁰, the "Court Rulings and Regulations of the Russian Federation" web resource⁴⁴¹, information of the official website of the Federal Arbitration Courts of the Russian Federation,⁴⁴² "WantCanKnow" resource⁴⁴³, and "Vashinansy" portal⁴⁴⁴.

In *Altai Krai*, the FTP-disk accessible to employees on consumer protection has the "Finance" folder, which contains the following:

- regulatory documents on consumer protection;
- reminders;
- samples of claims, complaints, lawsuits;
- court rulings;
- drafts of standards for counselling.

The counselling centres are continuously working to optimize their websites. For instance, in *Bryansk Oblast and Altai Krai*, the websites of the counselling centres have Q&A sections on consumer protection and Feedback sections where consumers can get the necessary advice, including that on financial services. The *city of Moscow* is also developing a section of the website for provision of citizens with electronic advice. The counselling centre in *Krasnodar Krai* in 2017 carried out a comprehensive reorganization of its website, herewith much attention was paid to the section on protection of the rights of consumers of financial services.

In *Saratov Oblast*, "Self-Teaching Guide on Financial Literacy" on the website of the counselling centre is regularly updated with up-to-date information.

Improvement of equipment and material procurement

The overwhelming majority of the counselling centres have sufficient level of endowment of materials and equipment: they have dedicated well-equipped premises with computer and office equipment, information stands for consumers.

Improvement of equipment and material procurement in 2017 is noted by 71.6% of the counselling centres that took part in the survey.

The counselling centres in 36 constituent entities of the Russian Federation in response to the corresponding question of the questionnaire noted that they received a new office equipment. This has allowed to upgrade the work stations of employees, provide dedicated work stations for consumers in order to enable independent work with reference systems and other informational materials (e.g., in the *city of Moscow*, *Perm Krai*, *the Republic of Mordovia*).

In *Tula Oblast*, the installation of network equipment allowed employees to participate in webinars and other training events.

A number of regions purchased and received new stands, racks, projectors and screens, information monitors and other demonstration equipment, which made it easier for consumers to access up-to-date information on financial services.

Such regions as *the city of Moscow*, *Republic of Mordovia*, *Karachaev-Cherkess Republic*, *Orenburg Oblast*, *Tver Oblast* and *Rostov Oblast* noted positive changes in the conditions of reception of consumers expressed in addition of new, or repair of existing premises, purchase of new furniture and general improvement of the ergonomics of the counselling space.

Development of the organization and technologies of counselling

According to the results of the survey of the counselling centres for consumers, the most accessible and common methods of counselling and informing are the following:

- posting information on the official website, in social networks, on the information stand of the counselling centre;
- remote counselling via the Internet;
- various kinds of training events (seminars, lectures, etc.);
- arrangement of hot lines.

About 49% of the interviewed counselling centres and points are actively engaged in the development and dissemination

⁴⁴⁰ The official website <http://zpp.rospotrebнадzor.ru>.

⁴⁴¹ Official website <http://sudact.ru>.

⁴⁴² Official website <http://www.arbitr.ru>.

⁴⁴³ <https://хочуугоузнаю.рф>.

⁴⁴⁴ <http://vashifinansy.rf>.

of methodological aids, information materials, leaflets, brochures, samples of documents; many regions of the Russian Federation provide the technical possibility of remote counselling via the Internet (e-mail, Skype, etc.) Herewith, particularly noteworthy examples of application of new, not previously used in practice, and the development of already existing methods of informing and advising consumers on financial literacy matters for increasing the availability of information and training materials, engagement of virtually all segments of the population in these processes.

In such regions as the *Republic of Tatarstan, Perm Krai, Orenburg Oblast, Ulyanovsk Oblast and Irkutsk Oblast*, counselling centres' employees provide advice to citizens on the basis of concluded agreements, including on the matters of financial services, in the Multifunctional Centres for Provision of State and Municipal Services.

In the *Republic of Mordovia*, the counselling centre has developed and constantly running video clips on two large monitors, which help to increase financial literacy of citizens. Citizens are being informed through comics - graphic stories on various issues of consumer protection, including on issues of financial services.

Sverdlovsk Oblast has created 18 video lessons for consumers of financial services within the framework of the "Creating a Video Alphabet for Consumers of Financial Services" subproject, which are posted and shown in the media. There are also meetings of the working group together with the Division of Rospotrebnadzor in the Sverdlovsk Oblast on the protection of the rights of consumers of financial services with a view of developing a unified approach to the protection of rights throughout the Sverdlovsk Oblast.

Arkhangelsk Oblast has introduced webinars on the matters of financial literacy. In 2017, the topics of webinars included "microfinance institutions" and "bankruptcy of individuals". Also, the counselling centre organized specialized outreach activities for the elderly "School of Financial Literacy", for teachers and doctors - on "Protection of Rights of Consumers in the Field of Financial Services".

In the city of Moscow, official website of the counselling centre has 8 new information materials on consumer protection issues in the financial sector: Supervision of the activities of debt collection agencies; The right of recourse claim of the insurance company to the culprit of the traffic accident on the basis of the Compulsory Motor TPL Insurance Contract; What you need to know when concluding a micro-loan agreement with a microfinance institution; On amending the legislation on compulsory insurance of civil liability of motor vehicle owners; Early termination of the voluntary insurance contract; The procedure for issuing payment cards; Particulars of carrying out payment card transactions by credit institutions; How to cancel attached insurance?; Consumer rights when using ATMs; Can banks debit money from a client's account without his/her consent (direct debit)? The employees of the counselling centre took part in the Festival of Financial Literacy, within the framework of which information and educational activities, on-site thematic consultations and seminars were organized and conducted. In addition, the program of counselling via Skype has been expanded. Within the framework of this section of work, once a month, there is remote counselling and informing of employees of educational institutions.

In *Saratov Oblast*, during the summer period of 2017, the activities to improve the financial literacy of schoolchildren who are vacationing in summer health camps of the city of Saratov and Saratov Oblast covered 3,707 persons in 38 recreation organizations. These activities were conducted with the use of the materials for lectures and handouts developed by the employees of the counselling centre, as well as presentations and videos developed within the framework of the Joint Project of the Russian Federation and the IBRD "On raising financial literacy and development of financial education in Russia" for working with children.

In *Tver Oblast*, during the reporting period, the number of hot lines on financial services increased substantially, as well as the number of developed information materials in the form of memos, brochures, booklets. Active work is continuing on field counselling in the districts of the region, herewith, the schedule of on-site consultations is monthly posted on the official website of the counselling centre, as well as in the places of counselling and local authorities. Remote areas are covered with the counselling on Skype. To date, there have been arranged places for remote counselling in all served areas. In 2017, the counselling centre published 73 materials on financial literacy on its official website, as well as on official websites of local authorities and in regional print media.

In 2017, in *Krasnodar Krai*, there was a large number of outreach activities and consultations on financial literacy (at factories, offices, educational institutions) covering as many various social and age groups as possible, including various non-standard game events ("My Investment Capital" business game) and thematic lessons ("My First Savings", "Invest Wisely", "Personal Finance Management. "Way to Success"), allowing in a more easy form to learn about financial products and develop proper behavioural skills.

In *Lipetsk Oblast*, the "Protection of Consumer Rights" group was created in the social network VKontakte, which has tests for consumers on the knowledge of the Federal Law "On Protection of Consumer Rights", including the sections on financial services.

In *Orenburg Oblast*, there is a group in the social network VKontakte, which regularly conducts polls on the protection of the rights of consumers in order to identify the information needs of citizens, including in the field of protection of the rights of consumers of financial services.

In *Altai Krai*, the counselling centre's website has the Feedback section, and a group in the social network VKontakte is used for the posting of memos, sample claims. A group in the social network Odnoklassniki was created by the branch of the Federal State-Funded Healthcare Institution Federal Centre for Hygiene and Epidemiology in the Altai Krai for the cities of Rubtsovsk and Rubtsovsk, Egorievsk, Pospelikhinsky, Krasnoshchekovsky, Kuryinsky, Novichikhinsky and Shipunovsky Districts. In addition, the portal of the centres for financial literacy of the adult population is used for the informing purposes, including informing on the scheduled financial literacy activities; information on the activities of the counselling centre is also posted on the portal "Vashinansy".

Improving the interaction of the counselling centre

The activities of the majority of the counselling centres for consumers on advising and informing in the field of protection of the rights of consumers of financial services occur in close cooperation with territorial agencies of Rospotrebnadzor, local authorities, public organizations, financial bodies of constituent entities and other stakeholders in the field of protection of consumers' rights and improvement of the financial literacy, which is confirmed by the following practice of a number of constituent entities of the Russian Federation.

In the *Republic of Mordovia* in 2017 an agreement was reached with the administration of the Kochkurovsky District of the Republic to create a dedicated section on their website on financial literacy of citizens. Also, agreements were concluded with the Mordovian Regional Public Organization on the Protection of the Rights and Interests of Citizens "Civil Solidarity", the Regional Branch of the All-Russian Public Movement for the Protection of the Rights and Interests of Consumers "Association of Consumers of Russia", Commissioner for the President on Protection of the Rights of Entrepreneurs in the Republic of Mordovia, "Spravka 13" portal, in accordance with which the users of the Portal have the opportunity to ask a question to the employees of the counselling centre, including on the issues of protecting the rights of consumers of financial services.

In *Yaroslavl Oblast*, in 2017, an agreement was concluded with the A-Bank to hold joint seminars to raise the financial literacy among the population.

Moscow together with the Division of Rospotrebnadzor developed a standard for "consideration of consumer applications, informing and advising consumers about their rights and necessary actions to protect these rights", work within the framework of the Advisory Council for the Protection of Consumer Rights, and introduced the practice of preparing statements of claims for the Division of Rospotrebnadzor in the city of Moscow with a view to filing a lawsuit by latter in order to protect the rights of a particular consumer.

In *Altai Krai*, there have been concluded agreements on cooperation with the "Credit Rights Defender" Interregional Public Organization and "Agency for Protection of Consumer Rights "Sutyajnik" Altai Regional Public Organization . Within the framework of cooperation with the Altai Krai Financial Literacy Centre in 2017, the employees of the counselling centre took part in the round table on "Problems and Prospects of Creating an Institutional Base to Support the Implementation and Development of Financial Literacy Programs for the Adult Population at the Federal and Regional Levels", and a teleconference on the exchange of experience dedicated to the All-Russian Savings Week.

The *Arkhangelsk Oblast* within the framework of the regional program "On raising financial literacy and development of financial education in the Arkhangelsk Oblast" in 2014-2019", interacts with 1 studio + LLC to organize educational activities on financial literacy.

In the *Kursk Oblast*, there is an information interaction with: Committee on Social Security of the Kursk Oblast; Committee on Education and Science of the Kursk Oblast; Committee on the Consumer Market, Development and Small Business and Licensing of the Kursk Oblast; Committee on Youth and Tourism of the Kursk Oblast; Commissioner for the Protection of the Rights of Entrepreneurs in the Kursk Oblast; Department for the Development of Entrepreneurship, Consumer Market and Consumer Protection of the Administration of the City of Kursk; public organizations and associations - Kursk Regional Branch of the All-Russian Public Organization of Small and Medium-Sized Business called "Opora of Russia", Regional Centre for Consumer Oversight, Interregional Public Organization Centre for Independent Protection of Consumer Rights, Kursk Branch of the Public Organization "Consumer Rights Protection Society "Public Oversight". In terms of joint activities, there is an interaction with: Administration of the Federal Postal Service for the Kursk Oblast; Kursk Oblast Branch of the Central Administration of the Central Bank of the Russian Federation for the Central Federal District; public organization Kursk Regional Branch of the "Defender of the Consumer Rights" Organization; Regional Budgetary Institution of Culture named after N.N. Aseev.



The formation of the best Russian practice of counselling and informing consumers of financial services, its dissemination and promotion are necessary elements for improving the quality of the work of the counselling centres, contribute to strengthening the institutional foundations of the system of bodies and organizations of Rospotrebnadzor.

6. Assessment of the effectiveness of the activities of the Rospotrebnadzor's counselling centres

In the general case, effectiveness is defined as the ratio of immediate results of activities to the costs of achieving them. In assessing the effectiveness of public administration, the "effectiveness" term is often used in the context of socio-political results of government activities, the significance of the positive results achieved for society in relation to the resources expended.

For instance, an increase in the level of financial literacy of the population and satisfaction of citizens with the actions of Rospotrebnadzor, its territorial bodies and organizations can be considered as one of the final results of the Rospotrebnadzor's activity. The immediate results of the activities of Rospotrebnadzor, its territorial bodies and subordinate institutions on the protection of the rights of consumers of financial services in 2017, in particular, on review of applications from consumers, conduct of supervisory activities, judicial practice, and informing and improvement of the financial literacy of the population are described in detail in Sections 4 and 5 of this Report.

6.1. Methodology for effectiveness assessment

Despite many years of experience in applying methodologies and performance indicators in both foreign and Russian practice, there are no universal "ready-made recipes" for assessing the effectiveness of government bodies.

In this regard, within the framework of the Joint Project of the Russian Federation and the IBRD "On raising financial literacy and development of financial education in Russia" employees of Financial and Accounting Consultants LLC developed a methodology for assessing the results of activities of the Rospotrebnadzor's counselling centres, which continued to be tested in 2017.

Components of the developed methodology for effectiveness assessment:

- use of qualitative indicators of assessment, grouped in the assessment tables by three criteria: "Assessment of the quality of informing and counselling processes for consumers of financial services", "Assessment of the interaction of the counselling centre with interested organizations" and "Assessment of the quality of the results of the counselling centre for consumers of financial services and the society as a whole";
- application of a numerical score for six levels of state⁴⁴⁵ for each criterion (from 0 to 100 points⁴⁴⁶);
- self-assessment (the organizations themselves determine their level, indicate the number of points scored, justify their choice with comments, confirm it with convincing evidence and send the completed assessment sheets on time to the evaluation commission, in this case - FBK consultants);
- application of consolidated assessment procedures with the ability to build a rating (checking the correctness of filling, formal rules for processing completed assessment sheets, counting the total number of points, collegial consideration of disputed situations).

6.2. The results of the assessment of the activity of the counselling centres for consumers

In December 2017 - February 2018, consumer counselling centres were asked to fill in the evaluation lists according to the three criteria listed above. 66 regions sent their completed assessment sheets⁴⁴⁷. During the remote survey, FBK consultants organized a hotline on the completion of assessment sheets. The survey concerned only work with the consumers of financial services.

Below are the results of the distribution of the counselling centres by each criterion as a percentage of the total number of participants who took part in the remote survey.

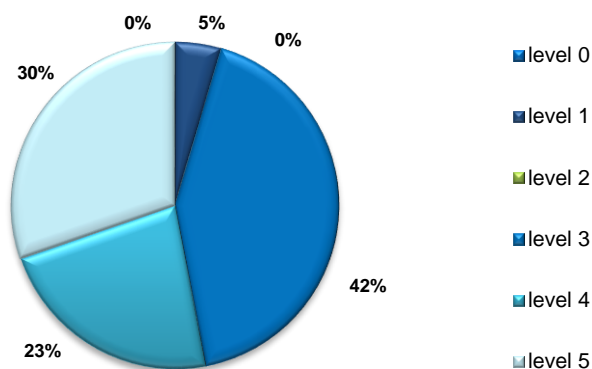
Figure 6.1 shows the distribution of the counselling centres for consumers by levels of assessment of the status of their activities according to the "Quality of the processes of counselling and informing consumers of financial services" criterion.

⁴⁴⁵ Zero level - 0-10 points, First level - 11-30 points, Second level - 31-50 points, Third level - 51-70 points, Fourth level - 71-90 points, Fifth level - 91-100 points.

⁴⁴⁶ The consolidated effectiveness assessment was determined by summing up the number of points that the counselling centre received. It should be noted that the maximum score was 300, 100 for each of the 3 criteria.

⁴⁴⁷ Following 17 regions failed to sent assessment sheets: Vladimir Oblast, Zabaykalsky Krai, Kostroma Oblast, Krasnoyarsk Krai, Murmansk Oblast, Nenets Autonomous Area, Oryol Oblast, Pskov Oblast, the Republic of Adygea, the Republic of Dagestan, the Republic of Kalmykia, the Republic of Khakassia, St. Petersburg, Sakhalin Oblast, Tambov Oblast, Chechen Republic, Yamal-Nenets Autonomous District.

Figure 6.1. Distribution of consultation centres for consumers per levels of evaluating the state of their activities pursuant to the criteria "Quality of processes of notifying and advising consumers of financial services"



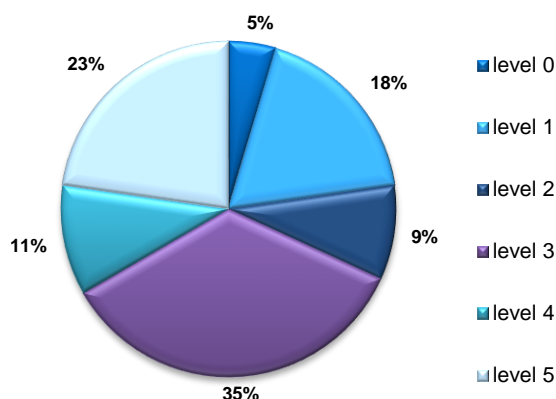
Explanations of these levels is as follows:

- **zero level** - the counselling centre does not carry out or practically does not carry out the activities on counselling and informing consumers of financial services;
- **first level** - the counselling centre plans and carries out activities on counselling and informing consumers of financial services;
- **second level** - the counselling centre plans and carries out activities on counselling and informing consumers of financial services within the scheduled terms and in accordance with the established requirements;
- **third level** - the counselling centre plans and carries out activities on counselling and informing consumers of financial services, reports on the results of activities in accordance with the established requirements;
- **fourth level** - the counselling centre plans and carries out activities on counselling and informing consumers of financial services, keeps records of the results of activities on schedule and in accordance with the established requirements, monitors, evaluates and revises approaches, if necessary;
- **fifth level** - the counselling centre plans and carries out activities on counselling and informing consumers of financial services, keeps records of the results of activities on schedule and in accordance with the established requirements (standards), monitors, evaluates and revises approaches, if necessary, learns from others, improves and introduces new approaches.

Based on the results of consideration of the assessment sheets received according to the "Quality of the processes of counselling and informing consumers of financial services" criterion, there are no regions located at the zero and the second levels, the largest number of the counselling centres is at the third level - 28, or 42% centres, the 5th level was reached by 20 counselling centres (30%). At the fourth and first levels, there are 15 (23%) and 3 (5%) of counselling centres, respectively.

Figure 6.2 shows the distribution of the counselling centres for consumers by levels of assessment of the status of their activities according to the "Interaction with interested organizations in the field of financial literacy improvement" criterion.

Figure 6.2. Distribution of consultation centres for consumers per levels of evaluating the state of their activities pursuant to the criteria "Evaluation of interaction between the consultation centre and the parties concerned"



Explanations of these levels is as follows:

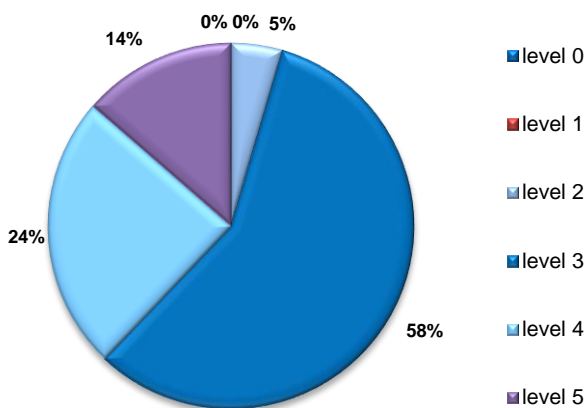
- **zero level** - the counselling centre does not conduct or practically does not conduct activities to develop cooperation with public consumer associations, educational and other organizations (with interested organizations);
- **first level** - the counselling centre plans and conducts activities to develop cooperation with interested organizations;
- **second level** - the counselling centre plans and conducts activities to develop cooperation with interested organizations on schedule and in accordance with the established requirements;

- **third level** - the counselling centre plans and conducts activities to develop cooperation with interested organizations on schedule and in accordance with the established requirements, conducts its evaluation and revises approaches, if necessary;
- **fourth level** - the counselling centre plans and conducts activities to develop cooperation with interested organizations, including on the basis of concluded agreements, on schedule and in accordance with the established requirements, conducts its evaluation and revises approaches, if necessary;
- **fifth level** - the counselling centre plans and conducts activities to develop cooperation with interested organizations, including on the basis of concluded agreements, on schedule and in accordance with the established requirements, conducts its evaluation and revises approaches, if necessary, on the basis of the implementation of regional targeted programs.

In assessing the "Interaction with interested organizations in the field of financial literacy improvement" criterion, the counselling centres were distributed as follows: the largest number of the counselling centres is at the third level - 23, or 35%; 15 counselling centres, or 23%, reached the maximum, the fifth level; at the first level - 12, or 18%, of the counselling centres; at the fourth and the second levels - 7 (11%) and 6 (9%) of counselling centres, respectively; 3 centres do not conduct or practically do not conduct activities to develop cooperation with interested organizations in the field of financial literacy improvement, and are placed at the zero level.

Figure 6.3 shows the distribution of the counselling centres for consumers by levels of assessment of the status of their activities according to the "Quality of results of activities for consumers of financial services and society as a whole" criterion.

Figure 6.3. Distribution of consultation centres for consumers per levels of evaluating the state of their activities pursuant to the criteria "Evaluation of performance of the consultation centre for consumers of financial services and the public in general"



Explanations of these levels is as follows:

- **zero level** - the counselling centre did not produce, or practically did not produce the results of the activity for consumers of financial services and the society as a whole due to objective reasons, which do not allow judging the place of the counselling centre in the society of our region ("invisible" counselling centre);
- **first level** - the counselling centre planned and produced for the reporting period the results of activities for consumers of financial services and the society as a whole, which allow us to pass judgment on the insignificant place of the counselling centre in the society of our region;
- **second level** - the counselling centre planned and produced for the reporting period the results of activities for consumers of financial services and the society as a whole, which allow us to pass judgment on the low-observable place of the counselling centre in the society of our region;
- **third level** - the counselling centre planned and produced for the reporting period reliable and verifiable results of activities for consumers of financial services and the society as a whole, which allow us to pass judgment on the prominent place of the counselling centre in the society of our region;
- **fourth level** - the counselling centre planned and produced for the reporting period reliable and verifiable results of activities for consumers of financial services and the society as a whole, which allow us to pass judgment on the estimable place of the counselling centre in the society of our region;
- **fifth level** - the counselling centre planned and produced for the reporting period reliable and verifiable results of activities for consumers of financial services and the society as a whole, which allow us to pass judgment on the important place of the counselling centre in the society of our region;

Based on the results of the analysis of the received assessment sheets according to the "Quality of results of activities for consumers of financial services and society as a whole" criterion, it should be noted that there are no counselling centres at the zero and the first levels in the sample. The largest number of the counselling centres according to this criterion is at the third level - 38, or 58%; the fourth and fifth levels were reached by 16 and 9 counselling centres, respectively. At the second level there are 3 counselling centres, or 5%.

The distribution of counselling centres across the ranges of assessment values (in %) indicates that the majority of the

counselling centres (35) have estimates in the range from 50% to 90%, 14 counselling centres fall in each of the ranges of more than 90% and from 30% to 50%, and only three counselling centres have assessment in the range below 30% (Table 6.1).

Table 6.1. Distribution of consultation centres for consumers per ranges of evaluating their performance of advising and notifying consumers of financial services in 2016

Range of values of evaluations of state, % performance of MAX possible	Number of consultation centres
<90	14
80-90	9
70-80	3
60-70	3
50-60	20
40-50	9
30-40	5
20-30	3
10-20	0
0-10	0
Total:	66

The results of the assessment also made it possible to obtain the distribution by points of regions of the Russian Federation based on the principles of objectivity and independence based on the results of the activity of the counselling centres of territorial Federal Centres for Hygiene and Epidemiology on counselling and informing consumers of financial services in 2017:

- from 201 to 300 points - Altai Krai, Arkhangelsk Oblast, Bryansk Oblast, Volgograd Oblast, Vologda Oblast, Irkutsk Oblast, Kamchatka Krai, Kirov Region, Krasnodar Krai, Kursk Oblast, the city of Moscow, Nizhny Novgorod Oblast, Orenburg Oblast, the Republic of Altai, the Republic of Buryatia, the Republic of Karelia, the Republic of Mariy El, the Republic of Mordovia, the Republic of Tatarstan, the Republic of Tyva, Saratov Oblast, Sverdlovsk Oblast, Tver Oblast, Tomsk Oblast, Tula Oblast, Tyumen Oblast, Ulyanovsk Oblast;
- from 101 to 200 points - Amur Oblast, Belgorod Oblast, Voronezh Oblast, Jewish Autonomous Oblast, Ivanovo Oblast, Kabardino-Balkaria Republic, Kaliningrad Oblast, Kaluga Oblast, Karachaevo-Cherkess Republic, Kurgan Oblast, Leningrad Oblast, Lipetsk Oblast, Magadan Oblast, Moscow Oblast, Novgorod Oblast, Novosibirsk Oblast, Omsk Oblast, Penza Oblast, Perm Krai, Primorsky Krai, the Republic of Bashkortostan, the Republic of Ingushetia, the Republic of Komi, the Republic of North Osetia - Alania, Rostov Oblast, Ryazan Oblast, Samara Oblast, Smolensk Oblast, Stavropol Krai, Udmurt Republic, Khabarovsk Krai, Khanty-Mansi Autonomous Area, Chelyabinsk Oblast, Chuvash Republic, Chukotka Autonomous District;
- up to 100 points - Astrakhan Oblast, Kemerovo Oblast, the Republic of Sakha (Yakutia), Yaroslavl Oblast.

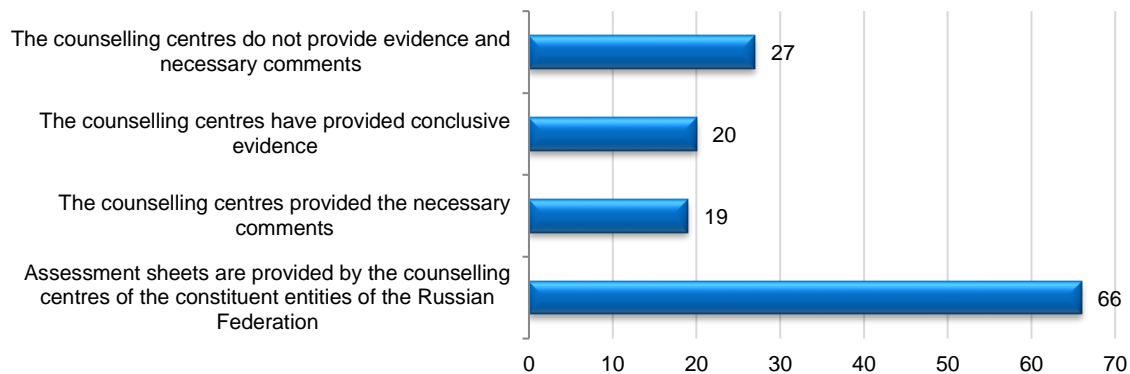
It should be noted that, compared to 2016, the number of counselling centres that scored less than 100 points was reduced. Their positions have been improved by such regions as Voronezh Oblast, the Krasnodar Krai, Magadan Oblast, Rostov Oblast, Udmurt Republic and Chukotka Autonomous District.

The following typical errors (shortcomings) can be noted in the filling of assessment sheets:

- "Final comments on the section" have not been filled at all or completely to confirm the selected level of state and the value of the assessment;
- the number of points is indicated in tables A1, B1, B1 in front of the selected level of state without subsequent confirmation (sending documents (files), web links and other necessary information, hereinafter referred to as the evidence);
- the evidence is presented in tables A2, B2, B2, which are explanatory tables, without subsequent confirmation (sending of evidence) (of the respondents who sent the assessment sheets - 27 regions did not provide the necessary evidence).

Figure 6.4 shows the degree of detail in the information provided by the counselling centres when presenting the assessment sheets.

Figure 6.4. Detailing (availability) of information provided by the counselling centres for the consumers of the constituent entities of the Russian Federation , within the framework of a remote study of the results of their activities in 2017.



The introduction of a formalized system for assessing the results of activities in the practice of Rospotrebnadzor, its territorial bodies and organizations will provide important information for making managerial decisions aimed at improving the effectiveness of interaction, improving the quality of advisory services provided to the population and, in general, improving the institutional foundations of the consumer protection system.

7. Improving Consumer Financial Literacy

7.1. Financial Literacy Strategy for 2017-2023

The Joint Project of the Russian Federation and International Bank for Reconstruction and Development “Financial Literacy and Financial Education in the Russian Federation” places high emphasis on the implementation of financial literacy education programs for various target and age groups, establishment of a network of federal and regional methodology centres to provide training and further training services for specialists involved in education programs, and support of financial literacy and awareness-raising initiatives on a competitive basis.

Nevertheless, financial literacy in Russia is still quite low and requires long-term coordinated efforts of all parties concerned, including the Ministry of Finance of the Russian Federation, Bank of Russia, Russian Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing, Ministry of Education of the Russian Federation and other federal executive authorities, executive bodies of constituent entities of the Russian Federation and local governing bodies, financial market institutions and non-profit organizations.

That is why the Government of the Russian Federation approved the Financial Literacy Strategy for 2017-2023⁴⁴⁸ (hereafter – the Strategy). The Strategy aims to lay the groundwork for responsible financial behavior required to improve people’s standard of living and quality of life, in particular, by using proper quality financial products and services.

The Strategy sets basic knowledge and skills that a financially literate person should have.

A financially literate person should at least:

- keep track of personal finances;
- plan income and expenses;
- make long-term savings and build a financial safety net to be used in case of emergency;
- be aware of how to look for and use required financial information;
- select financial services reasonably;
- live within their means avoiding debts disproportionate to income and defaults of payment;
- know their rights as financial consumers and be able to defend them;
- detect financial fraud indicators;
- be aware of the risks existing in the financial services market;
- know and observe taxpayer’s obligations;
- prepare financially for retirement.

To lay the groundwork for responsible financial behavior the Strategy sets the following objectives:

- wider coverage and higher quality of financial education and public communication on financial matters; institutional frameworks and methodological resources for the educational community with due regard to the development of modern financial technology;
- developing communication mechanisms in support of the dialogue between the state and civil society to promote financial literacy, including better communication of financial consumer rights, pension coverage and promoting socially responsible behaviors among financial market stakeholders.

The Strategy provides for a differentiated approach to organized events, which means taking into account current conditions and opportunities to improve financial literacy in specific social groups that require particular attention.

The following target groups have been identified within the framework of the Strategy:

- students of secondary and professional schools, and universities;
- low- and middle-income people;
- retired people, and those approaching retirement, people with disabilities.

The Strategy is expected to be implemented by a wide variety of parties coordinated by the Intergovernmental Coordination Commission established pursuant to Decree of the Government of the Russian Federation No. 92 of 1 February 2018.

The Strategy is to be implemented in two stages:

- first stage — 2017–2019;
- second stage — 2020–2023.

When the first stage is completed, it is planned to include the main measure “Financial Literacy Improvement” into the subprogramme “Development of International Financial and Economic Cooperation in the Russia Federation” of the state programme “Management of Public Finances and Regulation of Financial Markets” approved by Decree of the Government of the Russian Federation No. 320 of 15 April 2014. This measure will be held to continue financial literacy improvement efforts, develop financial education and raise awareness about financial consumer protection mechanisms.

The objectives and goals of the Strategy will be achieved by arranging events included in the implementation roadmap developed by the Russian Ministry of Finance and the Bank of Russia.

⁴⁴⁸ Approved by the Government of the Russian Federation (Decree No. 2039-p of 25 September 2017).

A draft implementation roadmap was discussed at the conference “Financial Literacy Improvement in the Russian Federation: from the Ministry of Finance Project to Launching the State Strategy” held in November 2017. The roadmap was submitted to the Government of the Russian Federation in December 2017.

7.2. Consumer Information Resources



The financial consumer protection information hub zpp.rospotrebnadzor.ru continued to operate in 2017 (for more detail please refer to section 6.2 of the Report on the Status of Financial Consumer Protection in 2016). A subsection “Financial Services” of the *Consumer reference guide* is being supplemented with up-to-date information to provide consumers with answers to the questions which they may have when receiving financial services.

The complete information about the Project progress (for more information about the Project please refer to section 3.5 of this Report) is available at Вашифинансы.рф, a national multi-purpose information and educational platform for the general public that provides insights into financial literacy and consumer protection issues and plays a role of a single hub for all products developed under the Project.

In 2017 the library available at Вашифинансы.рф was regularly updated and systematized, the website served as a platform for online discussions and registration of workshops, seminars, webinars and other events held within the framework of the Russian Savings Week and the Financial Literacy Week.

Apart from the general information that may be useful for everybody, the website contains certain sections that serve the needs of different target groups, for example children and young people, the Project participants and mass media.



Another portal launched under the Project is a website Хочумогузнаю.рф that features infographics and interactive materials on financial literacy and financial consumer protection. The “*law and facts*” section offers annual reports on financial consumer protection and other legislative acts and reports.

In order to ensure institutional and workforce capacity for the enhancement of financial literacy at the regional level the Project provides for the establishment of regional financial literacy centers that will serve as platforms to introduce and test educational programs and information products developed under the Project at the federal level, as well as to involve regional and municipal authorities in the Project.



The websites of the regional financial literacy centers are useful resources that provide an opportunity not only to receive answers to the questions about financial services and consumer protection, but also to learn about financial literacy projects and events in a particular region.

For example, the “*Useful materials*” section on the website of the regional financial literacy center of the Kaliningrad Region at fingram39.ru has separate sub-sections dedicated to loans and borrowings, taxes, pensions, savings and investments, insurance etc.

The “*Methodological materials*” section is structured by target groups, such as adults, preschool children, elementary school, middle school, high school.

The “*Events calendar*” section contains infographics about upcoming financial literacy events in the Kaliningrad Region.

Three federal financial literacy methodology centers were opened under the Project at the premises of large Russian federal universities to provide effective training of teachers, professors and methodologists for higher and secondary education, as well as tutors (financial advisors) for adults:

- Lomonosov Moscow State University (further training of professors of universities and educational institutions);
- National Research University Higher School of Economics in consortium with the Russian Presidential Academy of National Economy and Public Administration (RANEPA) (for teachers and methodologists of secondary education, school teachers, college teachers);
- Financial University under the Government of the Russian Federation (for tutors who train adults).

Information resources of these centers mainly contain methodological materials that may be used to train financial literacy teachers and tutors. At the same time, the websites of these federal methodology centers also contain awareness-raising materials that may be useful for everybody interested in the topic.

For example, there is a series of video lectures dedicated to a range of financial literacy aspects at the website of the federal methodology center for the enhancement of financial literacy in secondary vocational and general education opened in April 2016 as a subdivision of the Higher School of Economics (fmc.hse.ru). The following aspects are covered:

- Management of personal finances,
- Stock market,
- Relationships between people and the government,
- Banking services and people’s attitude towards banks,
- Pyramid investment schemes and financial fraud,
- Insurance,
- Building a new business.

The Good Ideas Fund at oodideasfund.ru continued to support initiatives aimed to improve financial literacy and protect financial consumers. In 2017 it introduced a new category of the best awareness-raising campaign.

An educational online portal *Fingramota.org* aims to promote responsible financial behavior among the general public, responsible attitude towards money and long-term financial planning.

The online portal raises awareness about such issues as personal finances (personal budget, loans and borrowings, bank instruments, investments and savings etc.), security (fraud in the financial markets and other areas), lending to and taxation of individual entrepreneurs, financial theory (the history of money, the market system composition in Russia) and gives an insight into novelties and new opportunities that arise in the Russian financial market (individual investment accounts, public securities etc.).

The portal also has the following sections: the “*Education*” section that contains information about upcoming financial events and the “*Q&A*” section that provides everybody with an opportunity to ask finance-related questions.

A Project “For Borrowers’ Rights” of the All-Russia People’s Front (*zpravazaemschikov.ru*) launched in 2014 aims to protect financial consumer rights. The Project serves to protect people from illegal debt collection practices, illegal creditors, operators of pyramid schemes and other infringement of financial consumer rights and legal interests.

An All-Russia Financial Literacy Program “Credit Fairway” (*fingramota.zpravazaemschikov.ru*) is held within the framework of the “For Borrowers’ Rights” Project.

This online platform provides consumers with an opportunity to:

- take an online test to check their financial literacy level;
- study materials about their rights as the financial market stakeholders;
- obtain a certificate supporting their finance competency.

From December 2017 to June 2018 the “For Borrowers’ Rights” Fund supported by the Presidential Grant Fund is implementing a project to boost financial literacy among senior citizens. A series of educational events will be held in Cheboksary, Tula, Pskov, Irkutsk, Tyumen, Khanty-Mansiysk and Kyzyl.

7.3. Nation-wide Financial Literacy Events

The Strategy focuses on awareness-raising events to promote financial literacy and financial consumer protection methods, such as the Russian Financial Literacy Week for Children and Young People and the Russian Savings Week. These events are held under the scope of the Project.



The *Third Russian Financial Literacy Week for Children and Young People* was held from 9 to 16 April 2017 to coincide with a global initiative Global Money Week that annually brings together over 3 million children from 118 countries from all over the world.

The Week’s events brought together over 1,290,000 people from 6,100 educational institutions of 83 Russian regions. Over 600,000 people took part in the events held in the regions that participated in the Project. The main target audience was young people from 10 to 22 years of age.

About 30,000 activities were held during the Week, including lectures, seminars, excursions, webinars, educational videos, games, contests etc., as well as awareness-raising and distribution of financial literacy leaflets, flyers and posters.

In 9 regions of the Project (the Republic of Tatarstan, the Altay, Krasnodar, Stavropol, Tomsk, Volgograd, Arkhangelsk, Kaliningrad and Saratov Regions) the Financial Literacy Week was opened with financial quest games that brought together 1,250 teenagers from 11 to 18 years of age. The quest game taught teenagers about careful consumption and savings, secure online payments and many other things. Various events were held in addition to traditional lessons and excursions.

For example, a festival called “For Financial Health” held in the Altay Region was dedicated to financial literacy for women. In Tomsk a fairytale “Dunno in the Land of Finances” was staged for children from 7 to 10 years of age and business games “I am a Financial Consumer” and “Golden Caravans” were arranged for children from 9 to 12 years of age. A quiz game “In the Land of Finances” was held in the Volgograd Region.

The partners of the Financial Literacy Week also held a lot of events.

For example, Sberbank arranged awareness-raising events in 84 Russian cities. Such events included lectures and lessons at universities, schools and colleges, tours to educational centers, museums and branches of the Bank for children and their parents. Over 500,000 people read the information posted on the Week’s website and in social media and over 1.5 million people received emails with an invitation to take part in the Week’s activities. A total of over 2 million people participated in the Financial Literacy Week.

As part of the Masterslavl exhibition Pochta Bank opened a client centre with a real cash recycling ATM and a bank counter for young audience. Children of Pochta Bank’s employees spoke about advantages of non-cash payments, explained how to use bank cards safely and showed the inside of an ATM.

ERGO was a title sponsor of the first family financial festival “PRO money” held in Moscow on 22 April at the ZIL cultural center. At the festival while playing children and their parents were taught how to properly manage personal and family finances, spend money smartly and live within their means.

As part of the Week GlobalLab, LLC arranged an online project “Milk Cost Study” for children who were asked to find one of possible ways to save money spent on milk for the whole family. They were asked to calculate how much could be saved during 5 to 10 years by buying milk in different supermarkets of the town.

It should be noted that the Financial Literacy Week won the C4F Davos Award 2018 in the Education of the Future category. According to the Head of International Financial Relations of the Russian Ministry of Finance and the Project’s Director Andrey

Bokarev, “the main events of the Week were targeted to children and family audience. By teaching children to take care of their personal budget we lay the foundation for their financial stability in the future. By raising awareness among parents we help to cultivate financial literacy in families”⁴⁴⁹.

FOR REFERENCE

The C4F Davos Awards since 2010 have recognized highly professional and globally remarkable individual communicators and/or organizations with a creative approach and unique vision of the future of communications. The awards are presented by the international jury at the World Communication Forum in Davos (WCFDavos).



The Fourth Russian Savings Week was held from 30 October to 5 November 2017 to coincide with the World Savings Day traditionally celebrated on 31 October.

The Week’s events brought together over 604,000 people from 78 Russian regions. Over 6,000 activities were held during the Savings Week, including open lectures, seminars, webinars, financial games and tests. The activities were arranged by regional coordinators, experts, methodologists, volunteer teachers and 19 partners of the Week.

For example, 217 events were held in the Volgograd Region, including a scientific conference and an expert contest “For Financial Happiness” for people of different finance-related professions. University students could take part in economic games, while school students were invited to participate in a team tournament “Bison”. During the Week tutors of the regional center for the enhancement of financial literacy held lectures and workshops titled “Financial Fraud Indicators”, “How to Control Expenses and Avoid Marketing Traps to Balance Personal Budget”, “Personal Financial Security”, “Financial Consumer Rights”, etc.

Over 60,000 people participated in various events held during the 2017 Saving Week in the Stavropol Region. The Week was traditionally opened with a financial literacy test for well-known people of the region, a regional board game tournament for young people “Money Can’t Buy Happiness” and a family quest contest “Be Friends with Finances!” in two cities. The employees of the Department of the Federal Tax Service in the Stavropol Region were invited to take part in the School of Competent Investor and the visitors of a geriatric center took part in the Financial Literacy Festival.

As part of the Week the Tomsk Region introduced the Financial Prestige Award and initiated meeting for parents to teach them about financial literacy basics, the history of pyramid schemes and many other things. In 2017 the Novosibirsk Region and the Yamalo-Nenets District joined the events held in the Tomsk Region.

Over 340 events were held in the Krasnodar Region as part of the Savings Week. Opening of a special camp session for children at the premises of the camp located in the Novokubansky District of the Krasnodar Region became the most memorable event. It helped children not only to improve their financial literacy but also to share their knowledge with teachers and parents.

A family financial festival was held at the end of the Savings Week. During the festival the congress center of Technopolis Moscow was transformed into a “financial literacy city”. At this interactive event visitors could learn how to manage personal and family finances properly, take a course in financial basics, test their knowledge and transform artificial currency, festics, into a profitable financial investment.

“The Savings Week has become a good tradition that brings together adults and children. Financial knowledge is useful for everybody and makes them feel confident in the world of financial relations,” — said Deputy Minister of Finance of the Russian Federation Sergey Storchak looking back at the Savings Week⁴⁵⁰.

The Second Financial Awareness-Raising Contest for Mass Media was held from 27 March to 20 December 2017.



The main objective of the contest is to prepare awareness-raising publications, and make TV and radio shows dedicated to relevant financial issues. Thanks to the contest many Russian journalists who become interested in financial literacy can not only have a better understanding of the topic but also deliver this important and useful information to the whole country.

In 2017 the mass media contest presented awards in three topic-based and three special categories.

Topic-based categories:

- *Financial Vector* — publications dedicated to new financial phenomena and products;
- *Personal Financial Expert* — publications dedicated to personal budget management;
- *Safeguarding Financial Interests* — publications dedicated to financial security and financial consumer protection.

Special categories:

- *Deposits Insured* — publications dedicated to deposit insurance issues and the Deposit Insurance Agency;
- *Success Stories: How to Open and Expand Your Business Using SME Business Navigator* (the category is supported by the Federal Corporation for Small and Medium Business Development) — publications about success stories of SMEs operating in various industries that used the SME Business Navigator;
- *Insurance Navigator* (the category is supported by the All-Russia Insurance Association) — publications clarifying insurance issues.

The results of the 12th All-Russia Olympiad in Financial Literacy and Financial Consumer Protection for Senior School Students organized by Rospotrebnadzor, the Foundation “Institute of Stock Market and Management” (IFRU) and the Russian Financial

⁴⁴⁹ Official website of the Russian Ministry of Finance http://minfin.ru/ru/press-center/?id_4=35072&area_id=4&page_id=2119&popup=Y.

⁴⁵⁰ Information bulletin No. 7, November 2017 // <http://вашифинансы.рф>.

Consumers Protection Union (FinPotrebSouz) were announced in March 2017.

The Olympiad was held from September 2016 to March 2017 and brought together 8,239 participants from 84 constituent entities of the Russian Federation and 7 people from the CIS. The Olympiad being a part of N.D. Kondratyev Interregional Economic Olympiad for School Students was included in the list of Olympiads for school students for the 2016/2017 school year in the economics section. Eleven finalists of the Olympiad were also among the winners and runners-up of N.D. Kondratyev Interregional Economic Olympiad for School Students⁴⁵¹.

FOR REFERENCE

The Olympiad has been held since 2004 (initially it was titled “the All-Russia Quiz”) for senior school students (grades 9-11) who are interested in the history and operation of the financial market, economics and management. About 50,000 school students from 85 constituent entities of the Russian Federation have participated in the Olympiads.

The *Interregional Research and Practice Conference “Learning to Be Financially Literate from Mistakes and Achievements of Literary Characters”* was held on 8 April 2017 to announce the results of the competition of creative works prepared by school students from 50 Russian regions and dedicated to financial issues in classic literature books⁴⁵².

More than 250 school students of grades 7-11 submitted their research projects, essays, stories, articles, short novels and fairy tales, as well as multimedia projects, such as video clips, cartoons, games and slideshows.

A wide variety of topics were covered, including:

- Small Budget Hacks based on the short story *The Overcoat* by Nikolai Gogol;
- Ostap Bender the Great Combinator based on the novels *The Twelve Chairs* and *The Golden Calf* by Ilya Ilf and Yevgeny Petrov;
- A Cure for a Lean Purse, or How Not to Be Left High and Dry based on the fairy tale *The Tale of the Fisherman and the Fish* by Alexander Pushkin.

The first *Financial Literacy Festival*⁴⁵³ was held in 61 locations in Moscow on 23 September 2017. A total of over 22,000 people participated in the Festival.

Various business games, workshops and lectures were arranged at the Festival, including those dedicated to “Personal and Family Finances”, “Financial Consumer Protection”, “Banks and Microfinance Organizations”, “E-finance”, “Consumer and Pension Insurance”, “Taxes and Taxation”, “City Budget”, “Fraud in the Financial Markets” and “Entrepreneurship Basics”.



From October 2017 to February 2018 the Higher School of Economics arranged the *Financial Literacy Olympiad for School Students* as part of the Interregional Olympiad for School Students “The Purest Tint”. School students of grades 9-11 were invited to take part in the Olympiad.⁴⁵⁴

“The Independence Day”, a series of interregional school festivals, was initiated in October 2017 to raise awareness about financial consumer protection and financial literacy. The festivals will be held until April 2018 in all federal regions⁴⁵⁵.

On 13 April 2017 at the Fourth Moscow International Education Fair the Minister of Education and Science of the Russian Federation Olga Vasilieva and the Head of the Bank of Russia Elvira Nabiullina signed a roadmap to include financial literacy in the curricula of Russian educational institutions.

According to this document, it is planned to find solutions for teaching financial literacy in pre-school facilities, make changes to existing elementary, secondary, secondary vocational and higher education curricula, prepare guidelines for teachers in 2017-2018 and to draft proposals on incorporation of financial literacy elements in the Unified State Exam by 2019-2020. Incentive measures for students and teachers will include professional contests and Olympiads on financial literacy⁴⁵⁶.



Russia's Financial Literacy Strategy until 2023 aims to increase a number of financially literate citizens. This strategic objective is being achieved through launching and maintaining awareness-raising online resources and arranging public events for different target groups. Awareness-raising events dedicated to financial literacy and financial consumer protection issues held in 2017, including those using information resources, show an increased interest in this topic among population and most notably among students.

⁴⁵¹ <http://www.fin-olimp.ru>.

⁴⁵² <http://xn--h1aahkxm.xn--p1ai/conf>.

⁴⁵³ <http://finfest.moscow>.

⁴⁵⁴ <https://olymp.hse.ru/mmo/results-finance>.

⁴⁵⁵ <http://xn--80afhjdwdwjjg.xn--p1ai>.

⁴⁵⁶ <http://www.cbr.ru/press/event/?id=1017>.

8. Largest Public Consumer Associations. Main Achievements

8.1. Russian Financial Consumers Protection Union (FinPotrebSouz)

Russian Financial Consumers Protection Union (hereafter – FinPotrebSouz) was established on 12 April 2010. Up to date, the Union has been Russia's only professional financial consumer protection organisation holding a nationwide status. The Union's local offices operate in 49 constituent entities of the Russian Federation.

FinPotrebSouz works closely together with Rospotrebnadzor, participates in the activities carried out by relevant committees and councils, such as the Expert Council on Financial Literacy under the Bank of Russia; Expert Council on Budget and Financial Markets under the Federation Council of the Russian Federation; Expert Council on Investment Legislation; Expert Council on Banking Legislation and Audit; Expert Council on Non-Governmental Pension Funds and Pension Savings Investment under the State Duma Committee on Financial Markets and the Council on Financial Education and Protection of CIS Consumers. In April 2017 Chairman of FinPotrebSouz Igor Kostikov took part in a meeting of the State Council Presidium on the national consumer protection system development. In addition, all regional offices of FinPotrebSouz actively made proposals for the State Consumer Protection Strategy until 2030.

FinPotrebSouz is basically committed to establishing a modern, civilized financial market in Russia, while promoting universal respect for the rights and protecting legitimate interests of consumers. To achieve that, FinPotrebSouz focuses on attaining the key objectives. Below are the main achievements for 2017.

Financial Consumer Protection

FinPotrebSouz established counseling desks in the regions of operation where the consumer could apply for free advice and legal support to resolve disputes with financial organisations, including in-court dispute resolution. A hotline was established in many Russian cities (3,306 calls were received from the citizens of each of the Russian regions seeking rights protection). Advisory services are also available through the Counseling Desk at www.finpotrebsouz.ru where the consumer may file a request for legal assistance on the issue of concern.

The majority of consultations provided by FinPotrebSouz were connected to debt collection agencies, consumer lending, insurance, financial consumer protection and economic issues relevant for Russian citizens.

Table 8.1. The most frequent FinPotrebSouz consultation topics

No.	Topic	% of inquiries
1	Debt collection agencies	16
2	Financial consumer protection	15
3	Economic issues	12
4	Insurance, including OSAGO (compulsory motor third-party liability insurance)	11
5	Consumer lending	10
6	Microfinance organizations	8
7	Financial literacy	7
8	Bank cards	7
9	Other	14

FinPotrebSouz focused on raising awareness about infringement of consumer rights by debt collection agencies because this issue was relevant and socially dangerous and because the law on debt collection became effective on 1 January 2017.

If FinPotrebSouz is involved, consumers and financial organizations manage to achieve pre-trial settlement of the majority of disputes (over 95%). In case of litigation, the lawyers working for the union settle over 50% of disputes in favor of consumers. FinPotrebSouz informs people about the experience in defending consumer rights on its website and in mass media.

FinPotrebSouz specialists took major efforts to raise awareness about financial consumer protection issues by participating in TV (RBC, OTR, NTV) and radio (Komsomolskaya Pravda, Vesti FM etc.) shows. In addition, three video clips were made and posted online.

Consumer protection efforts of FinPotrebSouz, governmental, non-governmental and financial organizations are coordinated in cooperation with government authorities, non-profit organizations and other concerned organizations and unions. The organization engages professional lawyers specialized in financial markets to work at public reception offices. Cooperation of various non-governmental organizations provides additional opportunities to protect socially disadvantaged people and to develop new approaches to pressing and relevant issues.

FinPotrebSouz regularly applies some efforts to evaluate regulatory instruments and draft legislation in terms of their ability to ensure protection of the consumer's rights and legitimate interests. FinPotrebSouz in cooperation with government authorities, public organisations, financial associations and self-regulatory organisations, develops proposals on introducing changes into legislation that would meet the financial consumer interests and boost comprehensive development of financial markets.

FinPotrebSouz and the Federation Council hold joint round-table annual meetings to discuss topical issues of the financial market development. FinPotrebSouz is actively participating in the activities of the Civic Chamber of the Russian Federation, and in the activities of the Project group on the creation of the International Financial Center in the Russian Federation. FinPotrebSouz in cooperation with the All-Russia People's Front applies active efforts to develop measures to prevent violations of the consumer rights and fraud in the financial market.

FinPotrebSouz has been proactively engaged in addressing the key objectives of the Rospotravnadzor's working groups, including monitoring of rights of foreign currency mortgage borrowers, enforcement of the Law "On insolvency (bankruptcy)" applied to individuals. FinPotrebSouz developed draft amendments to the Law "On insolvency (bankruptcy)" applied to individuals based on the findings of the monitoring of the enforcement practices that will be implemented starting from October 2015.

FinPotrebSouz has developed a draft Code of Individual Overdue Debt Dispute Resolution in a Pre-trial Mode. This instrument serves a useful foundation to address loan problems. It defines simple and clear rules to regulate relations between parties where the borrower is got caught in a financial distress.

Financial literacy raising

FinPotrebSouz has actively implemented public awareness campaigns among existing and prospective financial services consumers. In 2017, a FinPotrebSouz team gave more than 150 financial awareness classes, seminars, meetings with secondary and high school students, coworkings, retired people. Basically, these classes aim to give a general idea of a financial market, of terms regularly used in this area and to explain major risks associated with financial market operations.

In 2017 FinPotrebSouz, Rospotrebnadzor, the Foundation "Institute of Stock Market and Management" (IFRU) supported by the Bank of Russia and other financial organizations arranged the 12th All-Russia Olympiad in Financial Literacy, Financial Market and Financial Consumer Protection for Senior School Students.

Eight educational webinars dedicated to consumer protection in the main segments of the financial market were held in 2017 to inform people of their consumer rights. Webinar topics:

- "Bank Loans: Financial Assistance or Risk? How to Protect Yourself from Financial Slavery?";
- "Personal Finances. How to Receive Additional Income?";
- "Personal Financial Planning for Financial Consumers";
- "Virtual Banking Services for the Benefit of Financial Consumers";
- "Insurance: Typical Situations When Insured Persons' Rights are Infringed. Who Protect Them and How Do They Do That?";
- "Buying a Flat. How to Avoid Mistakes?".

Fifteen Russian regions took part in the webinars.

The regional branch of FinPotrebSouz in Tyumen arranged an open lecture centre at the Young People's Financial Initiative Business Club.

Since 2015 this branch of FinPotrebSouz has held the Cash Flow Financial Game in five cities of the Tyumen Region (Tobolsk, Ishima, Zavodoukovsk, Yalutorovsk and Tyumen). The contests are accompanied with lectures and workshops, as well as case studies. Participants can practice what they learnt from the lectures and case studies while playing games. Experts say that the Cash Flow is one of the best simulators that improve financial literacy. In 2017 the game brought together 540 people. Out of them 60 people went through qualifying stages and progressed to the final game. In addition to new knowledge and skills the winners received prizes and presents.

In 2017 the Cash Flow Financial Game was accompanied with 30 workshops and lectures and resulted in 100 publications and informational materials. Since 2015 over 1000 young people took part in the game and 50 educational institutions supported it.

The regional branch of FinPotrebSouz in Kaluga actively represents consumers in court.

The Head of the regional branch of FinPotrebSouz in Kaluga and a representative of the Bank of Russia Branch in Kaluga took part in the TV show "Financial Literacy and Financial Consumer Protection" on NIKA TV (Kaluga) and spoke about financial consumer protection at the round table dedicated to consumer protection and held by the Human Rights Commissioner in the Kaluga Region.

In addition, the Head of the regional branch in Kaluga regularly publishes articles on financial consumer protection in the journal of the Human Rights Commissioner.

The regional branch of FinPotrebSouz in Kaluga organized the first Kaluga's round table titled "Government Policy on Financial Literacy Improvement in the Kaluga Region", as well as prepared and submitted to the Governor of the Kaluga Region Anatoliy Artamonov a document "On the Development and Adoption of Financial Literacy Improvement in the Kaluga Region and Financial Consumer Protection Regional Program".

The regional branch of FinPotrebSouz in Bashkortostan was actively involved in the organization of the International

Research and Practice Conference “Modern Educational Process: Current Status and Development Trends”. The conference included such sections as “Promoting Financial Literacy in Educational Institutions” and “Financial Literacy in Schools” during which the honoured teacher of the Republic of Bashkortostan Galina Smolenchuk presented her Report “Methodological Experience in Teaching Financial Literacy, Challenges and Prospects”. Moreover, the regional branch of FinPotrebSouz in Bashkortostan participated in the organization of such events as the Republican Competition of Research Papers as part of the Junior Academy of Sciences for School Students of the Republic of Bashkortostan, the Fourth All-Russia Research and Practice Conference for School and University Students “Financial Literacy: Experience, Problems, New Challenges. Regional Insight”, and the Open Republican Financial Literacy Brainstorm Championship for Senior School Students “Kopecks Make a Rouble, Brooks Make a Sea”.

The regional branch of FinPotrebSouz in Bashkortostan and teachers of the financial literacy innovative platform met with the President of the Association of Russian Banks Garegin Tosunyan in an open discussion held as part of the Twelfth Ufa Forum on Financial Services Quality Improvement.

FinPotrebSouz pays much attention to financial and consumer awareness among regional journalists. A regional-level contest in financial journalism “Rouble Zone” has been held since 2015. The event enjoys the support from the national public organization “Union of Journalists of Russia”, the Foundation “Institute of Stock Market and Management” (IFRU), the Institute for the Development of Financial Markets (IRFR), FinPotrebSouz, the Community of the Financial Market Professionals SAPFIR, the Guild of Periodical Publishers (GIPP), a self-regulatory organisation “Center of Regulation of OTC financial instruments and technologies” (CRFIN) and a self-regulatory organisation “Microfinance and Development”. The project aims at promoting and stimulating the activity of regional-level journalists and mass media that are engaged in covering the Russian financial and stock markets, thus, enhancing financial literacy among the general public.

8.2. Consumers Union of the Russian Federation

The Consumers Union of the Russian Federation (SPRF) was founded in December 1990. To date, it unites over 80 republican, krai- and province-level, city- and district-level public associations – most of actually active consumer protection organizations established in Russia.

The SPRF is committed to advocating for the interests of the consumer in various federal-level authorities, checking compliance with consumer protection norms and regulations, providing protection in court, examining the quality of goods as independent expert.

In 2017 financial consumer protection efforts of SPRF were focused on representing voluntary insurance consumers in dealings with government authorities and businesses.

In February 2017 SPRF in cooperation with the Bank of Russia organized a round table titled “The Insurer and the Insured — Meeting Halfway” to present national consumer protection standards developed by SPRF, including those for consumers of voluntary property insurance. It was mentioned at the roundtable that the Russian insurance market was lagging behind more developed countries and SPRF offered insurers to join efforts in promoting voluntary insurance and reducing the harm inflicted on policy holders by interaction with insurers.

Those roundtable attendees who represented consumers’ interests noted that it was important to develop self-regulation of insurers and their communication with consumers to organize joint monitoring of insurance activities, develop and promote voluntary norms of good behavior and the code of good communication practice, fight against unfair and criminal practices and create mechanisms for pre-trial dispute settlement.

In 2017 SPRF continued to work on the national standards, in particular on a draft guidance on protection of voluntary personal insurance consumers and a guidance on non-judicial quality inspection of motor vehicles, the results of which are significant both for insurers and policy holders.

8.3. Confederation of Consumer Societies (KonfOP)

The Confederation of Consumer Societies (KonfOP) was founded in 1992 and brings together 36 public consumer associations located in Russia, Ukraine, Belarus, Georgia, Kazakhstan and Tajikistan. One of the key lines of the Confederation’s activities is the promotion of legislative initiatives on improvement of financial consumer protection regulations, including those governing disclosure of consumer information and promotion of financial education among the general public. Under the Joint Project of the Russian Federation and International Bank for Reconstruction and Development “Financial Literacy and Financial Education in the Russian Federation” KonfOP and Consumers International perform an independent monitoring of financial consumer protection.

In February 2017 an expert discussion of the independent monitoring findings and presentation of the report “Current Status of Borrower Protection on the Lending Market in Russia” were arranged at the Rossiya Segodnya news agency press center. Dmitry Yanin, the Chair of the Confederation Management Board, spoke about the findings of the lending market and borrower protection study, and findings of the analysis of credit card and cash credit agreements in 25 biggest retail banks and microfinance organizations.

The monitoring of insurance consumer protection carried out in May-September 2017 covered 29 large insurance organizations in 16 Russian regions. Special attention in the monitoring was paid to insurance of socially vulnerable (or disadvantaged) people. The analysis of the insurance rules published on the websites of Russian insurance companies revealed discriminatory provisions for certain groups of consumers. These provisions discriminate against socially vulnerable consumers that require extra government protection (oncology patients, pregnant women, people living with HIV and others).

KonfOP suggests declaring the provisions that discriminate against socially vulnerable consumers invalid (void) by law.

In January-April 2017 savings services were studied in 16 regions of the Project (Volgograd, Kaliningrad, Nizhny Novgorod, Omsk, Penza Regions, Primorsky Krai, Rostov, Saratov, Sverdlovsk Regions, Stavropolsky Krai, Tver Region, Khabarovsk Krai, Chelyabinsk Region, Moscow, and Saint Petersburg). The services covered by the study included deposits in roubles and foreign currencies, and investments in microfinance organizations.

On 20 October 2017 the Report on the Current Status of Savings Services Consumer Protection in Russia was presented at the Rospotrebnadzor's International Conference "Financial Consumer Protection: Global Challenges and Prospects". The conference also featured an expert discussion of the findings made based on the study of savings services consumer protection and the rights of Russian depositors carried out in January-April 2017 in 16 regions of the Project⁴⁵⁷.

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When speaking about the data on international practices prepared by Consumers International during the presentation of the Report on the Current Status of Savings Services Consumer Protection in Russia, Dmitry Yanin, the Chair of the Confederation Management Board, dwelt on an issue of providing consumers with standard structured information about all bank deposit conditions. Many countries introduced regulatory measures in respect of unfair contractual provisions, which are also applicable to savings accounts.

According to the legislation, provisions that allow changing deposit conditions unilaterally may be considered fair if there is a legitimate commercial reason, preliminary notification, personal notification and a right to terminate the agreement without penalties.

It was underlined that the respective legislation in such countries as the USA, Cyprus, Malta and Latin American countries aimed to avoid forcing products. For example, in the USA banks cannot press additional services on buyers. Another topic mentioned was the experience of deposit insurance in credit unions, which required compulsory insurance of deposits. Before starting their operation credit unions have to obtain a license and are monitored through risk assessment, including management, consumer protections and behavior standards. Credit union investments are restricted by law and there is a maximum interest rate that they can impose on deposits or loans.

The following suggestions and recommendations were made by KonfOP based on the monitoring:

- To provide consumers with standard structured information about all bank deposit conditions;
- To modify the procedures applied to inform consumers about their rights when concluding an agreement;
- To recommend the Bank of Russia to include the requirement to clarify consumer risks resulted from the use of products in the requirements to financial institution management;
- To monitor the use of symbols and combination of words similar to the Deposit Insurance Agency to prevent fraud;
- To increase the number of up-to-date awareness-raising materials prepared by regulatory bodies and aimed to give a warning about high-risk investments and links to such materials available when using web search engines.

The participants of the presentations and discussions dedicated to the findings of the studies conducted by KonfOP and Consumers International underlined that it was important to conduct and support such independent monitoring and that the findings of such studies could help the regulator to have a fresh look on reported issues and to come closer to their settlement.



Public consumer associations are directly involved in financial consumer protection, raise awareness about financial consumer rights and measures to be taken to protect these rights, publish research findings and are an essential component and a linking element of the national consumer protection system.

⁴⁵⁷ Volgograd, Kaliningrad, Nizhny Novgorod, Omsk, Penza Regions, Primorsky Krai, Rostov, Saratov, Sverdlovsk Regions, Stavropolsky Krai, Tver Region, Khabarovsk Krai, Chelyabinsk Region, Moscow, and Saint Petersburg.

Conclusions: Achieving Excellence in Financial Consumer Protection in Russia

The approval of the the State Consumer Protection Strategy until 2030 and Russia's Financial Literacy Strategy for 2017-2023 pursuant to the President's instructions marked a new phase in the development of the national consumer protection system. Consumer protection and financial literacy improvement are becoming important elements of the state social policy aimed to increase people's standard of living and quality of life in Russia.

The 2017 monitoring of the key financial market segments showed that financial consumers still faced systemic risks. The following challenges and threats may be considered the most significant:

- the number of consumer loans has been increasing, while disposable household income has been decreasing since 2017, which leads to an increase in the debt burden on a significant part of the population;
- the number of deposits is increasing, including deposits opened with unreliable banks, while the Bank of Russia is actively involved in financial rehabilitation of the banking sector, which has led to the reduction in the number of banks and worsening of the competitive environment due to the rise of large state banks;
- unreliable financial institutions seek to maximize profits without due regard to consumers' legal rights and interest taking advantage of their low financial literacy, especially among vulnerable groups of people;
- consumers do not receive full and reliable information about acquired financial services, they are forced to acquire additional services and accept complicated contractual terms and conditions, especially those related to the consequences of financial misconduct and termination of the agreement;
- there is an onrush of remote technology, e-commerce, digital financial services, while state regulation is not perfect, the number of cyber threats is rising and new types of fraud in the digital environment appear every day;
- there are more and more dishonest agents (lawyers that render mediation services for communication with car insurance companies, promise to settle debts, recover deposit insurance amounts or get rid of debt collection agencies) who abuse consumers' confidence and disregard legal instruments and guarantees available for consumers.

Therefore, it is necessary to implement an action plan to respond to risks, protect consumers, lower their debt burden, improve consumer financial literacy, and fight against fraudulent practices of making discriminatory contractual provisions in financial services agreements.

Supervisory activities and corrective actions are still important for financial consumer protection. The analysis of the control and supervision measures taken by Rospotrebnadzor, its regional offices and subordinate authorities shows positive improvements:

- the percentage of the inspections that revealed violations in the total number of inspections increased from 59.3% in 2016 to 71.8% in 2017 with the following breakdown by types of business: banking — from 58.1% to 76%, insurance — from 67.1% to 68.6%, microfinance organizations — from 55.7% to 73.9%, payment agents — from 72.7% to 83.3%. According to this data, the effectiveness of supervisory activities carried out by Rospotrebnadzor tends to improve;
- the number of administrative offence reports issued to financial organizations by regional offices of Rospotrebnadzor after completing an inspection increased by 21.1% as compared to 2016 and amounted to 2,470 reports, including 501 reports (an increase by 39.2% as compared to 2016) issued following an administrative investigation, which is also indicative of Rospotrebnadzor's effectiveness improvement through internal resource mobilization (recruitment of qualified specialists, better Rospotrebnadzor's methodological support to its regional offices);
- the number of claims raised by regional offices of Rospotrebnadzor to defend specific financial consumers decreased (82 claims in 2017 compared to 114 in 2016), while the number of claims to defend a non-specific group of financial consumers increased: 38 such claims were raised in 2017 (2016 — 32 claims), including 14 claims (36.8%) satisfied by court (2016 — 6, or 18.8%). The outcome of legal proceedings show the main reason why Rospotrebnadzor participates in litigations, namely to set up a litigation strategy for a typical situation in the financial services market, to create a precedent and to raise maximum awareness about it via all available channels for the purpose of establishing good practices in law enforcement.

It should be noted that the number of complaints filed with Rospotrebnadzor and its regional offices by financial consumers in 2017 decreased as compared to 2016. The decrease in the number of complaints against banking, insurance and microfinance organizations and payment agents may be partly explained by financial consumer protection efforts made by the Supreme Court of the Russian Federation and active protection of financial consumers and minority shareholders by the Bank of Russia.

Infringement complaints against banking organizations still account for the majority of financial consumer complaints to Rospotrebnadzor (72%). At the same time, consumers' arguments have become less reasonable, while Rospotrebnadzor's specialists have become more efficient in making decisions on complaints.

Improving the awareness-raising and consultation system for financial consumers remains one of Rospotrebnadzor's priorities. In 2017 in its consultation centers Rospotrebnadzor held 22,248 events related to financial services, the majority of which involved consultations on financial consumer protection issues (16,544 consultations, or 74.4%). Consultations on the preparation of draft legal documents (applications, claims, complaints etc.) were still in high demand: in 2017 specialists working in consultation centers provided 1,826 such consultations.

According to a remote survey of 67 consultation centers (81% of the total number of Rospotrebnadzor's consultation centers), almost all consultation centers noticed positive changes in the awareness-raising and consultation system for financial consumers in 2017. The most positive feedback was given to the staffing situation (including advance training of specialists). Also 48 consultation centers (71.6%) noticed improvements in infrastructure and 39 centers (58.2%) underlined better situation with computers and IT technologies.

The remote survey findings confirmed once again that it was important for specialists working in consultation centers to have

documents that summarized and clarified provisions of Russian legislation and provided for unification of approaches to financial consumer protection and restoration of their violated rights applied in Rospotrebnadzor's consultation centers. Over 95% of the consultation centers that took part in the survey applied the Unified Methods and Standards for Financial Consumer Consultation developed by Rospotrebnadzor with the assistance of FBK, LLC.

According to the specialists who took part in the survey, these standards are an important supplement to financial services resources and help to provide prompt sound replies to consumers. Over 90% of the consultation centers covered by the survey believe that it is necessary to extend the approach described in the Unified Methods and Standards for Financial Consumer Consultation to consumer consultation on the whole.

It shall be noted that in 2017 Rospotrebnadzor's specialists started providing consulting services at the premises of public multifunctional centers in several Russian regions. Consumer protection specialists, including financial consumer specialists, started working in multifunctional centers and an automated system was introduced for consumers to search for useful information. It is no doubt that such consulting services are much-needed and effective. It is planned to continue providing consulting services to consumers at multifunctional centers in 2018 with the support of Rospotrebnadzor, the Bank of Russia and the Ministry of Economic Development of Russia.

The methodology used to evaluate Rospotrebnadzor's consultation centres for consumers developed with the assistance of FBK, LLC continued to be tested in 2017. By introducing the formalized evaluation system for Rospotrebnadzor, its regional offices and organizations it is possible to obtain important information for management decisions in order to improve interaction efficiency, the quality of consulting services and institutional framework of the consumer protection system.

Since 2011 Rospotrebnadzor has been actively involved in the Joint Project of the Russian Federation and International Bank for Reconstruction and Development "Financial Literacy and Financial Education in the Russian Federation". One of the main achievements of the Project in 2017 is approval of Russia's Financial Literacy Strategy for 2017-2023, which is based on the results of the financial literacy studies carried out as part of the Project.

In addition, as part of the Project a series of events supervised by the Ministry of Finance of the Russian Federation and supported by Rospotrebnadzor were held in 2017 to improve financial literacy and financial education, strengthen institutional framework of financial consumer protection and ensure affordability and better transparency of financial services, including:

- in April 2017 30,000 events were arranged as part of the the Third Russian Financial Literacy Week for Children and Young People that brought together over 1.29 million people from 6,100 educational organizations across 83 Russian regions. The 2017 Financial Literacy Week won the C4F Davos Award 2018 in the Education of the Future category;
- in October 2017 Rospotrebnadzor launched a 24-hour hotline to deal with infringement of financial consumer rights, which made it easier for consumers to file complaints and raised overall awareness of citizens about their rights and Rospotrebnadzor's activities in this area;
- TVC launched a TV series "Money Can't Buy Happiness". Its plot includes several financial fraud stories and teaches viewers about their main rights and obligations as financial consumers and the ways to manage their finances reasonably without falling into a debt trap;
- over 604,000 people from 78 Russian regions participated in the Fourth Russian Savings Week (October-November 2017). Over 6,000 activities were held during the Savings Week, including open lectures, seminars, webinars, financial games and tests;
- "Finsovet" mobile app has been available on Google Play and App Store free of charge since December 2017. It contains over 100 articles, 400 terms and 60 step by step tutorials that briefly answers the questions about financial services, contract templates, abstracts from laws, templates of claims and complaints and useful links to information resources.

Rospotrebnadzor's specialists keep on improving their financial consumer protection skills, in particular, by using modern IT technologies. Two distance learning programs were launched in 2017 under the Project using a specially developed financial consumer protection distance learning system. Rospotrebnadzor's Infoteka was used as a database for the distance learning system. The materials contained in the database were updated and supplemented with additional practice exercises and video clips. Over 1,100 people from all Russian regions participated in distance learning programs and successfully passed final testing.

Rospotrebnadzor is actively involved in the activities carried out by such international organizations as UNCTAD, G20 and OECD, which makes it possible to present Russia's best practices in financial consumer protection and awareness-raising to the international community, develop practical intergovernmental cooperation and information sharing mechanisms, including in relation to cross-border e-trade and digital economy regulation.

In March 2017 at the G20 Consumer Summit aimed to tackle the issue of building a digital world consumers can trust Rospotrebnadzor suggested launching a consumer digital literacy project and create a single global information resource for the consumers from all countries to obtain systematized information about all national and transnational consumer organizations, government consumer protection authorities and the ways to file claims, as well as about online platforms used to settle consumer disputes.

The CIS Consultative Council on Consumer Rights Protection expressed their interest in studying and applying Russia's experience in financial literacy improvement at their meeting held in October 2017 in the Republic of Moldova. Particular interest was aroused by the government consumer protection platform (zpp.rospotrebnadzor.ru), its maintenance, effectiveness and related content generation. Following the meeting it was decided to consider the possibility to update the platform using information obtained from other CIS countries.

Rospotrebnadzor and relevant federal executive authorities, non-governmental consumer organizations, experts and scientists agreed upon strategic trends and priorities for the national consumer protection system, which became the basis for the State Consumer Protection Strategy of the Russian Federation until 2030 approved in August 2017.

To reach the level of consumer satisfaction with consumer protection efforts provided for by the Strategy at 85% by 2030 it is

necessary to ensure efficient communication and coordination of those involved in consumer protection at federal, regional and municipal levels in order to carry out activities with the following objectives:

- to improve Russian consumer protection legislation, update it on a timely basis taking into account legal precedents, international standards and possible codification;
- to raise awareness among consumers, in particular, by providing consulting services in multifunctional centers;
- to take special measures to protect the rights of socially vulnerable consumers and ensure administrative liability for their infringement;
- to protect e-trade customers similar to the customers of other trade systems, in particular, to raise awareness among consumers from various strata of the population, including senior citizens, about their rights and obligations in this market segment;
- to promote fair and effective competition, in particular, in the financial services market, that does not hinder international trade;
- to involve civil society institutions, including non-governmental consumer organizations, in the development and approval of regulations governing consumer protection activities;
- to develop and extend international cooperation and information sharing in respect of the harmonization of national and international standards and regulations, countering dishonest cross-border business activities in violation of consumer rights, implementation of joint awareness-raising projects and other consumer protection aspects.

The main objective of Russia's Financial Literacy Strategy for 2017-2023 approved by the Government of the Russian Federation in September 2017 is to lay the foundation to promote financially literate behaviour as an essential condition for household financial well-being and sustainable economic growth.

To improve financial literacy, in particular, to raise awareness about financial consumer rights and the ways to protect them, as well as to promote socially responsible behavior among the financial market stakeholders, it is necessary to make the following actions:

- to add financial literacy elements to general and additional educational programs of various educational levels;
- to develop new methods for financial education using modern IT solutions (online training, online games and special mobile financial literacy apps, online competitions for school students etc.);
- to arrange training, retraining and further training of methodologists, tutors and teachers of financial literacy basics at the premises of federal and regional methodology centers;
- to prepare and distribute information materials on financial literacy using existing institutional infrastructure, including Rospotrebnadzor's consultation centers for consumers and all available information channels, including print and online mass media, special websites and social media;
- to arrange and hold awareness-raising events to promote financial literacy among different age and target groups, to draw attention to this issue;
- to prepare and maintain educational online resources, modern feedback mechanisms for financial consumers, in particular, to arrange hotlines, public and online reception offices.

Strategic financial literacy events were arranged by the Ministry of Finance of the Russian Federation, the Bank of Russia, Rospotrebnadzor and other federal executive authorities. Executive bodies of constituent entities of the Russian Federation and local governing bodies are recommended to take notice of the main provisions of the Strategy and to use them when developing regional financial literacy programs.

The strategic events will be held with the support of businessmen, including the financial market stakeholders, self-regulatory organizations, educational and scientific institutions, non-profit organizations, non-governmental organizations, social movements, experts and active citizens that are interested in financial literacy improvement, development of financial education and financial consumer protection improvement in the Russian Federation.



Strategic documents on the development of the national consumer protection system and financial literacy improvement approved by the Government of the Russian Federation provided the trends of interaction between the state authorities and local governing bodies, civil society institutions, business enterprises seeking to improve legal, financial, economic and organizational mechanisms used to implement the state policy on consumer protection, including financial consumers. Coordinated efforts of those involved in the national consumer protection system will contribute to the increase in people's standard of living and quality of life in Russia in the age of the constantly changing consumer market, including its financial sector.