

Protocol

Consumer Protection Issues

Round Table Meeting

Tbilisi, December 12, 2011

Venue: 1, 26 May Square, Holiday Inn Hotel Tbilisi

Time: 10:30 a.m. – 1:30 p.m.

Participants:

1. Lasha Gzirishvili – National Bank of Georgia, Head of Consumer Protection Division;
2. Nani Bendeliani – National Bank of Georgia, Consumer Protection Division;
3. Giorgi Tsutskiridze – Association of Banks of Georgia, Executive Director;
4. Levan Gogoladze – Georgian Banking Training Center, Director;
5. Inga Karchava – TBC Bank, Operation Management Division;
6. Archil Gabatashvili – TBC Bank, Legal Department, Lawyer;
7. Tengiz Milorava – TBC Bank, Legal Department, Lawyer;
8. Davit Kldiashvili – VTB Bank Georgia, Legal Department, Chief Lawyer-consultant;
9. Lasha Grdzeldze – VTB Bank Georgia, Retail Business Department;
10. Giorgi Vashakidze – Bank of Georgia, Product Development Manager;
11. Nino Khorguani – Bank of Georgia, Deputy Head of RB Credit Risk Department;
12. Meri Basilashvili – Bank Republic, Head of Quality Management Department;
13. Mariam Girdaladze – Bank Republic, Retail Credit Quality Coordinator;
14. Natalia Kharalishvili – Kor Standard Bank, Head of Quality Management Department;
15. Beka Kvaratskhelia – Cartu Bank, Consumers' Rights Protector;
16. Guram Macharashvili – Cartu Bank, Legal Department, Deputy Director;
17. Tinatin Machavariani – Basis Bank, Head of Inner Control Department;
18. Tamar Katsitadze – Basis Bank, Head of Service-center Network Development Department;

19. Ana Masurashvili – Basis Bank, Head of Legal Support Department;
20. Lasha-Giorgi Gogua–Bank Constanta, Head of Marketing Department;
21. Ana Chechelashvili - Bank Constanta, Legal Department, Lawyer;
22. Giorgi Slibashvili – Bank Constanta, Product Development Service;
23. Tamar Tamarashvili - Bank Constanta, Head of Non-credit Product Management Department;
24. Ana Martiashvili – International Bank of Azerbaijan Georgia, Head of Operational Department;
25. Gela Kvariani – International Bank of Azerbaijan Georgia, Credit Officer;
26. Tamar Gogolashvili – International Bank of Azerbaijan Georgia, Head of Legal Department;
27. Natia Beria – ProCredit Bank Georgia, Head of Individuals’ Department;
28. Nino Panjikidze – ProCredit Bank Georgia, Retail and Money Control Department;
29. Ketu Burduli – ProCredit Bank Georgia, Head of Small Business Department;
30. Aleksandre Dolidze – BTA Bank Georgia, Head of Service Quality and Consumer Protection Division;
31. Tamar Kikiani – BTA Bank Georgia, Deputy Head of Operational Department;
32. Henning Seemann – Savings Banks Foundation for International Cooperation, Long-term Expert;
33. Salome Moistsrapishvili – Savings Banks Foundation for International Cooperation, Local Expert.

There were 6 topics for the discussion on the original agenda of round table meeting (view Annex #1). Prior to discussion of topics, SBFIC long-term expert for Azerbaijan and Georgia, Mr. Henning Seemann made a welcoming speech and a presentation: *Consumer Protection – Banks’ Initiative* (View Annex #2).

Mr. Lasha Gzirishvili, Head of Consumer Protection Division made a speech, stating that, these round table meetings on regular bases will support collaboration process between the National Bank of Georgia and commercial banks. He once again underlined the importance of financial literacy and suggested to discuss openly positive and possible negative effects of the regulation since its enforcement, also, suggestions for further amendment of the regulation.

- ***Widen sphere of regulation – to expand certain demands on all types of credits/deposits. What effect it might have to change a limit of amount in the regulation?***

The National Bank of Georgia was interested in commercial banks' opinion about abolishment of amount limits in regulation (minimum limit on credits 300 GEL; maximum- 50 000 GEL in case of credits and deposits). Few banks stated that, they already have no limits and perform norms defined by regulation already on all consumer credits; therefore, they consider it to be positive to abolish limits on amounts. Although, opinions of banks' representatives differ concerning this matter – some think lower limits are necessary and suggested even to increase them. If regulation will concern all credits, it will make crediting procedure longer; with agreement, which has also increased volume wise, clients have many questions and responding to all of them requires more time. Banks clarify all articles of agreement in case of big loans in any case; therefore, to make it obligatory on all loans is not necessary. Banks provide general information on the web-pages as well; they can add detailed information on web – this will significantly decrease operational time.

Georgian commercial banks also suggest to promote/upload information on public web-pages, where customer can view general terms of services; this will partly solve the problem of time and help to sell products distantly.

Mr. Gzirishili once again mentioned the crucial importance of providing necessary contract information to client before client's concrete decision; bank is obliged to meet norms of regulation and it is up to them to upload additional information on web-pages, or provide it via other ways of communication. The National Bank doesn't restrict banks in this matter.

Mr. Tsutskiridze, executive director of the Association of Banks of Georgia urged banks to update terms of different products on regular basis. Brochures and information on web-pages often do not coincide with real terms.

Mr. Gzirishvili was interested, what effect it might have if regulation will concern business loans as well. Commercial banks have mostly negative feedbacks on this.

- Prolonged timeframe of services, which clients don't need;

- It will be hard to classify expenses in case of business loans; there are many different expenses;
- Clients, who apply for business loans, already have an experience, they are familiar with banking procedures and this will be an extra waste of time;
- It is harder to calculate EIR, calculations depend on time of loans withdrawal;

In conclusion, banks consider it not to be of crucial importance to include business credits in limits of the regulation.

- ***Providing information to client beforehand (prior to signing the contract); linked problems.***

Mr. Gzirishvili was interested in banks' opinion concerning the draft version of contract - is it possible for commercial banks to provide draft version of contract to the client, for them to view all terms and compare it to other possible options in different banks.

Georgian commercial banks consider it not efficient. Although, they agree to provide specific standardized draft contract, but a draft contract with all expenses written in details will be hard to provide, once again, coming back to difficulties with EIR calculation, which is dependent on timeframe. In addition, it will prolong service as well and will be an additional cost for banks.

- ***Making it an obligatory to notify client about any changes of contract terms;***

The National Bank of Georgia was interested in possible technical (or other types) of obstacles, which might arise in implementation of this particular tool – making it mandatory to inform clients about any types of change in provided banking services.

Banks find it technically difficult to notify all clients individually about every change; it is also hard to track delivery system of notifications. Nowadays postal system in Georgia is not so developed and simple mailing is not insured; from the other hand, special insured mail delivery is quite an expensive service and banks are not ready to bare these expenses. It is possible to notify clients via e-mail, but access to internet for customers is also a problem. Moreover, there are cases, when clients don't indicate correct contact information, or they change phone numbers, in

this case it is hard to track it. Banks' representatives also ask NBG to clarify what type of information they consider to be obligatory to notify – information about loan arrears, information about account payments, about service costs or other. Commercial banks also noted that in case of business loans clients are constantly contacting banks; they are well aware of all types of payments which they have to perform in bank, therefore there is no need to notify them yet again.

Banks also find it difficult to inform client about general changes of all available banking products, but Mr. Gzirishvili specified that NBG means changes to concrete product which is purchased by the client under the signed agreement. In this case, banks underlined, that they communicate with client and notify them individually, if some changes affect their contract. In general banks agree to notify customers about changes in contract, but a form of notification is a concern and should be selected by bank or by customer.

- ***So called cooling off period: discontinuation/annulment of credit agreement after certain period of its signing without any financial penalties (if client has not utilized the sum);***

Mr. Gzirishvili from Consumer Protection Department suggests to discuss implementation of so called *Cooling Off Period*, under which client is able to annul signed contract within several days, without paying fine, if he/she has not yet utilized the disbursed loan. This tool is necessary in case if client does not receive detailed information/explanation about the product and expenses prior to signing contract and after receiving a contract, he/she is not satisfied with its terms, therefore, the tool gives chance to annul the agreement without paying penalty. It is worth noting, that NBG considers *Cooling Off Period* necessary because of poor compliance of banks with present regulation, especially in the part of providing information prior to the signing of contract. If commercial banks agree to provide draft versions of contracts, *Cooling Off Period* might not be necessary, but as long as client will receive full information only after signing a contract, he/she should have a chance to annul agreement, without paying fine.

In case *Cooling Off Period* is implemented, Georgian commercial banks complain about expenses incurred prior to signing the contract, which will not be refunded by customer. If agreement is prepared, already signed and loan is disbursed, this means that the bank from its

side has already spent human and financial resources, which somehow has to be repaid. In general commercial banks were negative about this tool.

- ***Unification of components and their succession included in the prefix (remove useless and extra information);***

Mr. Gzirishvili was interested if it is possible to further simplify prefixes of agreements via removing list of those financial expenses, which client actually does not have to pay in concrete cases. Once again, the main idea behind the prefix is to make it as understandable and simple as possible.

In this case commercial banks spoke about technical obstacles – the prefix is prepared via standard program and data is indicated in it according to concrete agreement terms. It will be technically difficult to develop different prefixes for each new contract. List of expenses in prefix is standardized and it will require additional time to develop each prefix separately for every new client.

- ***Define minimal standard components of claim form;***

Mr. Gzirishvili, Consumer Protection Department proposed the idea of developing standard components/standard form of claims; moreover, to make it possible for clients to choose a form, in which they would like to receive a respond to his/her claim.

Georgia commercial banks were positive about this issue; several banks already have their standard form of claims, which client is able to fill in and it is obligatory to process it to upper management of a branch. Banks also noted that, NBG receives all written claims, even in those cases, when client's problem is solved locally. Hence, commercial banks have nothing against the development of such form.

After discussion of all topics on agenda, Mr. Gzirishvili summarized a meeting and urged banks to communicate with SBFIC and NBG on regular basis. He thanked banks for presence, active participation and asked them to attend on further meetings as well.

Ms. Moistsrapishvili, SBFIC local expert also thanked banks for participation and urged them to be more cooperative, to suggest topics for further round table meetings. She also underlined importance of financial literacy and benefits for banks while serving a fully informed client.

Annex 1:

Topics for discussion:

1. Widen sphere of regulation – to expand certain demands on all types of credits/deposits.
What effect it might have to change a limit of amount in the regulation?
2. Providing information to client beforehand (prior to signing the contract); linked problems;
3. Making it an obligatory to notify client about any types of change;
4. So called *cooling off period*: discontinuation/annulment of credit agreement after certain period of its signing without any financial penalties (if client has not utilized the sum);
5. Unification of succession and components included in the prefix (remove useless and extra information);
6. Define minimal standard components of claim form.

Annex 2:

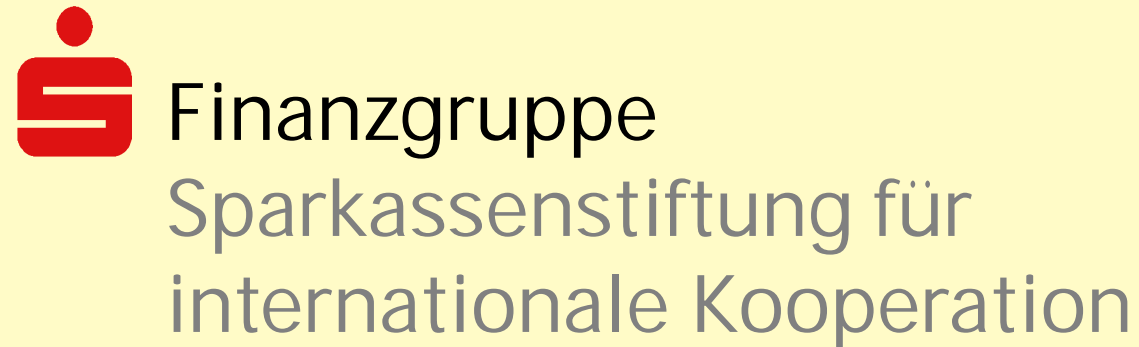


Welcome to

Consumer Protection Issues

II. Round Table Discussion

Tbilisi, December 12, 2011



Consumer Protection - Banks' initiative

Henning Seemann, December 12, 2011

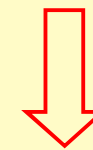
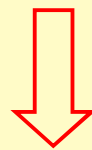
Why do we need financial literacy?

Individual aspects

- Understand and make use of financial services – little interest in financial matters and people do not know enough about economics
- People increasingly have to take financial responsibility for their old age, education and health
- Avoid from Over Indebtedness

Institutional aspects

- Strengthen financial institutions
⇒ create critical mass of customers
- Strengthen competition
- Enable consumers to protect themselves
- Offers available on the market are becoming more and more complex



Improvement of living conditions

Improvement of a health financial market

Who we are – Round Table Meeting Georgia?

Government institutions

(consumer protection agencies,
central banks, Supervisors)

- Social mandate
- Government mandate
- Consumer Protection

Private institutions

(financial institutions, different
initiatives, enterprises)

- CSR – Corporate Social Responsibility
- Marketing in the broadest sense
- Create win-win situation

Target groups

Particularly eligible

- **You can't teach an old dog new tricks**
Children and young people, scholars

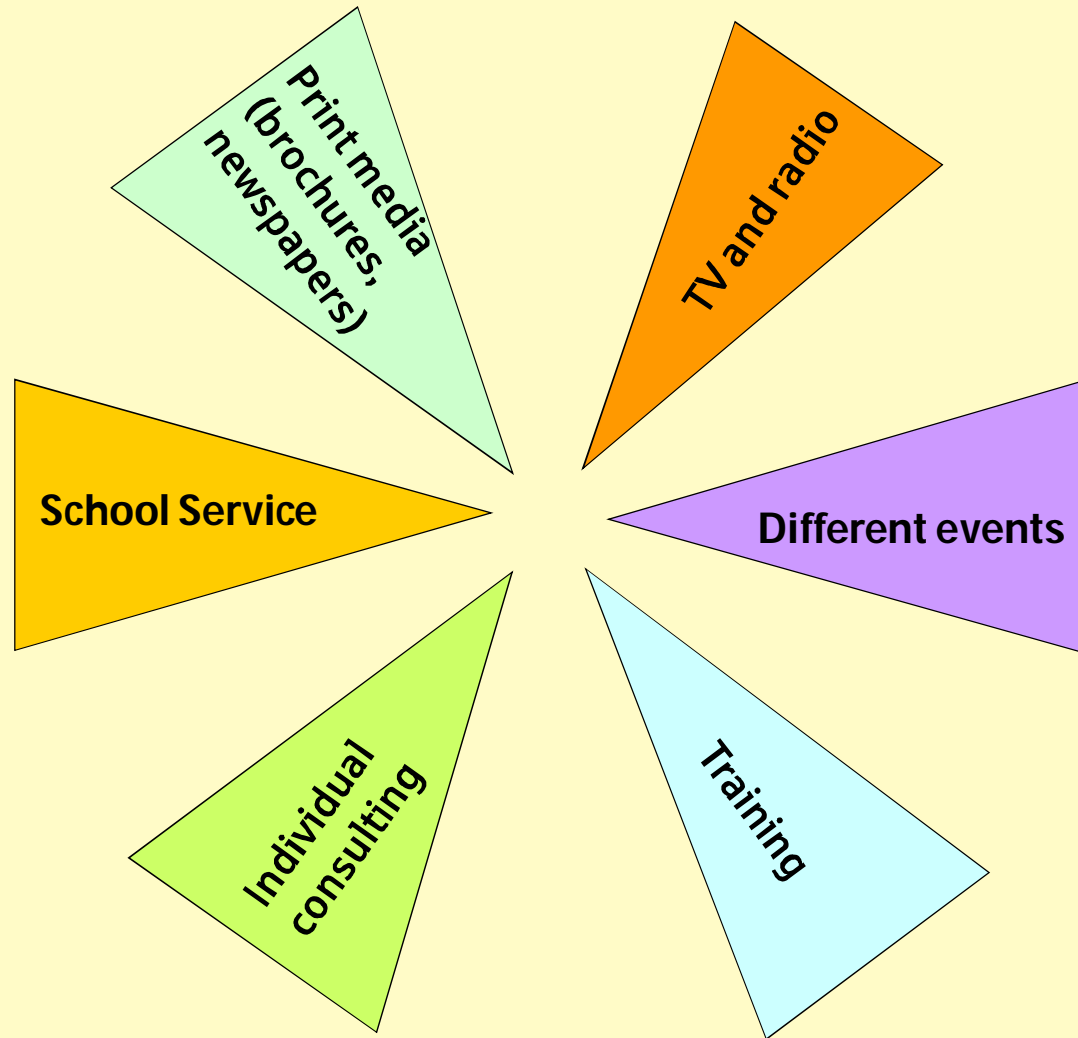
Particularly in need

- **The neglected at the fringes: low income strata**
- **People in danger of indebtedness / already indebted persons**

Eligible

- **Everyone!!!!!!**

Different Activities



Examples

Target Group: Pupils and students

- School into the banks – banks into the schools!
- Reaching the parents by reaching their children!



What can be our input?

- Additional Teaching Materials (Hardcopy, PPP, Simulations and Games, audio-visual media, software)
- Additional Projects
(Preparing materials with pupils – presenting them to the parents, invitation to schools – invitation to branches)
- Internships and Training (also for teachers)



- for pupils, teachers, parents
- for all kinds of schools and grades
- for a range of curriculum topics
- for various teaching and learning systems

Examples

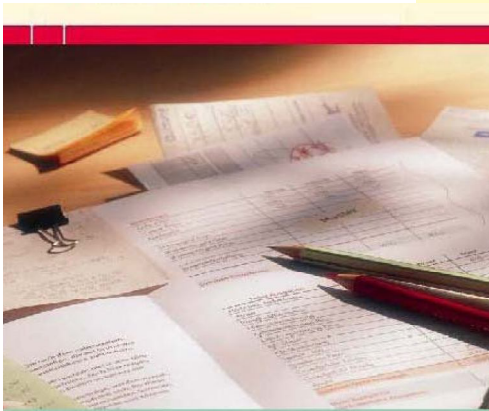
Target Group : Clients

- Getting them where they are – in our institutions/branches!
- Make them responsible for their decisions

What can be our input?

- Budget planners for different target groups (ages)
- Accessible information (for all products, small informational brochure)
- Awareness campaign on EIR
- Complaint record keeping mechanisms and proper responses
- ombudsman
- Outreach to NGO sector

- **All ages**
- **All products**
- **All media**
- **Interaction – for banks' staff as well!!!**



Shape the future -
Plan your finances

Examples

Different Events

The most popular one being the World Thrift Day end of October with different activities. The World Thrift Day was founded in 1924 in the wake of the 1923 hyper inflation

Motto according to time:

- **1924:** trust into the financial sector
- **1948:** economic growth
- **50ies:** save, don't borrow for private consumption
- **80ies:** sustainability: don't burden the next generation
- **today:** private provision for old age



Our initiative – our success

Clearly defined objectives

Budget planners for different types of households

Credibility

Credibility of the institution offering financial education

Adjustment to social / cultural environment

Rising popularity of internet services (budget planning on line)

Utilisation of adequate media

Campaigns before Christmas - "Do not spend too much"

Quality

Regular survey of people using offered services

Distribution / Organisation


Large number of banks, various distribution channels

Sustainability

Sustainable transfer of knowledge and sufficient budget

Challenges and Action

- **Raise awareness of the importance of financial literacy,**
 - amongst (potential) providers / political actors
 - amongst (potential) consumers (clients !)
- **Coordinate measures / set standards / measure results and replicate the successes**
- **Develop instruments for measuring the degree of success and monitor**
- **Strengthen impact by mainstreaming this theme**
 - into school curricula and/or
 - by having suitable financial institutions integrating measures into existing financial offers

 Finanzgruppe
Sparkassenstiftung für
internationale Kooperation

**Be part of the solution – not
part of the problem!**

Thank you very much!