

Sada Reddy: Consumer-related issues in financial services

Opening speech by Mr Sada Reddy, Governor of the Reserve Bank of Fiji, at the World Consumer Rights Day Celebration, Suva, 13 April 2010.

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Honoured Guests,
Ladies and Gentlemen,
A very good morning to you all.

It gives me great pleasure to be here this morning to grace the opening of the World Consumer Rights Day Celebration.

This month, Consumers International celebrates its 50th birthday since its beginnings in March 1960. At that time, a group of consumer leaders met at the Hague and signed papers to create the “International Organization of Consumers Union (IOCU)” giving birth to the global consumer movement. The organizations that signed the formation of the new body had a common desire and that was to help ordinary people make informed buying decisions and get value for their money.

Since those formative years, the consumer movement has grown from strength to strength. Both its membership base and coverage of countries expanded. This, of course, includes the Consumer Council of Fiji. The focus of the consumer movement broadened from its founding principles and today they address issues such as poverty reduction, corporate responsibility, services and sustainable consumption as well as advice on consumer products.

I commend the Consumers International for its work on consumer advocacy and take this time to wish the Movement a happy 50th birthday.

Theme and implications for consumers

The Consumers International has chosen the theme “Our money, our rights”. A theme, I feel is so befitting the times we are living in considering the recent global financial crisis and the continued fall out being felt from the crisis.

I therefore wish to talk this morning on a number of issues that embraces this theme, **in particular from the point of view of the financial system and our role as the regulator of Fiji’s financial system.**

The questions consumers ask are; this is our money and hence we have the right to its safety and security. This is our money and we have the right to reasonable and cost-effective services. These are important questions that should drive financial institutions behavior in terms of customer service.

Update on Fiji’s economy

Ladies and gentlemen, before I touch on consumer related issues in terms of financial services, let me start by briefly providing an overview of the Fiji economy since the time of the global financial crisis. There are now some positive signs emerging that the worst may be over but no doubt, the road to full recovery will be slow and very uncertain. The Fiji economy was hit on two fronts last year. The first was the global crisis and secondly, in January of 2009, Fiji suffered one of its worst flooding in its history. Another cyclone hit us in December.

Our economy is estimated to have declined by 2.5 percent in 2009. Some of the sectors which were directly affected through the global crisis last year were tourism, inward remittances and exports such as fish, timber, garments, bottled water and some other

manufactured items. Tourism, however, has picked up strongly and the declines in earnings from remittances are slowly reversing. The other exports, of course, are heavily dependent on the global recovery.

There are now definite signs of recovery in our major trading partner economies, and if this continues, I am quite confident that most of our exports should start recovering gradually from this year.

Against this background, we are now expecting the Fiji economy to recover modestly at around 2 percent this year.

Fiji's balance of payment came under increasing pressure in recent years. The foreign reserves dropped very rapidly to close to one and a half months of imports or F\$430 million in the first quarter of last year. Certain policy measures put in place by the Reserve Bank has seen the foreign reserves recover strongly and are close to 4 months of imports or F\$1.1 billion as of now.

I am pleased to say that with the level of reserves now reaching a comfortable position, the Reserve Bank has eased credit policy by lifting the credit ceiling that was put in place in December 2006. Interest rates are now trending downwards with liquidity in the banking system at around F\$330 million. We are now seeing more positive investor and consumer sentiments especially with much improved financial conditions. Consumer confidence and spending will contribute to our recovery.

Let me now turn to specifically consumer issues.

Consumer issues arising out from financial crisis

The financial crisis brought out quite a number of consumer issues to the forefront. Prior to the crisis, consumer demand was high the world over, more so in the US. Consumer spending and consumption was high. Financial institutions supported consumer appetite with the wide usage of financial instruments including credit cards and lending in the area of subprime mortgages.

The crisis saw consumers hit on a number of fronts. These included, the effect of massive job losses in some countries, mortgage rates being reset, lending standards and criteria tightened which saw large numbers of people losing their homes and other assets.

People's investments in financial products and property were lost as stock and property prices fell dramatically. The crisis was a perfect consumer storm that consumers did not prepare for, as they had virtually no control of the unfolding crisis.

The global financial crisis clearly demonstrated the fragility of the financial system and financial institutions in this highly globalised and financially complex world.

Major developments to rectify deficiency in meeting the safety of consumer funds

What followed the global financial crisis were major reform agendas to put right principles and practices that will ensure the safety and security of consumer funds. Governments, regulators and financial institutions all had a part to play. Governments have had to provide institutional strengthening of major financial institutions and at the same time, international regulatory standards and best practices are being reviewed and new policies put in place to prevent the reoccurrence of such a financial crisis again.

The safety and soundness of financial institutions aims to ultimately ensure that the consumers receive the financial services and financial promises that are due to them from these institutions.

Turning now to Fiji

The global financial crisis did not directly affect Fiji's financial system and financial institutions. So, whilst the impact of the financial crisis had an immense effect on consumers abroad, our people did not feel the same effects. It is the second round effect of the global crisis through the real sector that had an impact on Fiji by affecting our exports and balance of payments.

However, there are lessons to learn from what is happening around us which we must embrace, that will ensure consumers are not disadvantaged and left to bear the brunt of misjudgment and ill practices of financial institutions.

For financial institutions, in particular banks and insurance companies, consumer issues arise all the time irrespective of whether we are in a crisis mode or in good times.

We, at the Reserve Bank keep the consumer issues at the forefront when formulating policies.

The Reserve Bank therefore keeps a close eye on the following:

- safety and soundness of the financial institutions,
- transparency and governance of these institutions including the expertise and competencies of those running these institutions,
- financial products and services offered by these institutions and those by other players in the market place,
- pricing of these products and services,
- disclosure levels required of both the institutions and the products and services,
- outreach of these services to the wider community, and
- consumer awareness and education.

Let me elaborate on these.

Safety and soundness of financial institutions

The safety and soundness of financial institutions is a function of effective legislation and prudential supervision. The Reserve Bank is concerned with the safety and soundness of financial institutions because at the end of the day, it is the depositor's money that needs to be protected. In the case of insurance companies, it is the policyholder's funds and in the case of the Fiji National Provident Fund, it is the members' contributions.

The supervisory regime must ensure that the monies of consumers are protected and their interests are safeguarded. For this reason, the Reserve Bank licenses, regulates and supervises a range of financial institutions. These include banks, credit institutions, insurance companies and the Fiji National Provident Fund. In 2006, the World Bank and the International Monetary Fund carried out a comprehensive health check of our financial institutions. They assessed our institutions to be sound and stable.

Financial instruments/services and products offered

As you know, financial systems continue to change and adapt to new technologies and global developments. The use of debit cards and credit cards are now being extensively used and an increase in Automated Teller Machines (ATMs) and Electronic Funds Transfer at Point of Sale (EFTPOS) machines are widely available to the public.

The innovation and financial products on branchless banking and electronic money, that is extending the bounds of normal banking in other countries, will see banks reaching areas

beyond the towns and cities. Banks using agent networks and even working with telecommunication companies to reach a wider spectrum of the population will no doubt bring consumer issues to the forefront. Such innovations and financial products will require the approval of the Reserve Bank so that consumers' interests are safeguarded.

Financial disclosure

Let me say something about disclosure. At present, the Reserve Bank has in place a Disclosure Policy for commercial banks and licensed credit institutions whereby these institutions are required to disclose to the public their fees and charges and the products they offer. The consumers need to know the performances of these institutions and are able to make informed decisions about the institution.

Outreach

We are also concerned with the current outreach of commercial banks and financial services to the wider community in Fiji. This is one of the reasons why we issued a policy guideline early this year for the commercial banks to become more involved in the provision of microfinance to the non-bankable sections of our population. Currently many of our people are disadvantaged and hence do not have access to financial services and products.

In this regard, consumer education and financial literacy is very important.

Consumer education and financial literacy

Consumer education and financial literacy is the responsibility of all stakeholders; the government, consumer advocates, the public and the private sector. This is an area that we hear a lot about but very little and sustainable consumer education and financial literacy programs have been carried out. Whilst we can say that we have a high literacy rate in Fiji, financial literacy in itself, however, is not very high. The bulk of the population in Fiji, in fact are financially illiterate.

Financial institutions must ensure that they carry out consumer education programs. Consumers must know very clearly the financial products and services on offer, what these are intended for and their advantages and disadvantages. Consumers must be made aware of all bank fees and charges and options available in financial products.

Consumer education will help consumers make the right choices. The legal cliché of "let the buyer beware" is not just the responsibility of the consumer but it is very much that of the financial institutions who are issuing the financial services and products.

A well-designed consumer education program helps minimize or removes possible customer complaints.

The Reserve Bank has drawn up a public awareness program on financial literacy so as to assist in the education and financial literacy of Fiji consumers. We intend to engage in discussions with key stakeholders such as commercial banks, donor agencies, non-government organizations and others from the private sector over the coming months. This program is expected to be rolled out by the middle of this year.

In this regard, we had convened the first meeting of the National Task Force Committee on Financial Inclusion. A subcommittee of this Task Force has been formed known as the Financial Literacy Subcommittee and their responsibility is to drive a financial literacy program throughout Fiji. It is intended that financial literacy be taken through the education curriculum in Fiji both at the primary and secondary school level.

Let me now turn to what the Reserve Bank has done with regards to the management of consumer complaints and the steps taken to ensure that consumer complaints are addressed.

The Reserve Bank has set up a Complaints Unit within the Bank for addressing consumer issues and complaints within the financial system in Fiji.

On 1st January this year, the Reserve Bank issued a Policy guideline to the commercial banks and licensed credit institutions on complaints management. The policy ensures that commercial banks and licensed credit institutions put in place processes and procedures that will enable the effective and efficient management of complaints by the public. The banks and licensed credit institutions are encouraged to conduct public awareness about their complaints management processes.

The Reserve Bank encourages the consumers to raise their complaints with the commercial banks and licensed credit institutions. Where consumers are not satisfied with the outcome of their complaints with the financial institutions, they should raise these concerns directly with the Reserve Bank. We will soon be publishing an awareness brochure about the complaints policy and processes to be followed for the benefit of consumers.

The Reserve Bank has also issued similar policy guidelines to the insurance companies and the Fiji National Provident Fund for consultation. Following these consultations, the guidelines will then be issued formally to these institutions. Similar complaints management policy guidelines will be issued to players in the capital market.

As part of this policy framework, the Reserve Bank plans to meet once every 6 months with nominated institutions including the Consumer Council of Fiji and Non-Government Organizations. At these consultative meetings, the Bank will give a full briefing of all complaints received and issues identified from those complaints. This forum will provide a feedback mechanism to financial institutions where improvements can be made to better address consumer issues.

Experiences on the types of complaints

At this point, the total number of complaints made to the Reserve Bank is few in number. However, from the time we made the announcement in April of 2009, complaints received tripled in numbers from those that were received in the past.

The Reserve Bank will be publishing on its website statistics of complaints made under the different financial industries. This will be updated every quarter. However, on a monthly basis, a complaints management update will be disseminated to all interested stakeholders on the progress of complaints made.

Conclusion

Finally, we in the financial system are here to serve the consumers of Fiji. However, to ensure consumer satisfaction, there is a need to work together. In this regard, the Reserve Bank and all regulated financial institutions will need to work together with the Consumer Council of Fiji and vice versa. We all have a common goal and that is to bring about consumer satisfaction. If we have divergent views on this goal and do not work in harmony, then the ultimate effect is that the consumer suffers.

Let me conclude by saying that we view consumer issues and consumer complaints very seriously. The whole issue of meeting the needs of consumers is imbedded in the entire supervision and regulatory role of the Reserve Bank. We intend to build an environment that is conducive for consumer protection and the meeting of consumer needs. It is important to know that the consumer is at the heart of all the operations of financial institutions. Take the

consumers out and there will be no financial institutions nor financial services and products to sell.

With those words, ladies and gentlemen, I declare the World Consumer Rights Day Celebration open and wish all consumers and our Consumer Council of Fiji all the best in the celebrations.

Thank you.