



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

# Consumer Empowerment and Market Conduct Transparency and Disclosure

This guideline note was developed by AFI's Consumer Empowerment and Market Conduct (CEMC) Working Group to provide guidance on the development and implementation of sound transparency and disclosure practices for financial services providers (FSPs).

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

This guideline note was developed through the collaborative efforts of the CEMC Working Group's Transparency and Disclosure Subgroup.

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## Context

A CEMC Working Group survey of AFI members identified the disclosure practices most commonly used by national regulators.<sup>1</sup> This guideline note responds to these practices in turn, while addressing current issues and challenges in transparency and disclosure regulation.

## Purpose and Critical Issues

Most countries have transparency and disclosure regulations that apply to at least some financial services. However, the goal is to extend equal protection to all financial consumers. Disclosure regulations must be reviewed periodically to evaluate evidence of their effectiveness in supporting informed decision making by consumers. There must also be ongoing efforts to extend coverage to all financial products and services.

Transparency and disclosure regulations typically cover:

- pre-agreement quotes and disclosure in advertisements and brochures
- standards for contractual disclosure
- standards for post-contractual disclosure

The objective of this guideline note is to provide guidance on the development and implementation of sound transparency and disclosure practices for financial services providers (FSPs) in member countries of the Alliance for Financial Inclusion (AFI).

## Guidelines

- 1. Key terms and conditions:** Disclosing information on the cost of a financial product or service is not enough. A separate mandatory disclosure form must include disclosure on key terms and conditions prior to entering into a contract or transaction with the FSP. These terms and conditions must be clearly defined in the disclosure requirements in order to give the customer a complete picture of the total cost of a product or service and important features and risks of the financial product or service being purchased. Consumer rights, obligations and avenues for recourse should be disclosed and communicated clearly.
- 2. Disclosure format:** To ensure that consumers receive adequate information about a financial product or service, regulators should prescribe a compulsory format for disclosing information. In developing the disclosure format, consumers must be engaged for feedback on the user-friendly and comprehensiveness of the form. This disclosure format would require FSPs to provide a minimum level of information that should be provided to consumers, such as information on pricing or premiums, potential yields from deposits and investments, risks to consumers, key terms and conditions, related fees and charges, etc.
- 3. Price comparison tools:** Comparative information on financial products and services offered by different FSPs should also be provided. Since this information is often not available, but is essential to supporting comparative shopping by consumers, FSPs should be required to report key information to the regulators and the regulators should publish and update comparative tables on a regular basis.

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<sup>1</sup> In December 2011, the CEMC Working Group conducted a stakeholder stocktaking survey of its members in order to, among other things, establish baseline information, identify common practices and strategies and develop recommendations and guidelines on the working group's priority concerns.

4. **Language:** All documents must be written clearly, in understandable terms and in a language in which consumers conduct their everyday business, not just in the official national language that is understood by the consumer. Verbal disclosure by retail agents is also important. Terminology must be appropriate to the target consumer groups' level of financial education and understanding.
5. **Types of disclosure:** Information must be disclosed in writing or in an electronic format<sup>2</sup>, where appropriate. Notices must include the lending rates charged or yields offered by the FSP. The key terms and conditions of a product or service must be disclosed before the contract is signed and clients must be provided with a written summary of key terms within a certain period after the contract date. FSPs should ensure that consumers have understood the information disclosed, such as by providing verbal explanations in a language that consumers understand.
6. **Channels:** The regulation should provide clear guidance on minimum disclosure requirements for all channels (e.g., agent banking, e-money).
7. **Stages of disclosure:** Disclosure guidelines should cover all three stages of a contractual cycle:
  - **Pre-contract disclosure:** Advertisements, brochures and pre-agreement disclosure must include information to assist consumers in assessing the true costs and risks relating to a financial product or service, including any related fees or charges (based on current contracts).
  - **Contractual disclosure:** The contract must disclose all important features of a financial product or service, including consumer rights, obligations and risks.
  - **Disclosure over the term of the agreement:** The outstanding balance must be disclosed periodically, including any interest, fees or charges paid by the client.
8. **Product disclosure:** Disclosure requirements should be extended to all financial products and services offered by FSPs, including:
  - **Credit products:** FSPs must clearly disclose the interest charges, as well as other fees and charges, to enable consumers to determine the total cost of credit. Key terms and conditions, product features (e.g., tenure, collateral requirements), other fees and charges (such as cancellation fees, early settlement fees, guarantor fees, default/penalty interest), consumer risks and obligations and the impact of fluctuating interest rates on the cost of credit must also be disclosed.
  - **Deposit and savings products:** FSPs must clearly disclose the interest rate, product features and any key terms and conditions or charges related to the product.
  - **Other financial products and services (e.g., insurance, remittances):** FSPs must clearly disclose key product features, total premiums, key terms and conditions, consumer risks and obligations, payment terms, benefits payable, excess charges and any other fees, charges or exclusions related to the product.
9. **Bank and non-bank disclosure:** Formal and comparable disclosure requirements must apply to both bank and non-bank FSPs. This may require coordination with ministries and regulators to harmonize and extend disclosure requirements across all financial services.

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<sup>2</sup> Information disclosed by email, text message or on the FSP's website.

## Implementation Considerations

An effective disclosure regime must involve all key stakeholders in its design and implementation.

Important considerations include:

- **Resources:** Implementation of the regulatory and supervisory framework requires adequate resources for enforcement, including surveillance of FSP compliance and effective coordination with all relevant authorities.
- **Consultation and engagement:** Regulators should ensure there is ongoing and adequate consultation with industry on disclosure rules and implementation arrangements. Regulators should also encourage complementary industry initiatives, such as well-enforced codes of conduct and appropriate consumer awareness and education initiatives. Feedback from consumers (e.g., engagement with consumer organizations, analysis of complaints data, research on consumer behavior, attitudes and literacy levels) is also necessary to ensure the disclosure regime is effective. Civil society and the media also play a critical role in raising awareness and in educating consumers about their rights and obligations.
- **Financial capability:** Information disclosure helps consumers to make informed decisions, but without effective and appropriate financial education policies and programs in place, consumers may not understand the information that is being disclosed. Governments, regulators and financial services providers should undertake financial capability initiatives to help consumers understand basic financial terms, while civil society organizations should be strongly encouraged to contribute to such initiatives to expand outreach to a wider population.



## About AFI

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

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

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