


STRATEGIC PRIORITIES OF NBT

**ON DEVELOPMENT OF MECHANISMS
ON PROTECTION OF THE RIGHTS OF
CONSUMERS OF FINANCIAL SERVICES
IN THE REPUBLIC OF TAJIKISTAN FOR
2017 - 2019**



**NATIONAL BANK
OF TAJIKISTAN**



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ABBREVIATIONS

ABT	Association of Banks of Tajikistan
AMFOT	Association of Microfinance Organizations of Tajikistan
AMA	Antimonopoly Agency of the Republic of Tajikistan
WB	The World Bank
SISS	State Insurance Supervision Service of the Republic of Tajikistan
CRP	Consumer Rights Protection
CO	Credit Organization
MFO	Micro-finance Organization
IFC	International Finance Corporation
NBT	National Bank of Tajikistan
NDS RT	National Development Strategy of the Republic of Tajikistan – 2030
OECD	Organization for economic cooperation and development
PDIF	Private Deposits Insurance Fund of the Republic of Tajikistan
FS	Financial services (services provided by banks, MFIs and insurance companies)
FI	Financial institutions (banks, microfinance and insurance companies)

INTRODUCTION

The issue of consumer protection in the financial sector is not new. Many financial institutions understand how financial services can help people improve their lives. However, if such services are offered without regard to the actual needs and capabilities of consumers, then these services, loans in particular, may cause harm instead. Factors such as the desire to ensure the profitability and stimulate sales may induce financial institutions to the use practices that do not comply with the consumer protection principles.

Recently, in the aftermath of the global financial crisis, the Association of Financial Institutions (ABT and AMFOT) and supervisory authorities of the country feel the need for financial service providers to adopt measures to protect clients from potentially harmful financial products and ensure fair treatment of all clients.

The importance of Financial Service (FS) Consumer Rights protection (CRP) in the area is widely recognized by regulators and organizations that define the standards and rules of conduct in the financial markets. A number of international organizations (World Bank, OECD, etc.) have adopted standards to protect the rights of consumers of FS. The list of countries adopting new methods of regulation in the field of CRP in financial services is continuously expanding, where they create specialized oversight institutions, develop mechanisms of dispute settlement, as well as implement programs on financial education of the population. National banks as regulators of financial markets play a key role in defining and implementing policies in the area of FS CRP, carry out oversight over the market behavior financial institutions (FI), as well as coordinate activities related to the development of national strategies and programs on financial education.

Acknowledging the importance of CRP for development of the financial sector in general and the development of the banking sector, in particular, by

the Government of the Republic of Tajikistan is reflected in the Banking Sector Development Strategy of the Republic of Tajikistan for 2010-2015¹.

In April 2012, upon request by the National Bank of Tajikistan (NBT), the World Bank conducted a diagnostic review of consumer protection and financial literacy in the Republic of Tajikistan that covered banking, microfinancing and insurance sectors. The Review was aimed at comparison of existing regulatory framework, institutional structure, market practices of the country with international practice, as well as at presenting recommendations on strengthening the protection of the rights of consumers of financial services and improvement of financial literacy in Tajikistan.

According to the analysis of regulatory framework carried out by the WB, existing legislation does not appropriately reflect the development goals and focuses of the CRP institution, as well as measures that need to be implemented to ensure protection of interests of the financial service consumers.

Currently, there are no institutional structures responsible for CRP in the financial sector in the Republic of Tajikistan. No independent professional mechanism, such as the Financial Ombudsman is available in the financial sector that would be responsible for review of individual complaints FS consumers.

The NBT is responsible for regulation and supervision in the banking and microfinance sectors. However, according to the current legislation in the field of CRP it has no rights and authority to ensure protection of the rights of consumers of financial services. In the area of trading goods, works and services, the responsibility for the implementation of consumer protection policies rests with the Antimonopoly Agency of the Republic of Tajikistan (AMA), which is responsible for implementing the provisions of the Law "On Competition", "On Consumer Protection," and "On Advertisement".

¹Strategy was approved by the Resolution of the Government of the Republic of Tajikistan No. 261 dated May 8, 2010.

According to a study conducted by the World Bank in 2012, the AMA does not possess sufficient experience to deal with complaints and disputes in the financial sector.

International financial institutions (such as the World Bank, IFC), ABT and AMFOT, as well as credit organizations of the country are taking steps to strengthen the CRP. Currently, 16 credit organizations of the Republic of Tajikistan approved the principles of SmartCampaign², where two large microfinance institutions have already passed SmartCampaign certification. The WB and IFC conduct regular trainings on CRP and financial literacy. At the same time, ABT and AMFOT conduct trainings and workshops for the staff of credit organizations.

Since 2014, the Republic of Tajikistan is working on creating necessary conditions for development of the CRP area of financial services. Thus, changes and amendments of the Law of the Republic of Tajikistan “On National Bank of Tajikistan” adopted in 2014, stipulate additional objectives for the NBT to create favorable conditions for protection of consumers of banking services (Article 6), as well as expand the mandate of the NBT to apply operational corrective measures and enforcement actions for violation of the interests of the consumers of banking services (Article 48).

In September 2015, an independent structural subdivision – Banking System’s Consumer Rights Protection Unit (hereafter – CRP Unit) was established in the structure of the NBT. The activities of this unit are focused on development and further improvement of the CRP system in financial services. Main goal of creating this unit include improving the regulatory framework in the area of CRP, review of complains and making necessary arrangements in case of identification of violations of interests of the banking service consumers, conducting inspections of credit organizations in this area, dissemination of information on CRP, and improving the financial literacy of population, etc.

²SmartCampaign is a global initiative to strengthen the consumer protection in microfinancing sector.

The NBT developed and submitted draft changes and amendments to the Laws of the Republic of Tajikistan “On National Bank of Tajikistan”, “On Banking Activities” and “On Protection of Consumer Rights” for review to the Government of the Republic of Tajikistan. Adoption of proposed changes and amendments to these laws will provide the NBT with opportunity to become the sole institution with authority (universal mandate) on regulation and oversight in the area of CRP in banking and insurance services of financial sector.

Despite that, in October 2016, the Government of the Republic of Tajikistan made a decision to transfer the authority on control and oversight over the activities of insurance organization to the NBT.

Further, a number of necessary regulations on protection of the rights of consumers of financial services was defined in the National Development Strategy of the Republic of Tajikistan – 2030 (NDS RT) adopted in October 2016. In particular, this document defines the necessity of further improvement of regulatory framework in financial sector, increasing the level of transparency and confidence to the operations of financial institutions, development of fair competition in financial sector, and ensuring the protection of rights and interests of investors and consumers of financial services. Moreover, this strategy particularly stipulates the development and implementation of a State Program on Improvement of Financial Literacy of Population.

Based on the above, with the purpose of creating effective mechanism to protect the rights and interests of the consumers of financial services, rectify existing gaps, increase the level of trust and confidence in financial system and raise the level of financial literacy of consumers, the NBT initiated development and adoption of a currently relevant document that defines policies of the central bank in this area – “Strategic Priorities of the NBT on developing the mechanism on protection of the rights of consumers of financial services of the Republic of Tajikistan for 2017 - 2019” (hereafter - Strategy).

1. GENERAL TERMS

1.1. Summary of the Strategy

This Strategy is developed based on the Articles 6 and 77 of the Law of the Republic of Tajikistan “On National Bank of Tajikistan” and the National Development Strategy of the Republic of Tajikistan for the period up to 2030, and priorities of sustainable economic development of the country that were pointed out in the Address of the President of the Republic of Tajikistan to the Majlisi Oli of the Republic of Tajikistan as of 2015.

This Strategy was developed with active participation of the representatives from financial sector of the country, international financial institutions supporting the development of financial system of the Republic of Tajikistan.

Adopted Strategy will support the NBT, financial institutions and other stakeholders in coordination of activities focused on increasing the level of trust in financial system and CRP in financial services in the Republic of Tajikistan.

The Strategy identifies the key issues in the area of the CRP in financial services, defined priority directions and measures, where their implementation will promote improvement of CRP system in financial sectors.

1.2. Goals and Objectives

Strategic goals of forming the more effective system to protect the rights of consumers of financial services are increasing the level of confidence in financial sector and expansion of the rights and opportunities of the consumers.

Successful achievement of goals stipulates sequential achievement of the following objectives:

- Establishing the necessary institutions, systems and tools to protect the rights of the consumers of financial services through:
 - a) Improvement of regulatory environment on protection of the rights of consumers of financial services;
 - b) Establishment of effective system of oversight and monitoring in the area of protection of the rights of consumers of financial services;
 - c) Establishment of effective alternative mechanisms for settlement of disputes (financial mediator/ombudsman).
- Improving the transparency of operations in financial institutions and disclosure of information to the consumers of financial services;
- Improving the business practices of financial institutions, including creating effective mechanisms of complaints settlement;
- Enhancing the level of financial literacy of population.

2. PRIMARY AREAS

With the purpose of achieving the goals stipulated in the Strategy and addressing the aforementioned objectives, it is required to ensure coordinated actions of all stakeholders on the number of interconnected primary areas, appropriate and effective implementation of which will ensure favorable environment for sustainable development of the mechanism of CRP in financial services.

Primary areas for development of the mechanism of CRP in financial services include (i) regulation, (ii) oversight, (iii) review of complaints; and (iv) financial education.

- (i) **Regulation** – is setting appropriate and, in most cases, mandatory rules of conduct for financial institutions aimed at CRP in financial services and ensuring the objective and fair treatment thereof.

- (ii) **Oversight** – is the appropriate system of oversight in the area of CRP in financial services that allows ensuring the efficient implementation of regulatory measures.
- (iii) **Review of complaints** – is the exercise of their rights by the consumers of financial services through efficient system to review complaints.
- (iv) **Financial Education** – is improving the knowledge and skills of the consumers on financial products and services that provides them with opportunity to take more responsibility for management of their finances.

2.1. Regulation

Efficient functioning of the system of CRP in financial services requires appropriate regulatory framework. The NBT is intended to continue promoting the process of development and improvement of legislation in the area of CRP in services of financial sector in the Republic of Tajikistan.

Regulation determines the rules of conduct for financial institutions and includes:

- (i) **Transparency**, i.e. publication of the information including requirements for advertisement and promotion materials published and/or placed on websites and other advertisement products of financial institutions;
- (ii) **Disclosure of information**, i.e. provision of complete and reliable information directly to the consumers in the course of rendering the services;
- (iii) **Business practices/sales**, i.e. practices applied by the financial institutions during the pre-agreement stage, contracting stage and during the contract period, as well as requirements to assess the needs of consumers and prohibition of unfair practices of sales or collection of arrears.

Currently, in Tajikistan, there are number of existing requirements for transparency, disclosure of information and business practices. Existing Laws

of the Republic of Tajikistan “On Banking Activities” and “On Microfinancing Organizations”, as well as number of regulatory documents of the NBT include certain basic provisions on consumer right protection.

At the same time, there is a requirement for further improvement of legislation in this area aimed at determination of uniform rules for various service providers (banks, MFO and insurance companies) across the range of their services (loans, deposits, insurance services, etc.). With regard to transparency and disclosure of information, it is further needed to determine the requirements, as well as standards of information disclosure. There is a need to implement requirements preventing unfair practices of service provision and debt collection, as well as to improve the practices of settlement of insurance claims and processing of insurance payments.

2.1.1. Transparency

In sufficient transparency in the financial services market and low awareness of consumers about financial institutions and services in Tajikistan are some of the causes of low level of financial literacy, financial inclusion and confidence in financial sector.

In compliance with the Law of the Republic of Tajikistan “On Banking Activities”, the bank are obliged to publish their annual financial statements in mass media. However, the Law of the Republic of Tajikistan “On Microfinancing Organizations” does not stipulate any requirements for MFOs with regard to disclosure of information. At the same time, the Law of the Republic of Tajikistan “On Joint-Stock Companies” stipulates mandatory publication of financial statements.

In accordance with the Instructions of the NBT No. 199 “On Procedures for Disbursement of Micro-Loans and Microfinancing Organization”, the MFOs are required to provide customers with corresponding information on credit policy, amount of disbursed loan, types of loans, its interest rates, loan securities, requirements on to provide information on the borrower’s credit history and obtaining requests from credit information bureau and other

information through mass media, announcements, advertisement, etc. However, aforementioned requirements are not sufficient. They are general in nature and do not define specific requirements to the content of information and means of disclosure. Majority of banks and MFOs maintain websites, but information published on those sites is not homogenous both in terms of content, as well as in terms of the format of provision. This, in turn, further complicates the search and obtaining necessary information. Promotion materials of banks and MFOs do not allow conducting comparative analysis between different service providers due to the absence of uniform requirements to the content of such materials.

Enhancing the transparency in the operations of FIs and publication of comparable information on financial services in accessible form will allow consumers obtaining minimal information necessary for selection of provider and financial service.

All of the above confirms the need for introduction of new additional rules and requirements for banks, MFOs and insurance companies to publish information. These requirements shall determine the type and content of information that should be made accessible to the public. Published information will enable easy comparison between the various financial service providers and condition of services. Despite that, general information on financial institution shall be available for public, which subsequently will provide the basic level of transparency. Such information must include data on stakeholders (founders) and management of a financial institution, financial statements, information on services provided by financial institution, etc. Advertisements and materials on services shall be reliable and unambiguous. Published information on services shall contain all conditions for services, including information on the costs, major risks related to specific financial service, as well as on the consumer rights.

In connection with this, it is fore seen that the NBT will adopt corresponding regulatory framework, which will determined requirements for mandatory disclosure of specific information on websites of financial institutions and in

mass media, as well information on services provided in financial institutions, particularly information on the conditions of rendered financial services, major risks and consumer rights.

With the purpose of enhancing transparency of the activities of financial institutions, it is also planned to develop a uniform rating system on the quality of provided financial services and publish the same on the NBT's website.

This rating system will be updated quarterly based on corresponding statements of financial institutions and complaints submitted to the NBT and other government bodies.

2.1.2. Disclosure of Information

As of today, the general norms and requirements on information disclosure to the users in the Republic of Tajikistan are stipulated in the Law of the Republic of Tajikistan "On Information".

Despite that specific requirements on information disclosure to the consumers of financial services, particularly to borrowers, are reflected in the Instructions of the NBT No. 186 "On Procedure to Disburse Loans and Accrual of Interests in Credit organizations" and No. 199 "On Procedures of Disbursement of Micro-Loans in Microfinancing Organizations".

Analysis of aforementioned instructions demonstrates that despite these requirements, their further improvement and detailing is required. Instructions oblige institutions to disclose annual effective interest rates in the loan agreement. However, there are no requirements to disclose effective interest rates in the course of advertisement of loans or in the promotion materials. These regulatory framework documents require development of summary of information on basic loan provisions, while failing to stipulate detailed content and format of notification.

Consumers are in need for simple, accessible and easily understandable information to make justified decision in the course of selection of services. Disclosed information shall be as far as possible standardized to facilitate easy understanding by consumers and easy comparison between the different providers. Financial service providers shall disclose full price or cost of the product, especially of loans, including in agreements, advertisement and promotion materials.

Consumers should receive summary of information on basic terms for all major financial products and services (including loans, deposits and insurances). Such summaries of information shall be uniform for all providers. Prior to obtaining the financial service by a consumer, financial institution shall get him/her acquainted with its general terms and provisions, as well as with basic special terms and provisions applicable to this service and accordingly inform the client on major risks related to this service, his/her rights and liabilities. Practice shows that majority of consumers do not read the agreement while signing it and that there is a need to inform consumers on basic terms and risks, both in the terms of agreement, as well as in verbal form.

Based on above, the NBT will adopt a regulatory document that determines mandatory norms to be observed by the financial institutions with regard to detailed disclosure of information. Further, there is a need for legal settlement of issues related to detailing of loan and insurance agreements, including issues of informing the consumers on major risks related with specific financial service, their rights, as well as deposit insurance system and appealing procedures.

2.1.3. Business Practices

Analyses of existing practices of providing financial services demonstrated that there are certain problems in settlement of business practices of financial institutions. Particularly, majority of banks and MFOs provide their clients with statements from bank accounts upon their request. However, legislation does not stipulate liability to provide such statements by credit organizations.

Further, there are no stipulations of the rights of “cooling-off period”, i.e. reasonable period to make decision on selection of a service, as well as there are no stipulation on prohibition unfair or excessively aggressive practices of sale and debt collection. In turn, credit organizations shall provide the consumers with statements of accounts upon their request and free of charge. Minimal content of those statements shall be determined by the NBT.

Consumers of financial products or services with component of long-term savings or products subject to tactics of aggressive sales, shall include the “cooling-off period”, during which, they have the right to cancel the agreement without payment of fines. Consumers shall be informed on changes in interest rates, collections and other key terms and provisions of financial products and services. In case of unilateral introduction of changes in the terms of agreement by the financial institutions, consumers shall be allowed to refrain from the agreement without payment of penalties during the reasonable period.

Credit organization shall comply with the practice of responsible lending. Prior to proposing a specific banking product or service to the consumer, credit organization shall obtain all required information from the client to make sure that product or service meet the requirements and capabilities of a consumer. Consumer shall be provided with sufficient information to select appropriate and accessible product or service.

In case of provision of services through intermediaries, then they shall be duly trained and qualified in compliance with the degree of complexity of a financial product or service that they are selling.

Credit organization shall be prohibited to apply unfair or aggressive methods of enforced collection of the debts. If credit organizations hire third parties for enforced collection of arrears, then they shall ensure that these parties refrain from undue practices.

With regard to insurance payments, the process of their payment shall be as understandable, transparent and just as possible.

2.2. Oversight

Effective system for CRP in financial services along with corresponding regulation of activities of financial institutions is based on efficient oversight. The benchmark to establish the oversight function is the presence of legal mandate for CRP in financial services. The NBT shall be provided with the rights to control and monitor the compliance with the requirements on CRP in accordance with banking legislation to carry out efficient oversight in this area.

According to amendments to the Law of the Republic of Tajikistan “On National Bank of Tajikistan” made in 2014, one of the objectives of the NBT is to establish favorable conditions to protect the interests of consumers of services of banking system. Successful achievement of this objective will require making changes and amendments to the number of laws and regulatory documents of the Republic of Tajikistan to ensure more complex mandate of the NBT in the area of CRP. Meanwhile, considering the transition of oversight authorities over the insurance sector to the NBT, it is required to make corresponding amendments to the Laws of the Republic of Tajikistan “On Protection of Consumer Rights”, “On Microfinancing Organizations”, “On Insurance Activities”, etc.

Oversight will focus on the achievement of following outcomes:

- a) Compliance of financial organization with the requirements of the laws and other regulatory documents on CRP in financial services;
- b) Identification and assessment of risks for consumers of financial services market.

Implementation of oversight policies in the area of CRP shall be placed on a structural subdivision of the NBT, which will be authorized to carry out inspections of credit organizations in the part of compliance with

requirements on CRP and take necessary enforcement actions in case of their violation. With expansion of activities on oversight over financial institutions in the area of CRP, it is required to develop additional oversight tools and improve the regulatory framework.

Oversight tools shall include (i) on-site inspections, (ii) documentary oversight (off-site), (iii) market monitoring, and (iv) enforcement actions in compliance with banking legislation. Meanwhile, documentary oversight and market monitoring shall be carried out by the structural subdivision on CRP in the services of banking system, whereas on-site inspection by both staff of structural subdivision on CRP in services of banking system, as well as staff of this subdivision jointly with staff of Banking Supervision Department of the NBT.

In case of inspection of due diligence and analysis of information provided to the consumers prior to signing agreement, teams of inspectors could be sent to financial institutions to carry out sample purchase. Oversight of financial institutions shall be carried out based on the annual inspection plan and use combinations of On-site and Off-site oversight. These inspection will require due consideration of the major risk factors, such as size of organization, its retail operations, as well as complaints addressed to organization. Further, the NBT may require obtaining statements from FI. Such statements shall contain information about situation in the market and will help in identification of potential bottlenecks.

The NBT shall act transparently clearly defining its policy, procedures, determining the violations in the area of CRP and applying the enforcement and corrective actions.

2.3. Processing of Complaints

Efficient mechanisms for processing of complaints from consumers of financial services and settlement of disputes with their involvement are the vital part of the CRP system in financial services. Consumers shall have access to fair, timely dispute settlement, and complaint processing.

Notwithstanding the fact that there are certain mechanisms in financial institutions dealing with processing of complaints, hotlines, call-centers, etc., uniform practice of application of such mechanisms are not available and awareness of consumers about them is not sufficient. Increasing number of complaints submitted to the NBT is the evidence of inefficiency of complaint processing mechanisms at financial institutions. In connection with this, there is a requirement in development and implementation of uniform minimum requirements to the process of reviewing the complaints of consumers by financial institutions.³

In all cases, financial institutions shall perform as the first and primary instance to review complaints from consumers of financial services. Financial institutions shall possess clear procedures to review complaints. Procedures shall be accessible to the consumers, and details of procedures to submit a complaint shall be integral part of information subject to disclosure to consumers. Internal process to review complaints shall focus on addressing the problems of a consumer. Financial institutions shall provide the NBT with reports on the number of received referrals (complaints) and on outcomes of their processing at the end of each reporting period (i.e. monthly, quarterly or annually).

Considering the costly nature of dispute settlement process through judicial bodies, especially for the consumers with lower income levels, as well as considering the fact that settlement of disputes related to financial services often requires specialized knowledge, it is envisaged in the long term to establish alternative mechanisms of dispute settlement, such as financial mediator or ombudsman. Key principles of the activities of financial ombudsman will be independence, accessibility and efficiency. Specific model of financial ombudsman, including the rules of conduct, financing mechanisms and other details will be developed based on additional studies

³These requirements will be developed in compliance with the Law of the Republic of Tajikistan “On Referrals of Private Individuals and Legal Entities”.

of international experience and practices and discussion with specialists and representatives of financial institutions.

Since acceptance and review of the complaints from the consumers of financial services is currently one of the most important focuses of the activities of the CRP Unit, there is a need in development and adoption of an internal regulatory document that would clearly define the procedures to review referral arriving at the NBT.

2.4. Financial Education

Regulatory framework for the CRP in financial service and institutional structures are required, but they are not sufficient prerequisites for efficient CRP. Financial knowledge is the main and deciding factor for improvement of economic welfare of consumers. Improving the financial literacy will help consumers inefficient and focused utilization of their financial assets, while gaining economic benefits from financial services, and resisting financial risks and financial fraud, and planning their future.

Growing awareness on importance of financial education and skills led to number of international initiatives and large scale reforms in different countries. Many countries have already adopted and implemented national strategies on financial literacy of population.

Numbers of arrangements on improving financial literacy of population are being implemented in the Republic of Tajikistan with participation of international financial institutions, NBT and other financial market players.

Significance and relevance of financial literacy are also noted in the NDS RT, which stipulates development and implementation of a State Program on Improvement of Financial Literacy of Population. The state program will be developed in collaboration with all stakeholders, including the NBT, and will become an efficient framework to coordinate efforts of various government agencies, ensure efficient distribution of budget financing and formulate systemic approach to providing financial education through various channels

and initiatives. Further, the NBT will continue implementing specific existing initiatives on improving the financial literacy, such as: coordination of conduct of annual international financial literacy weeks among children and youth, organization and conduct of workshops and training courses for teachers of general education schools, placement of informational and video materials on the official website of NBT, participation in advocacy TV and radio shows, etc.

In the course of development and implementation of financial education initiatives, the most vulnerable target groups shall be defined as priority groups. At the same time, opportunity of gaining financial knowledge shall be accessible to all public. Financial education will be offered prevalingly through provision of basic knowledge using mass media outlets. Particularly, the NBT will carry out activities related with development and distribution of information materials on key financial products and services considering the properties and risks for population. On their side, financial institutions and their associations shall continue their efforts aimed at improving the financial literacy of consumers. Currently, financial institutions carry out series of activities, such as: training course for their clients and population; consultations and educational programs; training of trainer (ToT) courses aimed at training of both FI staff, as well as their clients; distribution of printed products; broadcast of video clips in air company terminals, and catering points and public transportation; broadcast of Radio shows through central and local radio centers.

2.4.1. Target Groups

The system of CRP in financial services is primarily focused on protection of the rights of consumers – private individuals, which is motivated by the fact that they do not possess required resources to protect their own rights and interests. Despite that, utilization of financial services, and especially complex products, often requires special knowledge.

Based on the aforementioned, the NBT determined the following population groups as priority target groups possessing the low level of financial knowledge:

- (i) Low income population groups (including people with disabilities, retired people and unemployed);
- (ii) Population of rural areas and remote mountainous regions;
- (iii) Women and youth (students of high schools and higher educational institutions);
- (iv) Other population groups (migrants, etc.).

3. PROVISION OF RESOURCES

3.1. Financing

Implementation of the Strategy will require certain financial and human resources. Timely provision of necessary resources will contribute in to efficient implementation of planned activities and minimization of potential risks in the process of their implementation.

Financial resources may be provided directly from NBT, as well as involved international organizations and donors. It is planned that funding of international organizations and donors in the frame of technical assistance will be directed on financing of individual activities of the Strategy and Action Plan, such as:

- Development of regulatory framework of the NBT, including development of a uniform norms of behavior of financial institutions with regard to consumers of financial services;
- Development of reporting forms for financial organizations in order to perform control and oversight of the mechanism of CRP in financial services of FIs;
- Promoting introduction of an independent mechanism to review disputes on the basis of financial ombudsman;

- Technical assistance in developing a CRP webpage on official website of the NBT;
- Development and implementation of educational programs and training materials on financial education for target groups;
- Studies of best practices of other countries and formulation of approaches to improve the system of CRP in financial services in the Republic of Tajikistan.

3.2. Human Resources

Human Resources will be provided through expansion of the staffing of the CRP Unit by efficient selection of qualified specialists on each direction of the unit's activities (regulation, oversight, review of complaints, and financial education), as well as through further transformation of this structural subdivision of the NBT into Department. It should be pointed out that considering current realities, the CRP Unit would rely on international practice in this area.

In order to achieve intended goals, implement planned activities, improve efficiency of its activities, the CRP Unit may use the capacity of external sources (international organizations, donors and other stakeholders).

Depending on availability of necessary technical assistance of international organizations and donors, it is envisaged to delegate some of the functions of the CRP Unit on temporary basis to outsourcing companies operating in the corresponding areas. Those are functions, such as conducting activities of "Mystery Shopper" ;technical support of websites and development of rating system; development of materials, video clips, booklets and other information resources related to the protection of rights of financial service consumers.

4. IMPLEMENTATION MECHANISM

4.1. Action Plan and Stages of Implementation of the Strategy

The Action Plan (*enclosed*) is the integral part of this document and includes measures classified according to focuses and combined into the following groups:

- 1. Measures to improve regulatory framework on regulation in the area of CRP in financial services.** Measures will be cover the following directions: (i) adopting changes and amendments to the Laws of the Republic of Tajikistan “On National Bank of Tajikistan”, “On Banking Activities”, “On Protection of Consumer Rights” and “On Microfinancing Organizations”; (ii) development and adoption of new standard documents regulating the issues of transparency and disclosure of information; (iii) development and implementation of uniform minimum requirements to the processes of reviewing complaint from the consumers of financial services.
- 2. Measures to improve regulatory framework on oversight in the area of CRP in financial services.** Considering the need to ensure CRP in financial services, the mandate of the NBT on oversight require the following activities: (i) implementation of division between the prudential oversight and oversight in the area of CRP in financial services; (ii) developing a regulatory document that defines principles and methods to conduct off-site inspections; (iii) developing a regulatory document that defines regulation of the on-site inspection processes, and sequence and periods of their conduct. These regulatory documents shall define the need and obligation to conduct off-site inspections and on-site inspections of financial institutions. In the course of mentioned inspection, it is allowed to initiate other additional activities.
- 3. Measures to improve transparency in activities of the FI and disclosure of information for consumers.** In these areas, the NBT is planning to develop a regulatory document that would define the requirements for FIs to publish information on financial institution

and on services provided, as well as a document that would determine minimum requirements on disclosure of information for clients.

- 4. Measures to improve business practices of financial institutions.** (i) the NBT will encourage FIs to implement the mechanism of voluntary standards of behavior on the market; (ii) the NBT will set the requirements for FIs to develop and implement internal documents requiring the staff of financial institution to maintain high level of business practices through adoption of internal documents by the FIs (Professional Code of Conduct, Corporate Code, Rules of behavior with clients and other documents).
- 5. Measure to improve financial education of the consumers of financial services.** It is envisaged that the NBT will participate in implementation of various programs of international organizations and partners on financial education, which include: (i) conducting education events for students, schoolchildren and teachers of secondary general education schools; (ii) participation in development of State Program on Financial Literacy of Population.
- 6. Measures to introduce effective mechanism for review of referrals of the consumers of financial services.** Within the frame of implementation of these measures, it is envisaged to develop and adopt internal regulatory documents on review of referrals of the consumers of financial services considering the requirements of the Law of RT “On Referrals of Private Individuals and Legal Entities” by: (i) structural subdivision of the NBT on CRP; (ii) financial institutions.
- 7. Additional measures to implement priority directions of the Strategy.** This group of measures stipulates the conduct of the following activities by the NBT: (i) with the purpose of ensuring healthy competition among the FIs, comprehensive access to information on provided financial products (services) and corresponding interest rates, placement of necessary information on the official website of the NBT in the consumer-friendly format, with

links to the websites of FIs; (ii) in order to effectively address the objectives stipulated in the Strategy, it is required to transform the CRP Unit into corresponding Department.

4.2. Implementation Principles of the Strategy

In the course of implementation of this Strategy and Action Plan, the NBT will be guided by the following basic principles:

- (i) Application of international best practices in the area CRP in financial services considering the specific characteristics of the financial market and practices of the Republic of Tajikistan through studies of corresponding materials, consultations with representatives of international organizations and sharing experience with the countries, where the mechanism of CRP in financial services is well-established and functioning;
- (ii) Staged implementation of the Strategy considering the oversight resources of the NBT and capabilities of financial institutions. Technical assistance of international organizations and donors may serve as additional support to this process;
- (iii) Comprehensive collaboration with stakeholders, including with government agencies, international financial institutions and associations of FIs in the course of conducting joint campaigns, promotion activities and actions to implement the Strategic Priorities.

4.3. Monitoring and Evaluation of the Efficiency

A working group will be established to conduct monitoring over the implementation of the Strategy and Action Plan. This working group will include representatives from departments, directorates, units, and other subdivisions of the NBT, and if required, representatives of international organizations, donors, associations of FIs and the financial institutions of the

country. Coordination of activities of this working group will be carried out by the management of NBT.

Working group will evaluate the interim results and implementation progress of the Strategy as a whole, as well as provide the management of NBT with proposals on the procedures of strategy implementation, inclusion, exclusion and verification of its certain clauses.

Working group on monitoring the implementation of Strategy and Action Plan will submit reports periodically or upon completion of intended stage of planned activities to the NBT Management that will contain detailed information on performed activities.

5. EXPECTED OUTCOMES

The main long-term bench mark for implementation of the Strategy's priorities will be increasing the public confidence in financial sector, as well as improving the level of financial knowledge of citizen.

Efficient implementation of the priorities of Strategy will lead to the following outcomes:

1. **Improved legislative framework in the area of CRP in financial services in RT.** Adoption of corresponding changes and amendments to the Laws of the RT will provide the NBT with necessary legal mandate on CRP in financial services;
2. **Mechanisms of regulation and oversight over the activities of FIs in the area of CRP in financial services are implemented.** In order to control and monitor the FIs in the area of CRP, the NBT plans to carry out Off-site and On-site oversight of the financial institutions;
3. **New requirements regulating the issues of transparency and disclosure of information are adopted.** The NBT will define the requirements on publication of information about the financial

institutions and about services provided by the financial institution, set minimum requirements on disclosure of information to the clients. Hence, the client will have sufficient amount of time to study the terms of agreements and all relevant information, have opportunity to compare products and services prior to signing an agreement with an FI;

4. **Level of business practices, close collaboration between the consumers of financial services and financial institutions is improved.** In order to improve the general environment of the CRP, the NBT will promote implementation of mechanism of voluntary standards of behavior on the market (Principles of the protection of clients (SmartCampaign), High level principles on CRP in financial services of the Group of Twenty (G-20));
5. **Level of financial education is improved.** Increasing the level of financial literacy will lead to legally correct evaluation of own rights and liabilities, risks and benefits related to the use of financial products and services. Sufficient level of basic knowledge of consumers of financial services will have positive impact on making appropriate and beneficial decisions in selection of financial products and providers of financial services;
6. **Effective mechanism of dispute settlement is established.** Regulator will define and implement uniform rules for FIs to review the referral of clients based on principles of justice, efficiency and timeliness. At the same time, the NBT will promote establishment of independent alternative mechanism of dispute settlement between the FIs and their consumers based on the example of financial ombudsman.

6. FINAL PROVISIONS

With adoption of this document developed considering international practices, the NBT is planning to introduce modern requirements in the area of protection of the rights of consumers of financial services into the oversight and regulatory environment, and establish due favorable and competitive environment on financial market.

There is no document, which is uniform for all countries in the area of the CRP in financial services, and with the purpose of ensuring the further sustainable development of financial market and appropriate mechanism to protect the rights and interests of the consumers of financial services, the NBT has developed this Strategy based on analysis of current situation and practices in the country, including existing regulatory framework of financial sector, existing organizational structure and capacity of the body of financial regulation.

GLOSSARY OF TERMS

1. ***Outsourcing Company*** – is an organization that based on an agreement will ensure performance of complex of activities, defined processes and functions delegated by another organization;
2. ***Banking Account*** – in an account opened based on the banking account agreement by a bank (other credit organization) for legal entities and private individuals to provide for their participation in non-cash monetary turnover and accumulation of non-cash funds for target utilization. Further, in accordance with such agreement, the bank or another credit organization is obliged to accept and charge the cash funds arriving to the account of another party (account holder), fulfill the instruction of the account holder on transfer and disbursement of appropriate amounts from the account and conducting other operations on the account;
3. ***Credit Information Bureau*** – is a legal entity, which is commercial organization that provides services related to organization, processing, storage of credit histories, provision of credit information reports and other information in compliance with the procedures stipulated by the Law of the Republic of Tajikistan “On Credit Histories”;
4. ***Global Financial Crisis*** – is a deep disturbance of global financial system in majority of countries accompanied by inflation, instability of rates of securities, expressed in sharp incompliance of the budget income and expenditures, instability and drop of the national currency exchange rates, failure of mutual payments of economic entities, incompliance of currency in circulation with the requirements of the law on cash turnover;
5. ***Business Practice***– is the direction of social programs of financial institutions aimed at promotion of adoption and distribution of principles of due business relationships between the providers of

financial services, business-partners and clients of such organizations;

6. ***Complaints*** –expression of dissatisfaction with regard to individual action (inaction) of officials, managers and authorized staff of relevant bodies and organizations on protection and reinstatement of rights and liberties or violated legal interests or violated rights, liberties or legal interests of other individuals;
7. ***Protection of the rights of consumers of financial services***– in a set of measures implemented by the state and society with a focus on regulation of relations between the consumer and provider, and including definition of specific rights of consumers, forms of possible violation of rights and mechanism of their protection and liability for violation of consumer rights;
8. ***Cooling-off Period*** – is the period during which, a contract or agreement can be terminated without payment of any penalties or fines;
9. ***Controlled Purchase / Mystery Shopper*** – is a method of financial control representing imaginary procurement of financial service by a consumer from provider in order to verify the compliance with the rules of trade;
10. ***Credit Policy*** – is a program and direction of activities of credit organization in the area of disbursement of loans to legal entities and private individuals, which is based on risk-profit ratio of transactions acceptable for credit organization;
11. ***Abusive Sales Practice*** – is the key element of unfair competition, which represents the collection of methods of monopolistic pressure on the business partners in financial sector and on consumers of financial services applied by large financial institutions based on limitation (suppression) of competition with the purpose of capturing, detention or implementation of governing position on financial market;

12. *Financial Service Providers* – are banks, microfinancing and insurance institutions that provide financial services to the consumers of financial services based on agreement;
13. *Principle of Consumer Rights Protection*–is fundamental guidelines, requirements that express the essence of such protection that define general direction of legal regulation, which should be observed and complied with in practical activities;
14. *Financial Education Program* – is the complex of agreed measures and action plan implemented with the purpose of development of human capacity, improving the welfare and financial security of citizens, enhancing long-term investment demand and reinforcing the stability of financial system through sharp increase of efficiency of households in making financial and economic decision by means of cardinal enhancement of the level of financial literacy of population, introduction of mass efficient stereotypes in making economic decisions by citizen;
15. *Standards on Consumer Right Protection in financial services* – is historical set of rules generally accepted by financial system that serve as the template, reference, model, and accepted as baseline and benchmark for such protection;
16. *Insurance Payment*– is an amount money paid by the insurance (re-insurance) institution to the insurant (beneficiary) within the insured amount in connection with the occurrence of insurable event;
17. *Insurance Sector* – is the part of financial sector prevailingly composed of relations between the entities of insurance activities (insurant, beneficiaries, insurers, re-insurers), where corresponding insurance products (services) are offered in connection with the need to prevent, limit and overcome insurance risks;
18. *Insurance Claim* – is the insurance demand presented by the insurant or third party (beneficiary) to the insurer in connection with the occurrence of insurable event, which occurred because of incidents and threats stipulated by the insurance terms;

19. *Aggressive Sales Practice* – is the method of direct sales exclusively based on the interests of the provider of financial services with the purpose of inclining the consumer of financial services to the desires of the provider;
20. *Financial Sector* – is the complex of financial institutions providing financial services to private individuals and legal entities;
21. *Financing System* – is the organizational form of monetary relations between all entities of reproduction process related with distribution and re-distribution of global social product;
22. *Financial Ombudsman / Mediator* – is an independent body of extrajudicial review of disputes arising between financial organizations and consumers of financial services. Financial Ombudsman reviews disputes with small amounts;
23. *Financial Market*– is a specific area of financial relations, where the flow of financial resources occur, and demand and offer there of forms;
24. *Financial Literacy* – is the sufficient level of knowledge and skills in the area of finances, which allows the provider or the consumer of financial services to correctly evaluate the market situation and make reasonable decisions;
25. *Financial Inclusion*– is defined level of participation of all participants of financial market into the process of service provision;
26. *Financial Education* – is the process, where by providers and consumers of financial services will improve their knowledge on financial products, definitions and risks and with the help of information, instructions and objective advice, build their skills and confidence, enhance awareness on financial risks and capabilities, make reasonable selection and take other effective actions to improve their financial position;
27. *Financial Resources* – is the complex all monetary assets available at disposal of organization to form required assets in order to carry out all types of activities intended for fulfillment of financial liabilities and funding of other expenses;

- 28. *Financial Regulator***– is a defined state authority that oversees the financial system and controls it with the purpose of ensuring fair and efficient markets, as well as financial stability;
- 29. *Financial Services / Products*** – are the services provided by the banks, MFO and insurance companies;
- 30. *Financial Institution / Sector*** – is a bank, microfinancing and insurance institution;
- 31. *Fair Competition*** – is the appropriate and free competition (due diligence) of financial organizations in financial sector, when their independent activities effectively limit the capability of each of those to unilaterally influence general conditions of providing financial services on corresponding financial market;
- 32. *Effective Interest Rate*** – is the percentage, whereby the interest on the loan will be calculated including payments of the client to service the loan of credit organization.