WORLD BANK GROUP
Finance & Markets

Finance & Markets Global Practice

TECHNICAL NOTE: Institutional Arrangements for Financial Consumer Protection

August 2015

DISCLAIMER

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ACKNOWLEDGMENTS

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ACRONYMS

ADR	Alternative Dispute Resolution
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
BSP	Central Bank of the Philippines (*Bangko Sentral ng Pilipinas,* the Philippines)
CBA	Central Bank of Armenia
CGAP	Consultative Group to Assist the Poor
FCA	Financial Conduct Authority (United Kingdom)
FCAC	Financial Consumer Agency of Canada
FCAG	Financial Consumer Affairs Group (the Philippines)
GPU	Products and User Services Office (*Gerencia de Productos y Servicios al Usuario*, Peru)
IAIS	International Association of Insurance Supervisors
IFC	International Finance Corporation
INDECOPI	National Institute for Protection of Competition and Intellectual Property (*Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual*, Peru)
IOSCO	International Organization of Securities Commissions
NBCI	Non-Bank Credit Institution
NCAC	National Consumer Affairs Council (the Philippines)
NGO	Non-Governmental Organization
OECD	Organisation for Economic Co-operation and Development
OJK	Financial Services Authority (*Otoritas Jasa Keuangan*, Indonesia)
PRA	Prudential Regulation Authority (the United Kingdom)
SBS	Superintendence of Banking, Insurance and Pensions (*Superintendencia de Banca, Seguros y AFP*, Peru)
WB	World Bank
WBG	World Bank Group

1. EXECUTIVE SUMMARY

1. **The expansion and increasing range of formal financial products and services around the world has brought significant benefits to many consumer segments.** There is growing evidence that higher financial inclusion levels have a positive impact on financial stability, various micro- and macro-economic indicators as well as financial well-being of individual consumers.[i] This finding is particularly important in countries with low levels of financial inclusion and high levels of poverty, as the latest Global Findex data shows some correlation between poverty and financial inclusion with two billion people not using formal financial services and 73 percent of poor people being unbanked because of costs, travel distances and the often burdensome requirements involved in opening a financial account.[ii]

2. **In order for financial inclusion to result in significant economic and societal benefits, it needs to be promoted in an environment where it is safe for consumers to use financial services and products.**[iii][iv] In fact, the benefits of financial inclusion can be neutralized or reduced if consumers: (i) cannot transact in a regulatory environment that provides sufficient safeguards such as protection of deposits/funds, effective disclosure, and accessible dispute resolution; (ii) cannot select the financial product or service that is best suited to their needs; and (iii) are not protected against fraud and other market abuses. Strong consumer protection helps to ensure that the growing use of financial services benefits consumers and does not create undue risks for them while also supporting financial stability, integrity, and inclusion objectives. As noted in the Good Practices for Financial Consumer Protection (World Bank, 2012): "*[financial] consumer protection can contribute to improved efficiency, transparency, competition, and access to financial markets by reducing information asymmetries and power imbalances among providers and users of financial services.*"[v] Financial consumer protection is also a necessary precursor to building trust in the formal financial sector and thus in encouraging financial inclusion.

3. **Building upon the fifteen most recent World Bank (WB) diagnostic reviews and informed by key guidance and relevant research[vi], this note deals exclusively with institutional arrangements for financial consumer protection.** In this context, "institutional arrangements" refer to the number, organization, and structure of the agencies responsible for financial consumer protection regulation and supervision of financial institutions, as well as the capacity, resources and processes of the relevant agency(ies).[vii] Although institutional arrangements are only one component of any overall financial consumer protection framework, they are very important in determining the efficiency and ultimate success of the overall framework for financial consumer protection. It is hoped that this note will assist policymakers, regulators, and supervisors seeking to establish institutional arrangements for financial consumer protection or strengthen the existing ones in their respective countries. By way of guidance, this note aims to address the following questions: (1) Why is financial consumer protection important? (2) What are the main models of institutional arrangements for financial consumer protection around the world? (3) What are the advantages and disadvantages of the different models? (4) What are the principal challenges faced by the agencies responsible for financial consumer protection?

4. **There is no one-size-fits-all model of institutional arrangements for financial consumer protection.** The effectiveness and actual functioning of institutional arrangements in any country depends on country-specific characteristics. Relevant characteristics include the size and structure of the financial sector, its stage of development, specific regulatory and supervisory initiatives taken, skills and institutional capacity, and prevailing political traditions. In a large number of countries institutional arrangement is a mix among integrated single or multiple models and a general consumer protection model.

5. The 15 WB diagnostic reviews show that one of the main obstacles to introducing and implementing financial consumer protection is the lack of resources. Particularly in the lower-income countries, the lack of funds to support the institutional arrangements for financial consumer protection is a common constraint, despite political willingness and interest in the agenda. Besides money, experienced and well-trained staff is also frequently missing, particularly because financial consumer protection is a relatively new field that requires a specific set of knowledge and skills. A scaled-up focus on financial consumer protection also poses the burden of experimentalism on policymakers willing to implement consumer protection in their respective countries—new approaches are being tested (e.g., risk-based supervision, behavioral economics-based regulation) and new areas addressed (e.g., mobile money). Another frequently experienced challenge is the lack of a well-articulated and clear mandate for financial consumer protection regulation and supervision. A related challenge are the overlapping or conflicting responsibilities of multiple agencies involved in financial consumer protection. Further, opportunities for greater effectiveness by separating consumer protection supervision and prudential supervision were identified in many countries. Finally, inter- and –intra-agency cooperation and coordination have proved to be a challenge for many of the researched countries.

6. The WB diagnostic reviews provide a comprehensive source of information about different regulatory approaches and lessons identified during implementation of financial consumer protection. Among the lessons identified are (i) the importance of a clearly formulated mandate, (ii) the importance of sufficient capacity, (iii) the value of an independent and specialized team/unit/agency responsible for financial consumer protection, and (iv) the importance of mechanisms for cooperation and coordination between multiple agencies (and other stakeholders). Finally, challenges of building new institutions from scratch vis-à-vis leveraging existing institutions – in particular in developing countries – need to be taken into account when considering respective models of institutional arrangements for financial consumer protection.

2. IMPORTANCE OF FINANCIAL CONSUMER PROTECTION

7. A proper understanding of the importance of financial consumer protection is necessary for the establishment of effective institutional arrangements for financial consumer protection. Although many academic articles, books, and policy notes that make the case for effective financial consumer protection frameworks, and international good practices have been published,[viii] discussions with different stakeholders around the world during the diagnostic reviews conducted by the WB indicate the need for guidance on: (i) the ultimate objectives and benefits of financial protection for consumers, the financial sector, and policy makers; (ii) the role of regulators and supervisory agencies in promoting financial consumer protection, and (iii) the role of financial capability in the process of strengthening the protection of financial consumers.

8. The importance of financial consumer protection was evidenced by the global financial crisis of 2008. Although triggered by the burst of the structured finance bubble, the financial crisis gradually also started affecting areas of the international economy that had previously been considered mutually independent. This so-called contagion effect uncovered the complexity and interdependence of the national and international economies.[ix] More significantly, at least from the perspective of financial consumer protection, the financial crisis also revealed the interdependence between financial stability and consumer protection.[x] In fact, before the financial crisis, consumer protection and financial stability had been seen as "*only indirectly associated objectives—and at the margins even potentially conflicting….*"[xi] Since the crisis erupted, this perspective has been changing, and the number of financial regulators and supervisors dedicating resources to financial consumer protection increased substantially between 2010 and 2013.[xii]

9. Financial consumer protection helps promote consumer confidence in the financial sector. This is achieved primarily by addressing the vulnerabilities inherent in the financial system to which financial consumers are exposed: (i) information asymmetries as a result of a lack of transparency and limited availability of relevant information, and (ii) power imbalances between the providers and users of financial services.[xiii] Thus, regulatory interventions aim to raise the transparency of financial products and services, prohibiting unfair and misleading marketing practices, promoting fair treatment of consumers, and establishing standards for the handling of internal complaints and external dispute resolution.[xiv] Table 1 provides some (limited) examples of regulatory interventions designed to promote financial consumer protection in the mentioned areas.[xv]

Table 1: Examples of Regulatory Interventions in Financial Consumer Protection

Issue	Requirement(s)	Country Example
Information asymmetry (lack of transparency of financial products and services)	Financial institutions are required to disclose whatever information consumers need to be able to make informed decisions about financial products and services	• In *Armenia*, detailed information concerning the terms of consumer loans must be disclosed on creditors' websites and be made available through brochures distributed free of charge on the lenders' premises.[xvi] • In *Australia*, banks must publicly disclose a Key Facts Statement containing a defined set of important information about each of their home loan programs and must also make it possible, through their websites, for consumers to generate a more specific and personalized version of that information, based on the specific amount, loan program, and loan term they are interested in.[xvii] • In *South Africa*, a credit provider cannot enter into a credit agreement unless the credit provider has given the consumer a pre-agreement statement and quotation in the prescribed form (see Section 92 of the National Credit Act). • In the *Philippines*, a disclosure statement is required as attachment to any loan contract.[xviii] • In *Peru*, comprehensive information and appropriate calculators must be made available online.[xix]
Power imbalance	Unfair treatment of consumer is prohibited	• In the *United States*, the Dodd-Frank Act considers an act abusive if it materially interferes with the ability of a consumer to understand a term or condition of a financial product or service, or if it takes unreasonable advantage of: (a) a lack of understanding on the part of the consumer of the material risks, costs, or conditions of the product or service; (b) the inability of the consumer to protect his rights in selecting or using a financial product or service; and (c) the reasonable reliance of the consumer on a covered person to act in the interests of the consumer.[xx] • Some supervisors (e.g., Bolivia, Malaysia, Mexico, Pakistan, Peru) require ex ante approval of consumer contracts, with the purpose of curbing the use of abusive clauses.

Issue	Requirement(s)	Country Example
	Cooling-off period	• Cooling-off periods for long-term insurance products (i.e., life insurances) have been adopted in industrial countries and some emerging markets, such as Singapore and Malaysia, and cover a relatively wide range of insurance products (e.g., Australia). • A 14-day cooling-off period has been adopted for consumer credits by the European Directive on Credit Agreements for Consumers.[xxi]
	Alternative Dispute Resolution	Financial services ombudsman schemes, one of the models for alternative resolution of financial consumer disputes, have been established, for instance, in *Australia*,[xxii] *Belgium*,[xxiii] *Canada*,[xxiv] *Ireland*,[xxv] *South Africa*,[xxvi] and the *United Kingdom*.[xxvii] The Financial Services Mediator in Armenia, the Financial Mediation Bureau in Malaysia and the Financial Arbitrator in the Czech Republic effectively have features of a financial services ombudsman scheme.

10. If properly established and implemented, a financial consumer protection regulatory and supervisory framework may have a positive effect on the financial sector as a whole. The consumer protection framework helps to strengthen consumers' confidence in the financial sector, foster financial inclusion, and increase transparency, thereby eventually spurring competition among financial institutions. Healthy competition may further lead to financial innovations beneficial to consumers (for instance, m-payments and agent-based distribution models[xxviii]). Ultimately, better functioning financial markets together with higher financial inclusion contribute to sustainable economic growth and a healthier economy.

11. Financial consumer protection frameworks have important limitations that need to be acknowledged. Of special importance is the fact that even well-informed, legally protected and educated consumers may still make decisions that lead to suboptimal, and sometimes harmful results in terms of the consumers' financial well-being. This phenomenon is largely due to the fact that consumers' decision-making process is often influenced by so-called behavioral biases. The International Association of Insurance Supervisors groups these biases into the following three major categories:[xxix] (i) **preferences**, for instance, "*where the urge for immediate gratification values the present more highly than the future;*"[xxx] (ii) **beliefs**, where decision making is based on a wrong assumption about the consumer's future or capability (e.g., overestimation of future income); and (iii) **decision-making bias,** such as "*persuasion and social influences,*"[xxxi] where consumers accent other than purely economic criteria in their decision-making process.

12. The recent trends in financial consumer protection regulation attempt to address the behavioral biases through financial consumer protection policies that are informed by behavioral economics. Behavioral economics provide a good source of information about consumers' behavior, behavioral biases, and the interactions between consumers and providers of financial products and services. Insights from this field may help policy makers to (i) better understand why consumers sometimes choose suboptimal products or services and (ii) come up with measures to create incentives for consumers to improve their decision-making process.[xxxii]

3. INSTITUTIONAL ARRANGEMENTS FOR FINANCIAL CONSUMER PROTECTION

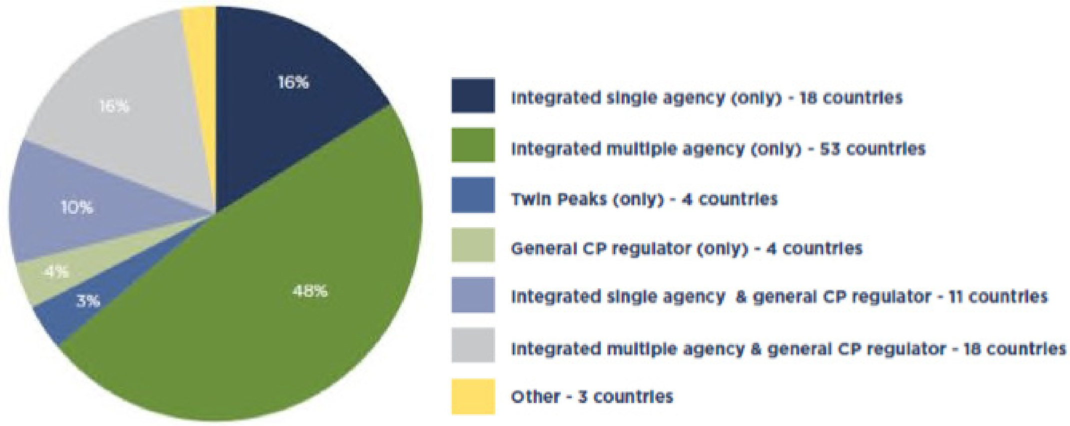
13. There is no one-size-fits-all model[xxxiii] of institutional arrangements for financial consumer protection regulation and supervision. On the contrary, different arrangements and institutional structures exist around the world, each characterized by distinct features. Whether the institutional arrangements in a given country work well depends on a complex mix of factors including the model's specific features, the structure of the national financial sector (among other things, the degree of the sector's concentration), the nature of the market participants (e.g., relatively small or large financial conglomerates, or numerous independent financial institutions), the funding structure, the political culture, and others. While these factors no doubt affect the way national institutional arrangements function in practice, it is sometimes difficult to predict exactly how those factors affect the functioning of institutions—in this context, the financial supervisory agencies—and vice versa.

14. There is not enough evidence to conclude that any specific institutional arrangements are better than others. Different models (or structures) of institutional arrangements are typically associated with specific advantages and disadvantages. Some of these are exclusive, that is, unique to specific institutional arrangements, but very often they overlap—different models of institutional arrangements being associated with similar advantages and disadvantages. Yet, in some instances, an advantage associated with one particular model becomes a disadvantage in another model (see below). Thus, even in theory there is no optimal solution, putting aside the practical issues mentioned in the previous paragraph where a disadvantage associated with a specific model may be substantially mitigated (or amplified) by country-specific factors (for instance, the turf wars associated with—but not exclusive to—the multiple-agency model described below, may be avoided in a culture of cooperation).

15. In practice, a wide range of institutional arrangements exists that combine features of different models. This note describes the most common models encountered based on a limited set of criteria (see below). However, a greater variety of models exists in practice. In fact, the institutional arrangements for financial consumer protection regulation and supervision that exist in different countries rarely follow the sharp contours of the theoretical models described in this note. For instance, the Twin Peaks model (in which the prudential and market conduct supervision roles have been separated and assigned to two distinct agencies) practically does not exist in its pure form.[xxxiv]

16. The 2013 World Bank Global Survey of 114 countries demonstrated the variety of institutional arrangements.[xxxv] This Global Survey showed that in 53 countries multiple agencies are responsible for supervising the financial sector, while there is no specialized financial consumer protection supervisor, 18 countries (16 percent of the sample) have established a mega-supervisor, that is, a single agency that is responsible for supervision and oversight of the whole financial sector as well as for prudential and market conduct supervision. Only four countries had adopted a Twin Peaks model agency.[xxxvi] In other countries surveyed, a general consumer protection agency, that is, an agency responsible for protection of consumers of different sorts of products and services (not only financial products and services) plays some role in financial consumer protection. For instance, in about a quarter of the sample's countries (26 percent), the responsibility for financial consumer protection is shared among financial supervisors and general consumer protection agencies.[xxxvii] The findings from the Global Survey are summarized in Figure 1.

Figure 1: Existing Institutional Arrangements for Consumer Protection and Financial Sector Supervision



Source: World Bank Global Survey on Consumer Protection and Financial Literacy, 2013.

3.1. Criteria for Establishing Theoretical Models

17. This note focuses exclusively on agencies responsible for regulation and supervision of the financial sector. As noted above, in many countries, a general consumer protection agency, that is, an agency responsible for protection of consumers of different sorts of products and services, including products of daily consumption such as food, has some role to play in financial consumer protection as well. However, such *general* consumer protection agencies and their specific role in *financial* consumer protection are not a particular focus of this note, although they are mentioned marginally where relevant.

18. This note uses two main criteria to distinguish and describe different models of institutional arrangements: (i) the number of agencies, and (ii) the level of integration of supervisory mandates.

19. The first criterion, as used in this note, refers to the total number of agencies involved in supervision of the financial sector, regardless of whether their mandate covers financial consumer protection or not. Based on the number of agencies involved in supervision, two models may be identified: (i) the single- agency model, and (ii) the multiple-agency model. The former refers to an institutional setting in which a single agency is responsible for supervising the financial sector. An example of the single-agency model is the Czech National Bank in the Czech Republic, which is the sole agency responsible for the supervision of the whole financial sector.[xxxviii] Other examples are Malawi (the Reserve Bank of Malawi[xxxix]) and Malaysia (the Central Bank of Malaysia[xl]). In a multiple-agency model, on the other hand, more than one agency is responsible for supervising the financial sector. Examples of the latter model are Azerbaijan (the Central Bank of Azerbaijan, the Securities and Exchange Commission, the State Insurance Supervision Service[xli]), Vietnam (the State Bank of Vietnam, the State Securities Commission, the Insurance Supervision Authority[xlii]), and Zambia (the Bank of Zambia, the Pensions and Insurance Authority, and the Securities and Exchange Commission[xliii]).

20. The second criterion, as used in this note, refers to the level of integration between the mandate for prudential supervision and the mandate for financial consumer protection. Based on the level of integration, two models may be distinguished: (i) the integrated agency model and (ii) the specialized agency model. In the integrated agency model, an agency responsible for supervision of the financial sector (or segment thereof) has responsibility for both prudential supervision and market conduct supervision. It should be noted that this classification disregards the total number of agencies involved in the supervision; in other words, the integrated agency model as defined above may exist both in countries with a single agency (e.g., the Czech Republic, where the Czech National Bank is responsible for prudential supervision as well as financial consumer protection) and in countries with multiple agencies (e.g., Azerbaijan, where the Central Bank of Azerbaijan, the Securities and Exchange Commission, and the State Insurance Supervision Service are each responsible for prudential supervision and financial consumer protection). In the specialized model, on the other hand, the mandates for prudential supervision and financial consumer protection have been separated and entrusted to independent agencies or a specialized financial consumer protection agency has been established. Countries that have adopted the Twin Peaks model provide examples of the latter model. Another example is the United States, which has an agency specialized in financial consumer protection—the Consumer Financial Protection Bureau.

21. When combining the above two criteria, three distinct practical models can be identified: (i) the single (integrated) agency model,[xliv] (ii) the multiple (integrated) agency model, and (iii) the multiple (specialized) agency model. A fourth model, the single (specialized) agency model, only exists in theory. This classification may sound complicated, but in practice is really straightforward:

- In the single (integrated) agency model only one agency is responsible for supervision of the financial sector and this very same agency has a mandate for both prudential supervision and financial consumer protection (e.g., the Central Bank of Armenia,[xlv] the Czech National Bank, and the Central Bank of Malaysia);
- In the multiple (integrated) agency model, several agencies are responsible for supervision of the financial sector and each agency's mandate covers both prudential supervision and financial consumer protection (e.g., in Azerbaijan, the Central Bank of Azerbaijan, the Securities and Exchange Commission, and the State Insurance Supervision Service); and
- In the multiple (specialized) agency model, more than one agency is responsible for supervision of the financial sector, while the mandates for prudential supervision and financial consumer protection have been separated or at least one agency exists that is specialized in financial consumer protection. Examples of this model are found in all countries that have implemented the Twin Peaks model (e.g., Australia, the Netherlands), and in countries with multiple agencies that have established a specialized agency responsible for financial consumer protection (the United States, Canada).

22. This classification of three different models of institutional arrangements for financial consumer protection is useful for the analysis of the advantages and disadvantages associated with those models, provided in section 3.2.

3.2. Models of Institutional Arrangements: Pros and Cons[xlvi]

Table 2: Institutional Arrangements in the Surveyed Countries

Country	Classification
Armenia	Single (integrated)
Indonesia	Multiple* (integrated)
Kyrgyz Republic	Multiple (integrated)
Malawi	Single (integrated)
Mongolia	Multiple (integrated)
Mozambique	Multiple (integrated)
Paraguay	Multiple (integrated)
Peru	Multiple (integrated)
Philippines	Multiple (integrated)
Rwanda	Multiple (integrated)
Tajikistan	Multiple (integrated)
Tanzania	Multiple (integrated)
Vietnam	Multiple (integrated)
Zambia	Multiple (integrated)
Zimbabwe	Multiple (integrated)

** Indonesia is effectively a single agency model with the OJK as a single supervisor.*

3.2.1. Single (Integrated) Agency Model

23. The single (integrated) agency model whereby one mega supervisory agency is responsible for supervision of the whole financial sector and its mandate covers both prudential supervision and financial consumer protection (e.g. Armenia, Malawi, Ireland, Hungary).

Table 3: Single (Integrated) Agency Model

Advantages	Challenges
Holistic view: A single agency has a more comprehensive understanding of the whole financial sector, since all subsectors (banking, insurance, capital markets, etc.) and all types of activities (e.g., lending, payments, investments) are covered by the single agency.	This advantage is weakened when the internal organization or culture of the agency does not support information sharing, coordination, and collaboration.
Economies of scale: A single authority uses a single infrastructure (buildings, physical assets, IT systems, back office).	This advantage is weakened when the single infrastructure is not used effectively, systems are not integrated or synchronized, or each organizational unit (e.g., department) uses its own back office, etc.
Funding: All funds dedicated to prudential supervision and financial consumer protection go to a single agency.	This advantage is weakened when there are not enough resources, when resources are not distributed proportionally among departments, or when resources are not spent effectively.

Disadvantages	Mitigation
No gaps and overlaps: A single agency covers the whole market and thus its powers do not overlap with those of other supervisors. Nor will there be gaps in terms of financial institutions or specific financial products and services not being supervised by the agency (e.g., bankassurance).	This advantage is weakened when gaps and overlaps are created due to ineffective internal organization leading to a lack of coordination, information sharing, and cooperation. The gaps may also result from loopholes in the legal and regulatory framework where some entities, activities, or products are exempted from the single agency's mandate by legislation (e.g., regulatory arbitrage). Also common is an overlap between the mandates of a financial supervisor and of a general consumer protection agency.
Level playing field: A single agency is responsible for the creation and interpretation of rules that apply to the entire financial sector —the same rules and supervisory benchmarks apply to the same activities (activity-based regulation, see below).	As in previous instances, this advantage may be adversely affected by insufficient internal coordination as well as loopholes in the legal and regulatory framework.
No turf wars: A single agency cannot engage in "turf wars" with other agencies.	Although a single agency does not have "a natural enemy" in terms of a competing agency, internal turf wars may still arise.
Transparency and accountability: Responsibility for any failure in supervision can be attributed to the single agency.	This advantage is weakened when insufficient governance, a complicated legal framework, or the political culture undermine transparency and accountability.
Financial conglomerates[xlvii] and activity-based supervision: A single agency is well-positioned to supervise financial conglomerates and also cover activities that do not fit the traditional classification of banking, insurance, and capital markets (e.g., bankassurance, payments, unit-linked insurance[xlviii]).	As mentioned previously, this advantage may be weakened due to ineffective information sharing, coordination, and cooperation.
One-sided perspective: Within a single agency some expertise, team, practice or benchmark may prevail (e.g., banking supervision)	First, it needs to be mentioned that focusing on a particular area is not necessarily bad—it may reflect principles of risk-based supervision (e.g., the focus lies on the risky areas). Second, this disadvantage (or rather risk) may be eliminated by implementing a proper governance structure (e.g., distribution of responsibilities for specific functions or areas of supervision among members of the board).
Conflict of interests: Integration of prudential supervision and financial consumer protection may lead to a conflict of interests between the two mandates.	This potentially important risk should be mitigated in the first place through the adoption of proper organizational and governance structures. For instance, prudential supervision should be organizationally separated from financial consumer protection. Ideally, there would also be separate reporting lines for the heads of the prudential and consumer protection teams, e.g., to different Deputy Governors in a Central Bank who would each monitor and coordinate the activities of their respective teams as appropriate and seek to avoid conflicts of interest.
Concentrated powers: All the supervisory powers are concentrated in a single agency, thus increasing the risk of abuse (e.g., forbearance policy, regulatory capture).	This risk should be mitigated by proper governance structures, public oversight (for instance, through a parliamentary committee), and reporting (e.g., mandatory publication of annual reports).

3.2.2. Multiple (Integrated) Agency Model

24. The multiple (integrated) agency model whereby multiple agencies are responsible for supervision of the financial sector and each agency's mandate covers prudential supervision and financial consumer protection (e.g. Rwanda, the Philippines, Zambia, Peru). From the perspective of financial consumer protection, the multiple (integrated) agency model is similar to the single (integrated) agency model, as prudential and financial consumer protection supervision are in both models entrusted to a single agency. However, the fact that several agencies are involved creates new challenges in terms of information sharing, coordination, and cooperation (see table 4).

Table 4: Multiple (Integrated) Agency Model

Advantages
Specialization: Each agency has a narrow focus determined by its mandate (e.g., a banking supervisor focuses on the banking sector), which may help the agency build up "deep" expertise in the area concerned.
Budget: Each agency has its own budget, which is spent to fulfill the agency's narrowly (as compared to a mega supervisor's broadly) defined mandate (e.g., banking supervision).
Accountability: A specialized agency may be easier to monitor because less activities need to be performed and less goals need to be met.
Disadvantages
Gaps and overlaps: Some sectors may be subject to oversight by multiple agencies and some may be left in the shadow zone due to inefficiently defined responsibilities (e.g., bankassurance, digital delivery of financial services).
Limited information about the whole financial sector: The supervisory agencies may not have a holistic view and understanding of the financial system.
Costliness: Each agency needs an independent infrastructure (office buildings, IT systems, etc.).
Insufficient cooperation and coordination: Effective cooperation and coordination mechanisms may be missing, leading to inefficiencies in the regulatory and supervisory framework.
Regulatory arbitrage and uneven playing field: Regulatory arbitrage is a situation where financial institutions purposively choose and keep their operations within the least regulated (and, hence, less costly) sector or under the least strict regulator. Examples of regulatory arbitrage are unit-linked insurance products, which are effectively investments, but in many jurisdictions avoid being subject to usually comprehensive capital market regulations.

3.2.3. Multiple (Specialized) Agency Model

25. The multiple (specialized) agency model whereby multiple agencies are responsible for supervision of the financial sector and the prudential supervision and financial consumer protection are separated (or at least one agency specialized in financial consumer protection exists – e.g. Australia, Belgium, the United Kingdom, the United States). Whereas the models of institutional arrangements described under 3.2.1 and 3.2.2 are both based on integration of the prudential supervision and financial consumer protection mandates, and thus share the same advantages and disadvantages characteristic of the integration, the multiple (specialized) model is different in many aspects—most significantly, new advantages and disadvantages emerge due to the separation of prudential supervision and financial consumer protection (see table 5).

Table 5: Multiple (Specialized) Agency Model

Advantages	Challenges
Mitigation of conflict of interests: potential conflict of interests between prudential and financial consumer protection mandate is mitigated due to separation of the mandates.	However, a conflict of interests may still materialize between independent agencies. Therefore, there should be a mechanism in place to resolve such a conflict. For instance, under section 31 of the Financial Services and Markets Act (*United Kingdom*), in relation to a dual-regulated firm, the Prudential Regulation Authority (PRA) may direct the Financial Conduct Authority (FCA) not to exercise its powers or not to exercise the powers in a specified manner if PRA believes that it would: (i) threaten the stability of the U.K. financial system; or (ii) result in the failure of a PRA-authorized firm that would adversely affect the U.K. financial system.
Specialization: Each agency is specialized in their respective area and at least one agency is specialized in financial consumer protection/market conduct supervision.	The biggest challenge of specialization is too narrow a focus on a specific area. This is an important challenge given that financial supervisors have a shared goal, which is financial stability.
Holistic view: Within each respective mandate, the whole market can be covered.	This is, however, more of a theoretical advantage specifically in case of an agency responsible for financial consumer protection. In practice, such an agency often does not cover the whole financial sector. For instance, the Financial Consumer Agency of *Canada* only regulates and supervises financial institutions that are regulated at the federal level.[xlix]
Independent budgeting: Resources are budgeted independently for prudential supervision and financial consumer protection.	This does not mean, however, that enough resources are provided to all agencies. In practice, an agency (or agencies) responsible for prudential supervision may be over-budgeted compared to the financial consumer protection agency or vice versa.
Accountability and transparency: Failures in each respective area (prudential supervision vs. financial consumer protection) are attributable to the responsible agency.	In practice, however, identifying which agency is responsible for a failure may not be easy. This is particularly true because of the interconnectedness of the prudential aspects of financial businesses and financial consumer protection. For instance, if consumers are being charged illegal fees, this may be a sign of failure on the part of the financial consumer protection agency, although in fact the driving force behind such mistreatment may well be the need of the financial service provider involved to solve liquidity (or even solvency) issues.
Insufficient cooperation and coordination: A lack of cooperation and coordination mechanisms (for regulation, supervision, enforcement, and information sharing) may lead to inefficiencies in supervision and financial consumer protection.	Mechanisms to address the risk of non-cooperation should be embedded in institutional arrangements. For instance, Bank Negara Malaysia and the Securities Commission Malaysia signed a Memorandum of Understanding to establish an effective collaboration and cooperation between the agencies.[l] The Central Bank of Armenia has a Memorandum of Understanding signed both with the Financial Services Mediator and the Competition Commission (two other authorities besides the CBA with impact on consumer protection in the area of financial services).[li]
"Turf wars:" Fights over more budget, political support, or public acknowledgement may lead to inefficiencies in supervision and potentially impair activities of relevant agencies.	Similarly to the previous point regarding insufficient cooperation and coordination, turf wars should be addressed by adopting mechanisms for cooperation thus creating a culture of cooperation, or changes in the legal and regulatory framework such as clarifying mandates may be needed.

4. ARRANGEMENTS FOR FINANCIAL CONSUMER PROTECTION: CHALLENGES

26. Although models of institutional arrangements for financial consumer protection vary across countries, different countries experience some common challenges regardless of their actual arrangements. Some of these challenges are described below. They have been identified through the financial consumer protection country diagnostics conducted by the WB. Although the WB has conducted more than 30 diagnostic reviews around the world up until now, this note focuses on the 15 most recent examples—six low-income countries (Malawi, Mozambique, Rwanda, Tajikistan, Tanzania, and Zimbabwe), eight lower-middle-income countries (Armenia, Indonesia, the Kyrgyz Republic, Mongolia, Paraguay, the Philippines, Vietnam, and Zambia) and one upper-middle-income country (Peru).[lii] The 15 diagnostic reviews covered either the entire financial sector or only selected parts of it (see table 6).

Table 6: Scope of World Bank Diagnostic Reviews in Selected Countries

Country	Classification	Scope of Diagnostic				
		Bank	Insurance	NBCIs	Securities	Pensions
Armenia	Lower-middle-income	X	X	X	X	
Indonesia	Lower-middle-income	X	X	X	X	X
Kyrgyz Republic	Lower middle income	X		X		
Malawi	Low-income	X	X	X	X	X
Mongolia	Lowermiddle-income	X	X		X	
Mozambique	Low-income	X		X		
Paraguay	Lower-middle-income	X	X	X		
Peru	Upper-middle-income	X	X	X		X
Philippines	Lower-middle-income	X				
Rwanda	Low-income	X	X	X		
Tajikistan	Low-income		X	X		
Tanzania	Low-income	X		X		X
Vietnam	Lower-middle-income	X	X	X	X	
Zambia	Lower-middle-income	X	X	X	X	X
Zimbabwe	Low-income	X	X	X	X	X

Source: World Bank Development Indicators (2015) and Diagnostic Reviews.

27. The most common challenge faced by most (if not all) the surveyed countries is the inadequacy of resources dedicated to financial consumer protection. In all of the surveyed countries, the WB diagnostic reports recommended that the resources and capacity to address financial consumer protection issues be strengthened. Some countries suffered from a significant shortage in the number of staff needed to undertake the focused and systematic supervision of financial consumer protection issues. In Armenia, for example, before the Consumer Rights Protection and Market Conduct Division was established as a standalone unit, the predecessor team that looked after financial consumer protection issues had only had four staff members and inadequate resources to achieve the Central Bank's consumer protection objectives.

28. Some countries have found ways to address the lack of resources, notwithstanding the difficulty of this issue. For instance, by obtaining assistance from other units within an organization, as has been done in Armenia. The Central Bank of Armenia (CBA) hired more staff to deal with financial consumer protection and established a Consumer Protection and Market Conduct Division, which leverages the capacity of other units. More specifically, the Division closely cooperates with the prudential Banking Supervision Department, and the financial consumer protection supervision functions are partially carried out by the prudential supervisors on the basis of detailed market conduct manuals and adequate training.[liii]

29. One of the frequently experienced challenges is the lack of a well-articulated mandate for financial consumer protection regulation and supervision. An agency's mandate is its legal authority to carry out its assigned functions in order to achieve defined objectives and therefore it is important that the mandate be clearly defined. This allows the agency to operate effectively and be held accountable for its performance. Formally laying down the agency's objectives, functions, and mandate in legislation provides an agency with the necessary legal authority to act, and imbues its activities with democratic legitimacy. The mandate should be appropriately comprehensive so that loopholes that could create regulatory arbitrage are avoided.

30. In some of the examined countries, an expressly formulated mandate for financial consumer protection was missing. On the other hand, Indonesia's principal prudential and consumer protection regulator and supervisor for the financial sector, the *Otoritas Jasa Keuangan* (OJK, Financial Services Authority) has a mandate that expressly includes consumer protection. Article 4(c) of the OJK Law states that: *"The Financial Services Authority is established with the objectives that the entire activities of the financial services sector: … can protect the interests of Consumers and the public."* This formulation is consistent with the strong policy focus that the Indonesian authorities have placed on financial consumer protection.[liv]

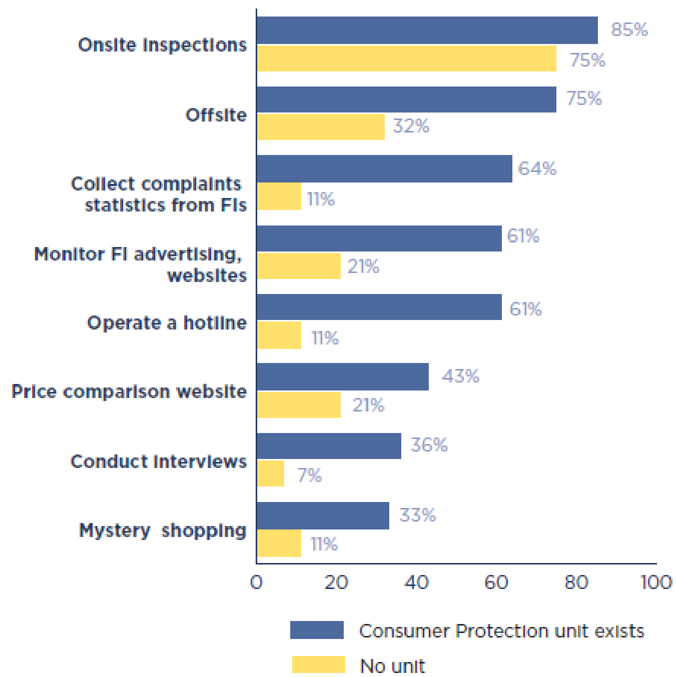
31. Yet, as the recommendations from the diagnostics show, the WB often concluded that the mandate for financial consumer protection needed strengthening or clarification. In the Philippines, at the time of the WB's diagnostic review in September 2013, the Bangko Sentral ng Philipinas (BSP) did not have an explicit mandate in relation to financial consumer protection. Although the Financial Consumer Affairs Group (FCAG) within the BSP provided some assistance in raising consumer protection issues, it lacked the power to investigate banks, conduct onsite and offsite supervision, or impose sanctions. Significant progress has been made since then as BSP adopted a new financial consumer protection framework in May 2014 and reformed the FCAG into a separate department specifically charged with consumer protection.

32. Another challenge commonly identified in the diagnostic reviews was overlapping or conflicting responsibilities of multiple agencies involved in financial consumer protection. This often resulted from uncoordinated changes in the legal and regulatory framework and institutional arrangements. A typical scenario is the following: a country with a general consumer protection law and a general consumer protection agency expands consumer protection legislation by adopting new rules specifically protecting financial consumers (e.g., by adding provisions regarding consumer credit); further, the mandate of one or more financial sector supervisors may be expanded to cover the financial consumer protection agenda without sufficiently clarifying how the responsibilities for the protection of financial consumers should be split between the general consumer protection agency and the financial sector supervisor(s), resulting in overlaps in the mandates and confusion.

33. The WB has been consistently recommending clarification of mandates in the case of overlaps or uncertainty regarding a mandate.[lv] For instance, in Indonesia, the WB recommended clarifying overlaps that exist between the financial consumer protection regulation enforced by the OJK and the general Consumer Law, which is implemented under supervision of the Ministry of Trade and also applies to the financial sector. In Peru, steps have been taken to coordinate the mandate of the *Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual* (INDECOPI, National Institute for Protection of Competition and Intellectual Property) and the *Superintendencia de Banca, Seguros y AFP* (SBS, Superintendence of Banking, Insurance and Pensions). INDECOPI deals with consumer complaints in the financial sector on the basis of existing consumer protection laws, which it enforces (such as the Consumer Protection Code and the General Law), whereas the SBS has the primary responsibility for setting rules for the supervision of financial institutions, banks, insurance companies, pension funds, and microfinance institutions. To ensure mutual cooperation, the INDECOPI and SBS have signed a memorandum of understanding and regularly hold meetings together.

34. Further, the WB has recommended strengthening the independence of prudential supervision and financial consumer protection teams—both externally and internally—and building specific expertise in financial consumer protection supervision. This independence and expertise may take different forms and reach different levels (for instance, an independent team, an independent unit, a specialized agency[lvi]). The Global Survey shows that agencies with an independent and specialized financial consumer protection unit more frequently implement supervisory tools that are better suited to financial consumer protection supervision (see figure 2). Further, such independence may facilitate the management of potential conflicts of interests, independent budgeting, and supervision planning.

Figure 2: Financial Consumer Protection Tools (Agencies with a Specialized Unit)



Note: For 100 agencies with responsibility for financial consumer protection in 2013.

Source: World Bank Global Survey on Consumer Protection and Financial Literacy, 2013

35. In Armenia, in line with recommendations from the WB's diagnostic survey, the Consumer Rights Protection and Market Conduct Division within the CBA was created as a standalone unit. This division is specifically charged with regulatory, supervisory, educational, and complaints handling functions in relation to consumer protection matters, based on the CBA's objective *"to ensure essential conditions for the protection of rights and interests of the financial system consumers."*[lvii]

36. Peru provides another useful example of internal separation of the financial consumer protection unit from the prudential supervision. The SBS has the mandate to deal with both the prudential and market conduct/consumer protection issues with regard to banks, microfinance institutions, insurers, and private pension funds. In 2006, the SBS created a discrete unit, the *Gerencia de Productos y Servicios al Usuario* (GPU, Products and User Services Office), which was specifically charged with consumer protection functions, including regulation, market conduct supervision, financial education, and financial inclusion. However, despite the GPU being charged with the consumer protection and market conduct supervision functions, consumer protection responsibilities for private pensions (especially supervision, enforcement, and complaints handling responsibilities) were still being undertaken by the *Superintendencia Adjunta de Administradoras Privadas de Fondos de Pensiones y Seguros* (Deputy Superintendency for Private Pensions and Insurance). Following recommendations of the World Bank's diagnostic report in November 2013, the responsibilities for consumer protection of private pensions were transferred from the Deputy Superintendency for Private Pensions and Insurance to GPU, which means that the market conduct and prudential supervisory functions are now completely separated across all sectors. Moreover, the GPU's legal status within SBS has also been elevated: it is now a deputy superintendence (that is, a more senior division within the organizational hierarchy) and has been renamed the *Superintendencia Adjunta de Conducta de Mercado e Inclusión Financiera* (Market Conduct and Financial Inclusion Deputy Superintendency).

37. The final challenge identified through the diagnostic reviews is the need for better cooperation between multiple agencies and within an agency. Properly established mechanisms for coordination and cooperation can improve the effectiveness of institutional arrangements for financial consumer protection in different ways. Most significantly, cooperation helps bridge gaps in knowledge (information sharing), leverage resources (for example, the Armenian Consumer Rights Protection and Market Conduct Division that use the capacity of the prudential supervisors), and reduce gaps, overlaps, and inconsistencies created by the legal and regulatory framework. Still, many of the surveyed countries have been struggling to establish adequate mechanisms for cooperation and coordination between the relevant agencies.

38. There are also examples of different forms of cooperation between agencies. A common form of cooperation is the memorandum of understanding (MoU). In Armenia, a complex MoU has been concluded between CBA and the State Commission for the Protection of Economic Competition, which is responsible for general consumer protection. The proactive approach to negotiating this MoU has contributed significantly to mitigating any potential conflicts between the two agencies. Similarly, in Peru, a MoU between SBS and INDECOPI governs the cooperation between the two institutions in relation to the exercise of their respective powers and functions. Finally, in Australia, an MOU has been signed by the market conduct regulator (the Australian Securities and Investment Commission) and the prudential regulator (the Australian Prudential Regulatory Authority).[lviii]

39. A central steering body that coordinates the activities of the different stakeholders involved in financial consumer protection is another form of cooperation. In the Philippines, the National Consumers Affairs Council (NCAC) was established to rationalize and coordinate the activities of all Philippine agencies charged with consumer protection. In Tanzania, active steps are being taken to achieve coordination between the relevant financial sector agencies through the Financial Sector Forum. In Malawi, the Consumer Protection Act provides for the creation of a Consumer Protection Council that is to coordinate the various initiatives in the area of consumer protection, but it should be noted that this Council has not yet been formed.

40. The Appendix provides a comprehensive overview of institutional arrangements for financial consumer protection in the 15 surveyed countries. This overview reflects institutional arrangements in a broad sense and includes financial sector supervisory agencies, other public authorities, industry associations, and consumer associations as described in the CPFL diagnostics.

Appendix. Institutional Arrangements in Selected Countries

Country	Institutional Model	Financial Sector Supervisor and Regulator	Other Public Authority	Industry Association	Consumer Association
Armenia	Single (integrated)	Central Bank of the Republic of Armenia (CBA)	Armenian Motor Insurers Bureau	Union of Armenian Banks	Financial Banking College Foundation
			Ministry of Education and Science	Union of Credit Organizations of the Republic of Armenia	Pension System Awareness Center Foundation
			National Institute of Education of the Ministry of Education	Association of Mortgage Market Participants of Armenia	Protection of Consumers' Rights NGO
			State Inspectorate on Market and Consumer Interests Protection of the Ministry of Economy	Consulting Center of Credit Organizations of Armenia	National Association of Consumers
			Financial System Mediator	Association of Insurers	Junior Achievement NGO
			State Commission for the Protection of Economic Competition		
Indonesia	Multiple* (integrated)	*Otoritas Jasa Keuangan* (OJK)	National Consumer Protection Council (NCPC)	Multiple industry associations across the financial sector	
		Bank of Indonesia (BI)			
		Ministry of Cooperatives and SMEs	Ministry of Trade		
		Provincial government authorities			

Country	Institutional Model	Financial Sector Supervisor and Regulator	Other Public Authority	Industry Association	Consumer Association
Kyrgyz Republic	Multiple (integrated)	National Bank of the Kyrgyz Republic (NBKR) Ministry of Finance	State Anti-Monopoly Agency (AMA) Deposit Insurance Agency	Union of Banks of the Kyrgyz Republic	Association for Financial Inclusion
		State Service for Regulation and Supervision of the Financial Market	Deposit Insurance Agency	Association of Microfinance Institutions (AMFI)	A small number of consumer protection organizations
Malawi	Single (integrated)	Reserve Bank of Malawi	Competition and Fair Trading Commission	Bankers Association of Malawi (BAM)	Consumers Association of Malawi (CAMA)
			Consumer Protection Council	Malawi Microfinance Network (MAMN)	
			About 40 Local Authorities	Malawi Union of Savings and Credit Cooperatives (MUSCCO) Insurance Industry Association of Malawi Life and Pensions Insurance Association Financial Markets Dealers Association in Malawi (FIMDA)	
Mongolia	Multiple (integrated)	Bank of Mongolia (BoM)	Agency for Fair Competition and Consumer Rights (AFCCR)	Mongolian Bankers Association (MBA)	Mongolian Consumers Association (MCA)
		Financial Regulatory Commission (FRC)		Association of Mongolian Insurers (AMI) Mongolian Association of Securities Dealers (MASD)	
Mozambique	Multiple (integrated)	Bank of Mozambique (BDM)	Ministry of Trade and Industry	Mozambican Association of Banks (AMB)	DECOM
		Insurance Supervisory Institute (ISSM)	Public Prosecutor	Mozambican Association of Micro Finance Operators (AMOMIF)	ProConsumers
			Consumer Institute	Banking Training Institute of Mozambique	

Country	Institutional Model	Financial Sector Supervisor and Regulator	Other Public Authority	Industry Association	Consumer Association
Paraguay	Multiple (integrated)	Banco Central del Paraguay Comisión Nacional de Valores	*Superintendencia de Bancos* (Banking Superintendency) (BCP-SIB)	*Asociación de Entidades Financieras* (Association of Finance Companies)	*Asociación de Usuarios y Consumidores de Paraguay* (Association of Users and Consumers of Paraguay)
			Superintendencia de Seguros (Insurance Superintendency) (BCP-SIS)	*Asociación de Bancos* (Association of Banks)	
			Intendencia de Inclusión Financiera (Financial inclusion Intendency)	*Asociación Paraguaya de Compañía de Seguros* (Paraguayan Association of Insurance Companies)	
			Ministerio de Industria y Comercio (Ministry of Industry & Commerce)	*Confederación Paraguaya de Cooperativas* (Cooperatives Cooperation of Paraguay)	
			Secretaría de Defensa al Consumidor (Secretariat for Consumer Protection) (SEDECO)		
Peru	Multiple (integrated)	Superintendence of Banking, Insurance and Private Pension Funds (SBS)	National Institute for Defense of Competition and Protection of Intellectual Property (INDECOPI)	ASBANC (The Bank Association)	
				Association of Microfinance Institutions of Peru (ASOMIF)	
		Comisión Nacional Supervisora de Empresas y Valores	National Consumer Protection Council	Peruvian Association of Insurance Companies (APESEG)	
				National Federation of Savings and Loans Cooperatives (FENACRE)	
Philippines	Multiple (integrated)	Central Bank of Philippines (CBP)	National Consumer Affairs Council (NCAC)	Bankers Association of Philippines (BAP)	Financial Consumer Affairs Group (FCAG)
		Insurance Commission (IC)	Office for Competition (OFC) at Department of Justice		
		Securities and Exchange Commission (SECP)	Philippine Deposit Insurance Commission (PDIC)	Microfinance Council of the Philippines	Inclusive Finance Advocacy Group
		Corporative Development Authority (CDAP)	Department of Trade and Industry (DTIP)		

Country	Institutional Model	Financial Sector Supervisor and Regulator	Other Public Authority	Industry Association	Consumer Association
Rwanda	Multiple (integrated)	National Bank of Rwanda (NBR) Rwanda Cooperative Agency (RCA) Capital Market Authority	Ministry of Finance and Economic Planning (MINECOFIN)	Association of Microfinance Institutions in Rwanda (AMIR) Rwanda Bankers Association (RBA) *Association des Assureurs du Rwanda* (ASSAR)	Rwanda Consumer's Rights Protection Organization (ADECOR)
Tajikistan	Multiple (integrated)	National Bank of Tajikistan (NBT) State Insurance Supervision Service (SISS)	Antimonopoly Agency (AMA)	Association of Banks of Tajikistan (ABT) Association of Microfinance Organizations in Tajikistan (AMFOT)	
Tanzania	Multiple (integrated)	Bank of Tanzania (BOT) Registrar of Cooperatives in Ministry of Agriculture, Food Security and Cooperatives Social Security Regulatory Authority	Fair Competition Commission (FCC)	Tanzania Bankers Association (TBA) Tanzania Association for Micro Finance (TAMFI) Savings and Credit Cooperative Union League of Tanzania (SCCULT)	Tanzania Consumer Advocacy Society (TCAS)
Vietnam	Multiple (integrated)	State Bank of the Socialist Republic of Vietnam (SBV) State Securities Commission (SSC) Insurance Supervisory Authority (ISA)	Ministry of Finance Vietnam Competition Authority (VCA)	Rotating Savings and Credit Association (ROSCA) A number of other industry associations	Vietnam Standards and Consumers Association (VINASTAS)

Country	Institutional Model	Financial Sector Supervisor and Regulator	Other Public Authority	Industry Association	Consumer Association
Zambia	Multiple (integrated)	Bank of Zambia (BOZ)	Competition and Consumer Protection Commission (CCPCZ)	Association of Microfinance Institutions of Zambia (AMIZ)	
		Securities and Exchange Commission of Zambia (SECOZ)	Competition and Consumer Tribunal (CCTZ)	Bankers Association of Zambia (BAZ)	
		Pension and Insurance Authority (PIAZ)	Competition and Consumer Protection Commission of Zambia (CCPCZ)	Insurers Association of Zambia (IAZ)	
			Ministry of Finance and National Planning (MOFNPZ)	Insurance Brokers Association of Zambia (IBAZ)	
			Ministry of Agriculture (MOAZ)	Zambian Association of Pension Funds (ZAPF)	
				Zambia Cooperative Federation (ZCF)	
				Insurance Institute of Zambia (IIZ)	
Zimbabwe	Multiple (integrated)	Reserve Bank of Zimbabwe (RBZ)	Competition Authority of Zimbabwe (CAZ)	Bankers Association of Zimbabwe (BAZ)	Consumer Council of Zimbabwe (CCZ)
		Insurance and Pensions Commission (IPEC)	Competition and Tariff Commission (CTC)	Credit Providers Association of Zimbabwe (CPAZ)	
		Securities and Exchange Commission (SECZ)	Ministry of Finance	Insurance Council of Zimbabwe (ICZ)	
				Life Offices Association of Zimbabwe (LOAZ)	
				Zimbabwe Association of Microfinance Institutions (ZAMBFI)	
				Zimbabwe Association of Insurance Brokers (ZIBA)	
				Association of Funeral Assurers (ZAFA)	
				National Association of Cooperative Savings and Credit Unions	
				Building Societies Association	

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12) The Republic of the Philippines: Diagnostic Review of Consumer Protection in the Banking Sector, Vo. I (World Bank, 2014), available at http://responsiblefinance.worldbank.org/~/media/GIAWB/FL/Documents/Diagnostic-Reviews/Philippines-CP-DiagReview-Banking-Volume-I-FINAL.pdf.

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14) Vietnam: Diagnostic Review of Consumer Protection and Financial Literacy, Vol. I & II (World Bank, forthcoming)

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Endnotes:

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Financial Inclusion and Development: Recent Impact Evidence (CGAP, 2014), available at http://www.cgap.org/sites/default/files/FocusNote-Financial-Inclusion-and-Development-April-2014.pdf (last visited on May 14, 2015);
Burgess, Rohini: Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment (2002), available at www.imf.org/external/np/res/seminars/2002/poverty/rbrp.pdf (last visited on July 20, 2015);
The Economic Impact of Expanding Access to Finance in Mexico (World Bank, 2009), available at www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2010/04/14/000333037_20100414013416/Rendered/PDF/540060BRI0Impa10Boc345635B01PUBLIC1.pdf (last visited on July 20, 2015);
From Pawn Shops to Banks. The Impact of Formal Credit on Informal Households (World Bank, 2010), available at http://siteresources.worldbank.org/INTFR/Resources/ClaudiaRuiz.pdf (last visited on July 20, 2015).
[ii] See The Global Findex Database 2014, Measuring Financial Inclusion Around the World (World Bank, 2015), available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/04/15/090224b082dca3aa/1_0/Rendered/PDF/The0Global0Fin0ion0around0the0world.pdf#page=3 (last visited on May 14, 2015).
[iii] See, Good Practices for Financial Consumer Protection (World Bank, 2012), available at http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/Good_Practices_for_Financial_CP.pdf (last visited on May 14, 2015);
Making Sense of Financial Capability Surveys around the World – A Review of Existing Financial Capability ad Literacy Measurement Instruments, World Bank, 2013. Available at http://responsiblefinance.worldbank.org/~/media/GIAWB/FL/Documents/Publications/Review-of-Existing-Financial-Capability;
Consumer protection: Leveling the playing field in financial inclusion (AFI, 2010), available at http://www.afi-global.org/sites/default/files/publications/afi_policynote_consumerprotection_en128.pdf (last visited on May 19, 2015).
[iv] Financial consumer protection should be further complemented by financial capability initiatives. Financial consumer protection regulation helps create a framework for interactions between consumers and financial businesses. However, in these interactions, consumers should play an active role, which is only possible if consumers understand financial products and services before buying them, understand their rights and obligations as consumers, and understand how to exercise these rights and obligations.
[v] Good Practices for Financial Consumer Protection (World Bank, 2012), available at http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/Good_Practices_for_Financial_CP.pdf (last visited on May 14, 2015).
[vi] The note builds on findings from the Global Survey, the Good Practices for Financial Consumer Protection, international best practices as formulated by international standard-setting bodies, literature and academic research on the subject, as well as more than 30 country diagnostics conducted by the WB in recent years. References to all sources quoted and materials utilized can be found at the end of this note. The report does not intend to suggest or prove new concepts, nor does it recommend or promote any specific model of institutional arrangements for financial consumer protection, as there is no one-size-fits-all model. Instead, it combines and synthetizes the available research material with the diagnostic reviews conducted by the WB as well as lessons learned from technical assistance provided by the WB to client countries.
[vii] See, for example, Institutional Structure of Financial Regulation and Supervision: The Basic Issues, 4 (World Bank, 2006). Please note that this is a rather narrow definition of institutional arrangements. In theory, it is also possible to talk about institutional arrangements in a broad sense—that is, the relations between, and the functioning of, all of the institutions involved in the implementation of financial consumer protection: financial regulators and supervisors, a general consumer protection agency, a competition authority, a private data protection agency, a telecommunications agency, self-regulatory organizations (SROs), industry associations, consumer associations, other non-governmental organizations such as advisory groups for over-indebted people, educational institutions, judiciary, and the media.
[viii] See, e.g., Good Practices for Financial Consumer Protection, 29 (World Bank, 2012), available at http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/Good_Practices_for_Financial_CP.pdf (last visited on May 14, 2015) and the G20 High-Level Principles on Financial Consumer Protection; Effective Approaches to Support the Implementation of the G20 High-Level Principles on Financial Consumer Protection, available at www.oecd.org/finance/financial-education/g20-oecd-task-force-financial-consumer-protection.htm (last visited on May 13, 2015).
[ix] See, e.g., Global Financial Crisis, Financial Contagion and Emerging Markets (IMF, 2012).

[x] See, e.g., G20 High-Level Principles on Financial Consumer Protection; Effective Approaches to Support the Implementation of the High-Level Principles (G20), available at www.oecd.org/finance/financial-education/g20-oecd-task-force-financial-consumer-protection.htm (last visited on May 13, 2015); Consumer Finance Protection with Particular Focus on Credit (FSB, 2011), available at www.financialstabilityboard.org/wp-content/uploads/r_111026a.pdf?page_moved=1 (last visited on May 19, 2015);
Dias: Implementing Consumer Protection in Emerging Markets and Developing Economies (CGAP, 2013).
[xi] Dias: Implementing Consumer Protection in Emerging Markets and Developing Economies (CGAP, 2013), available at http://www.cgap.org/sites/default/files/TG-Implementing-Consumer-Protection-August-2013.pdf (last visited on May 14, 2015.
[xii] See Global Survey on Consumer Protection and Financial Literacy: Oversight Frameworks and Practices in 114 Economies (World Bank, 2014), available at http://responsiblefinance.worldbank.org/~/media/GIAWB/FL/Documents/Publications/CPFL-Global-Survey-114econ-Oversight-2014.pdf.
[xiii] Consumer Protection Laws and regulations in Deposit and Loan Services (World Bank, 2011), available at http://www.cgap.org/sites/default/files/CGAP-Consumer-Protection-Laws-and-Regulations-in-Deposit-and-Loan-Services-Jan-2011.pdf (last visited on May 14, 2015); Consumer Protection and Financial Literacy: Lessons from Nine Country Studies (World Bank, 2010), available at http://siteresources.worldbank.org/INTECAREGTOPPRVSECDEV/Resources/WorkingPaper_CPFL_Feb10.pdf (last visited on Monday 14, 2015).
[xiv] See, e.g., Good Practices for Financial Consumer Protection (World Bank, 2012); and
G20 High-Level Principles on Financial Consumer Protection (G20, 2011), available at http://www.oecd.org/daf/fin/financial-markets/48892010.pdf (last visited on May 14, 2015).
[xv] For more information, see, e.g., Good Practices for Financial Consumer Protection (World Bank, 2012);
G20 High-Level Principles for Financial Consumer Protection;E. Duke: The systemic importance of consumer protection (2009); Implementing Client Protection in microfinance (Center for Financial Inclusion, 2011); The Client Protection Principles (the Smart Campaign), available at www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles (last visited on May 14, 2015); Consumer Protection Regulation in Low-Access Environments: Opportunities to Promote Responsible Finance.
[xvi] Chapter 7 and Chapter 9(48) of the Regulation on Publication of Information by Banks, Credit Organizations, Insurance Companies, Insurance Brokers, Investment Companies, Asset management Companies, Central Depository and Payment and Settlement Organizations Implementing Money Remittances.
[xvii] Article 133AC(2) of the National Consumer Credit Protection Act of 2010.
[xviii] Philippine Truth in Lending Act, Republic Act 3765.
[xix] Article 13 and Article 18 of the Regulation on Transparency of Information.
[xx] Sec. 1031(c) of the Dodd-Frank Act.
[xxi] See the European Commission's Discussion Paper for the amendment of the Directive 87/102/EEC concerning consumer credit, available at: http://ec.europa.eu/consumers/archive/cons_int/fina_serv/cons_directive/cons_cred1a_en.pdf (last visited on May 14, 2015).
[xxii] See: www.fos.org.au.
[xxiii] See: www.ombudsfin.be.
[xxiv] See: www.obsi.ca.
[xxv] See: www.financialombudsman.ie.
[xxvi] See: www.banking.org.za.
[xxvii] See: www.financial-ombudsman.org.uk.
[xxviii] See, e.g., Innovation in Retail Payments Worldwide: A Snapshot (World Bank, 2012), available at http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/282044-1323805522895/Innovations_in_retail_payments_worldwide_consultative_report%2810-17%29.pdf (last visited on May 14, 2015).
[xxix] Issues Paper on Conduct of Business Risk and its Management, 12 (IAIS, forthcoming), a draft available at http://hb.betterregulation.com/external/Draft_COB_risks_Issues_Paper.pdf (last visited on May 14, 2015).
[xxx] *Id.*
[xxxi] *Id.*
[xxxii] See, e.g., Applying Behavioral Insights in Consumer Protection Policy (CGAP, 2014), available at www.cgap.org/sites/default/files/Focus-Note-Applying-Behavioral-Insights-in-Consumer-Protection-Policy-Jun-2014.pdf (last visited on May 13, 2015).
[xxxiii] This section uses the term "models of institutional arrangements" (rather than simply institutional arrangements) to emphasize the fact that these are theoretical models that are unlikely to exist in practice in their pure form, as described in this section.
[xxxiv] In the authors' view, the country with a model closest to the pure Twin Peaks model is Australia, followed the Netherlands, the United Kingdom, and Belgium. While the institutional arrangements in Canada and the United States have embraced some important features of the Twin Peaks model (specifically the existence of a specialized agency dedicated to financial consumer protection), in practice they can be labeled hybrid at best.

[xxxv] Please note that the Global Survey was conducted in the form of self-assessment, that is, answers to the survey questions were provided by the queried authorities and only partially verified by the World Bank team. Consequently, the data may not be exhaustive.

[xxxvi] In fact, the total number of twin-peaks countries is higher, including Australia, Belgium, Canada, the Netherlands, the United Kingdom, and (soon) the South Africa. Canada and the United States of America has implemented models that combine features of the twin peaks: Canada has established a dedicated Financial Consumer Agency of Canada (FCAC), whose task is *"to supervise federally regulated financial institutions to ensure that they comply with federal consumer protection measures"*. The U.S. has established a Consumer Financial Protection Bureau "*to protect consumers by carrying out federal consumer financial laws*". See, for example, The "Twin Peaks" Regulatory Model: The Future of Financial Regulation? (Banking Today, 2014), available at http://www.law.hku.hk/aiifl/wp-content/uploads/2014/09/Twin-Peaks.pdf (last visited on May 13, 2015); Reform of the Belgian financial supervisory structure, introduction of the Twin Peaks model in Belgium (World Services Group, 2011), available at http://www.worldservicesgroup.com/publications.asp?action=article&artid=3839 (last visited on May 13, 2015); The Structure of Financial Supervision: Approaches and Challenges in a Global Marketplace (Group of Thirty, 2008), available at http://www.group30.org/images/PDF/The%20Structure%20of%20Financial%20Supervision.pdf (last visited on May 13, 2015); Recent developments in supervisory structures in the EU member states (2007-2010) (ECB, 2010), available at www.ecb.europa.eu/pub/pdf/other/report_on_supervisory_structures2010en.pdf (last visited on May 13, 2015); FCAC' s website: www.fcac-acfc.gc.ca/Eng/about/Pages/OurManda-Notreman.aspx; CFPB's website: www.consumerfinance.gov/the-bureau/.

[xxxvii] Global Survey on Consumer Protection and Financial Literacy: Oversight Frameworks and Practices in 114 Economies (World Bank, 2014), available at http://responsiblefinance.worldbank.org/~/media/GIAWB/FL/Documents/Publications/CPFL-Global-Survey-114econ-Oversight-2014.pdf.

[xxxviii] See the Czech National Bank's website: www.cnb.cz/en/supervision_financial_market/index.html.

[xxxix] See the Reserve Bank of Malawi's website: www.rbm.mw/default.aspx

[xl] See the Central Bank of Malaysia's website: www.bnm.gov.my/index.php?ch=en_about&pg=en_intro&ac=641&lang=en.

[xli] See Azerbaijan: Technical Note on Consumer Protection and Financial Literacy, Vol. II (World Bank, 2009), available at http://responsiblefinance.worldbank.org/~/media/GIAWB/FL/Documents/Diagnostic-Reviews/AZ_CPFL_VolII_EN.pdf (last visited on May 15, 2015).

[xlii] Vietnam: Diagnostic Review of Consumer Protection and Financial Literacy, Vol. II (World Bank, forthcoming).

[xliii] See The Republic of Zambia: Diagnostic Review of Consumer Protection and Financial Literacy, Vol. II (World Bank, 2012), available at http://responsiblefinance.worldbank.org/~/media/GIAWB/FL/Documents/Diagnostic-Reviews/Zambia-CPFL-Good-Practices.pdf (last visited on May 15, 2015).

[xliv] The single agency model is, by definition, integrated because no other agency is involved in supervision of the financial sector and financial consumer protection. This also explains why the single (specialized) agency model does not exist in practice, since specialization implies multiple agencies.

[xlv] See the Central Bank of Armenia's website: www.cba.am/EN/SitePages/Default.aspx.

[xlvi] Please note that the list of advantages and disadvantages associated with a particular model of institutional arrangements is not exhaustive; it has been compiled based on previously published research studies, informal interviews with different stakeholders, and the authors' judgment. Also, please note that the advantages and disadvantages associated with one particular model are not exclusive to that model, that is, there is an overlap of advantages and disadvantages associated with multiple models. Finally, it is essential to note that in practice there may be exceptions, due to the multiplicity of factors that affect the actual functioning of supervisory agencies, as pointed out earlier. For instance, a disadvantage described for a particular (theoretical) model may not materialize in practice, once the model has been implemented. This can be due to different factors such as the adoption of mitigating policies (e.g., measures to strengthen governance structures), specific elements of the political culture (e.g., a strong preference for collaboration rather than competition), or external factors (e.g., the influence of large international corporations and their corporate culture).

[xlvii] A financial conglomerate is *"any group of companies under common control or dominant influence, including any financial holding company, which conducts material financial activities in at least two of the regulated banking, securities or insurance sectors."* See Principles for the supervision of financial conglomerates, 5 (BIS, 2012), available at www.bis.org/publ/joint29.pdf (last visited on May 15, 2015).

[xlviii] Unit-linked insurance is an insurance policy that combines features of a collective investment product. Typically, a policyholder purchases an insurance policy together with units that represent investment value and act as an investment vehicle—that is, the value of units may appreciate or depreciate over time.

[xlix] See the Financial Consumer Agency of Canada's website: www.fcac-acfc.gc.ca/Eng/about/Pages/Whowereg-Entitsrg.aspx.

[l] See http://www.bnm.gov.my/index.php?ac=2694&ch=en_press&pg=en_press_all.

[li] Armenia: Diagnostic Review of Consumer Protection and Financial Literacy, Vol. II, 5 (World Bank, 2012), available at http://responsiblefinance.worldbank.org/~/media/GIAWB/FL/Documents/Diagnostic-Reviews/Armenia_CPFL_Vol_II_final.docx (last visited on June 11, 2015).
[lii] The Little Data Book on Financial Inclusion (World Bank, 2015).
[liii] Jaeger, Prigozhina: Market Conduct Supervision in Small Countries: The Case of Armenia (World Bank, 2013), available at http://responsiblefinance.worldbank.org/~/media/GIAWB/FL/Documents/Publications/Market-Conduct-Supervision-in-Small-Countries-Armenia.pdf (last visited on May 18, 2015).
[liv] Five Pillars of Indonesia's National Strategy for Financial Inclusion.
[lv] For instance, Indonesia, Peru, the Philippines, Rwanda, Vietnam, and Zambia.
[lvi] See, e.g., Implementing Consumer Protection in Emerging Markets and Developing Economies: A Technical Guide for Bank Supervisors (CGAP, 2013), available at www.cgap.org/sites/default/files/TG-Implementing-Consumer-Protection-August-2013.pdf (last visited on May 15, 2015).
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