

Action Plan for Strengthening Financial Services Consumer Protection in Azerbaijan

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Abbreviations & Acronyms

AKIA	Azerbaijan Credit Union Association
AmCham	American Chamber of Commerce in Azerbaijan
AMFA	Azerbaijan Micro-finance Association
ASIC	Australian Securities and Investments Commission
CBA	Central Bank of Azerbaijan
CD Center	Azerbaijan Community Development Research, Training and Resource Center
EU	European Union
FSA	UK's Financial Services Authority
IFC	International Finance Corporation
MFC	Microfinance Centre
MOF	Ministry of Finance
NGO	Non-government organization
OECD	Organisation for Economic Co-operation and Development
PCU	Project Coordination Unit
SCS	State Committee for Securities
SECO	State Secretariat for Economic Affairs
SISD	State Insurance Supervision Department
UK	United Kingdom
USA	United States of America
USAID	United States Agency for International Development

Section I

Legal and Regulatory Issues

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1. The following Action Plan is based on the Technical Note on Consumer Protection and Financial Literacy in Azerbaijan, as prepared by The World Bank in June 2009. The Action Plan focuses on Legal and Regulatory Issues of the Key Findings and Recommendations, as listed in the Technical Note, proposing specific actions to be undertaken by Azerbaijani authorities, financial institutions and consumer organizations so that consumer protection is strengthened and made more effective and efficient. The Action Plan should be the base upon which specific legal changes should be drafted and against which their implementation should be evaluated.

I. Background

2. Beside the Technical Note itself, the Action Plan draws on best international practices and experiences of regulators and supervisors that have tried to introduce improved consumer protection in their countries. It should also be noted that a well balanced consumer protection regime serves also the interest of financial institutions as it provides them with better-informed clients and also makes sure that clients understand their obligations under the contracts they signed.
3. When recommendations to upgrade legal provisions are made throughout this Action Plan, Annex I of the Technical Note on Consumer Protection and Financial Literacy in Azerbaijan (EU Directives on Financial Consumer Protection & Applicable Azerbaijani Laws) should be taken into account, as it includes law-specific recommendations and references.
4. The Action Plan is divided into five parts that cover the key areas based on the recommendations of the Technical Note:
 - A. Legal Mandate
 - B. Effective Supervision and Regulation
 - C. Disclosure of Information
 - D. Business Practices
 - E. Dispute Resolution

II. Specific actions to be undertaken

Legal Mandate

5. All countries historically based their supervision of financial markets on prudential supervision, the primary mission of the supervisors being the need to maintain the stability of the financial sector, as unstable financial sector (especially the banking industry) may have major influence on political stability in the country and can also negatively impact the country's international image.
6. However, as retail usage of financial products grew (hand in hand with the complexity of financial products available to the general public), experience in many countries showed that treating customers fairly is as important as stability of the financial sector in the financial sector's perception by the public. Therefore, prudential supervision has been joined by market conduct supervision, and market conduct rules have started to play a more significant role in the newly drafted financial market legislation, both internationally and nationally.
7. To make sure that both the public and the financial sector understand that the country takes market conduct issues seriously, the state should unequivocally declare the importance of consumer protection in financial services and its willingness to promote proper market conduct. Therefore, the mission of all Azerbaijani financial market supervisors should be amended – in relevant laws describing their role – to define their role as banking / capital markets / insurance supervisor of market stability **and** market conduct. Furthermore, the laws should also define the responsibility of the supervisors for consumer protection in the areas defined later in this Action Plan. As the banking sector in Azerbaijan covers most retail financial needs of the population, the CBA should be the most active in proposing the relevant changes, using its resources and regulatory impact to steer the financial industry and coordinate the actions of other relevant supervisors so that the regulation is coherent and builds a level playing field without room for regulatory arbitrage.

Action: *Define responsibility of financial supervisory authorities for consumer protection*

Description: *Update the legally defined mission of the Central Bank of Azerbaijan (CBA), the State Committee for Securities (SCS), and the State Insurance Supervision Department (SISD) within the Ministry of Finance (MOF) in the relevant laws to include consumer protection / market conduct supervision as equally important as prudential supervision. Specifically, amend the Law on the National Bank of Azerbaijan, the Securities Law and the Law on Insurance Activity.*

Responsibility: *CBA, SCS, MOF in joint cooperation*

Deadline: *By Q3 2010*

8. After market conduct supervision becomes an integral part of the mission of the supervisors, all supervisory agencies should actively promote their dual mission to make sure the public

understands the added value that the supervisory agencies bring to the stability of the financial sector and to the security of the public's dealings with financial institutions.

Action: *Prepare communication strategy to announce and explain the new role of supervisory authorities for consumer protection*

Description: *Prepare effective ways to communicate the upgraded role of CBA, SCS and SISD in consumer protection, focused on explaining the added value both for clients and for financial institutions.*

Responsibility: *CBA, SCS, MOF in joint cooperation*

Deadline: *By Q3 2010*

9. Also, the managers of consumer protection teams at the supervisory institutions should be given a high profile senior position to make them a relevant counterpart for other departments and make sure they report directly to the top of the supervisory structure that will also be responsible for settling potential conflicts of interest between prudential and market conduct supervision.

Action: *Set the profile of the consumer protection teams*

Description: *Define the role and official position of the consumer protection teams within the supervisors with adequate status, independence from the prudential supervisors, and reporting lines to the top officials to make them an effective and accepted counterpart for the industry.*

Responsibility: *CBA, SCS, MOF, preferably in joint cooperation*

Deadline: *By Q2 2010*

10. To make sure the changes in the laws are made as effectively as possible, a Coordinating Committee should be established by the CBA, the SCS and the SISD to coordinate changes in relevant legislation. When necessary, representatives of the Parliamentary Standing Commission on Economic Policy should be included so that they understand the reasons for proposed changes. Representatives of financial industry associations could also be invited to participate in the drawing of legislative changes regarding disclosure, business practices and other areas relevant to business conduct. However, the Coordinating Committee should focus its role on preparing legal and regulatory changes so that they are as similar as possible for all sectors of financial services.

Action: *Establish Coordinating Committee for legal and regulatory changes*

Description: *Establish the Coordinating Committee for preparation and coordination of proposed legal and regulatory changes so that they are as similar as possible across all sectors. The Coordinating Committee should also define priorities and coordinate planned deadlines with other work of the agencies.*

Responsibility: *CBA, SCS, MOF*

Deadline: *By Q2 2010*

Effective Supervision and Regulation

11. Effectivity of the supervisory process is a hotly debated issue in all jurisdictions and it is based on three levels that must support each other. The combination consists of:
 - sufficient legal environment that defines general rules financial institutions must respect;
 - ability for the supervisors to issue detailed decrees and guidelines specifying the legal provisions and translating them into the daily operations of financial institutions; the supervisors should give financial institutions enough room to define the detailed rules as the market is changing, without the need to constantly update the laws;
 - effective sanctions for those that break the rules so that the supervisor is respected and the financial institutions understand that cooperation is the preferable solution.
12. Keeping in mind this general three-level setup of effective regulation, there are three issues the Azerbaijani supervisors should deal with:
 - available powers and sanctions – do they have enough powers to effectively conduct both prudential and market conduct supervision, are sanctions deterring enough?
 - regulatory arbitrage – are all loopholes closed for a financial institution to receive a more favorable treatment by repackaging its products (e.g. disguising mutual funds as insurance in unit-linked life insurance products)?
 - staffing – do they have enough and properly educated and motivated staff?
13. If there is a "No" as an answer for any of these questions, a further analysis is needed to change the unsatisfactory outcome.

Action: Analyze the current ability and capability of the supervisors to undertake effective regulation and supervision

Description: Using the three above listed criteria, prepare an analysis of the ability and capability of the supervisory authorities, both from the point of view of their legal powers and staff numbers and capabilities, and define steps to be taken to remedy any deficiencies with a specific Deadline of action. Needed legal changes should be included into the changes regarding the legally defined mission of the CBA, the SCS, and the SISD within the MOF as described in Part I of this Action Plan.

Responsibility: CBA, SCS, MOF

Deadline: By Q3 2010

14. Another test of effective supervision relates to the issue of regulating all financial institutions. Failing to regulate the whole financial market allows for loopholes and creates uneven conditions for some parts of the market, thus distorting the competitive environment. At the moment, credit unions, microfinance organizations, leasing companies and other credit providers are subject to a varying degree of prudential supervision and rather limited market conduct supervision in Azerbaijan. This may be detrimental to both the protection of consumers and to the stability of the financial sector in general. The extent of regulation should also be made proportionate to the systemic importance of each type of institution for

the Azerbaijani financial market. In other words, prudential regulatory regimes for credit unions and microfinance organizations could be lighter (in most areas being kept the way they are now) than the regulatory regime of banks that are the cornerstone of the financial industry. Even in cases when there is no need for strong prudential supervision (e.g. for leasing companies), the relevant supervisor should still monitor market conduct of these institutions and set the rules for information disclosure in the same way across all loan providers.

15. As for credit unions with a well-functioning association providing extensive training and support for its members (Azerbaijan Credit Union Association, AKIA), the possible regulatory approach might be quite light, including the following steps:

- review self-regulatory rules and training activities of the AKIA, amend them if necessary to comply with international best practices
- monitor the application of self-regulatory rules of AKIA to its members
- as in many other countries, allow the largest credit unions with good track record and meeting certain requirements (e.g. a minimum number of members, a minimum volume of share capital and reserves, a minimum number of years in existence, approval of the Central Bank) to collect deposits, so that they can serve as full-service financial institutions in rural areas with limited access to financial services and no or limited presence of regular banks.

16. Similar approach could be taken towards microfinance organizations and leasing companies, provided their associations would be able to take over the responsibility for training of their members in market conduct, and to agree on standards for dealing with clients that would be acceptable to the CBA and in line with rules for other financial sectors. Thus, the CBA would be responsible for licensing operators (if needed) and then primarily dealing with the associations, which would be responsible for self-regulation in their industries. However, a basic legislative setup is needed for leasing, as it is an alternative credit provided, and thus leasing companies should be monitored as financial institutions. The rules should be set up so that the CBA focuses on key issues and does not waste its resources on activities that could be conducted by the associations. The stress should be put on prosecution of illegal behavior in all sectors of the financial industry and on the same rules of market conduct for all credit providers (especially in the areas of information disclosure to clients, advertising and complaint handling).

Action: Introduce market conduct regulation of non-bank credit providers and analyze options for developing legislation for leasing

Description: Include leasing companies into the supervisory mandate of the CBA, analyze activities of relevant industry associations for possible self-regulatory activities and set up regulatory regime with the primary focus on licensing (the CBA decides who can operate in the market) and market conduct (ensuring the credit providers do not harm their clients). The relevant rules should be included into the draft Law on Non-Bank Credit Institutions pending Parliamentary approval, which allows for licensing of non-bank credit institutions by the CBA, and leasing legislation, which should be developed to cover the leasing sector.

Responsibility: CBA, drawing on experience and assistance of IFC and USAID

Deadline: By Q1 2011

17. Also, when dealing with the improvement of market conduct supervision, the financial industry must know the supervisors are serious about keeping and enforcing the rules. One of the examples for the financial institutions would be knowing that companies that were target of most (or very serious) complaints will be faced with stricter prudential supervisory regime, unless the institutions provide with satisfactory explanations for their the complaints. Also, sanctions must be set and applied in such a way as to discourage financial institutions from breaking the rules.

Action: *Improve cooperation between market conduct and prudential supervisors*

Description: *Set up coordination processes at the supervisors so that results of market conduct supervision influence the focus of prudential supervision, and that market conduct supervision is equipped to provide early warning of potential systemic problems to the leadership of the supervisory authority.*

Responsibility: CBA, SCS, MOF

Deadline: By Q2 2010

18. There should be a yearly report prepared by the supervisors (with the Police and the Ministry of Justice probably included) for the President and the Parliament about the main issues that state authorities dealt with regarding consumer protection in financial services, and the plans of the authorities to address the key issues in the future. Previous reports should be checked to see whether the plans were met or whether further actions are necessary.

Action: *Prepare yearly report on the current state of consumer protection in financial services and plans for improvement*

Description: *Develop the rules for the yearly report on consumer protection issues that the supervisors and other state authorities dealt with, and include proposals to tackle the issues that have arisen during the year. Present the report to the President and the Parliament (through the Standing Commission on Economic Policy), possibly including it into the Government's yearly report to Parliament.*

Responsibility: CBA, SCS and MOF, together with the Antimonopoly Department, the Police and the Ministry of Justice

Deadline: By Q1 2011 and then every year

19. Also, a regular informal communication mechanism should be established by the consumer protection departments / responsible officials of all supervisory agencies with industry associations and consumer organizations to identify and discuss important issues and try to find a common ground in dealing with them. Such consultative panels are very effective if the industry is able to self-regulate and the supervisors should try to strengthen the self-regulation as it makes their own work more effective.

Action: Establish informal communication mechanisms with stakeholders

Description: Set up quarterly meetings between supervisors, the financial industry and consumer organizations to discuss arising issues, proposed legislation and results of business conduct supervision to inform all stakeholders about new developments and seek their cooperation in improving consumer protection.

Responsibility: CBA, SCS and MOF with relevant industry associations and consumer organizations

Deadline: By Q3 2010 and then quarterly

20. Effective supervisors must have enough tools to identify potential threats to consumers. Besides regular supervisory tools (i.e. findings of on-site or off-site inspections, analysis of complaints lodged with the supervisors, communication with other stakeholders), the supervisory authority should be legally equipped to use mystery shopping as an official tool for on-the-spot control of sales processes, especially from the point of view of properly informing potential clients and disclosing all relevant information. Legal provisions must be made so that the results of mystery shopping can be used in sanctionary proceedings against a financial institution. Mystery shopping can also be used effectively by a supervisor to verify some of the complaints it receives.
21. Moreover, financial institutions should be legally required to report to the supervisory authority if they learn about unfair client behavior or mis-selling by other financial institutions.

Action: Introduce mystery shopping and reporting requirements

Description: Include mystery shopping – i.e. supervisors posing as regular customers – into the methods of supervision and ensure financial institutions are required to report mistreating of customers they become aware of, with significant sanctions if they fail to do so.

Responsibility: CBA, SCS, MOF in joint cooperation

Deadline: By Q2 2011

22. To increase public awareness of the supervisors and their areas of responsibility, some countries require all financial institutions to state who their supervisory agency is, in all public communications, including advertising.

Action: Require naming the appropriate supervisor in all public communications of financial institutions

Description: Legally require naming the appropriate supervisor in all public communications of financial institutions (advertisements, leaflets, websites, etc.) and impose sanctions for a failure to do so.

Responsibility: CBA, SCS, MOF, in joint cooperation

Deadline: By Q4 2010

23. Supervision is always more effective if there is a public demand for action against those that break the rules. Besides media attention, the public demand is strengthened when there are effective consumer protection organizations. However, as financial products are complicated, the supervisors should help build the capacity of the consumer protection organizations by teaching them about financial issues and helping them in gaining knowledge about effective assistance for mistreated clients of financial institutions.

Action: *Build capacity of consumer organizations*

Description: *Educate representatives of consumer organizations and media about financial products and consumer rights, so that they can become an effective counterpart for financial institutions.*

Responsibility: *CBA, SCS, MOF in joint cooperation*

Deadline: *Continuously starting from Q3 2010*

24. A final step in building an effective consumer protection institutional framework is developing a network of contacts in other countries, including seminars and staff exchanges. The Azerbaijani authorities should look at both countries with an established track record of consumer protection in financial services (e.g. the United Kingdom or Ireland) and those that have only recently started to develop this area and thus still have a first-hand knowledge of starting from the scratch (some of the New Member States of the European Union, e.g. Slovakia, Hungary, or the Czech Republic).

Action: *Develop international networking*

Description: *Provide opportunities for officials responsible for consumer protection to travel abroad and learn about tools for consumer protection and supervision of market conduct in other countries.*

Responsibility: *CBA, SCS, MOF*

Deadline: *Continuously starting from Q2 2010*

Disclosure of Information

25. Full disclosure of information in formats that are understandable to an average customer and in a way that allows an easy comparison is the key for making informed decisions (along with financial literacy). Also, customers should understand the technical terms of financial products and know they deal with a licensed financial institution.
26. There are two major areas where disclosure should be legally defined:
- Key Facts Statements
 - standardized contract features

27. The Key Facts Statements should be mandatory for each type of financial product¹, listing the important information about the product in a standardized form and using standardized vocabulary to allow for comparison of products of competing providers of financial services.
28. The Key Facts Statements should be developed by the relevant supervisory authority in consultations with industry associations and consumer organizations and then approved by the relevant supervisor. Before approval, the supervisory authority should verify the statements from four points of view:
- fullness: the statement should provide all key information to make an informed decision;
 - comparability with similar products: the statement should give enough information to compare the product not only with the same product offered by different providers, but also with other similar (but legally different) products (e.g. savings accounts vs. money market mutual funds);
 - understandability: tests should be run to make sure that an average customer can understand the information provided, that the statement uses plain language and that the statement does not require unnecessary calculations or study of other documents to find out what is needed;
 - key warnings: the statement must prominently list what will happen if the consumer breaches the contract (e.g. losing the consumer's house used as collateral, penalties to be paid).

Action: Prepare Key Facts Statements

Description: Develop and prepare Key Facts Statements for all financial products (for credit unions, microfinance organizations and leasing companies, the Central Bank should ensure the statements are similar to those prepared for the banking sector).

Responsibility: Sector supervisors, with involvement of all associations of financial firms in joint cooperation with consumers associations.

Deadline: By Q4 2010

Action: Introduce Key Facts Statements into the laws and supervisory procedures

Description: Financial institutions should be required to provide a supervisor-approved Key Facts Statement to any client prior to a transaction. The relevant supervisors should be given the authority to approve the Key Facts Statements, to monitor the distribution of the Key Facts Statements during inspections and through analysis of received complaints, and to impose sanctions for companies that fail to provide clients with truthful Key Facts Statements.

Responsibility: CBA, SCS, MOF, in joint cooperation

Deadline: Law changes by Q4 2010; implementation into the sales process by Q1 2011

¹ Bank accounts, savings products, credit products (whatever their provider), life and non-life insurance, investment products.

29. To complement the Key Facts Statements, product guides could be introduced for more complex financial products such as mortgages. Such a guide should explain, in plain language, terms, conditions and major risks associated with mortgage loans and should be available to customers in each branch and on bank websites. While the guide should be produced by each bank, its minimum content should be agreed by all banks providing mortgages and consulted with both the CBA and consumer organizations. The experience of IFC experts working on the IFC Mortgage Development Project in Azerbaijan should be used as well.

Action: *Introduce a product guide for the use of mortgages*

Description: *Develop a guide that will explain what a mortgage is and how it should be used effectively.*

Responsibility: *Azerbaijan Mortgage Fund with the support of IFC and in cooperation with CBA and consumer organizations*

Deadline: *By Q2 2010*

30. Especially in areas that use a lot of technical terms (e.g. insurance), a glossary of those terms should be readily available to public to make sure customers understand disclosure of information.

Action: *Introduce a glossary of insurance terms*

Description: *Develop a glossary of insurance terms to make sure the public understands information provided by insurance companies*

Responsibility: *Azerbaijan Insurers Association with the support from IFC and in cooperation with MOF (SISD) and consumer organizations*

Deadline: *By Q2 2010*

31. Standardized contract features should be developed by the industry associations and consumer organizations and approved by the relevant supervisory authority, making them widely available to the public. The standardized contract features should include items such as definition of price, definition of service provided, rules for applying any fines and rules for complaining, setting minimum common standards in each segment of the financial market. Such standardized contract features could help the customers study the rules before coming into contact with a financial institution that often does not give its clients enough time to study a proposed contract. Communication of these features should also educate consumers about the common minimum standards. The standardized contract features should clearly define the right of the financial institution and the rights of the consumer to make him aware of both his obligations and his powers. As these standards should set only the minimum requirements, they do not limit free-market competition that will focus on improving consumer terms.

32. It should be possible for financial institutions to deviate from the standardized contract features when needed but only if a "comply or explain" policy is in place. Such a policy

means that the financial institution either uses the standardized contract features (thus giving its customers an assurance of following the market rules) or explains where and why it has decided to use different contractual provisions. This "comply or explain" policy gives the consumers power to find out non-standard contract provisions without the need of a detailed study of the contracts and each specific provision. It also creates a market and media pressure on those that would want to offer client-unfriendly conditions.

Action: Prepare standardized contract features

Description: *Develop and prepare standardized contract features for all financial products and submit them to the supervisory authority (for credit unions, microfinance organizations and leasing companies, the Central Bank should ensure the contract features are similar to those prepared for the banking sector when appropriate).*

Responsibility: *All associations of financial firms in joint cooperation with consumers associations.*

Deadline: *By Q2 2011*

Action: Introduce standardized contract features and the rules for the "comply or explain" policy into the laws and supervisory procedures

Description: *Financial institutions should be required to use supervisor-approved standardized contract features, and to make the standardized contract features available to clients before a sale (including on websites). The relevant supervisors should be given the authority to approve the standardized contract features, to monitor the use of standardized contract features and application of the "comply or explain" policy during inspections and through analysis of received complaints, and to impose sanctions for companies that fail to use the standardized contract features or apply the "comply or explain" policy.*

Responsibility: *CBA, SCS, MOF, in joint cooperation*

Deadline: *Law changes by Q3 2011; implementation into the sales process by Q1 2012*

33. All supervisors should set up a section on their websites with an updated list of all financial institutions and financial intermediaries they supervise. Such a list allows consumers to check they are dealing with a legitimate organization / intermediary and is especially important for insurance and consumer credit markets where potential for illegal operators is the highest.

Action: Publish a list of all supervised institutions

Description: *All supervisors should have a list of all supervised institutions on their websites, regularly updated.*

Responsibility: *CBA, SCS, MOF*

Deadline: *By Q3 2010*

Business Practices

34. All relevant laws governing financial sector should be amended to the effect that both financial institutions and financial intermediaries are required to act in the best interest of their clients, and appropriate sanctions should be included for breaches of this duty. All financial institutions should adopt the "Know Your Customer" approach – in other words, they should make sure they understand their client's needs. Also, financial institutions and / or financial intermediaries should be responsible for testing whether an offered financial product and its parameters are suitable for the specific client and his needs, and should be able to prove from their records that based on the data available from the customer and a reasonable verification of his situation, the suitability test was passed. Should the client require a product that is not suitable for him, he should be given a clear and understandable warning about non-suitability and the financial institution should keep a signed copy of this warning.

Action: Define the "Know Your Customer" policy

Description: Prepare legal changes across financial sectors to implement the "Know Your Customer" policy, in cooperation with the industry associations and consumer groups, to make sure clients are offered only suitable products. Changes should include providing supervisors with the authority to check for the proper implementation of the "Know Your Customer" policy during inspections, and the authority to act when consumers complain they were offered an unsuitable product.

Responsibility: CBA, SCS, MOF, in joint cooperation

Deadline: Defining and submitting necessary legal changes by Q3 2010; implementation in the sales process of financial institutions and preparation of supervisory process by Q2 2011.

35. Another significant legal change that relates to business practices should be an adaptation of the EU rules on unfair and aggressive business practices. These practices should be outlawed and the three financial supervisors should be given power to investigate and effectively penalize such conduct. It is preferable that such issues are dealt with by the financial supervisors that have more in-depth understanding of financial markets rather than by other potential supervisory authorities (e.g. Antimonopoly Department) that lacks the necessary industry expertise and would have only limited options in fighting the non-behaving financial institutions.
36. The typical unfair business practice is the use of false or misleading advertising regarding key features of a product (especially interest rates on both deposits and loans). The supervisor should strictly punish those that use advertisements that seemingly offer much more advantageous terms than in reality because people with low level of understanding of

finances are easily misled. Public warnings about this misleading behavior should also be made by the supervisory authority.²

Action: *Study the 2005/29/EC directive on unfair practices and other relevant material and use the applicable parts for legal changes*

Description: *The supervisory authorities should choose the best way for implementation of the unfair practices rules, including discussion with other authorities whether to apply the rules across the whole economy or for financial services only, using Law on Advertising, Law on the Protection of Consumers' Rights, and Law on Unfair Competition. Whatever the decision, the enforcement should stay with financial sector supervisors who understand financial products and can apply the general rules to the financial services area.*

Responsibility: *CBA, SCS, MOF, in joint cooperation with consumer associations and industry associations, possibly also with other authorities.*

Deadline: *First proposal of implementation by Q4 2010; implementation of legal changes (Law on Advertising, Law on the Protection of Consumers' Rights, Law on Unfair Competition) by Q1 2011; beginning of supervision of the new rules by Q3 2011.*

37. Another business practice that is considered illegal in many jurisdictions is the practice of tied sales (i.e. the sales of one product is conditional on buying of another product – e.g. car insurance from a pre-selected insurance company when buying the car on credit). Such a policy significantly limits competition and usually keeps prices of financial products higher than if there was free competition.

Action: *Analyze the areas where tied sales are used and design tools to outlaw them, preferably within existing antimonopoly legislation*

Description: *The supervisory authorities in joint action with the Antimonopoly Department and the consumer organizations should analyze the situation at the market, describe the areas where tied sales are used, and either use the existing legislation (Law on the Protection of Consumers' Rights, Law on Unfair Competition) or draft changes to forbid and prosecute the practice.*

Responsibility: *The Antimonopoly Department, based on analysis and recommendations from the CBA, SCS, MOF, and consumer associations.*

Deadline: *Analysis and proposed solution by Q4 2010; implementation of the solution and push for increased competition by Q2 2011.*

38. Codes of conduct (while being generally a self-regulatory tool) should be defined in the financial sector regulation in the terms of their use and misuse. Also, codes of conduct should be approved by the relevant supervisors and there should be a single code of conduct for each sector, with as many common cross-sectoral rules as possible to make orientation of the public among various codes as easy as possible. It should also be a rule that the codes include

² For examples of unfair practices and a web-based communication tool, please see the European Commission website http://isitfair.eu/unfair_en.html

a mechanism for reporting and dealing with breaches of the code by financial institutions and financial intermediaries.

39. While the Codes of conduct should always mirror the level of financial services available in the given market, the Codes of conduct in the United Kingdom and in Ireland can be used as benchmarks both in the terms of content and presentation. The UK Code of conduct is further strengthened by the explanatory rules, prepared by the Financial Services Authority (the FSA Handbook), explaining how the Code of conduct should be implemented in various situations. The FSA, as market regulator, thus has a simple tool with which it can steer the behavior of market participants.

For the Irish Code of conduct see the following website and its documents:

<http://www.financialregulator.ie/processes/consumer-protection-code/pages/codes-of-conduct.aspx>

For the FSA Handbook, see the following website: <http://fsahandbook.info>, starting with the high-level principles for business: <http://fsahandbook.info/FSA/html/handbook/PRIN>

40. To allow for increased competition on the market, the "comply or explain" policy should also be used in this area – thus allowing financial institutions to deviate from the industry code but clearly explaining the effects and reasons for such a deviation.

Action: Prepare sector-wide codes of conduct

Description: Develop and prepare sector-wide codes of conduct for banking, securities, insurance, credit unions, microfinance institutions, leasing and submit them to the supervisory authority (for credit unions, microfinance organizations and leasing companies the Central Bank should ensure the codes of conduct are similar to the credit part of the banking code of conduct when appropriate).

Responsibility: All associations of financial firms in joint cooperation with consumers associations.

Deadline: By Q4 2010

Action: Set the final codes of conduct and the rules for the "comply or explain" policy

Description: Comment and improve the draft codes of conduct presented and agree on the final version, define the rules and supervisory process for the "comply or explain" policy.

Responsibility: CBA, SCS, MOF, preferably in joint cooperation

Deadline: Agreement on the final version by Q1 2011; implementation in the sales process and the start of an awareness campaign by Q3 2011.

41. Most mis-selling incidents happen at the point of sale (rather than because of fraudulent financial products) and increased regulation should be therefore built around the sales process. Above the general "know your customer" duties and responsibility for testing the suitability of the financial product being sold, there should be entry rules, training

requirements and rules of evaluation for individuals selling financial products (a certain level of education, a test of professional knowledge periodically repeated, clean criminal record, etc.).

Action: *Set entry rules, training requirements and rules of evaluation for sellers of financial products*

Description: *Develop the set of minimum requirements for distributors of financial products to make sure they understand the products they sell, including rules for their training and periodic testing of their knowledge.*

Responsibility: *CBA, SCS, MOF, preferably in joint cooperation with proposals of relevant industry associations and involving IFC for mortgage training and evaluation*

Deadline: *By Q4 2010, with implementation starting from Q2 2011*

42. Responsibility should also be clearly defined to make sure both an individual and the supervisory authorities have a specific person to deal with. Many European countries gradually accept the philosophy that it is the financial institution that is ultimately responsible regardless of whether it sells the products in its own branches by its employees or by third party distributors (as this is considered to be outsourcing and the financial institution is responsible for activities it outsources).
43. To make the burden of regulation lighter on both regulators and regulated institutions, the state should support well functioning industry associations that can take over some of the regulatory aspects through self-regulation (e.g. the development and adherence to the codes of conduct, minimum levels of training for sales staff, etc.). The association should also be responsible for running a thorough awareness campaign for its members about consumer protection regulation to make sure employees of all members understand the rules and know how to apply them when dealing with the clients.
44. However, the supervisors should make sure that the industry association is truly willing to instill discipline among its members and that it would be willing and able to promote minimum standards agreed between it and the supervisor.

Action: *Define the rules for self-regulatory associations that can effectively conduct simple supervision*

Description: *Develop the rules and minimum requirements for industry associations that could take over some of the supervisory roles.*

Responsibility: *CBA, SCS, MOF, preferably in joint cooperation*

Deadline: *By Q4 2010*

45. The business conduct rules should serve to protect both customers and financial institutions, and customers should know that any breach of trust will have negative consequences. Therefore, in the area of credit, thought should be given to the opening of the Centralized Credit Register at the CBA also to credit unions, leasing companies and microfinance institutions or organizing a privately owned credit bureau that would centralize information

about credit history from all providers of credit. The credit bureau should also list cases when consumers provided false information to a credit provider, thus making sure that consumers are discouraged from unfair conduct towards financial institutions and credit providers face lower risk of credit fraud.

Action: *Establish a credit reporting system that provides information on consumers' credit history for all financial institutions providing credit into a single credit bureau*

Description: *All credit providers (banks, credit unions, microfinance institutions, leasing companies, and companies providing goods and services under credit) should have access to the credit history of their customers and should also be required to input credit history of all their clients into the shared database. Both the draft law on non-bank credit organizations and the draft law on credit bureaus should allow for such a database to be created and to be operational in a private credit bureau, drawing on the assistance and projects of IFC currently under way in Azerbaijan. Once the draft laws are adopted and effective, and at least a private credit bureau is well established, the CBA should consider reevaluating the role of the Centralized Credit Register so as not to crowd out operations of private credit bureaus in the country.*

Responsibility: *CBA with assistance of the IFC*

Deadline: *By Q1 2011*

46. Similarly, insurance companies should be encouraged by the regulator to set up and operate a fraud-prevention database that would include information on all claims of clients and on any frauds discovered. All insurers would be required to consult the database before signing a contract and before paying up any claims to verify that a single accident is not being paid for several times or that the potential client was involved in an insurance fraud. Such a fraud-prevention database should be probably operated by a private operator, not by the supervisor, but the supervisor should be allowed to check whether it contains true information and should have the power to sanction the operator of the database if it fails to provide correct information about clients.

Action: *Develop a fraud-prevention database*

Description: *Prepare the rules and start operation of a database where all insurers would have to share information on insurance claims and instances of insurance fraud.*

Responsibility: *A private project / under the supervision of the MOF that must have tools to monitor the database and its content*

Deadline: *By Q1 2011*

47. Many problems in the area of consumer protection arise in the area of consumer credit as less educated customers make on-the-spot decision to take credit (usually to purchase consumer goods) without thinking about the long-term impact of their decision. Therefore, the European Union (as well as other countries) introduced a so-called cooling-off period, i.e. a period during which the consumer can change its mind, cancel the consumer credit contract and pay a limited fee that covers administrative costs related to the provision of the canceled

credit but no other penalties. The new consumer credit directive of the European Union sets the cooling-off period to 14 days.

Action: Introduce cooling-off period for consumer credit

Description: Draft legal changes (Law on Banks, draft Law on Non-Bank Credit Institutions pending Parliamentary approval, Civil Code) that will introduce a 14-day cooling-off period for any type of consumer credit, stipulate that consumers must be clearly informed about their right to cancel the contract, and give CBA the power to set the maximum fees credit providers can charge for administrative costs of canceled contracts. Prepare a public awareness campaign.

Responsibility: CBA, in cooperation with consumer organizations

Deadline: Legal changes by Q3 2010; implementation and public awareness campaign by Q1 2011

48. Rules of business conduct should also clearly deal with potential conflicts of interest and should look for ways to avoid them. For example, insurance brokers should be prevented from filling broking and agency roles for a given general class of insurance, all distributors should inform the client about the base of their remuneration (especially when it is based on the volume of the transaction being concluded), and inducements that can negatively impact what product the client is offered should be outlawed.

Action: Deal with conflicts of interest in the sales process

Description: Define rules that avoid the above listed conflicts of interest (Law on Insurance Activity for insurance or general rules in Law on the Protection of Consumers' Rights relevant for all sectors) and provide supervisors with effective sanctions to deal with distributors that do not act in the best interest of their clients.

Responsibility: MOF, with CBA and SCS in joint cooperation

Deadline: By Q1 2011

Dispute Resolution

49. Many consumers never complain as they fear the financial institution and / or do not believe a complaint may have a positive result for them. Also, many potential complainants are out off by not knowing a proper complaint procedure. To alleviate their worries, financial institutions should be required by law to set up a unified complaint-handling system that will be monitored by the supervisory agency. Also, maximum reaction times should be set up and customers should be clearly informed (preferably on a separate information sheet) about ways for lodging a complaint and their further rights of appeal should they not be satisfied with the outcome.

Action: Set up a standardized complaint-handling system

Description: *The supervisors should define the general rules of how complaints should be handled by financial institutions (recording, handling times, reporting and analysis), and of how the supervisors will monitor the application of the rules.*

Responsibility: *CBA, SCS, MOF, preferably in joint cooperation*

Deadline: *Setting the standards by Q3 2010, implementation starting from Q1 2011*

50. All complaints should first be submitted to the financial institution. If it does not solve the complaint to the client's satisfaction, he could follow up with a complaint to the:

- industrial ombudsman / complaint body (if it exists)
- relevant supervisor
- police (should criminal behavior be involved)
- courts

51. Also, all financial institutions should be required by law to report twice a year to their supervisor all complaints that were received, their categorization and the way they were handled. The supervisor should carefully analyze these reports and identify areas or institutions with higher number or frequency of complaints, in order to spot potential systemic weaknesses. Also, institutions that receive an above-average number of complaints should be supervised more actively as they may pose an increased risk to the stability of the financial sector.

Action: *Include complaints into the risk-based supervision*

Description: *Require financial institutions to submit a report on complaints twice a year. Develop rules for the use of complaints analysis to identify potential systemic weaknesses and to increase prudential supervision in specific financial institutions.*

Responsibility: *CBA, SCS, MOF, preferably in joint cooperation*

Deadline: *By Q3 2010, implementation starting from Q1 2011*

52. However, the supervisors should clearly distinguish what constitutes a legitimate complaint (unfair or aggressive business practices, failure to disclose required information, etc.) from what are "suggestions" that the supervisor should not deal with. For example, 90% of "complaints" received by the Central Bank regard the non-issuance of credit. However, not to provide a loan is a business decision that should not be influenced by the supervisor. Therefore, there should be a standard letter of reply for such "complaints", explaining that it is the right of the financial institution to choose with whom it does business, so that the supervisor does not waste valuable resources. To be friendly to the public, the supervisor could attach an information brochure about improving chances of obtaining credit or a similar educational material. Also, financial institutions should be obliged to inform clients about reasons for not providing credit to show what must be changed to make the applicant eligible.

53. To provide additional pressure on financial institutions to deal with consumer complaints fairly, the supervisors should publish cases where the financial institution did not react to a

complaint properly. Such a "name and shame" policy is very effective, especially if the media are made aware of such cases and are assisted by the supervisors in reporting them (through proper explanation of the complaint, by an example of how the complaint should have been dealt with, etc.). Supervisors must also have effective tools to get unfairly operating financial institutions out of the market by severe sanctions, withholding their licenses and informing the public about the misconducts and loss of a license of the institution.

Action: Prepare public information policy about complaints

Description: Use the complaints analysis and results of complaints handling to inform the media and the public about those that break the rules and make sure the supervisors have enough powers to stop the offenders.

Responsibility: CBA, SCS, MOF, preferably in joint cooperation

Deadline: By Q1 2011

54. The supervisory authorities should organize joint in-depth education of selected police investigators and judges to educate them about the complexity of financial products and the rules that govern their sales. Also, the authorities should make sure the police and judiciary are capable of dealing with complaints they may face and be efficient in prosecuting and judging the cases brought.

Action: Prepare a capacity building system for police and judges

Description: Develop a system that will help police prosecutors and judges deal effectively with cases related to financial products and their mis-selling.

Responsibility: CBA, SCS, MOF, preferably in joint cooperation

Deadline: By Q2 2011

55. Some countries have decided to establish a financial services ombudsman to deal with individual complaints. However, such a major decision requires a very careful analysis that is beyond the scope of this action plan. It is preferable that Azerbaijani authorities for the moment deal with more pressing issues, including the analysis of reasons of received complaints and reconsider the potential combination of self-regulation, financial supervision and an ombudsman within 3-4 years when there is more experience with the other consumer protection activities and the time will come to review the effectiveness of the whole system.

III. Costs

56. All supervisory agencies, financial institutions, financial associations and consumer protection groups will incur the costs of the staff who are designated to support the projects described in the Action Plan, unless a specific financial support program is developed for some of the activities (public awareness building, capability building, etc.).

57. Non-personnel costs will depend on a range of factors, principally the amount of work which proves to be needed to develop and undertake listed initiatives and the extent to which organizations are prepared to absorb costs as part of their normal activities. Costs associated with particular initiatives can be minimized by:

- using or adapting resources already produced – either in Azerbaijan or elsewhere;
- drawing on international experience;
- sharing know-how developed by any of the organizations involved; and
- avoiding unnecessary duplication in communication or in development of information materials or Key Fact Statements.

IV. Possible funding sources

58. Possible funding sources include:

- the CBA and other financial services regulators;
- the Government;
- development agencies;
- international and local NGOs;
- financial services firms and financial services associations;
- trusts or foundations associated with financial services firms which are active in Azerbaijan.

59. When grants are extended, clear result-oriented conditionalities should be included into the grant agreements, with sustainability and repeatability being taken into account for any of the grants.

V. Expected procurement methods

60. Each organization which commissions any external assistance should use its normal procurement methods.

61. The CBA and other organizations which are involved in the execution of the action plan should also look for opportunities to secure the contribution of other organizations free of charge (or at nominal cost) and for using international experience from its peer organizations.

Section II

Action plan for improving the financial literacy and financial capability of the Azerbaijani population

Shaun Mundy

1. This document sets out an action plan for improving the financial literacy and financial capability of the Azerbaijani population. Among the main features of the action plan are that the Central Bank of Azerbaijan (CBA), working in conjunction with a range of stakeholders and supported by a steering group comprising senior representatives of key stakeholders, should lead the development of a financial capability programme which should include: the preparation, administering and analysis of a national survey to measure current levels of financial capability; the incorporation of comprehensive personal financial education into the school curriculum; and a range of initiatives aimed at young people and at adults, including: to students, through presentations in workplaces, through the media, a financial capability website and other communications, and through training programmes, including in rural communities.
2. The action plan includes suggested timescales – which are intended to be challenging but realistic – for each of the main recommended actions. The steering group should review the suggested timescales – along with other aspects of the action plan – and make any modifications it considers appropriate.

I. Background

What is meant by “financial capability”?

3. The term “financial capability” is used in this report because it is broader in scope – covering understanding, skills, attitudes and behaviours and not just knowledge – than other terms (such as “financial literacy” and “financial education”) which are often used.
4. People who are financially capable have the ability to manage their personal finances well, now and in the future.

5. The UK's Financial Services Authority (FSA) has identified³ five components of financial capability:
 - making ends meet;
 - keeping track of your finances;
 - planning ahead;
 - choosing financial products;
 - staying informed about financial matters.
6. In order to be financially capable, people need knowledge (including how to access information and advice), understanding and motivation. The goal is that they should act in a financially capable manner.
7. People's financial capability can be improved through:
 - financial education⁴;
 - financial information;
 - guidance on how to manage their personal finances.
8. Financial capability initiatives do not include how to run a business. But people are unlikely to be able to run a business successfully unless they are able to manage their personal finances well. Moreover, financial capability initiatives do not include marketing activities by firms or groups of firms; or advice on specific financial products or services.

International developments

9. Internationally, increasing attention is being paid to the need to improve people's financial capability. For example, the Organisation for Economic Co-operation and Development (OECD), in its 2005 report “Improving Financial Literacy: Analysis of Issues and Policies”, described programmes in a number of countries which promote improved financial capability.

Why is it important to improve people's financial capability in Azerbaijan?

10. In Azerbaijan, as in other countries, people who are financially capable are able to make

³ See FSA (2006), *Financial Capability in the UK: Establishing a Baseline*, , available at http://www.fsa.gov.uk/pubs/other/fincap_baseline.pdf

⁴ The OECD defines financial education:

“Financial education is the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being” - see OECD (2005), *Improving Financial Literacy: Analysis of Issues and Policies*, page 26. http://www.oecd.org/document/28/0,3343,en_2649_15251491_35802524_1_1_1_1,00.html

sound financial decisions for themselves and their families, to build up some savings and to plan ahead, and to increase their financial well-being. They are less likely to become over-indebted or to purchase products and services which do not meet their needs; and they are less likely to be caught out by financial scams and swindles, such as pyramid schemes or phishing attempts.

11. People who are financially capable are more likely to take up and use financial products and services – that is to be financially included. A number of important initiatives are under way in Azerbaijan to increase access to financial services, particularly for people in rural areas. These initiatives need to be supported by clear and straightforward financial education and information, so that people know how and when to use the financial products and services which have been made available to them, understand the benefits which these products and services can bring them and their families, and are motivated to use them.
12. Being able to manage your personal finances makes it more likely that you will be able to run a business successfully. So, improving the population's financial capability should improve the country's economic performance.

Improving financial capability, prudential regulation and consumer protection regulation are complementary

13. Improving people's financial capability is not sufficient on its own. It needs to be complemented by effective prudential regulation (to minimise the risk of financial services firms collapsing) and consumer protection regulation. For example, no amount of financial education will persuade people to place their money with a bank or other financial institution if they lack confidence that their money will be secure or that they will be treated fairly. This is particularly the case in a country where members of the population have previously lost money following (for example) the collapses of banks or of pyramid schemes.

Who will benefit from improved financial capability?

14. Improving people's financial capability will not only be of benefit to the people concerned and their families, but will also deliver benefits to many others, including:
 - the Government, Central Bank of Azerbaijan and other financial services supervisors;
 - financial services firms;
 - consumer organisations;
 - employers;
 - civil society organisations (e.g. community, religious and health bodies).
15. All of the above, together with the media, can play a role in developing and implementing financial capability programmes.

What issues should financial capability programmes cover?

16. The single most effective weapon in the fight for consumer protection in financial services is

financially capable consumers. A series of programmes should be developed which, collectively, build financial capability throughout the population of Azerbaijan. Access to financial capability programmes will provide a powerful tool to empower consumers. For example, consumers need to understand the fundamental principles of finance so that they can evaluate the expected rewards and anticipated risks of any loan or investment. They need to be able to understand the terms of contracts with financial services firms and know their rights under the law. Sustained financial health requires long-term financial planning and the development of skills of financial analysis.

17. Each financial capability programme needs to be tailored to the needs and understanding of the target audience. Generally, it is important to start with the basics and then to build, in a logical fashion, on those foundations. So, for example, a programme focused on investing in the Stock Market is unlikely to be successful if those at whom the programme is targeted do not have a basic understanding of saving and investment.

18. Plain and clear language should be used in all resources for consumers.

19. Priority issues for financial capability initiatives include the following:

<p>Savings</p> <ul style="list-style-type: none"> • why save • how and where to save • main types of savings vehicles, their features and how to choose between them 	<p>Using banking and similar services</p> <ul style="list-style-type: none"> • advantages of using formal financial services products, such as bank accounts • different types of products which are available, including transactional banking, money transfers and ATMs
<p>Investments</p> <ul style="list-style-type: none"> • why invest • how and where it is possible to invest • main types of investment vehicles, their features – including risks – and how to choose between them 	<p>Protecting oneself and one's family against risks</p> <ul style="list-style-type: none"> • why protect against risks • how to identify the financial risks which you and your family face • different insurance products which are available to protect against risks and what these products can, and cannot, protect against
<p>Choosing products and staying informed</p> <ul style="list-style-type: none"> • the advantages of comparing products • what is the most important information to consider in choosing between products • how and where to obtain information about alternative products 	<p>Protecting oneself against financial frauds</p> <ul style="list-style-type: none"> • the advantages of dealing with authorised firms; and how to check whether a firm is authorised • why and how to protect your PIN number • how to spot and avoid “get rich quick” schemes and other financial frauds (e.g. pyramid schemes and phishing scams)

<p>Knowing your rights and responsibilities – and what to do if you have a complaint</p> <ul style="list-style-type: none"> • understanding a consumer's rights and responsibilities • the sorts of issues which can give rise to a legitimate complaint – and those which cannot • how to draw up a complaint • who to address a complaint to in the first instance and what options are open if you are dissatisfied with the outcome 	<p>Remittances</p> <ul style="list-style-type: none"> • options for using remittances from overseas • how to plan for a future when the flow of remittances may reduce or come to an end
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20. In determining priorities, account should also be taken of any particular issues which are causing consumer losses or other concerns – as evidenced, for example, through any complaints data or via the CBA's consumer hotline.

II. Specific actions which need to be undertaken

Developing a National Financial Capability Programme

21. There needs to be strong leadership to drive forward and co-ordinate the work of the many organisations which can play a part in developing or delivering financial capability initiatives. National financial capability strategies or programmes are generally led by a public sector body, such as the central bank, another financial services regulator or a government department or agency⁵. The organisation which leads and co-ordinates work on financial capability needs to designate a sufficient number of staff members, with the necessary skills (which include strong stakeholder management, communications and project management skills – together with at least a basic understanding of personal finance issues⁶), to undertake this role. The leader should not attempt to undertake all the initiatives which are needed to improve the population's financial capability: a wide range of different organisations should play a part in this.

22. The CBA is best placed to lead work to improve the population's financial capability. In doing so, the CBA should work in partnership with a range of organisations from the Government (particularly, the Ministry of Finance, the State Committee for Securities, the Ministry of Education, the Ministry of Agriculture, the Ministry of Economic Development,

⁵ Examples include the US Treasury, the Australian Securities and Investments Commission, the New Zealand Retirement Commission, Bank Negara Malaysia (the Malaysian central bank), the Central Bank of Trinidad and Tobago, the UK Financial Services Authority, the Superintendency of Banking, Insurance and Private Pension Funds of Peru, and the South Africa Financial Services Board.

⁶ It is also an advantage if at least some of the staff members have educational or training experience.

the Ministry of Communications and Information Technology and the Ministry of Taxes), the Parliamentary Commission on Economic Policy, Azerpost, the private sector (including the banking, insurance, micro-finance and credit union professional associations) and NGOs (such as the American Chamber of Commerce, the Azerbaijan Community Development Research, Training and Resource Center and the Independent Consumers Union). In leading work on financial capability, the CBA should ensure that priorities are established; that a broad range of organisations agree to undertake, or participate in, financial capability initiatives; that the activities of those organisations which are working in partnership to improve people's financial capability are co-ordinated; and that partners are consulted and communicated with so that they can use their experiences and expertise to help shape policies and practices.

Action: CBA to lead and coordinate work to improve the population's financial capability

Description: CBA should lead work to improve the population's financial capability, working in conjunction with a range of partners from the public sector, the Parliamentary Commission on Economic Policy, Azerpost, the private sector and NGOs. The CBA should ensure that priorities are established; that a broad range of organisations agree to work in partnership to undertake, or participate in, financial capability initiatives; that the activities of partners are co-ordinated; and that partners are consulted and communicated with so that they can use their experiences and expertise to help shape policies and practices.

Deadline: Starting from Q1-2010

23. The CBA, in conjunction with relevant ministries, should study the financial capability programmes used by other countries and consider whether, and if so **how**, they could be adapted to the Azerbaijan context. For example, the UK's FSA leads a wide-ranging national strategy on financial capability, involving – on the part of the FSA – over seventy staff and a budget of more than £20 million (c\$31 million) and including also extensive contributions from the FSA's partners. The FSA's financial capability website summarises its current activities⁷. The Australian Securities and Investments Commission (ASIC) has developed a database, which is freely available via its website⁸, of financial literacy resources. In Poland, the National Bank of Poland has led the development of a number of initiatives to promote financial education, including the use of edutainment (the use of entertainment and the media to promote educational messages).

Action: Study financial capability programmes from other countries

Description: The CBA should study the financial capability programmes used by other countries, for example the UK's FSA, and consider, in conjunction with relevant ministries, whether, and if so how, they could be adapted to the Azerbaijan context.

Deadline: Initial analysis by Q2 2010 and developments to be monitored after that on a continuing basis.

⁷ See, for example, http://www.fsa.gov.uk/financial_capability/

⁸ Available at <http://www.understandingmoney.gov.au/FLRA/restricted/>

24. While the CBA should take the lead on financial capability work, all three regulators should play a key role in developing and implementing financial capability initiatives. Consideration should be given to whether any, or all, of them need to be made subject to an explicit legal requirement that they should undertake work to improve people's financial capability in order to enable them to undertake these roles⁹

Action: *Ensure that financial services regulators have any necessary legal powers to enable them to undertake financial capability work*

Description: *The CBA, State Committee for Securities and Ministry of Finance (State Insurance Supervision Department) should each consider whether it would be helpful to be provided with an explicit legal requirement that they should undertake work to improve people's financial capability, or whether they need any additional legal powers, to enable them to undertake financial capability work (and, in the case of the CBA, to lead financial capability work). If one or more of these bodies concludes that new legal provisions are needed, the CBA should co-ordinate the development and submission of a case to the Cabinet of Ministers for these legal provisions to be developed and enacted.*

Deadline: *Analysis to be completed by Q2 2010. Any subsequent submission to the Cabinet of Ministers for new legal powers to be provided to be made by Q3 2010.*

25. The CBA, in conjunction with relevant ministries, should develop a national programme for financial capability, based on the action plan set out in this document. It should do so in close consultation with a financial capability steering group (see below).
26. A range of different initiatives and approaches are needed to improve people's financial capability. People learn in different ways. While some channels and communications can be effective in reaching some people, other channels and communications can be more effective in reaching others. In addition, people may well need to receive messages several times in order to remember and act on them. The development of a national programme will help to ensure that there is a full and co-ordinated range of initiatives and to avoid unintended gaps and unnecessary overlaps. It will also help to generate active support from a broad range of stakeholders.
27. Consideration should be given to reflecting in the national financial capability programme the following principles, namely that financial capability initiatives:
- are focused on target groups in the population that are segmented according to their needs and the best ways of reaching them;
 - have clear outcome-based goals;
 - taken together, they cover a broad range of the population, including those who are currently financially excluded;
 - are based on partnership working;

⁹ One of the UK FSA's statutory objective, as prescribed by the Financial Services and Markets Act 2000, is to promote public understanding of the financial system, (the text of the Act is available at http://www.opsi.gov.uk/ACTS/acts2000/ukpga_20000008_en_2#pt1-pb2-l1g5)

- use a variety of approaches and channels;
- start with the basics – and build on that for those who need to have more sophisticated knowledge and skills;
- are relevant and clear - and use lively and engaging communications; and
- incorporate monitoring and evaluation mechanisms from the outset.

28. By way of illustration, one element of the national programme could potentially be an initiative to improve the financial capability of people living in particular rural areas, with the aim of encouraging them to save. This initiative could:

- target people in the chosen rural areas who are most likely to have the capacity to save;
- be delivered by a range of partners who have dealings with people in those rural areas;
- involve a number of channels (for example, radio, pamphlets, posters, comic books, drama, television, training sessions);
- cover a range of related issues (such as financial planning and budgeting; savings; responsible use of credit; why and how to protect one's PIN number; and the options for using remittances from overseas and how to plan for a future when the flow of remittances may diminish or come to an end) as well as savings;
- be subject to targets (including, for example, the proportions of incomes which participants save), monitoring and evaluation (including to check whether the targets have been reached).

Action: Develop a national financial capability programme

Description: The CBA, in conjunction with relevant ministries, to develop and publish a national financial capability programme

Deadline: By Q3 2010

29. The CBA, in conjunction with relevant ministries, should develop and publish outcome-based objectives for financial capability work. In drawing up objectives, consideration could be given to the set of objectives published by the FSA for the UK's national strategy on financial capability.¹⁰

Action: Develop outcome-based objectives for financial capability work

Description: The CBA, in conjunction with relevant ministries, to publish outcome-based objectives, in conjunction with the national financial capability programme

Deadline: By Q3 2010

30. The CBA should establish a steering group, which it should chair, of senior representatives of key stakeholders. The steering group should be responsible for advising the CBA on the

¹⁰ See, for example, FSA (2006), *Financial Capability in the UK: Delivering Change*, available at http://www.fsa.gov.uk/pubs/other/fincap_delivering.pdf

development of a national programme for financial capability, including which initiatives should be undertaken as part of this programme and the timeframes for implementing them; and for monitoring the implementation of the programme and making recommendations for any modifications to the programme.

31. The steering group should be chaired by a senior representative of the CBA. It should include senior representatives (at Deputy Chairman/Chief Executive level) of other relevant public sector bodies, of the Parliamentary Commission on Economic Policy, of private sector stakeholders (for example, financial services professional associations; or large financial services firms which can represent the interests of their sector), of NGOs, and possibly a representative of the media who can advise on how best to make use of television, radio and the press.
32. In order to ensure that the steering group is an effective body, it is recommended that it should comprise no more than 12-15 members.

Action: *Establish a steering group for financial capability work*

Description: *The CBA to establish and chair a steering group, comprising senior representatives from key stakeholders*

Deadline: *By Q1 2010*

33. Many of those with an interest in the outcomes of the national programme on financial capability will not be directly represented on the steering group. It is important that the CBA, as leader of the national programme, should communicate with partners and potential partners – together with other stakeholders – so that they understand the case for improving the population's financial capability, what is already being done or is planned to be done, and how they can contribute. A range of methods (e.g. conferences and workshops; letters and emails; newsletters; newspaper and journal articles) can be used to communicate with partners and potential partners. Professional associations, together with other representative bodies, can also play an important role in communicating with their members.
34. This needs careful planning and effective delivery in order to be effective.

Action: *Develop and execute a communications plan to explain the strategy for improving financial capability*

Description: *The CBA, in conjunction with relevant ministries, to develop and deliver a stakeholder communications plan – which should be kept under review and updated as necessary – in order to ensure effective communication with partners, prospective partners and other stakeholders*

Deadline: *By Q3 2010*

35. Civil society should play an important role in the development and implementation of financial capability programmes. Consideration should be given to strengthening consumer-focused NGOs (for example, the Independent Consumers Union), so that they can contribute

effectively to the promotion of personal financial education. Such strengthening may require funding from either the state budget or from donor organisations.

Action: Evaluate the case for strengthening consumer NGOs

Description: The CBA, in conjunction with relevant ministries, to arrange for an assessment to be made, in the light of the national financial capability programme, of whether consumer-focused NGOs should be strengthened and, if so, how this can best be achieved

Deadline: By Q1 2011

Financial Capability Survey

36. A number of countries have undertaken surveys in order to measure current levels of financial capability and to provide a baseline against which future changes can be measured.
37. For example, a comprehensive national financial capability survey was carried out in the UK in 2005¹¹. The survey helped to identify priority areas for action (for example, the survey found that young people were less financially capable than their elders). The results have been used to help shape the UK's national financial capability strategy. The FSA plans to repeat the survey every four or five years, in order to measure the impact of the UK's national strategy on financial capability (which the FSA leads). Broadly similar surveys have since been carried out in Ireland and in the Netherlands; and other types of financial capability surveys have been undertaken in a range of other countries, including Russia.
38. In Azerbaijan, a nationwide, comprehensive and segmented survey of financial capability will be developed and administered by the end of 2009, financed by the SECO grant. The initial survey will provide a baseline assessment. Follow-up surveys should be undertaken every four-five years in order to measure the effectiveness of initiatives to improve people's financial capability and to highlight ways in which the financial capability action plan may need to be modified.
39. Azerbaijan would become the first emerging market country to prepare a government-sponsored nationwide survey and would thus provide leadership to other emerging market countries in the development of evidence-based financial capability programmes. Both the survey results and its methodology should be published and made easily accessible. The approach used by the UK's FSA in publishing the findings of the survey and the detailed methodology has allowed both domestic stakeholders and the international community to benefit from its work. Azerbaijan should take a similar approach.
40. The design and administration of the survey should take into account financial capability surveys conducted in other countries, but adjusted as necessary to the particular context of

¹¹ FSA (2006), *Financial Capability in the UK: Establishing a Baseline*, page 21, available at http://www.fsa.gov.uk/pubs/other/fincap_baseline.pdf

Azerbaijan. Due to the resources available and the statistical capacity already in place, the CBA is best positioned to supervise the survey (in consultation with relevant ministries). The CBA should establish the scope of work to be completed, conduct the tender process and oversee the work done by the survey firm or firms. In undertaking these roles, the CBA will be able to bring the necessary local knowledge to adapt the international experience on financial surveys to the Azerbaijan context.

41. The survey should include sufficiently large samples from key groups within society (e.g. regions; young, middle-aged and elderly; men and women; employed and unemployed; different socio-economic groups; family status; household income; level of formal education; and ethnic origin) to be able to generate statistically significant results for those sectors.
42. The World Bank has conducted a financial literacy survey in Russia, using a questionnaire of 52 questions developed by Professor Lewis Mandell which drew in part on the UK FSA's financial capability survey. This questionnaire, which is intended for use on a global basis, should be used in Azerbaijan, with additional questions to be incorporated relating to the specifics of the Azerbaijan financial sector.
43. The development of a survey for Azerbaijan may well benefit from the use of focus groups, in order to test emerging proposals. It is also likely to require the preparation of two pilot surveys, in order to test the questionnaire and then retest a further version (which has been amended to take account of the results of the initial pilot). Based on the UK FSA's financial capability survey, a sample size of around 5,000 participants may be needed. The survey should be a laptop-based questionnaire, taking up to an hour to complete. Consideration could be given to the provision of a small incentive in order to encourage those who are approached to agree to take part in the survey¹². The survey might include not just questions on the levels of current financial literacy but also questions on consumer confidence, as are prepared by Eurobarometer for EU Member States.
44. A professional survey firm should be used to conduct the survey. The firm should be responsible for collecting raw data, cleaning the data, and analysing the results. The technical work of the survey firm should be supervised by the Research Department of the CBA, with the contractual aspects of the work being supervised by the CBA's PCU. The CBA should ensure that other regulators are consulted before the questionnaire is finalised, to give them the opportunity to make any recommendations for modifying the proposed questionnaire.
45. The survey firm should be selected using a competitive process. As part of the request for proposal process, the proposed firms should be asked to recommend the size and nature of the sample needed to achieve statistically significant results for each segment of the population to be surveyed.

Action: Develop and administer a national financial capability survey

Description: The Joint Tender Commission to issue invitation to tender for one or more

¹² People who were approached to take part in the UK survey were offered £10 (around \$16) if they agreed to participate.

professional firms to: design a financial capability survey; administer the survey; analyse the results

Deadline: Completed

Action: Publish results of the survey

Description: CBA, in conjunction with relevant ministries, to arrange for the survey to be completed and analysed and the results published

Deadline: By Q1 2010

46. The results of the survey should inform the development of the national financial capability programme.

Action: The national financial capability programme should take account of the survey results

Description: CBA, in conjunction with relevant ministries, to ensure that the national financial capability programme takes account of the results of the survey.

Deadline: By Q3 2010

Financial Education in Schools

47. People tend to start developing their attitudes to money early in life. Moreover, many young people are already having to take some financial decisions; and schoolchildren who have received financial education can sometimes help their parents to manage the household finances. So, financial education should be provided to all schoolchildren, beginning at an early age (in some countries, programmes have been developed for children as young as those who attend kindergarten).
48. Schoolchildren are more likely to find financial education engaging where it is interactive (for example, it involves research and problem-solving) and it relates to issues which they regard as relevant to their lives in the reasonably foreseeable future¹³. So, for example, older students are more likely to react positively to issues regarding saving for a bicycle or computer (which brings in a range of personal finance issues, including planning and budgeting, saving, credit, insurance, choosing between products offered by different providers, reading key information and ensuring that you understand it, your rights and responsibilities – and what to do if you have a complaint), rather than issues relating to retirement planning or mortgages.

¹³ See Shaun Mundy, *Financial Education in Schools: Analysis of Selected Current Programmes and Literature – Draft Recommendations for Good Practices*, in proceedings of OECD-US Treasury International Conference on Financial Education, Washington DC, 7-8 May 2008, Volume II

49. In order to avoid adding an additional subject to the curriculum¹⁴, financial education can be incorporated into a range of existing subjects, such as life skills, mathematics and arithmetic, languages and history.
50. The Ministry of Education has already incorporated elements of financial education into the new curriculum which is being introduced on a rolling basis, starting in 2008. To ensure that a full programme of financial education is included within the curriculum, the Ministry of Education should compare the existing financial education curriculum against a comprehensive curriculum which has already been developed elsewhere¹⁵. Once any gaps have been identified, the Ministry of Education should modify the curriculum to fill those gaps, so that all schoolchildren receive a planned and comprehensive programme of financial education¹⁶.

Action: *Ensure that a full programme of financial education is included within the school curriculum*

Description: *The Ministry of Education to identify any gaps in the existing financial education curriculum (e.g. through comparing the existing curriculum with one or more comprehensive curricula already developed for use in other countries), and to modify the existing curriculum to fill those gaps.*

Deadline: *Identifying gaps by Q3 2010; modifying curriculum by Q1 2011*

51. Financial education in schools will be more effective if the resources which are used are relevant and interesting to schoolchildren. The Ministry of Education should consider adapting, for use in Azerbaijan, resources which have been developed to support one or more existing curricula or various stand-alone resources produced for use in other countries¹⁷. Some of these curricula and resources also include supporting guidance notes for teachers.

Action: *Use of relevant and interesting resources for schoolchildren*

Description: *The Ministry of Education to develop any additional resources which may be needed (e.g. by drawing on curricula or resources developed for other countries)*

Deadline: *By Q4 2011*

¹⁴ Most countries which have incorporated financial education into the curriculum have done so as part of other subjects, rather than as a separate subject.

¹⁵ See, for example, Microfinance Opportunities Global Financial Education Program curriculum <http://www.microfinanceopportunities.org/productsFE.php>, the Citi financial education curriculum, <http://financialeducation.citi.com/citi/financialeducation/curriculum/index.htm>, the Aflatoun curriculum <http://www.aflatoun.org/?what-we-do>

¹⁶ The Azerbaijan Community Development Research, Training and Resource Center (CD Center) has already arranged for part of the American Century Investment “Yes, You Can” (formerly known as Tips for Kids and Tips for Life) curriculum to be translated into the Azerbaijan language. However, the initiative has had to be postponed, because of a shortage of funding.

¹⁷ See, for example, the resources listed on the UK's Personal Finance Education Group website <http://www.pfeg.org/>, the USA's Jump\$tart website <http://www.jumpstart.org/> or the Australian Understanding Money website <http://www.understandingmoney.gov.au/>.

52. The Ministry of Education should incorporate, into both pre-service and in-service training programmes for teachers, training on how to deliver financial education in a lively and interesting way and to instil responsible attitudes to personal finance in the children they teach. One possibility might be to incorporate training on the delivery of financial education into the training programmes which have been developed by the Ministry of Taxes¹⁸. Thought could be given to developing olympiads/competitions both for children and teachers, with prizes and certificates for winners.
53. Consideration should also be given to providing opportunities for all staff in schools (including school principals, teachers and administrative staff) to receive training to assist them to manage their own personal finances well.

Action: *Evaluate inclusion of training on financial education issues into existing training programmes for teachers*

Description: *The Ministry of Education to develop training programmes – as part of both pre-service and in-service training – for teachers who will be delivering financial education. The Ministry of Education to discuss with the Ministry of Taxes whether training on the delivery of financial education could be incorporated into the training programmes for teachers which the Ministry of Taxes has developed.*

Deadline: *Discussion with Ministry of Taxes by Q1 2011; development of training programmes for teachers by Q4 2011.*

Other Financial Capability Initiatives

Financial Education for Young Adults

54. The CBA, in conjunction with relevant ministries, should consider how financial capability initiatives can best be targeted at young adults (many of whom will not have received a comprehensive programme of financial education while at school) and develop a strategy for achieving this. Options include:
- the provision of financial education, training, information or guidance to students at universities and colleges – including the incorporation of personal finance into relevant course and non-vocational education and training. For example, many university students study economics as part of their course: this could potentially be broadened to include personal finance education;
 - the provision of financial education, training, information or guidance by organisations which support young adults. Any representatives of such organisations would need to be trained on how best to deliver financial education, training or guidance and would also require resources for use with young adults;

¹⁸ The Ministry of Taxes has 70 rooms, distributed throughout Azerbaijan, which are used as venues for teacher training.

- the development of a personal finance website targeted at young people¹⁹ or the incorporation of financial capability materials into broader-based websites which appeal to young adults;
- the incorporation of financial capability messages into television and radio programmes, newspapers, magazines, leaflets, posters and drama aimed at young adults;
- the development of games²⁰ and activities tailored to young adults.

Action: Develop financial education initiatives for young adults

Description: The CBA, in conjunction with relevant ministries, to consider how financial capability initiatives can best be targeted at young adults and develop a strategy for achieving this

Deadline: By Q3 2010

Financial Education in Workplaces

55. The CBA, in conjunction with relevant ministries, should discuss with employer and trades union representatives the scope for delivering financial capability presentations, or showing financial capability DVDs, in workplaces²¹. In doing so, it should discuss which types of person might be willing to deliver presentations at little or no cost: possibilities include staff in the employer's training department; and volunteers from financial services firms. These individuals would need to be trained to deliver the presentation effectively.
56. The American Chamber of Commerce in Azerbaijan (AmCham) has expressed interest in developing a lively and engaging financial capability presentation and/or DVD, and in encouraging member companies to offer it to their employees (who in total number around 20,000 individuals)²². The CBA should consider inviting AmCham to develop and pilot a presentation and DVD: if this initiative is successful, the CBA, in conjunction with relevant ministries, should then encourage other employers to make use of these resources in order to educate their employees on how to manage their personal finances.
57. The National Confederation of Entrepreneurs (Employers) Organizations of Azerbaijan Republic has said that it would be willing to distribute any personal financial education DVD which was produced. The Confederation considers that personal financial education is a priority issue for Azerbaijan and would be willing to send the DVD to its 3,000 members and

¹⁹ See, for example, the UK FSA's website for young people What About Money <http://www.whataboutmoney.info/>

²⁰ The State Committee for Securities plans to organise simulation investment games for university students – see its Concept Paper: Public Awareness and Public Education.

²¹ See, for example, the description of the UK FSA's workplace financial capability programme at http://www.fsa.gov.uk/financial_capability/pdfs/MMOYM_factsheet.pdf

²² There is a precedent for this type of approach: AmCham has previously developed a DVD, which its member companies showed to employees, to encourage the use of car seatbelts.

to encourage them to show the DVD to their employees²³.

Action: Consider whether, and if so how, to deliver financial education presentations in workplaces

Description: The CBA, in conjunction with relevant ministries, should discuss with employer and trades union representatives the scope for delivering financial capability presentations in workplace and, if there is support for this, should commission the development of a standard presentation and identify and deliver individuals to deliver the presentation. Alternatively or additionally, the presentation should be delivered via an appropriate technology, such as DVDs. The CBA should consider inviting AmCham to develop and pilot a presentation and/or DVD: if successful, the CBA, in conjunction with relevant ministries, should encourage other employers to make use of these resources.

Deadline: If it is decided to invite AmCham to develop and pilot a presentation and/or DVD, this should be done by Q2 2010. If not, discussions with employer and trades union representatives should be completed, and a way forward agreed, by Q3 2010.

Financial Capability Initiatives through other Partners

58. The CBA, in conjunction with relevant ministries, should seek to identify additional organisations within Azerbaijan which would be willing to provide financial information, education or training to their members or clients. People who provide personal financial education to others need to be trained in order to do so effectively. It is not sufficient, for example, that such people are financially literate: they also need to have the skills and expertise to provide basic personal financial education to others in a clear and compelling manner.
59. People are more likely to be receptive to financial education and information at certain times in their lives, known as “teachable moments”. These include people who are planning to get married, people who are separating from their partner, parents before or after the birth of a child, people starting a new job – particularly if it is their first job, and households receiving overseas remittances. The CBA and its partners should keep this in mind in identifying opportunities to work with other organisations.
60. Financial services trade associations and firms – including the microfinance industry and the credit union movement, as well as the commercial sector – can play an important role in improving the population's financial capability. Financial capability initiatives are likely to help generate increased demand for financial products and services, and should reduce the likelihood of consumers buying products and services which are not suitable for them, all of which will be to the benefit of financial services firms.
61. It is important, however, that financial capability initiatives are objective and impartial. People will not trust programmes or messages which claim to be intended to improve

²³ The National Confederation of Entrepreneurs (Employers) Organizations of Azerbaijan Republic has noted that the Government, employers organisations and trades unions have signed an agreement for a social partnership, covering a range of social and economic issues.

people's financial capability, but which in reality promote a financial services firm or its products and services.

Ministry of Agriculture

62. The Ministry of Agriculture has 201 rural training centres, spread throughout the country. Each training centre typically undertakes four trainings per month, with at least 40 people participating in each one. The Ministry of Agriculture also distributes books and brochures; puts up posters; runs television, radio and press campaigns; and has a range of information on its website. It has trainers experienced in a number of disciplines who provide training to people in rural communities. These initiatives already include some elements of personal financial education – especially in the context of business planning and development – and they offer the potential to provide a wider range of personal financial education. Consideration could be given to whether the rural training centres could play a role in providing financial education to children of school age.

Azerpost

63. Azerpost has 70 branches and 1510 departments spread throughout Azerbaijan, many of which are in rural areas. A key priority for Azerpost is to improve access to financial services, especially in rural areas, and thereby to reduce financial exclusion. Azerpost plans to secure a licence from the CBA shortly to enable it to provide banking services. Azerpost has a training programme for the 5,200 employees, many of whom are relatively recent recruits, who work in its branches.

64. Azerpost is keen to play an important role in improving the financial capability of the Azeri people, particularly those who live in rural areas whom it is difficult for others to reach. Rural communities are closely knit, which facilitates the design and development of programmes which can reach a high proportion of people living in these communities. Financial capability programmes for these people should not only cover the advantages of using formal financial services products, such as bank accounts, and the different types of products and services which are available, but should also cover other basics, such as financial planning and budgeting; savings; responsible use of credit; why and how to protect one's PIN number; and the options for using remittances from overseas and how to plan for a future when the flow of remittances may diminish or come to an end.

65. Azerpost intends to enable retired people to withdraw pensions via its branches, using electronic cards. So, part of Azerpost's financial capability work could usefully be focused on retired people and the issues they face, including protecting their PIN numbers and using ATMs.

66. Azerpost could also consider, in consultation with the CBA, the establishment of school banks, in order to give schoolchildren hands-on experience of using banking products and helping to instil in them a savings habit.

67. Azerpost will need to ensure that employees who will be undertaking financial capability

initiatives have been trained to do this effectively (such training extends beyond the current employee training programme, which is designed to enable employees to market and sell in a responsible manner the products and services which Azerpost plans to offer) and that they have any necessary resources (for example, training materials) to support them in this work. Azerpost could consider contracting an organisation which has already undertaken training of trainers in financial education to provide training and resources to its employees. Alternatively, Azerpost might wish to develop its own training programme and related resources, drawing on the work which other organisations have undertaken. Azerpost should work with the CBA and other financial services supervisors in developing a financial capability programme, including the development of training materials and resources for Azerpost staff who will be delivering any financial education or training for consumers.

Azerbaijan Micro-finance Association

68. Subject to securing confirmation of funding, the Azerbaijan Micro-finance Association (AMFA) will undertake a “training of trainers” financial education programme to improve the financial capability of low-income households throughout the country. The overall goals are that those low-income households which receive training will plan for longer time horizons, will save regularly, will take smart credit decisions and will make appropriate use of financial services – and that these measures will help them to protect their assets and build new ones, thereby reducing their vulnerability to poverty. To implement this programme, AMFA will identify and train a pool of trainers (who will be drawn from both urban and rural areas throughout the country), who will in turn provide training – covering, among other things, planning and budgeting, saving, investing and making informed decisions – to low-income households. AMFA will make use of a tool developed by the Microfinance Centre (MFC) for Central & Eastern Europe and the New Independent States, but will first pilot it to ensure that it fits the Azerbaijan context.

The proposed AMFA project embodies a number of principles which can be helpful in developing cost-effective financial education programmes:

- AMFA has, from the outset, established measurable objectives for the programme;
- AMFA will work in partnership with others, particularly NGOs. It plans to establish a taskforce, comprising representatives of partners and interested Government Departments, to discuss key learnings and experiences and to advise on any changes which may be desirable;
- it will make use of existing resources (which is likely to be more cost-effective than developing new ones), while adapting them to the Azerbaijan context;
- it will ensure that resources are written in plain language and are easy to understand;
- it will undertake a pilot study and modify the programme as necessary to take account of lessons learned;
- it will carry out an evaluation (which will measure, among other things, the impact of the programme on people's attitudes and behaviours) and modify the programme as necessary to take account of the outcome;
- it has designed the programme to be sustainable after the funding has ended (it is envisaged that, once the programme has been established, AMFA will charge those whom it trains; and that those trainers will in turn charge a fee to individuals whom they train).

Azerbaijan Credit Union Association

69. The Azerbaijan Credit Union Association (AKIA) has provided training, which includes elements of personal financial education, to around 2,500 of the 10,000 credit union members (almost all of whom live in rural areas). AKIA has a goal of expanding the credit union sector: if this goal is realised, it will offer scope to deliver personal financial education to an increased number of credit union members – and possibly also to some prospective members.

Azerbaijan Banks Association

70. The Azerbaijan Banks Association has developed for printing an explanatory dictionary on banking and finance terms and concepts. It has said that it would be willing to contribute to a national programme on financial capability, for example by:

- translating resources, for example for use in schools;
- encouraging the development of practical school books on financial capability (to encourage schoolchildren to develop positive attitudes towards saving and towards using formal financial institutions);
- including on its website a link to any financial capability website which is produced – and encouraging its members to include links from their websites;
- encouraging its members to make available on their premises any personal financial education leaflets or brochures which are produced;
- encouraging its members to include financial capability initiatives within their corporate social responsibility programmes;
- giving permission for brochures and books to be published, using material drawn from its explanatory dictionary.

Azerbaijan Community Development Research, Training and Resource Center

71. The Azerbaijan Community Development Research, Training and Resource Center (CD Center), which has experience of providing training of trainers on a number of topics – including on the effective use by individuals of micro-credits²⁴ – has expressed interest in providing training of trainers on personal finance. It has found that charging people a nominal fee to attend a training makes it more likely that they will value the training²⁵.

Action: Facilitate the delivery of financial capability initiatives through a range of other partners

²⁴ The Center's evaluation showed that those who had been trained had fewer defaults and that they were more likely to have diversified their business.

²⁵ This is also attractive to trainers: attendees are more likely to be willing to pay a higher fee for any subsequent business training that the trainer offers, having realised the value of the initial training for which only a nominal fee was charged.

Description: The CBA, in conjunction with relevant ministries, to identify organisations within Azerbaijan which are currently delivering financial capability initiatives, or which would be willing to begin doing so in the future, to agree with them the roles they should play and to identify any additional support or resources which they will need in order to be able to do so effectively.

Deadline: By Q3 2010

Action: Dissemination of good practices for financial capability initiatives

Description: The CBA, in conjunction with relevant ministries, to disseminate examples of good practices (such as those exemplified in the proposed AMFA project for “training of trainers”) to organisations delivering, or willing to deliver, financial capability initiatives.

Deadline: By Q2 2010

Develop a Consumer Communications Strategy

72. The CBA, in consultation with other financial services supervisors and other stakeholders, should develop a consumer communications strategy.
73. The media – particularly television and radio – can play an important role in providing financial education and information. They should be encouraged to make it as accessible as possible to ordinary people – for example, through incorporating it into “soap operas” or radio “phone-ins”. The State Committee for Securities plans to prepare and broadcast special education programmes on television and radio.²⁶ These programmes could potentially be broadened to provide general personal financial education.
74. Personal financial education can also be provided through newspaper and magazine articles. These should preferably be included within non-specialist sections, rather than sections likely to be read only by those who already have an interest in financial matters. The State Committee for Securities plans to arrange for thematic newspaper inserts on the securities market to be distributed with journals and newspapers²⁷.
75. The CBA and other financial services supervisors should help to guide media initiatives by providing the media with information about current concerns and about different types of financial services and products.
76. A personal finance consumer website should be developed²⁸ in which people can be

²⁶ State Committee for Securities, Concept Paper: Public Awareness and Public Education

²⁷ State Committee for Securities, Concept Paper: Public Awareness and Public Education

²⁸ See the New Zealand Sorted website for a good example of a financial capability website <http://www.sorted.org.nz/>

confident²⁹. Other relevant websites – for example, websites of the financial services regulators, professional financial services associations and financial services firms – should include links to this. Once the website is available, it should be widely publicised and promoted.

Action: Develop a consumer communications strategy

Description: CBA, in conjunction with other financial services supervisors and other stakeholders, to develop a consumer communications strategy that includes the use of a range of media and the development and promotion of a personal finance consumer website

Deadline: By Q3 2010

77. The consumer communications strategy should also include the preparation and distribution of publications that explain financial issues in clear and plain language. The publications should be made available through a variety of means, including in the buildings of the national and local governments as well as in financial institutions and public libraries.
78. Financial services supervisors should also consider the development of publications focused on the services provided in their sector. For example, with the introduction of collective investment funds, consideration should be given to creating a glossary of the specific terminology (such as registrars, custodians and depositaries) related to securities and collective investment funds.

Action: Develop publications for financial consumers

Description: The consumer communications strategy to include the preparation and distribution of publications. Financial services supervisors to decide whether to develop publications focused on the services provided in their sector

Deadline: By Q2 2010

79. The CBA should ensure that it has staff with communications expertise, to enable it to lead the development and implementation of a consumer communication strategy and to answer questions from, and provide information to, the media. It could consider establishing a media communications office for this purpose.

Action: Assess capacity to implement consumer communications strategy

Description: The CBA to ensure that it has sufficient staff with communications expertise to enable it to lead the development and implementation of a consumer communications strategy.

Deadline: By Q1 2010

²⁹ Making clear on the website that it was produced by – or had the endorsement of – a respected organisation, such as the CBA, could help to instil that confidence.

80. The UK's FSA publishes comparative information on-line³⁰, for a number of classes of financial products, about the costs, and key terms and conditions, of products offered by different firms. This is to assist prospective consumers to compare the features of different products and to select the one which they feel is most suitable for them.
81. In Azerbaijan, the financial services regulators – led by the CBA – should develop comparative tables for the most popular classes of financial products to allow easy comparisons of costs (e.g. fees, charges and commissions), and other key features; and should collect the relevant data from firms to populate these tables. The tables should be published on the regulators' websites. A variety of means should be used to publicise the existence of the tables – together with the benefits which consumers can secure through using the tables. The outcomes should not only include better informed consumers who are better able to identify and buy good value products, but also a more competitive financial services marketplace.

Action: *Provide comparative information to consumers*

Description: *The CBA, working in conjunction with other financial services regulators, to lead the development and publication of comparative information*

Deadline: *By Q4 2011*

Consumer testing; and monitoring and evaluation

82. In order to ensure that financial capability programmes deliver the intended results, it is helpful to test them with members of the target group – e.g. through consultation with consumer groups, the use of focus groups or pilot tests – before finalising the programme and rolling it out. The results of any consumer testing or pilot exercises should be used to improve the design and delivery of the programme.

Action: *Promote consumer testing of financial capability programmes*

Description: *The CBA, in conjunction with relevant ministries, to promote the consumer testing of all major proposed financial capability programmes before they are finalised*

Deadline: *By Q3 2010*

83. It is important to monitor and evaluate programmes in order to measure their impact. The results can then be used to help assess whether the programme should be continued, changed or dropped. Evaluation should be designed in from the outset: otherwise, there is a risk that information needed to undertake an effective evaluation will not have been collected.

³⁰ See http://www.moneymadeclear.fsa.gov.uk/tools/compare_products.html

84. A report³¹ for the UK's FSA recommended that financial capability evaluations should have:

- “• clear objectives of the project and the evaluation (including identification of the target audience);
- good quality data, including administrative records. This should be focussed on key measures and background information to reduce the burden on programme participants and providers;
- quantitative data collection with a high response rate giving a sample that is broadly representative of the target population;
- careful consideration of the sample size, taking into account the analysis that will be needed to understand the outcomes;
- well-designed data collection instruments that are appropriate to the target group and to the initiative under evaluation and the outcome being measured;
- a benchmark measure of knowledge, attitude and behaviour (before the initiative) and follow up measures to identify change at various point after the initiative — identifying immediate and sustained change;
- consideration of the time period necessary to identify change, balanced with consideration of the likelihood of collecting reliable data over extended periods of time; and
- a ‘control’ group to show the normal changes that take place in the absence of such an initiative.

Crucially, the reporting of the evaluation must make it clear to the reader exactly what the initiative set out to achieve, how the evaluation was designed, and what weaknesses are apparent in that design. It should report outcomes that relate clearly to the initiative and explain the choice of any scoring method used to summarise outcomes.³²”

85. A standard framework has been proposed in New Zealand for evaluating financial capability programmes³³.

Action: Promote monitoring and evaluation of financial capability programmes

Description: *The CBA, in conjunction with relevant ministries, to encourage each organisation which undertakes major financial capability programmes to build in monitoring and evaluation from the outset and to advise them on how best to monitor and evaluate programme*

Deadline: *By Q3 2010*

³¹ Adele Atkinson (2008), *Evidence of impact: An overview of financial education evaluations*, available at <http://www.fsa.gov.uk/pubs/consumer-research/crpr68.pdf>

³² Op. cit, page 12.

³³ O'Connell, A. (2007), *Measuring the Effectiveness of Financial Education*, paper prepared for the Retirement Commission of New Zealand, available at http://209.85.229.132/search?q=cache:Qx_Xp-uJ9LUJ:www.retirement.org.nz/files/Measuring_effectiveness_of_financial_education_OConnell_published_April07.pdf+o%27connell+%E2%80%9CMeasuring+the+Effectiveness+of+Financial+Education%E2%80%9D&hl=en&ct=clnk&cd=1&gl=uk

III. Costs

86. The CBA will incur the costs of the staff who are designated to support the CBA's leadership and co-ordination of financial capability work.
87. Other costs will depend on a range of factors, principally the amount of work which proves to be needed to develop and undertake initiatives and the extent to which organisations are prepared to absorb costs as part of their normal activities. Costs associated with particular initiatives can be minimised by:
- using or adapting resources already produced – either in Azerbaijan or elsewhere;
 - using the same resources in a variety of relevant contexts; and
 - avoiding unnecessary duplication – for example, developing a single financial capability website.

IV. Possible funding sources

88. Possible funding sources include:
- the CBA and other financial services regulators
 - the Government
 - development agencies
 - NGOs
 - financial services firms and financial services trade associations
 - trusts or foundations associated with financial services firms which are active in Azerbaijan.
89. It should be borne in mind that a number of in-kind resources can be provided which are effectively free of charge to those undertaking financial capability initiatives. For example, where financial education is incorporated into a subject such as life skills, no additional payment needs to be made for teacher time, since the teachers are already being paid to deliver life skills education; and incorporating personal finance messages in television soap operas avoids the costs of producing specialist personal finance television programmes.

V. Expected procurement methods

90. Each organisation which commissions financial capability work should use its normal procurement methods.
91. The CBA and other organisations which are involved in the provision of financial capability initiatives should also look for opportunities to secure the contribution of other organisations free of charge (or at nominal cost).

Annex I: Summary of Action Plan on Legal and Regulatory Issues

Action	Responsibility	Description	Timetable
A. Legal Mandate			
1	CBA, SCS, MOF in joint cooperation	Update the legally defined mission of CBA, SCS and SISD in the relevant laws (Law on the National Bank of Azerbaijan, Securities Law and Law on Insurance Activity) to include consumer protection / market conduct supervision as equally important as prudential supervision.	By Q3 2010
2	CBA, SCS, MOF in joint cooperation	Prepare effective ways to communicate the upgraded role of CBA, SCS and SISD in consumer protection, focused on explaining the added value both for clients and for financial institutions.	By Q3 2010
3	CBA, SCS, MOF, preferably in joint cooperation	Define the role and official position of consumer protection teams within the supervisors with adequate status, independence from prudential supervisors, and reporting to make them an effective and accepted counterpart for the industry.	By Q2 2010
B. Effective Supervision and Regulation			
4	CBA, SCS, MOF	Establish Coordinating Committee for preparation and coordination of legal and regulatory changes so that they are as similar as possible across all sectors. The Committee should also define priorities and coordinate planned deadlines with other work of the agencies.	By Q2 2010
5	CBA, SCS, MOF	Prepare analysis of the ability and capability of the supervisory authorities (considering legal powers, staff numbers and capabilities) and define steps to be taken to remedy any deficiencies with a specific timeframe of action. Needed legal changes should be included into the changes referred in action 1.	By Q3 2010
6	CBA, drawing on experience and assistance of IFC and USAID	Include leasing companies into supervisory mandate of CBA, analyze activities of industry associations for possible self-regulatory activities and set up regulatory regime with primary focus on licensing (CBA decides who can operate in the market) and market conduct (ensuring credit providers do not harm clients). Rules should be included in the Law on Non-Bank Credit Institutions (pending approval) and leasing legislation (to be developed).	By Q1 2011
7	CBA, SCS, MOF	Set up coordination processes at supervisors so that results of market conduct supervision influence the focus of prudential supervision, and market conduct supervision is equipped to provide early warning of potential systemic problems.	By Q2 2010

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8	Prepare yearly report on consumer protection in financial services	CBA, SCS and MOF, together with AMD, the Police and the Ministry of Justice	Develop rules for the yearly report on consumer protection issues that the supervisors and other state authorities dealt with, and include proposals to tackle the issues that have arisen during the year. Present the report to the Cabinet of Ministers and the Parliament (through the Standing Commission on Economic Policy), possibly including it into the Government's yearly report to Parliament.	By Q1 2011 Then every year
9	Establish informal communication mechanisms with stakeholders	CBA, SCS and MOF with industry associations and consumer NGOs	Set up quarterly meetings between supervisors, the financial industry and consumer organizations to discuss arising issues, proposed legislation and results of business conduct supervision to inform all stakeholders about new developments and seek their cooperation in improving consumer protection.	By Q3 2010 Then quarterly
10	Introduce mystery shopping and reporting requirements	CBA, SCS, MOF in joint cooperation	Include mystery shopping (i.e. supervisors posing as regular customers) into the methods of supervision and ensure financial institutions are required to report mistreating of customers they become aware of, with significant sanctions if they fail to do so.	By Q2 2011
11	Require naming the appropriate supervisor in all public communications of financial institutions	CBA, SCS, MOF, in joint cooperation	Legally require naming the appropriate supervisor in all public communications of financial institutions (advertisements, leaflets, websites, etc.) and introduce sanctions for a failure to do so.	By Q4 2010
12	Build capacity of consumer organizations	CBA, SCS, MOF in joint cooperation	Educate representatives of consumer organizations about financial products and consumer rights, so that they can become an effective counterpart for financial institutions.	Continuously starting from Q3 2010
13	International networking	CBA, SCS, MOF	Provide opportunities for officials responsible for consumer protection to travel abroad and learn about tools for consumer protection and supervision of market conduct in other countries.	Continuously starting from Q2 2010
C. Disclosure of Information				
14	Prepare Key Facts Statements	CBA, SCS, MOF with industry associations in cooperation with consumer NGOs	Develop and prepare Key Facts Statements for all financial products (for credit unions, microfinance organizations and leasing companies, the CBA should ensure the statements are similar to those prepared for the banking sector).	By Q4 2010
15	Introduce Key Facts Statements into the laws and supervisory procedures	CBA, SCS, MOF, in joint cooperation	Financial institutions should be required to provide a supervisor-approved Key Facts Statement to any client prior to a transaction. Supervisors should be given the authority to approve the Key Facts Statements, to monitor the distribution of the Key Facts Statements during inspections and through analysis of received complaints, and to introduce sanctions for companies that fail to provide clients with truthful Key Facts Statements.	By Q4 2010: law changes, By Q1 2011: implementation into sales process
16	Introduce a product guide for the use of mortgages	Azerbaijan Mortgage Fund with support of IFC, in cooperation with CBA and consumer NGOs	Develop a guide that will explain what a mortgage is and how it should be used effectively.	By Q2 2010

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17	Prepare standardized contract features	Industry associations in joint cooperation with consumers NGOs.	Develop and prepare standardized contract features for all financial products and submit them to the supervisory authority (for credit unions, microfinance organizations and leasing companies, CBA should ensure the contracts are similar to those prepared for the banking sector when appropriate)	By Q2 2011
18	Introduce standardized contract features and the rules for the "comply or explain" policy into the laws and supervisory procedures	CBA, SCS, MOF, in joint cooperation	Financial institutions should be required to use supervisor-approved standardized contracts, and to make the standardized contract features available to clients before a sale (including on websites). The relevant supervisors should be given the authority to approve the standardized contract features, to monitor the use of standardized contract features and application of the "comply or explain" policy during inspections and through analysis of received complaints, and to impose sanctions for companies that fail to use the standardized contracts or apply the "comply or explain" policy.	By Q3 2011: law changes, By Q1 2012: implementation into sales process
19	Publish a list of all supervised institutions	CBA, SCS, MOF	All supervisors should have a list of all supervised institutions on their websites, regularly updated	By Q3 2010
D. Business Practices				
20	Define the "Know Your Customer" policy	CBA, SCS, MOF, in joint cooperation	Prepare legal changes across financial sectors to implement the "Know Your Customer" policy, in cooperation with industry associations and consumer NGOs. Changes should include providing supervisors with authority to check for proper implementation of "Know Your Customer" policy during inspections, and to act when consumers complain they were offered an unsuitable product.	By Q3 2010: defining and submitting legal changes, By Q2 2011: implementation into sales process and for preparation of supervisory process
21	Study the 2005/29/EC directive on unfair practices and other relevant material and use the applicable parts for legal changes	CBA, SCS, MOF, in joint cooperation with consumer NGOs and industry associations, possibly also with other authorities	The supervisory authorities should choose the best way for implementation of the unfair practices rules, including discussion with other authorities whether to apply the rules across the whole economy or for financial services only (using Law on Advertising, Law on the Protection of Consumers' Rights, Law on Unfair Competition). Whatever the decision, the enforcement should stay with financial sector supervisors who understand financial products and can apply the general rules to the financial services area.	By Q4 2010: first proposal of implementation By Q1 2011: implementation of legal changes By Q3 2011: beginning of supervision of new rules
22	Analyze the areas where tied sales are used and design tools to outlaw them, preferably within existing antimonopoly legislation	AMD, based on analysis and recommendations from CBA, SCS, MOF, and consumer NGOs	The supervisory authorities in joint action with the Antimonopoly Department and the consumer organizations should analyze the situation at the market, describe the areas where tied sales are used, and either use the existing legislation or draft changes to forbid and prosecute the practice.	By Q4 2010: analysis and proposed solution By Q2 2011: implementation of solution

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23	Prepare sector-wide codes of conduct	Industry associations in joint cooperation with consumers NGOs	Develop and prepare sector-wide codes of conduct for banking, securities, insurance, credit unions, microfinance institutions, leasing, and submit them to the supervisory authority (for non-bank credit institutions, CBA should ensure the codes of conduct are similar to the credit part of the banking code of conduct when appropriate)	By Q4 2010
24	Set the final codes of conduct and the rules for the "comply or explain" policy	CBA, SCS, MOF, preferably in joint cooperation	Comment and improve the draft codes of conduct presented and agree on the final version, define the rules and supervisory process for the "comply or explain" policy.	By Q1 2011: agreement on the final version By Q3 2011: implementation in sales process and start of awareness campaign
25	Set entry rules, training requirements and rules of evaluation for sellers of financial products	CBA, SCS, MOF, preferably in joint cooperation with industry associations, and with IFC for mortgages	Develop the set of minimum requirements for distributors of financial products to make sure they understand the products they sell, including rules for their training and periodic testing of their knowledge.	By Q4 2010: setting requirements By Q2 2011: implementation
26	Define the rules for self-regulatory associations that can effectively conduct simple supervision	CBA, SCS, MOF, preferably in joint cooperation	Develop the rules and minimum requirements for industry associations that could take over some of the supervisory roles.	By Q4 2010
27	Establish a credit reporting system that provides information on consumers' credit history for all financial institutions providing credit	CBA with assistance of IFC	All credit providers (banks, credit unions, microfinance institutions, leasing companies, and companies providing goods and services under credit) should have access to the credit history of their customers and should be required to input credit history of all their clients into a shared database. Both the draft law on non-bank credit organizations and the draft law on credit bureaus should allow for such a database to be created and to be operational in a private credit bureau. Once the laws are adopted and effective, and at least a private credit bureau is well established, the CBA should consider reevaluating the role of the Centralized Credit Register so as not to crowd out operations of private credit bureaus in the country.	By Q1 2011
28	Develop a fraud-prevention database	Private project, under supervision of MOF	Prepare the rules and start operation of a database where all insurers would have to share information on insurance claims and instances of insurance fraud. MOF must develop the tools to monitor the database and its content.	By Q1 2011

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29	Introduce cooling-off period for consumer credit	CBA, in cooperation with consumer NGOs	Draft legal changes (Law on Banks, draft Law on Non-Bank Credit Institutions, Civil Code) that will introduce a 14-day cooling-off period for any type of consumer credit, stipulate that consumers must be clearly informed about their right to cancel the contract, and give CBA the power to set the maximum fees credit providers can charge for administrative costs of canceled contracts. Prepare a public awareness campaign.	By Q3 2010: legal changes By Q1 2011: implementation and public awareness campaign
30	Deal with conflicts of interest in the sales process	MOF with CBA and SCS in joint cooperation	Define rules that avoid conflicts of interest (e.g. specific insurance rules in Law on Insurance Activity, or general rules in Law on the Protection of Consumers' Rights relevant for all sectors) and provide supervisors with effective sanctions to deal with distributors that do not act in the best interest of clients.	By Q1 2011
E. Dispute Resolution				
31	Set up a standardized complaint-handling system	CBA, SCS, MOF, preferably in joint cooperation	The supervisors should define the general rules of how complaints should be handled by financial institutions (recording, handling times, reporting and analysis), and of how the supervisors will monitor the application of the rules.	By Q3 2010: setting standards By Q1 2011: implementation
32	Include complaints into the risk-based supervision	CBA, SCS, MOF, preferably in joint cooperation	Require financial institutions to submit a report on complaints twice a year. Develop rules for the use of complaints analysis to identify potential systemic weaknesses and to increase prudential supervision of financial institutions.	By Q3 2010: reporting requirement By Q1 2011: implementation
33	Prepare public information policy about complaints	CBA, SCS, MOF, preferably in joint cooperation	Use the complaints analysis and results of complaints handling to inform the public about those that break the rules and make sure the supervisors have enough powers to stop the offenders.	By Q1 2011
34	Prepare a capacity building system for police and judges	CBA, SCS, MOF, preferably in joint cooperation	Develop a system that will help police prosecutors and judges deal effectively with cases related to financial products and their mis-selling.	By Q2 2011

Acronyms and Abbreviations

AMD :	Antimonopoly Department	NGO:	Non-government organization
CBA:	Central Bank of Azerbaijan	SCS:	State Committee for Securities
IFC:	International Financial Corporation	SISD:	State Insurance Supervision Department
MOF:	Ministry of Finance	USAID:	United States Agency for International Development

Annex II: Summary of Action Plan on Financial Capability Issues

Action	Responsibility	Description	Timetable
A. Developing a National Financial Capability Programme			
1	CBA, in conjunction with partners from the public sector, the Parliamentary Commission on Economic Policy, Azerpost, the private sector and NGOs	CBA should lead work to improve the population's financial capability. CBA should ensure that priorities are established; that a broad range of organisations agree to work in partnership to undertake, or participate in, financial capability initiatives; that the activities of partners are co-ordinated; and that partners are consulted and communicated with so that they can use their experiences and expertise to help shape policies and practices.	Starting from Q1 2010
2	CBA, in conjunction with relevant ministries	Study the financial capability programmes used by other countries, for example the UK's FSA, and consider whether, and if so how, the programmes could be adapted to the Azerbaijan context.	By Q2 2010: initial analysis. Developments to be monitored after that on a continuing basis.
3	CBA, SCS and MOF	Each regulator should consider whether it would be helpful to be provided with an explicit legal mandate, or whether it needs any additional legal powers, to enable it to undertake financial capability work (and, in the case of CBA, to lead financial capability work). If one or more regulators conclude that new legal provisions are needed, CBA should co-ordinate the development and submission of a case to the Cabinet of Ministries for legal provisions to be developed and enacted.	By Q2 2010: analysis to be completed. By Q3 2010: any subsequent submission to the Cabinet of Ministers for new legal powers to be provided.
4	CBA, in conjunction with relevant ministries	Develop and publish a national financial capability programme.	By Q3 2010
5	CBA, in conjunction with related ministries	Develop and publish outcome-based objectives for financial capability work, in conjunction with the national financial capability programme.	By Q3 2010
6	CBA	Establish and chair a steering group, comprising senior representatives from key stakeholders.	By Q1 2010
7	CBA, in conjunction with related ministries	Develop and execute a communications plan –which should be kept under review and updated as necessary– in order to ensure effective communication with partners, prospective partners and other stakeholders.	By Q3 2010
8	CBA, in conjunction with related ministries	Arrange for an assessment to be made of whether consumer-focused NGOs should be strengthened (so that they can contribute to the development and implementation of the national financial capability programme) and, if so, how this can best be achieved.	By Q1 2011

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B. Financial Capability Survey			
9	Develop and administer a national financial capability survey	Joint Tender Commission	Issue invitation to tender for one or more professional firms to: design a financial capability survey, administer the survey, analyse the results. Completed
10	Publish results of the survey	CBA, in conjunction with related ministries	Arrange for survey to be completed and analysed and the results published. By Q1 2010
11	The national financial capability programme should take account of the survey results	CBA, in conjunction with related ministries	Ensure that the national financial capability programme takes account of the results of the survey. By Q3 2010
C. Financial Education in Schools			
12	Ensure that a full programme of financial education is included within the school curriculum	Ministry of Education	Identify gaps in the existing financial education curriculum (e.g. through comparing the existing curriculum with one or more comprehensive curricula already developed for use in other countries). Modify the existing curriculum to fill those gaps. By Q3 2010: identifying gaps By Q1 2011: modifying curriculum
13	Use of relevant and interesting resources for schoolchildren	Ministry of Education	Develop any additional resources which may be needed, e.g. by drawing on curricula or resources developed for other countries. By Q4 2011
14	Evaluate inclusion of training on financial education issues into existing training programmes for teachers	Ministry of Education, in coordination with Ministry of Taxes	Discuss whether training on the delivery of financial education could be incorporated into the training programmes for teachers which the Ministry of Taxes has developed. By Q1 2011: discussion with Ministry of Taxes Develop training programmes for teachers who will be delivering financial education, as part of both of pre-service and in-service training. By Q4 2011: developing training programmes
D. Other Financial Capability Initiatives			
15	Develop financial education initiatives for young adults	CBA, in conjunction with relevant ministries	Consider how financial capability initiatives can best be targeted at young adults and develop a strategy for achieving this. By Q3 2010
16	Consider whether, and if so how, to deliver financial education presentations in workplaces	CBA, in conjunction with relevant ministries, with participation of employer and trades unions	Discuss the scope for delivering financial capability presentations in workplaces and, if there is support for this, commission the development of a standard presentation and identify and deliver individuals to deliver the presentation. Alternatively or additionally, the presentation should be delivered via an appropriate technology, such as DVDs. By Q2 2010: inviting AmCham to develop and pilot a presentation or DVD, if it is decided to do so. The CBA should consider inviting AmCham to develop and pilot a presentation and/or DVD: if successful, the CBA, in conjunction with relevant ministries, should encourage other employers to make use of these resources. By Q3 2010: completing discussions with employer and trades union representatives, and agreeing a way forward.

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17	Deliver financial capability initiatives through a range of other partners	CBA, in conjunction with relevant ministries, with participation of other organisations	Identify organisations within Azerbaijan which are currently delivering financial capability initiatives, or which would be willing to begin doing so in the future, to agree with them the roles they should play and to identify any additional support or resources which they will need in order to be able to do so effectively.	By Q3 2010
18	Disseminate good practices in delivering financial education programmes	CBA, in conjunction with relevant ministries, with participation of other organisations	Disseminate examples of good practices in financial education programmes (such as the proposed AMFA project for "training of teachers") to organisations delivering or planning to deliver financial capability initiatives.	By Q2 2010
E. Provision of Information to Consumers				
19	Assess capacity to implement consumer communications strategy	CBA	Ensure that CBA has sufficient staff with communications expertise to enable it to lead the development and implementation of a consumer communications strategy.	By Q1 2010
20	Develop a consumer communications strategy	CBA, in consultation with other financial supervisors and other stakeholders	Develop a consumer communications strategy, including the use of a range of media, and the development and promotion of a personal finance consumer website.	By Q3 2010
21	Develop publications for financial consumers	Financial services supervisors	Decide whether to develop publications focused on the services provided in their sector.	By Q2 2010
22	Provide comparative information for consumers	CBA, in conjunction with other financial services regulators	Lead the development and publication of comparative information (e.g. comparative tables for the most popular classes of financial products to allow easy comparison of costs and other key features). Information should be published on the regulators' websites.	By Q4 2011
F. Consumer Testing and Monitoring and Evaluation				
23	Promote consumer testing of financial capability programmes	CBA, in conjunction with relevant ministries	Promote the consumer testing of all major proposed financial capability programmes before they are finalised and rolled out. The results of any consumer testing or pilot exercises should be used to improve the design and delivery of the programme.	By Q3 2010
24	Promote monitoring and evaluation of financial capability programmes	CBA, in conjunction with relevant ministries	Encourage each organisation which undertakes major financial capability programmes to build in monitoring and evaluation from the outset and to advise them on how best to monitor and evaluate programmes.	By Q3 2010

Acronyms and Abbreviations

AmCham:	American Chamber of Commerce in Azerbaijan	MOF:	Ministry of Finance
AMFA:	Azerbaijan Microfinance Association	NGO:	Non-government organization
CBA:	Central Bank of Azerbaijan	SCS:	State Committee for Securities
FSA:	Financial Services Authority	UK:	United Kingdom