MOZAMBIQUE

Diagnostic Review of Consumer Protection and Financial Literacy

Volume I
Key Findings and Recommendations

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Acknowledgments

A World Bank mission visited Mozambique from March 26 to April 6, 2012 to prepare a Diagnostic Review on Consumer Protection and Financial Literacy (CPFL)[1].

The World Bank team was co-led by Johanna Jaeger (Financial Sector Specialist) and Douglas Pearce (Manager, Financial Inclusion Practice); and comprised Eric Haythorne (Banking Consultant), Tomas Prouza (Non-bank Financial Institutions Consultant), Sophie Teyssier (Microfinance Consultant), Anna Luisa Paffhausen (Financial Sector Analyst), and Mazen Bouri (Senior Private Sector Development Specialist).

The mission was received by His Excellency Ernesto Gouveia Gove, Governor of the Banco de Moçambique (BdM), and met with board members and directors of BdM. The mission also met with the representatives of relevant stakeholders, government ministries, public agencies, banks, non-banks, organizations representing the financial industry, entrepreneurs and consumers and legal experts. The mission team is grateful for the support and collaboration of all with whom they met.

It is expected that the findings will be presented publicly at a dissemination workshop in Maputo in fall 2012. The final version of the Diagnostic Review will be published on the World Bank's website with hard copies distributed in Mozambique. The recommendations of the Diagnostic Review would form the basis for a potential follow-up technical assistance program which could be supported by the World Bank and/or other development partners.

Peer review comments were received from Nataliya Mylenko (Senior Financial Sector Specialist, EASFP) and Samuel Maimbo (Lead Financial Sector Specialist, ECFS2). Aurora Ferrari (Manager, Micro and SME Finance service line) provided guidance and comments.

The team expresses its appreciation to the Mozambican authorities for their cooperation and collaboration during the preparation of the Review. The project team would like to thank all those who so generously contributed to the final report.

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[1] The CPFL Review is part of the World Bank Program on Consumer Protection and Financial Literacy, which seeks to identify key measures in strengthening financial consumer protection to help build consumer trust in the financial sector—and expand the confidence of households to wisely use financial services. CPFL Reviews against Good Practices have been conducted by the World Bank in both middle as well as low income countries. These include Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Kazakhstan, Latvia, Lithuania, Malawi, Mozambique, Nicaragua, Romania, the Russian Federation, South Africa, Slovakia, Tajikistan and Ukraine.

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Abbreviations and Acronyms

AFI	Alliance for Financial Inclusion
AMB	Associação Moçambicana de Bancos (Mozambican Association of Banks)
AML	Anti-Money Laundering
AMOMIF	Mozambican Association of Micro Finance Operators
ASCA	Accumulating Savings and Credit Associations
ATM	Automatic Teller Machine
BdM	Banco de Moçambique (Bank of Mozambique)
BIS	Bank for International Settlements
BR	Boletim da República (Government Gazette)
BSD	Banking Supervision Department of the BdM
CCB	Code of Conduct for Banks of the AMB
CGAP	Consultative Group to Assist the Poor
CI	Consumer Institute
CIFC	any credit institution or finance company over which the BdM has jurisdiction pursuant to Law 15/99
CP	Consumer Protection
DECOM	Associação de Defesa do Consumidor (Consumer Defense Association)
DGF	Deposit Guarantee Fund (Fundo de Garantia de Depósitos)
DNAEA	Direcção Nacional de Alfabetização e Educação de Adultos (National Directorate for Literacy and Adult Education)
DNPDR	Direcção Nacional de Promoção do Desenvolvimento Rural (National Directorate for the Promotion of Rural Development)
EC	European Commission
EU	European Union
EURIBOR	Euro Interbank Offered Rate
FARE	Fundo de Apoio à Reabilitação da Economia (Economic Rehabilitation Support Fund)
FI	Financial Institution
FORCOM	Fórum Nacional das Rádios Comunitárias (National Forum of Community Radios)
FSAP	Financial Sector Assessment Program
FSTAP	Financial Sector Technical Assistance Project
GPI	Gabinete de Planeamento Estratégico, Comunicação e Imagem (Office of Strategic Planning, Communication and Image) of the BdM
IFBM	Instituto de Formação Bancária de Moçambique (Banking Training Institute of Mozambique)
IMF	International Monetary Fund
INDE	Instituto Nacional de Desenvolvimento de Educação (National Institute of Educational Development)
ICS	Instituto de Comunicação Social (Social Communication Institute)
IT	Information Technology
MFI	Microfinance Institution
MFSDS	Mozambique Financial Sector Development Strategy 2012 to 2021
MFT	Micro Finance Transparency
MOF	Ministry of Finance
MAE	Ministério de Administração Estatal (Ministry of State Administration)
MZN	Meticais
NBI	Non-bank financial institutions
NGO	Non-governmental organization

NPL	Non-performing loan
OECD	Organization for Economic Cooperation and Development
PIN	Personal Identification Number
POS	Point of Sale
SARPIS	Serviço de Atendimento de Reclamações, Pedidos de Informações e Sugestões (Service for Complaints, Information Requests and Suggestions)
UNDP	United Nations Development Program
USAID	United States Agency for International Development

Currency Equivalents

US$1 = 29.46 MZN (November 8 2012)

Executive Summary

1. **The Review provides a detailed assessment of the institutional policy and regulatory framework in two segments of the financial sector: banking and non-bank credit institutions.** The mission took place in response to a specific request for technical assistance in the field of financial consumer protection made by the central bank, the Banco de Moçambique (BdM), in November 2011. As agreed with the BdM, the assessment has focused on bank and non-bank entities[2] within Mozambique's financial sector that provide financial products and services to consumers, including microfinance, with a particular focus on credit reporting and on financial awareness.

2. **Without an effective financial consumer protection framework, and improvements in financial literacy, the ongoing expansion of financial inclusion in Mozambique can pose risks to the financial sector stability, and the economic wellbeing of firms and individuals.** CPFL can help manage risks and provide for a greater uptake of financial services. In addition, a sound CPFL framework helps regulators better understand and accommodate the level of understanding of consumers, especially vulnerable segments of the population.

3. **The CPFL Diagnostic Review is an initial priority follow up to the Mozambique Financial Sector Development Strategy (MFSDS) for 2012-2021**, given that i) CPFL has been identified by the BdM as a priority area going forward, ii) the many new consumers of financial services due primarily to the expansion of bank accounts, consumer lending, and mobile phone payments need to be adequately protected from mis-selling, fraud, and misinformation, iii) financial literacy enables people to take advantage of and benefit from financial services, and iv) there had not been a comprehensive assessment of financial consumer protection or literacy conducted in Mozambique.

4. **Volume I summarizes the key findings and recommendations of the Review and Volume II presents a detailed assessment of each financial segment compared to the Good Practices.** Volume II also includes annexes that analyze and provide more detailed recommendations on credit reporting and financial education, and a description of the overall legal and institutional frameworks for financial consumer protection in Mozambique.

5. **The key findings and recommendations presented in this report cover six areas:** 1. Institutional Arrangements, 2. Legal and Regulatory Framework, 3. Disclosure, 4. Business Practices, 5. Dispute Resolution Mechanisms, and 6. Financial Education. Priority recommendations are outlined in Table 1.

6. **A minimal legal basis for financial consumer protection exists already for financial consumer protection,** primarily through the Credit Institutions and Finance Companies Law (CIFC Law), the Microfinance Decree (57/2004) and the Law on Consumer Protection (CP Law) as well as two Notices on complaints handling (Notice 4/2009) and fees and charges (Notice 5/2009). However, current disclosure requirements still lack guidance on the type and form of information that should be provided by financial institutions to retail customers. In addition, there is a lack of transparency on pricing of financial products and services. So far there exists no legislation/regulation on internet banking or mobile phone banking in Mozambique.

7. **The BdM is the regulatory and supervisory authority for credit institutions, financial companies and the microfinance industry in charge of prudential but also consumer protection supervision, dispute resolution and financial education.** However, BdM lacks capacity to monitor and enforce the existing consumer protection provisions and the consumer protection and financial education responsibilities within BdM are spread across the Department for Strategic Planning,

[2] These include micro-finance oriented banks, microbanks, credit cooperatives and microfinance operators.

Communication and Image (GPI) and the Banking Supervision Department (BSD). Financial institutions are already obliged to maintain a complaints, information and suggestions service counter, and to establish internal public attendance policies and procedures. As a second step, consumers can submit their complaint to the BdM. There exists a wide range of public and private initiatives on financial literacy or education that are ongoing or in planning stage, however, coordination is lacking between them and there is no over-arching strategy.

8. **In order to clarify and strengthen the regulatory framework, further detailed provisions should be included in the CIFC Law.** It would be advisable to streamline financial consumer protection provisions by including further detailed financial consumer protection provisions in Chapter VI (Rules of Conduct) of the CIFC Law, drawing at least in part on the extensive series of obligations that are placed upon banks and other financial institutions by the Consumer Protection Law (CP Law). In addition, further notices (central bank circulars) should be issued to clarify both the CIFC Law and the Microfinance Decree.

9. **Regarding the institutional framework, the capacity of the BdM to monitor and enforce consumer protection provisions needs to be further strengthened.** A practical way forward would be to establish a new financial consumer protection unit within the BdM separate from prudential regulation and supervision in charge of monitoring, supervising and enforcing consumer protection provisions as well as the handling of complaints while the responsibilities for financial literacy and education would stay with GPI. Considering current capacity and resource constraints, as an interim step the roles of BSD and GPI should be further strengthened.

10. **In the area of consumer disclosure, BdM should issue regulations that require financial institutions to provide clear, understandable and timely information to consumers.** The BdM should require financial institutions to disclose a standard measure of the total cost of credit comparable across financial institutions - for example an effective interest rate, or an interest rate spread (including fees) over a reference rate such as the BdM Reserve Rate - and to use that percentage in all advertising and sales materials. In addition, financial institutions should be required to provide a standardized 'key fact statement' that summarizes in plain language the key terms and conditions for each product or service on offer to the consumer. Consumer testing would be helpful in tailoring the formats and contents disclosed to best suit consumer understanding and communication preferences. Disclosure methods and formats would also need to take into account levels of customer illiteracy and the predominance of local languages rather than Portuguese in certain populations and demographics.

8. **To further improve disclosure, the BdM should ensure that consumers are provided with comparable information on costs and terms of similar financial products using a variety of distribution channels. This would also provide an incentive for providers to compete to improve product design and pricing.** Notice 5/2009 could be used as a basis for an amendment as it already requires financial institutions to report commissions and charges quarterly to BdM. A variety of distribution channels should be used such as internet, newspapers, community leaders, consumer associations, and through suitable outlets in rural areas (such as health clinics and retail stores).

9. **In the area of dispute resolution mechanisms, financial institutions should be obliged to inform consumers proactively of the right to complain, as well as how to proceed in the event of a dispute.** By means of a future Notice, and/or revision to the Notice 4/2009, BdM should require financial institutions to disclose internal complaints procedures in the terms and conditions for their products and services. Information on complaint handling procedures should also be visibly posted (in the relevant languages) in branches and online. The complaint process should be easy to use and to access, allowing for both oral and written complaints. All financial institutions should be required to centralize data on complaints received and share them with BdM for further publication. The complaint data analysis showing categories of complaints, time to resolve, unresolved complaints, etc., should then be sent periodically to GPI of BdM with BdM analyzing and potentially also publishing the respective aggregate data on its website as foreseen in Notice 4/2009.

10. **A coordination mechanism for <u>financial literacy and education</u> is needed.** The Steering Committee for the Financial Sector Development Strategy would be an appropriate mechanism for introducing a more strategic perspective, monitoring progress on the initiatives, and helping to avoid duplication of efforts. A coordinated approach would improve the coherence of the different initiatives, and integrate them into a long-term strategic perspective including in-school programs and specific programs for other groups of citizens.

11. **A national survey of financial literacy should be conducted to provide the first comprehensive set of data and insights on the levels of financial literacy (and broader financial 'capability') in Mozambique.** The survey would provide further information required to design financial education programs and provide a baseline to measure impact of financial education and consumer awareness initiatives going forward.

Table 1: List of Key Recommendations

Key Recommendations	Responsible	Outputs
<u>Strengthen the regulatory framework for financial consumer protection</u> by including specific financial consumer protection provisions in the CIFC Law and making them applicable to microfinance institutions by an amendment of the Microfinance Decree. Further BdM Notices should be issued to clarify both the CIFC Law and the Microfinance Decree.	Government, BdM	Revised laws, and clarifying circulars
Establish a <u>new financial consumer protection unit</u> within the BdM separate from prudential regulation and supervision in charge of monitoring, supervising and enforcing consumer protection provisions as well as the handling of complaints	BdM	Greater capacity for monitoring, enforcement
<u>Amend Notice 5/2009 including a standard methodology for financial institutions</u> to disclose a price or cost of financial products to consumers, including all costs ('effective interest rate')	BdM	Revised notice
<u>Require Key Facts Statements for all basic consumer finance products</u>, test consumer understanding of mandatory disclosure	BdM	New notice
<u>Provide consumers with comparable information for standard financial products</u> via a broad range of distribution channels such as a price comparison website, newspapers, community leaders, consumer associations and suitable outlets in rural areas	BdM	Disclosure of comparable information via wide range of channels
<u>Oblige financial institutions to proactively inform consumers of the right to complain and how to proceed</u> in the case of a dispute, through a revision of Notice 4/2009	BdM	Revised notice
<u>Conduct a financial literacy survey</u> to measure CPFL levels	BdM, survey firm	Survey report

I. Context for CPFL in Mozambique

Importance of consumer protection and financial literacy in Mozambique

12. **Consumer protection and financial literacy (CPFL) are key to increasing responsible access to financial services in Mozambique while ensuring that expanded access to financial services benefits the economy and consumers.** While increased access to finance can result in significant economic and societal benefits, it can be neutral or even harmful if consumers are not able; (i) to exercise their rights as consumers; (ii) to select the financial products that suit them best and (iii) to be protected from mis-selling, fraud, and other market abuses in violation of financial service providers statutory and regulatory obligations towards them. As a result, uptake of financial services by new and existing customers is held back (including of savings, and of new technologies such as mobile banking), consumers are less able to benefit from financial services, and the risk of harmful impacts for consumers and financial institutions is increased (for example from consumer over-indebtedness or from mis-selling scandals). See Box 1 on how the CPFL Diagnostic Review links to the wider financial sector strategy.

Box 1: CPFL Diagnostic Review in the context of the wider financial sector strategy

Despite the progress made to achieve stability and growth over the past two decades by the financial sector in Mozambique great challenges remain. While the outreach of the banking sector has expanded, the range of financial products widely available is narrow, and usage of financial services lags behind access (the new bank accounts for receiving public sector salaries often lie dormant except for a monthly receipt and withdrawal of the salary payment). Licensed financial institutions still do not serve the majority of the population, with rural populations in particular lacking access to financial services. The banking system remains characterized by its lack of competition, despite a number of new entrants. The use of mobile phones and other innovative mechanisms for making payments and accessing other financial services has not yet taken off. The development of financial infrastructure has not kept pace with the growth in financial sector depth and inclusion.

Notwithstanding the important focus on measures to overcome general consumer protection challenges in Mozambique, it is therefore timely that the Government has included an emphasis on financial literacy and consumer protection in the draft Financial Sector Development Strategy (MFSDS) for 2012-2021. This strategy includes: i) rapidly expanding financial literacy for all types of financial services to increase the public's understanding of how financial services can improve livelihoods, and its ability to access financial services; ii) putting in place a consumer protection framework both to protect consumers and to encourage new consumers to enter the market.

In addition to the MFSDS, the new financial inclusion commitment of the BdM to the Alliance for Financial Inclusion 'Maya Declaration' set out a significant reform agenda for financial inclusion, as well as for financial consumer protection and literacy. The BdM's new commitment made at the Alliance for Financial Inclusion (AFI) meetings in Cape Town on September 28, 2012, was to a Financial Inclusion Strategy (or action plan) that would cover financial inclusion, financial stability, financial education and consumer protection, and financial inclusion indicators. The BdM's Mobile Banking Task Force (which includes the Telecoms Regulator) has also identified priority reforms that would contribute significantly to financial inclusion, initially covering cards, agents, and interoperability.

The CPFL Diagnostic Review is an initial priority follow up to the draft MFSDS, given that i) CPFL has been identified by the BdM as a priority area going forward, ii) the many new consumers of financial services due primarily to the expansion of bank accounts, consumer lending, and mobile phone payments need to be adequately protected from mis-selling, fraud, and misinformation, iii) financial literacy enables people to take advantage of and benefit from financial services, and iv) there had not been a comprehensive assessment of financial consumer protection or literacy conducted in Mozambique.

CPFL can help manage risks and provide for a greater uptake of financial services. Bringing unbanked individuals into formal financial system presents risks, both – for financial sector (credit risks) and consumers. CPFL helps to lower default risks and provide greater benefits to consumers. A weak financial consumer protection and financial literacy framework can also hold back the uptake of new technologies such as mobile banking. CPFL can help increase usage and viability of these innovative payment services.

In addition, a sound CPFL framework helps regulators better understand and accommodate the level of understanding of consumers, especially vulnerable segments of the population. All consumers, especially the poor and vulnerable who may not be perceived as 'income generating' customers, deserve to be treated fairly. It is therefore crucial for regulators to focus on those risks that are most harmful and affect more vulnerable segments of the population.

13. **Financial inclusion is increasing rapidly in Mozambique, albeit from a low base.** The Global Findex Database 2012 suggests that almost 40 percent of adults in Mozambique now have an account at a formal financial institution.[3] Compared to other countries in Southern and Eastern Africa, Mozambique now has one of the highest percentage of financially included adults (see Table 2), although many of the new bank accounts are not yet used for more than receiving or withdrawing payments.

Table 2: Access to Financial Services

	Adults with Account at a Formal Financial Institution (%, age 15+)
Portugal	81.2
Brazil	55.9
South Africa	53.6
Mozambique	**39.9**
Angola	39.2
Botswana	30.3
Zambia	21.4
Tanzania	17.3
Malawi	16.5
Sub-Saharan Africa	**24.1**
Low income	**23.7**

Source: Global Findex, 2012

14. **Credit growth has been increasing rapidly over the last couple of years.** In Mozambique the financial sector is dominated by commercial banks which had a market share of 97 percent of credit volume and 98 percent of deposit volume by mid 2011. The size of banking sector's assets has been growing rapidly as a result of the expansion of the three largest banks, with private sector credit growing from 18.7 percent of GDP at end-2008 to 28.2 percent of GDP at end-2010.[4] Retail lending to households more than tripled between 2007 and 2011, with two leading banks expanding into retail lending through

[3] The Finscope 2009 Mozambique survey found that only 22.2% of the population had access to financial services, either through formal banks (11.8%) or through other formal (0.9%) or informal (9.6%) sources. The significant increase suggested by the Global Findex results can be explained by many factors, most notably: i) the Findex survey was carried out 3 years after the FinScope survey, ii) the growth in retail banking noted in paragraph 14, iii) the Findex survey uses a broader definition of an account, describing it as an individual or joint account at a formal financial institution (bank, credit union, cooperative, post office or microfinance institution), which can be used to save money, to make or receive payments, or to receive wages and remittances. It also includes those who report having a debit or ATM card and iv) differences in sampling and methodology.

[4] IMF Republic of Mozambique: Staff Report for the 2011 Article IV Consultation

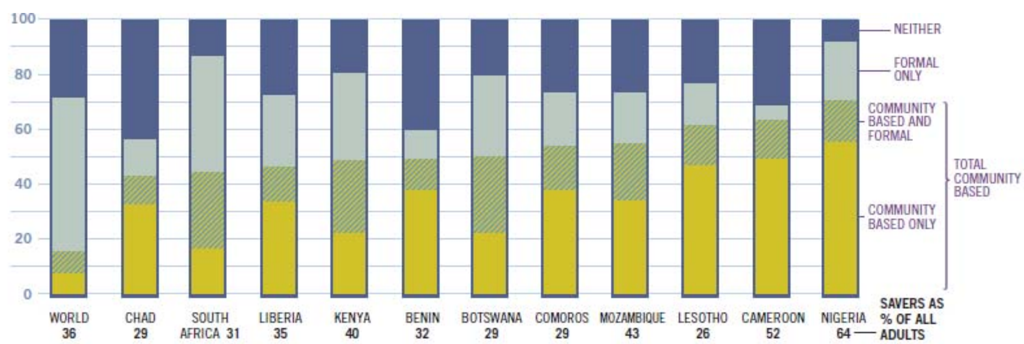
offering bank accounts and credit cards (with appropriately low maximum limits) to individuals on the payroll of public sector entities.

15. The outreach of formal financial institutions has expanded. The number of districts serviced by banks increased from 28 in 2006 to 58 in 2011, out of 128 districts in total. The number of microfinance providers expanded to: 4 commercial banks with an orientation to microfinance, 166 registered microfinance operators,[5] 8 microbanks, and 7 financial cooperatives or credit unions. Electronic money products are becoming widely available, with the potential to bring many new customers into the financial sector who previously did not have bank accounts.

16. Despite the improved access to formal financial services and products, licensed financial institutions still do not serve the majority of the population. While an estimated two thirds of the population lives in rural areas, Finscope 2009 found that financial access rates of the rural adult population were very low, with only 4.2 percent having access to formal financial services, compared to 26.6 percent of the urban adult population. Almost half of those with access to formal financial services in rural areas had to spend more than two hours to reach their financial institution (46.2 percent), while a third (34.3 percent) required more than three hours, and some others had to stay overnight. Limited rural access to technology and communications was underscored by the fact that only one in ten rural adults owned a cellphone, as compared to four out of ten urban adults.[6]

17. Informal financial services play a major role in Mozambique. As in other Sub-Saharan African countries, use of informal financial services is widespread in Mozambique (see Figure 1). According to the Global Findex Database, 43 percent of adults saved or set aside money in the past 12 months, with 23 percent of adults (and 54 percent of those who save) using a savings club or person outside the family, compared to 17.5 percent (and 41 percent of those who save) saving at a formal financial institution. The two most important types of community based savings methods are Xitiques (traditional revolving savings groups) and ASCAs (community-based Accumulating Savings and Credit Associations), the latter often supported by donor programs aimed at extending financial services into rural areas. At the same time, only around 6 percent of the adult population borrowed from a registered financial institution, while 35 percent borrowed from family or friends and only 2 percent from an informal private lender.

Figure 1: Country comparison - Adults saving any money in the past year by saving method used (%)



Source: Global Findex, 2012

[5] Although only 35 of these institutions report to the BdM, and many are barely active.

[6] The new Findex Database 2011 results suggest that there is no significant difference between the comparative access of rural versus urban population, although the absolute rates of access reported by Findex were much improved. With more than 5000 surveyed individuals compared to a thousand surveyed by Findex, Finscope 2009 provides a more detailed picture of the situation in rural areas.

18. Financial institutions are introducing alternative distribution channels to better reach the under-served, but outreach is still limited. To reach consumers in rural areas or to provide easy-to-use basic banking services, mobile branches, and mobile payments through cellular phones, are being introduced. For example, one of the large microfinance-focused banks uses six mobile branches, i.e. trucks with a safe, ATM and computer, that travel around a region, stopping in 1-2 villages a day and visiting each community on route at least once a week. There is also the first mobile banking operator that is currently developing its sales network with about 3,000 active clients.

19. Mozambique's financial sector is highly concentrated, which creates disincentives for transparency and efficiency, and high lights the need for financial consumer protection and consumer awareness. Despite new market entrants (18 banks are now operating in the sector), Mozambique's financial sector remains highly concentrated with the banking sector accounting for almost all financial assets and the three (five) largest banks, all foreign-owned, accounting for about 76 (86) percent of the total assets of the sector. The microfinance sector is also concentrated, with the largest 5 microfinance providers (4 commercial banks and a network of credit associations) serving 69% of the active microfinance clients and constituting 82% of the total microfinance loan portfolio in Mozambique. Deposits are concentrated in four commercial banks, with ProCredit Bank responsible for 60% of the volume and 44% of the micro-finance clients of deposit services.

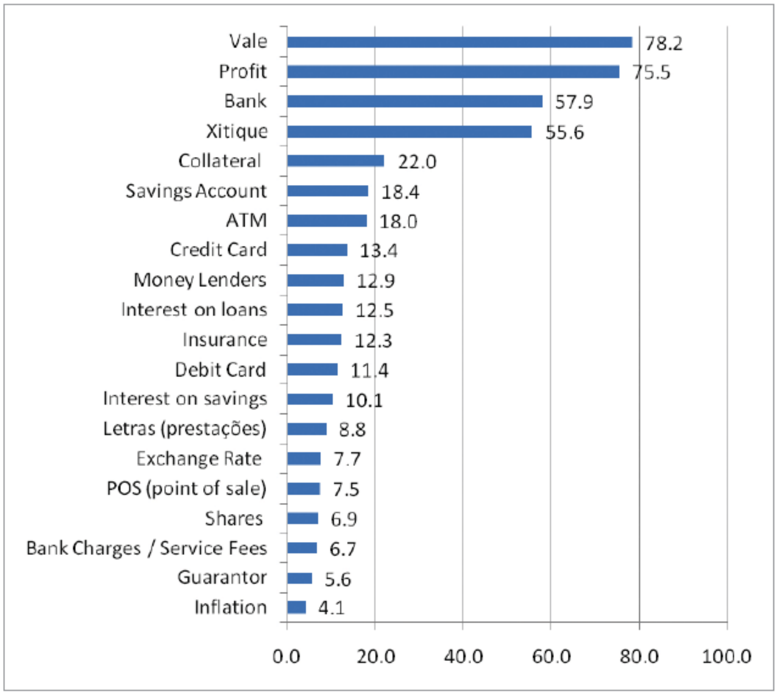
20. The development of financial infrastructure has not kept pace with the growth in financial sector depth and inclusion, with significant deficiencies and gaps remaining in the following areas: (i) the credit information system, (ii) collateral framework, (iii) asset registries, and (iv) the payments system. Partly as a result, microfinance client over-indebtedness seems to be a feature in certain saturated urban markets, with a lack of a broadly based and automated credit bureau (the public credit registry does not cover non-deposit taking institutions) hampering the ability of microfinance providers and others to avoid clients borrowing from several providers.

Financial Literacy

21. Lack of financial literacy and knowledge constrains the demand for and uptake of financial services, and limits the potential benefits of financial services. Many financial consumers in Mozambique are not aware of their rights and responsibilities as financial consumers, and lack familiarity with financial services and products. Consumers lack information on financial services, together with the knowledge and motivation to use this information, in order to be able to make an informed selection and to fully benefit from those financial services that are available to them (although for many low income and rural individuals this may still be a very restricted range of services).

22. The capability of consumers to understand and select the financial products that best fit their needs should increase in line with improvements in financial inclusion. Financial literacy (and the trust in financial institutions that effective consumer protection can bring) is closely linked with financial inclusion, as potential consumers need to know that a particular financial service exists, how to access it, and how it fits (or not) their needs. The FinScope survey in Mozambique (2009) showed that the level of awareness of basic financial concepts such as the informal agreement between two parties in terms of credit/having borrowed money (*vale*), and of profits, is widespread in both urban and rural areas (see Figure 2). However, less than half (48.6%) of rural adults know what a bank is, and only a negligible small percentage are aware of basic banking products or services.

Figure 2: Level of awareness of basic financial concepts



Source: Finscope, 2009

23. **Finscope 2009 showed that there exist various barriers for uptake and use of banking services.** While the lack of money to afford an account and access issues are the main reasons for consumers not to have a bank account, not understanding the financial language used by banks, or how they work, and intimidation about approaching banks, are also important barriers for parts of the population. Other issues of access include lack of documents and inconvenient hours (see Figure 3).

Figure 3: Reasons for not having a bank account

Category	Specific Reason	Percentage
Unsuitability / affordability	Does not have enough money to afford account	78.7
	Does not understand benefits from having an account with them	2.4
	Do not want it	1.4
	Do not need it	2.1
	The do not provide services needed	0.4
	Cannot maintain the minimum balance	3.9
	Bank fees are too high	0.6
Perceptions	Need permission of someone else to open it	2.0
	Their accounts are not for people like 'me'	5.3
	Does not trust these institutions	0.6
Access Issues	It is too far away	15.2
	Transport too expensive	4.5
	Their hours are not convenient	0.5
	Don't have appropriate documents	1.6
	Agency where had account closed	0.8
Illiteracy	Does not understand how banks work	7.9
Intimidation	Does not know how to apply	2.8
	Does not understand the financial language used	2.0
	Fear of embarrassment or refusal	0.4
Other	None	0.0

Source: Finscope 2009

II. Framework for Financial Consumer Protection in Mozambique

Legal and regulatory framework

24. A minimal basis for financial consumer protection exists already, primarily through the Credit Institutions and Finance Companies Law (CIFC Law) and Law on Consumer Protection (CP Law). Although general in nature, the Consumer Protection (CP)Law does place a wide range of obligations upon financial institutions when they deal with consumers, including when granting credit and collecting debts. Notwithstanding the fact that the Consumer Institute and the regulations envisaged in the CP Law have not yet been established, the CP Law represents the only statute of Mozambique that deals exclusively with consumer rights and the obligations of service providers, including banks and all other financial institutions towards consumers. Thus, a conflict could arise with the work of the BdM if the Consumer Institute were to be established. In addition, a potential conflict arises by reason of the fact that the Advertising Code, the CP Law and Notice 5/2009 of BdM all contain provisions on misleading advertising with different enforcement authorities (see Table 3).

Table 3: Overlapping jurisdiction over financial consumer protection

Legislative Act	Monitoring and Enforcement Authority
CP Law	Regulations necessary for the execution of the law do not exist and Consumer Institute (according to Art. 38) has not been established yet
Notice 5/2009	BdM
Advertising Code	Ministry of Industry and Trade

25. So far there exists no legislation/regulation on internet banking or mobile phone banking in Mozambique. By way of the 2004 amendments to Law 15/99, so-called “electronic money institutions” have been permitted to be created. They are classified as “credit institutions” and are permitted to mobilize deposits and other reimbursable funds from the public. An initial operator, namely mKesh, entered the market in 2011 as a BdM licensed electronic money institution. With the exception of a few basic provisions, however, there are no specific rules regarding how such institutions need to be regulated in practice. The central bank has therefore set up a task force on mobile financial services with members of banking supervision, IT, payments systems and legal department to work on a respective regulation.

Recommendations

26. The CIFC Law needs to be clarified and strengthened, with the application of provisions being monitored and enforced. In order to ensure an adequate basic framework for financial consumer protection, further detailed financial consumer protection provisions should be included in the CIFC Law, and made applicable for microfinance institutions through an amendment to the Microfinance Decree (Decree 57/2004). Further BdM Notices (central bank circulars) should be issued to clarify both the CIFC Law and the Microfinance Decree. It would be advisable to streamline financial consumer protection provisions by including further detailed financial consumer protection provisions in Chapter VI (Rules of Conduct) of the CIFC Law, drawing at least in part on the extensive series of obligations that are placed upon banks and other financial institutions by the CP Law.

27. In time, whether in the law amending the CIFC Law or otherwise, the CP Law and the Advertising Code should be amended to exclude the financial sector from their application. In place of all of these, the statutory obligations on financial service providers in respect of their advertisements should be restricted to provisions contained in an expanded and amended CIFC Law, with the BdM thereby becoming the monitoring and enforcement authority in these respects. Although, as indicated above, numerous provisions in the CP Law are applicable to the financial sector, it seems that the CP Law has, to date at least, never been applied or enforced in respect of banks or other providers of financial services.

28. In the medium term, the Organic Law of the Central Bank of Mozambique should be amended to include ensuring financial consumer protection and education as a further core purpose of the BdM. It is essential for BdM to play a strong role: (i) in devising – in conjunction with all interested stakeholders – additional Notices setting forth appropriate rules to which financial institutions must adhere in their dealings with consumers; (ii) in monitoring the application by banks and other financial institutions of their obligations to consumers in accordance with the amended and expanded CIFC Law (as indicated above), as well as all relevant BdM Notices; and (iii) in enforcing business conduct and disclosure obligations by the application of appropriate sanctions when transgressions occur on the part of service providers.

29. As internet and mobile phone banking services are becoming increasingly important in Mozambique, there is a need for a clear regulatory framework on e-money. A specific regulation on e-money should be issued in order to provide a level-playing field between bank- and non bank-based branchless banking that encourages healthy competition, but also to set minimum operational and conduct standards that protect customers, particularly low-income consumers.

Institutional arrangements for financial consumer protection supervision

30. The BdM is the regulatory and supervisory authority for credit institutions, financial companies and the microfinance industry[7] in charge of prudential but also consumer protection supervision. The BdM is vested with the power to issue norms and decrees regulating the financial sector and is responsible for their enforcement. Although the Organic Law of the Bank of Mozambique (Law 1/92) does not explicitly grant a role to the BdM in financial consumer protection, BdM's role implicitly covers the protection of consumers' rights and the supervision and enforcement of the many obligations that CIFC owe towards consumers.

31. Recent regulations have already allowed for an expansion of BdM's scope of responsibilities by including some – although fragmented – consumer protection provisions (see Table 4). As an important step, BdM has set up a team inside the Department for Strategic Planning, Communication and Image (Gabinete de Planeamento Estratégico, Comunicação e Imagem - GPI) in charge of consumer complaint handling and financial education. Currently a team of three staff members deals with consumer complaints, and another four staff members work on financial education within GPI. GPI is responsible for overseeing and enforcing Notice 4/2009 on complaints, while the Banking Supervision Department (BSD) oversees Notice 5/2009 on charges and commissions.

Table 4: Division of consumer protection and financial education responsibilities within BdM

Type of responsibility	Law/Regulation outlining responsibility	Department
Consumer complaint handling	Notice 4/2009	GPI
Regulation and supervision of charges and commissions	Notice 5/2009	BSD
Misleading advertisement	Notice 5/2009	BSD
Financial education	no formal provision/mandate	GPI

[7] hereinafter referred to as financial institutions

32. Consumer protection supervision by BdM is still in an early stage of development. Regular reports and analysis are being conducted by BdM to provide an up-to-date view of each institution and more detailed insights are acquired through yearly on-site inspections. An examination manual has been developed that provides the inspectors with a methodical process to review bank functions, document results and report. However, the focus of these inspections is primarily on prudential supervision and therefore further strengthening of financial consumer protection supervision is required.

33. Currently, the BdM operates a central credit registry that collects information from and is accessible to all deposit-taking financial institutions, i.e. all institutions that are subject to prudential supervision of the BdM. Institutions that do not take deposits, such as microcredit operators and exchange houses, are not included in the credit registry. Information that can be collected in the credit registry is credit information, i.e. the information related to a credit contract as defined in Law 15/99. The existing credit registry has three features that limit its effectiveness in the context of consumer protection and financial literacy: it does not contain information about credit provided by non-deposit taking institutions, it is updated only once a month and it does not include information about guarantees for each loan. To further strengthen the existing legal framework, a draft law on private credit bureaus has been prepared by the BdM and is currently being reviewed by stakeholders.

34. The BdM and the Government more generally established a framework for the set up of a Deposit Guarantee Fund. The Deposit Guarantee Fund is to be housed in the BdM, it is to be an entirely autonomous entity, legally and financially. The initial contribution to the Fund will be 75 million MZN with 60 million MZN being provided by the State and the balance by all deposit taking financial institutions. While Decree 49/20110 creates the Fund, a Decree to be signed by the Minister of Finance is still awaited before the Fund is formally created. Instead of individual depositors relying on implicit protection in the event of the financial failure of their deposit taking institution, the deposit insurance system envisaged will limit the scope for discretionary decisions, promote public confidence, help to contain the costs of resolving failed banks and provide for an orderly process for dealing with bank failures.

35. The Mozambican Association of Micro Finance Operators (AMOMIF) and the Mozambican Association of Banks (AMB) have taken first steps in supporting financial consumer protection. However, both industry associations are lacking financial and human resources to play a strong role. AMB is a network of banks that was established in Maputo in 1999. Membership is voluntary and 17 of the 18 banks authorized to do business in Mozambique are members. The AMB produced a Code of Conduct for Banks (CCB) in 2006 for its members to voluntarily apply in their dealings with consumers. AMOMIF was founded in 2007 and currently has 28 members, including all the country's major MFIs except for the largest one. It provides training to members (including 'training of trainers programs) and is currently drafting an industry-wide microfinance code of conduct.

36. Consumer associations play minor roles in promoting financial consumer protection, due to resource constraints. DECOM and ProConsumers are independent non-government organizations that promote consumer rights, including through campaigns and educational programs. DECOM provides some consumer protection services for specific financial service related cases. DECOM and ProConsumers are ready to consider focusing on financial consumer protection matters and providing assistance to consumers of products and services provided by banks and other CIFCs. However, they both lack the financial and human resources to do so.

Recommendations

37. **Consideration should be given to re forming the c urrent institutional set-up for financial consumer protection.** The institutional arrangements for consumer protection vary across countries, with some favoring the same department in the central bank being responsible for both prudential and market conduct supervision, while others adopt a so-called “twin peaks” approach. This approach separates the functions of business conduct rule making, monitoring and enforcement through supervision, from these same functions in respect of prudential norms and their application and enforcement. This can be done either through distinct departments within the central bank, or through prudential supervision resting within the central bank while business conduct rule making application and enforcement falls either to an independent Financial Consumer Protection Agency, the Ministry of Finance or Treasury (as in South Africa) or a general Consumer Protection Agency (see Box 2). There is no “best practice“ as to how to structure regulatory and supervisory institutions for the financial sector, and the best model in any given country context will depend on country-specific characteristics such as size and structure of the financial system, specific regulatory and supervisory activities.

Box 2: International approaches to consumer protection regulation and supervision

Single agency approach: One institutional approach is to have only one authority in charge of prudential and market conduct supervision. This is the case in Portugal, where a specialized Banking Conduct Supervision Department of the Central Bank of Portugal is responsible not only for the regulation and supervision of the conduct of credit institutions in their dealings with customers, but also the promotion of financial literacy. A Consumer Financial Education and Protection Unit has also been established by the Reserve Bank of Malawi within a Department that is independent of the Bank’s prudential supervision function. Placing consumer protection in the same central bank department as prudential supervision creates potential conflicts with the traditional and long- standing prudential supervisory roles. Prudential supervision can, however, provide useful early warning signals for business conduct supervision. International experience shows that, if central banks adopt consumer protection as part of their mandate, business conduct supervision should be separate from prudential supervision and have adequate specialized staff and resources to perform its specialized responsibilities effectively in order to avoid conflicts of interest.

Specialized financial co nsumer protection a gency: Some countries have established one or more specialized regulators for financial consumer protection. Australia was the first country to set up a so-called ‘twin peak‘ structure where the Market Conduct Regulator is responsible for overseeing the way in which market participants behave, while the other peak – the Prudential Regulator – is charged with overseeing the financial health, safety and soundness of market participants. This approach was followed by the Netherlands. Recent trends in financial consumer regulation point to the development of such specialized agencies, as seen in the creation of the Financial Consumer Agency of Canada (2001), the establishment of the Consumer Financial Protection Bureau in the United States (2011) and the proposed Financial Conduct Authority of the United Kingdom. Conflicts of interest can thereby be avoided between oversight that focuses on ensuring the stability of the financial system as a whole, and supervision that seeks to ensure that individual consumers of financial services are protected in the market. While this model has the advantage of clearly defined objectives and mandates of the respective agencies the challenge is to provide a new financial consumer protection agency with sufficient authority and credibility within the financial system.

General consumer protection body: A third approach is for a body with jurisdiction to cover all consumer protection issues to be required to include financial products and services in its mandate as well. This is the case in Brazil, where many consumer protection rights are guaranteed in the Consumer Protection Code. The Department for Consumer Protection and Defense (housed at the Ministry of Justice) has oversight over consumer protection in general, including financial consumer protection issues, although the Central Bank of Brazil covers some financial services issues not mentioned in the Code. The challenge of the general consumer protection agency approach is to provide sufficient resources in order to handle financial services issues properly since technical aspects of financial services require specialized staff with sector-specific knowledge and expertise.

38. It is of critical importance to further strengthen the capacity of the BdM to monitor and enforce any law requiring standards of business conduct to be met by financial institutions in their dealings with consumers. A practical way forward would be to establish a new financial consumer protection unit within the BdM in charge of monitoring, supervising and enforcing consumer protection provisions as well as the handling of complaints. The unit should be separate from prudential supervision in order to ensure that adequate attention is given to market conduct issues. The responsibilities for financial literacy and education would stay with GPI.

39. As an interim step, the roles of BSD responsible for misleading advertisements as well as fees and charges and GPI in charge of financial education and consumer complaints should be further strengthened. A designated team within each supervisory division (banking and NBFI divisions) of BSD responsible for financial consumer protection would be helpful. Having in mind budgetary and human resource constraints, initially these teams might be established with a limited number of staff and gradually expanded. In addition, the capacity of BdM's GPI team responsible for consumer complaints and financial education should be built further. All staff involved in consumer protection and financial literacy would benefit from training and increased resources in order to fulfill their respective roles more effectively.

40. A consumer protection and business conduct task force could be established to allow for better cooperation and coordination between departments in this regard. This could consist of the Heads of Department of GPI and BSD, as well as GPI staff in charge of financial consumer protection and representatives of BSD's banking, microfinance, regulation & research and licensing divisions.

41. The BdM should engage with the AMB and AMOMIF, as key counterparts to the BdM in developing the consumer protection rules. AMOMIF could play an active role in improving the transparency of the microfinance sector by collecting data from both members and non-members and reporting on the microfinance sector to the BdM and to the public. The Banking Training Institute of Mozambique (IFBM) can also play a role in training bank management and staff in financial literacy and consumer awareness.

42. The role of consumer organizations[8] in financial consumer protection should be strengthened. However due to their wide focus and a lack of resources and specialized training, consumer organizations are not yet effective in supporting proper financial consumer protection environment in Mozambique. Consumer associations could play an important role in raising awareness of financial consumers' rights, monitoring business practices (for example by mystery shopping[9]), and giving advice to consumers, among other activities. Grant funding for specific projects and technical assistance could be provided to consumer organizations to develop a more effective consumer protection role. The BdM should involve such organizations in consultative processes, for example on regulations and Notices, in order to ensure that the voice of consumers is heard during the formulation of financial services policies and the rules that flow from them.

43. Borrower information available to financial institutions needs to be improved to limit overindebtedness and provide lenders with sufficient information to assess suitability of the loan, including up to date information on borrowers from all credit providers. The legal framework for licensing one or more credit bureaus, which is in preparation, should complement the central credit

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[8] ProConsumers and DECOM

[9] Mystery shopping or a mystery consumer is a tool externally used by market research companies or watchdog organizations or internally by regulators themselves to measure quality of service or compliance to regulation, or to gather specific information about products and services. The mystery consumer's specific identity is generally not known by the establishment being evaluated.

registry and ensure that lenders have appropriate information on borrower behavior and indebtedness. In order to do so, it is recommended that the new legal framework require all credit providers, including microfinance operators, to input borrower data, and that the BdM be empowered to license any credit bureau and supervise their activities, including data protection and an effective system for correcting data errors.

III. Consumer Disclosure

Findings

44. The CIFC Law and BdM Notice 5/2009 include requirements for financial institutions to disclose information on financial products or services to consumers. The CIFC Law requires financial institutions to disclose rates they apply on lending and borrowing operations, and to inform clients about the cost of services they offer and other charges borne by clients. In line with these provisions BdM has specified minimum services to be provided free of charge, as well as disclosure requirements on charges and commissions (Notice 5/2009). According to Notice 5/2009 financial institutions are required to post a complete list of the commissions and other charges collected by the institutions in a well visible place of easy public access, with adequate letter size and format. In addition, financial institutions are obliged to send the information referred to in the previous article quarterly and in electronic form to the BdM, and to publish an updated table of fees and other charges in force in each institution biannually in one of the largest circulation newspapers in the country.

45. However, the existing regulatory framework on disclosure requirements still lacks specific guidance to financial institutions on the type and form of information that should be provided to retail customers. Moreover, the obligations incumbent upon financial institutions by the CIFC Law and Notice 5/2009 do not seem to be effectively applied by these institutions or enforced by the BdM. Although banks and other CIFCs apparently do honor the requirement to post a complete list of their commissions and other charges their branches, it is often done in places hard to access for the public and in a very small letter size and format.

46. The provision of clear, standardized and comparable information to consumers can be an effective mechanism to promote competition, bringing down the cost of financial products and services. However there is a lack of transparency on pricing of financial products and services. No official standard formula exists for comparing credit product prices, such as an effective interest rate (EIR) or an annual percentage rate (APR), as well as no disclosure obligations for additional costs such as administrative fees or insurance costs. This prevents consumers from comparing different credit products that are available to them. While consumers are generally given information about the interest rate and most fees, the information is not integrated and no calculation of the effective interest rate is provided. Therefore, the average financial consumer has no information about the total cost of credit and – should there be several credit institutions he/she could approach – no way of comparing competing offers. Furthermore, charges for withdrawal are not displayed when withdrawing money from an ATM.

47. Competition is limited in the financial system, which makes transparency even more of a priority. The three (four) largest banks account for 80 (90) percent of the total assets of the sector[10], with low levels of deposit mobilization and high levels of bank profitability relative to international standards. The microfinance market is also very concentrated. The five largest MFIs[11] serve 64% of the country's active borrowers and provide 82% of the market gross loan portfolio (GLP).

[10] IMF Republic of Mozambique: Staff Report for the 2011 Article IV Consultation
[11] Banco ProCredit, CCOM, Banco Oportunidades (Opportunity International), Banco Tchuma and Socremo

Recommendations

48. As an immediate step, the BdM should require financial institutions to disclose a price or cost of financial products to consumers that includes all costs and is comparable across institutions. Financial institutions should be required to disclose an effective interest rate or APR, or an interest rate spread (that includes fees in the calculation) over a reference rate such as the BdM Reserve Rate, and to use that percentage in all advertising, marketing and sales materials. The BdM, in technical discussions with all stakeholders, should also examine how floating interest rates are set and communicated to consumers, and whether interest rates should be explicitly linked to a base rate. For example, Peru's Regulation of Transparency requires banks to disclose the "TCEA", or Annual Effective Cost Rate, which is expressed as an interest rate, but includes all costs associated with a consumer credit. A future BdM Notice should specify a standard methodology required to be applied by all banks and other financial institutions and the BdM should then monitor compliance in using it across all credit providers. Compulsory savings should be excluded from the calculation of the effective interest rate to make offers comparable but clients should be made aware of the additional expense. Effective deposit interest rates should be also calculated with a formula defined by the BdM.

49. Consumers should be provided with a standardized 'key facts statement' that summarizes in plain language the key terms and conditions of the contract for any financial product or service.[12] By means of a forthcoming Notice, the BdM should require financial institutions to provide a 1 page (or even 1 box) key facts statement written in easy-to-read print and plain language for each product or service on offer to consumers. Each key facts statement should clearly indicate all fees and charges related to a financial product or service, as well as the mechanisms for recourse available to the consumer in the event of any complaint.

50. These new disclosure formats should be specifically tailored to the regional/client specific context in Mozambique. Consideration should be given to using consumer testing to ensure a high level of consumer understanding of the formats and contents disclosed in these statements before they are finalized, published and made available in each bank branch for wide distribution. Translation into local languages may be needed in some rural areas. Also, where consumers are illiterate, financial institution staff should be obliged to read the text to prospective customers or at least to provide the text to community leaders or promoters.

51. The BdM should ensure that consumers are provided with comparable information on costs and terms of similar financial products using a variety of distribution channels. This would also provide an incentive for providers to compete to improve product design and pricing. The BdM already requires financial institutions to report commissions and other charges quarterly to it. The BdM could use this requirement as a basis to elaborate on the publishing in a manner that is easily comparable, understandable and accessible for consumers.

52. Alternative distribution channels should be considered to make the information available to the two thirds of adult population lacking access to means of telecommunications. Price comparison tables could be made available to the almost two thirds (63.4 percent) of adult population[13] without access to the Internet or any other means of telecommunications, through newspapers, community leaders, consumer associations, and through suitable outlets in rural areas (such as health clinics, retail stores, the planned district-level internet centers). Community promoters of Accumulating Savings and Credit

[12] E.g. Hoja de Resumen (Summary Sheet) in Peru, Standardized European Consumer Credit Information in the EU, South Africa's Pre-Agreement Statement & Quotation for Small Credit Agreements, Ghana's Pre-Agreement Truth in Lending Disclosure Statement

[13] FinScope Mozambique Survey 2009

Associations (ASCAs), or agents for mobile money providers, could use this website information and make tools available to customers for example, including those customers that are semi-literate or not able to read in Portuguese.

53. Industry associations should develop minimum standards of information that loan officers and bank agents should pass on to consumers. AMB and AMOMIF are well placed to develop information standards and training material in consultation with the BdM. AMB and AMOMIF could also offer training programs for loan officers and agents, and test how well loan officers and agents communicate to customers in practice.

IV. Business Practices

Findings

54. There is a code of conduct applicable to the banking industry, while a code of conduct for the microfinance sector is in development. AMB produced a voluntary Code of Conduct for Banks (CCB) in 2006 for its members to apply in their dealings with consumers. Out of 18 banks in Mozambique, 17 are members of AMB, with all of them subscribing to the CCB. AMOMIF is currently drafting an industry-wide microfinance code of conduct.

55. Currently there is no cooling-off period for any financial product or service in Mozambique. This is of particular concern in Mozambique given the lack of standard and comparable information on product pricing and other terms.

56. Predatory lending and usury by non-licensed financial service providers is reportedly becoming an issue. However the usury provisions in the Civil Code[14], which consider an annual interest rate of more than 10% in a loan agreement as usurious, are not appropriate for a strong and inclusive financial sector, and define usury at an interest rate that is within normal practices internationally for lending, and are indeed not applied or followed.

57. The market conduct regulation applicable to financial institutions does not include a requirement to properly conduct customer due diligence with the purpose of assessing his/her needs and offering the most suitable product. This leaves consumers more vulnerable to over-indebtedness, in particular in the microfinance sector, where consumers may be new to the financial sector and not well equipped to assess the risks and characteristics of different product offerings.[15]

58. Debt collection practices are not regulated in Mozambique. There are no specific rules aimed at preventing abusive debt collection practices against any customer of a financial institution, including the use of false statements, unfair practices, or the giving of false credit information to others. There is also no central registry of guarantees pledged for loans. Over-indebtedness becomes more of an issue in some urban markets. Particularly in the case of MFIs many rush to recover debt as soon as there is any delay in payment, as clients may use the same guarantee for several loans and there is therefore a strong incentive to be the first lender to collect outstanding debt.

[14] The law on usury is contained in Article 1146 of the Civil Code (which reflects the provisions in the Portuguese Civil Code of 1867)

[15] Australia modified its consumer protection law to introduce harsher penalties for contract conditions that are deemed unfair, and allowing to challenge new bank fees or charges based on a "fairness test". Similarly, in 2011 a new provision for the EU Consumer Rights Directive was proposed to make bank charges subject to a fairness test.

59. There is no data protection law in Mozambique. According to the CIFC Law, all credit institutions and finance companies must ensure that they protect the confidentiality and security of the personal data of their customers. However, there is no data protection law that would clearly define liability for misuse of personal data.

Recommendations

60. A mandatory 'cooling-off period'[16] for financial products should be considered. Individuals who want to borrow may enter into loan agreements with their banks without the benefit of being provided information on competing terms on offer by other banks, for example. A cooling-off period of, say, three to five days for consumer loans would be a useful safeguard in allowing consumers to withdraw from a loan agreement without penalty on repayment of all of the principal received.

61. Financial service providers should be required to gather sufficient information from a consumer to enable the provider to offer an appropriate financial product or service to the consumer. The information collected from the consumer should be commensurate with the nature and complexity of the product or service either being proposed to, or sought by, the consumer. This is particularly important for the microfinance sector, where consumers may be less equipped to assess the risks and characteristics of different product offerings.

62. Industry codes of conduct focusing on disclosure of information, complaints, product appropriateness, and other areas of business practice should be supported. The AMB should consider reformulating and updating the Banking Sector Code of Conduct, with regard to actions that its member banks would agree to do voluntarily over and above the requirements of law, regulation and BdM Notices in the area of disclosure of information, complaints, product appropriateness, and other areas of business practice. After a consultation process with all relevant stakeholders, the revised Code should then be shared with BdM and be published widely by the AMB so that consumers know the standards to which banks have agreed to adhere and a bank can, therefore, be held accountable for failure to comply. The microfinance sector code of conduct in development by AMOMIF should be finalized and actively implemented.

63. Predatory lending practices of non-licensed financial service providers could be addressed through a variety of measures. The BdM could liaise with the police and the judiciary so that they prosecute these practices more effectively. The Civil Code (Article 1146) contains a nominal cap on interest rates, but capping interest rates is not recommended and instead a combination of regulation, market conduct supervision, prosecution of criminal behavior and education is needed. With regard to licensed institutions, all consumer credit providers and intermediaries should be required by law (with effective penalties set for breaking the law) to properly evaluate the suitability of the loan to the consumer (including his repayment ability) and to offer an advantageous product for the consumer. The BdM should collect and publish effective interest rates of pre-defined products and publish the averages to inform consumers about market conditions (see recommendations in the next section on Consumer Disclosure). Predatory lending by licensed providers could also be limited by setting a maximum penalty level that credit providers can charge for late payments.

64. In the long-term, consideration might usefully be given to the drafting and enactment of a Law on Debt Collection Operations. This should, among other things, require the licensing and oversight of all properly registered collection agencies by the BdM, the provision of services in

[16] This implies the right to withdraw from a financial product agreement/contract within a certain period of time without penalty.

accordance with stated parameters on the basis of generally acceptable fair and reasonable behavior, and the provision of statistics by each licensed agency to the BdM on a regular basis for annual consolidation and widespread public dissemination.

65. Consideration should be given to drafting and enacting a Personal Data Protection Law. The new law should require financial institutions to protect the confidentiality and security of the personal data of its customers against unauthorized access and any anticipated threats or hazards to the security or integrity of such information.

V. Dispute resolution mechanisms

Findings

66. Financial institutions are already obliged to maintain a complaints, information and suggestions service counter, and to establish internal public attendance policies and procedures. As a second step, if in a consumer's view the complaint has not been adequately dealt with by his/her bank, a consumer can submit their complaint, request for information, or suggestions to the BdM, which then proceeds as it thinks appropriate depending on the nature of the case.[17] Non-compliance of a financial institution with existing laws and regulations can, potentially at least, lead to sanctions in this regard.

67. However, financial institutions are not required to maintain up-to-date records of any complaints received. Banks and other CIFCs must submit electronically to the BdM a copy of each final internal decision in respect of any complaint they have handled. But there is no requirement of regular reporting on the part of banks and other CIFCs to the BdM, whether monthly or otherwise.

68. BdM currently receives about 100 complaints a month, of which about 10 deal with complaints about financial institutions, with the balance of some 90 cases being related to issues with filings on the BdM's Credit Registry. In accordance with Notice 4/2009, the consumer can notify the BdM and have the dispute reviewed by the Service for Complaints, Information Requests and Suggestions (SARPIS) in GPI, with a view to its possible settlement. The number of cases dealt with by SARPIS grew from 24 in the first semester of 2009 to 284 in the first semester of 2011 (see Figure 4). Many cases arise simply because of a bank's failure to notify the BdM Credit Registry in a timely fashion that a loan has been fully paid. In the event of what it views as "complex cases" a non-binding technical-administrative opinion is issued to the consumer with a copy being provided to the consumer's financial institution. Examples of 'more complex' cases are: (i) unauthorized withdrawal of funds from accounts; (ii) lack of agreement on interest rates; (iii) lack of agreement on changes in interest rates; (iv) fraudulent use of checks; and (v) fees charged at POS and ATM machines.

69. The number of financial consumers currently raising complaints with regard to financial institutions and the services they provide is growing but is still low. This is likely related to a general lack of understanding of the rights that the law affords to consumers in their dealings with financial institutions, as well as of the legal obligations these institutions have towards them. In addition, financial services contracts typically do not specify what a consumer should do in the event that he or she has a complaint, and the possibility of recourse to the BdM in the event that the complaint is not resolved to the consumer's satisfaction following completion of the financial institution's internal complaints procedures.

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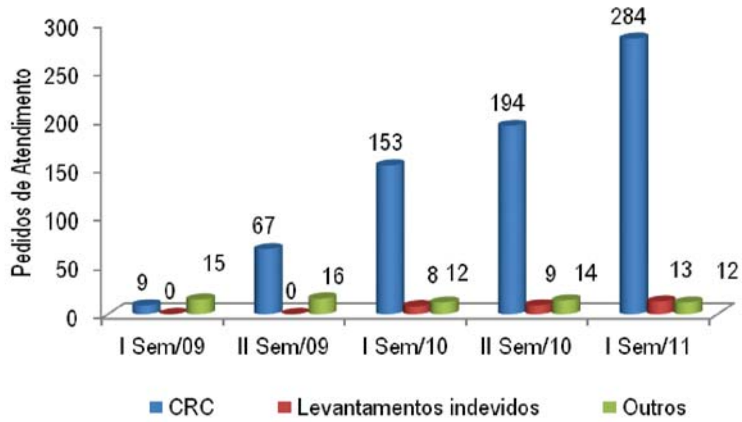
[17] Notice to the BdM can be made in person, or by letter addressed to the Director of GPI or email sent to BdM_reclamacoes@bancomoc.mz or by calling 25821426641 or 21354 258 670. There is also a complaint notification form which can be filled in and submitted to the BdM on-line.

70. There is no third party dispute resolution scheme for consumers of financial services in place. In the event that a consumer complaint is not resolved with his or her bank by means of the bank's own internal procedures, the customer has, at present, two possible options. One is to turn to the BdM; the other is to proceed to court. In the absence of any other specialist institution the BdM helps resolve complaints of individual consumers of financial institutions. However, GPI cannot take binding decisions on the relevant financial institution as regards to the specific case, leaving the aggrieved consumer only with the possibility to seek redress in court. Due to the perceived high cost and lengthy time of proceedings going to court is mostly not considered an option for a typical consumer.

Figure 4: Composition of complaints[18]



Source: BdM

Recommendations

71. In the short term, financial institutions should be obliged to inform consumers proactively of the right to complain, as well as how to proceed in the event of a dispute. By means of a future Notice, and/or revision to the Notice 4/2009, BdM should require financial institutions to disclose internal complaints procedures in their terms and conditions, and to include an indication of how a consumer can obtain the complete statement of the procedure. Information on internal recourse mechanisms should also be visibly posted in branches and online. The complaints process should be easy to use and to access, allowing for both oral and written complaints. In addition, all consumers of financial services should be informed on a timely basis of their rights in the event that, in their view, their complaints have not been adequately dealt with within their own financial institutions.

72. All financial institutions should centralize data on complaints received and analyze them periodically. The data should be shared with the BdM. The aim of the internal analysis should be to identify and avoid the most common reasons of consumer complaints, and to change business practices accordingly. The complaint data analysis showing categories of complaints, time to resolve, unresolved complaints, etc., should then be sent periodically to the GPI (BdM) for analysis, and potentially also publishing the respective aggregate data on its website as foreseen in Notice 4/2009. Reviewing and checking such reports should be part of BdM's on-site/off-site supervision practice.

[18] 'CRC' stands for the Central Credit Registry, 'levantamentos indevidos' are unauthorized withdrawals and 'outros' refer to any other type of complaints.

73. Consideration should be given to establishing an independent ombudsman for retail financial services in the medium-term, which would be financed primarily by the financial services industry (see Box 3). A financial services ombudsman would be in charge of resolving consumer complaints related to amounts up to a certain level, that were not dealt with satisfactorily by financial institutions. The decisions of the ombudsman should be binding upon the financial institution, but not upon the consumer, who should always have the right to go to court if the ombudsman's decision does not satisfy him or her. In addition, the consumer should be able to access the scheme at little or no cost. International experience has shown this concept to be successful.[19] The willingness of the financial services industry to fund this would be relevant to the consideration process, as would the need for any such office to be accessible to all consumers, including those outside the main cities of Mozambique.

Box 3: Models of financial ombudsman

To further improve access to justice for citizens, governments often take further steps to provide alternative dispute resolution systems that allow for an out-of court-decision to be taken when parties fail to arrive voluntarily to a conclusion to a complaint. Generally, there are three models of financial ombudsman applied:

- **Ombudsmen established by financial services associations:** Decision by such an ombudsman is not legally binding but his findings are usually respected by financial institutions voluntarily as a part of self-regulation of the market, sometimes with financial companies even publicly declaring to be bound by the ombudsman's decisions. In countries, such as Germany, an industry-based ombuds structure for each part of the financial sector has proven effective. However, in the case of such an ombudsman structure established by professional association, attention should be paid to the presence of conflicts of interest. Also, consumers may perceive the ombudsman as someone who will always decide in favor of the financial institution and against the consumer.

- **Statutory independent ombudsmen:** In this approach, the ombudsman has functions and powers set up by national laws and members appointed by government authority. For example, the UK established a scheme by law to function as an independent institution, while Armenia legally requires financial institutions to join a central bank-approved ombudsman scheme with binding rules for all member institutions. A single statutory ombudsman would make it easy for consumers to identify to which agency they should submit their inquiries and complaints. While this model has the advantage of clearly defined objectives and mandates the challenge is to provide the new ombudsman with sufficient authority and resources.

- **Ombudsman structure established within the regulatory and supervisory agency:** A third model is the set-up of a financial ombudsman structure within a regulatory and supervisory agency. For example in the case of Bosnia Herzegovina, a Banking System Ombudsman has been established as an independent organizational unit within the Banking Agency of the Republic of Srpska. While this model has the advantage of using existing insitutional arrangements to build upon the challenge is to ensure independence of such an ombudsman structure and avoid conflicts of interest.

VI. Financial Education

Findings

74. Consensus in Mozambique is growing that financial education is a priority. There is a general perception that consumers in Mozambique are not aware of their rights and responsibilities as financial

[19] In South Africa there is a separate ombudsman for most provider types, including banks, different types of insurers, and credit providers. Some options are statutory and others are sponsored by industry associations. Further guidance on this topic, based on experiences in Western Europe, is provided by Thomas and Frizon (2011) "Resolving disputes between consumers and financial businesses: Fundamentals for a financial ombudsman", available at www.worldbank.org/consumerprotection.

consumers, or sufficiently able or informed to understand basic financial products and services. Some useful information has been obtained through the Finscope survey regarding financial literacy and knowledge constraints of financial services consumers, as shown in the Financial Literacy Section of Volume I.

75. There are a plethora of public or private initiatives on financial literacy or education that are ongoing or in planning stage, however, coordination is lacking between them and there is no over-arching strategy. Public sector initiatives include the following: 1) the BdM's Financial Education campaign, prepared last year by GPI and awaiting full scale implementation; 2) the National Directorate for the Promotion of Rural Development (Direcção Nacional para a Promoção do Desenvolvimento Rural, DNPDR) has implemented a national savings campaign; 3) the Ministry of Education has introduced financial basic concepts in the general disciplines, Portuguese language and math; 4) the National Institute of Education Development (Instituto Nacional de Desenvolvimento de Educação, INDE) is developing a proposal for education activities for children that could be undertaken as part of the 20% 'local content' in the school curriculum; and 5) the National Directorate for Literacy and Adult Education (Direcção Nacional de Alfabetização e Educação de Adultos, DNAEA) has training material regarding business management, including financial literacy but lacks funds to reproduce and distribute the booklets.

76. The BdM is preparing a Financial Education Campaign through the media – newspapers and radio – to broadcast basic information regarding consumers rights and defense mechanisms. The campaign is directed to all citizens, although special attention will be given to rural areas, informal and formal sector operators, public servants and the youth. It is organized in collaboration with the Social Communication Institute (Instituto de Comunicação Social, ICS), which is responsible for 72 community radios.

77. Financial Education is being incorporated gradually into the Education sector. The recent primary school curriculum reform gave more importance to financial concepts in Portuguese and math disciplines. An optional course on business management partly focusing on financial education has been introduced for 10th grade students. DNAEA also developed training materials on business management with some financial education content. These materials are used for specific "life skills" training sessions for "adult education" (post-literacy courses).

78. Several non-governmental organizations, professional associations and private sector financial institutions have implemented financial education initiatives. For example, most professional MFIs include financial education messages in their client acquisition strategy including basic concepts like interest/cost of money, the importance of savings and insurance, and budget management tips. AMOMIF has also shown a special interest in this area. ASCAs are playing an important role in financial education of rural population as group members learn in practice the advantages of saving, and the meaning of loan concepts and terms. The Economic Rehabilitation Support Fund (FARE) is promoting some financial education activities, through the training of trainers for rural clients, on financial education and business management skills. The Banking Training Institute (IFBM) is also planning to develop a financial education program directed to journalists.

79. However, so far no assessment of the effectiveness of these financial education initiatives has taken place. International experience in financial education demonstrates that increasing the number of financial education programs does not automatically lead to increases in the level of financial literacy or positive change in consumer behavior. Therefore, it is crucial to identify which programs are most effective and should receive wide support.

80. Consumer associations are also aware of a growing need to develop consumer protection mechanisms and promote financial education, as the number of clients interacting with the financial industry is growing. The two existing associations DECOM and ProConsumers are struggling for funds however, and do not receive the governmental subsidies as established in the CP Law. Their activities are still incipient in financial consumer protection and education, but both have received a few complaints regarding banks or MFIs misbehavior, in particular regarding compulsory seizure of collateral.

Recommendations

81. A coordination mechanism for financial literacy and education is needed. The Steering Committee for the Financial Sector Development Strategy would be an appropriate mechanism for introducing a more strategic perspective, monitoring progress on the initiatives, and helping to avoid duplication of efforts. A coordinated approach would improve the coherence of the different initiatives, and integrate them into a long-term strategic perspective including both in-school programs and specific programs for other groups of citizens. A sub-committee or Task Force could be set-up under the Steering Committee, comprising key stakeholders including the BdM, Ministry of State Administration (Ministério de Administração Estatal, MAE) through DNPDR, the Ministry of Education through INDE and DNAEA, representatives of the financial industry through the AMB, AMOMIF, IFBM, and consumer protection associations.

82. This task force or steering committee could establish/agree on a minimum curriculum for financial education for financial institutions to provide to their staff and consumers. Financial industry associations could be encouraged to develop financial education activities and materials and coordinate financial education programs among their members, reporting to the task force (or to the Steering Committee) on activities in their respective sector.

83. As financial service consumers in Mozambique often lack the knowledge on how to use a specific financial product or service, a focus for financial education should be on consumer rights and obligations, as well the risks and rewards of using financial services. Understanding – and properly utilizing – consumer rights are an important part of financial education and consumer empowerment. Therefore, part of the financial education programs should focus on i) explaining individuals' rights as consumers of financial services with the aim of increasing the trust of the public in financial institutions, and ii) understanding the risks and rewards of using financial services.

84. The planned financial education programs could also focus on 'teachable moments'. Besides general financial education that should focus on explaining individuals' rights as consumers of financial services with the aim of increasing the trust of the public in financial institutions, specific programs can seek and focus on education during teachable moments. For example, as card skimming is reportedly becoming a problem in Mozambique, retail agents should disclose the risks of fraudulent use of the cards to the consumer and advice them on how to mitigate this risk when handing out new credit/debit cards to the consumer. Child birth, retirement, unemployment, house purchase, and marriage are other key moments for making tailored information about relevant financial services available.

85. Proper training of credit officers needs to be ensured as they are the first – and often the only – source of financial information, in particular for microfinance clients. All microfinance operators train their credit officers to provide elementary financial education, often including basic business planning and bookkeeping.

86. Financial education programs should consider adopting appropriate methods to reach low income and also rural populations, including those with low levels of literacy. The Finscope survey

(2009) found that: two thirds of the population does not have or use any means of telecommunications (although mobile phone use has expanded since then); that one third of the population has not been exposed to any form of education; and that 39 percent would like to receive information about financial services via radio. Techniques to consider therefore include: community radio (some of which include programming in local languages), information presented in cartoon form rather than text, training of "knowledge duplicators" such as teachers, and strengthened curriculum content in schools to teach children about earning, spending, sharing, and saving money. When planning educational programs in schools, proper attention should be given to educating teachers so that they feel comfortable about the subject and can properly explain the topic.

87. A national survey of financial literacy should be considered to provide the first comprehensive set of data and insights on the levels of financial literacy (and broader financial 'capability') in Mozambique, and a baseline to measure impact of financial education and consumer awareness initiatives going forward. As requested by the BdM, the World Bank plans to conduct a Financial Literacy Survey in 2012. The survey will provide country-specific information regarding the saving and borrowing behavior of individuals, prevailing levels of understanding of basic financial concepts, awareness of financial consumer rights, patterns of household budget management, and use of financial services. It will provide further information required to design financial education programs that will address the most important needs of different segments of the population.

88. The effectiveness of financial education programs should be regularly monitored. The evaluation of individual financial education programs should be based on the achievement of targets that would be set before launching the programs. The targets should be measurable and set in such a way that would allow for verification of the impact of the program on the targets. There should also be an overall periodic evaluation of the state of the Mozambican financial sector. This evaluation should focus both on the quantitative data (number of banked citizens, savings level, usage of retail electronic payments, etc.) and qualitative data. To make the data comparable over time so that developments could be monitored and evaluated, the World Bank 2012 Financial Literacy survey now underway could be used as a baseline and then the same questions and methodology used every three to five years for further surveys. In addition, a common website could be established by/for the task force where government authorities, consumer organizations and industry associations could upload their education materials for consumers and discuss the effectiveness of various programs and teaching approaches.

VII. List of Recommendations

A full set of Recommendations, classified as short, medium and long term are listed in the table below:

Recommendations	Responsible	Term	Outputs
Regulatory Framework			
Strengthen the regulatory framework for financial consumer protection by including specific financial consumer protection provisions in the CIFC Law and making them applicable to microfinance institutions by an amendment of the Microfinance Decree. Further BdM Notices should be issued to clarify both the CIFC Law and the Microfinance Decree.	BdM	Medium	Amendments, BdM Notices
Amend the Organic Law of BdM to include financial consumer protection and education as part of the aims of the Bank	Government, BdM	Medium	Amend Organic Law of BdM
Set minimum operational and conduct standards for e-money that protect consumers (drafting in progress led by BdM task force).	BdM	Medium	BdM Notice or Law
Amend Advertising Code and Consumer Protection (CP) Law to exclude financial services provisions and repeal all consumer Protection provisions applicable to the financial sector	Government	Long	Amend Advertising Code and CP Law
Institutional Arrangements			
Strengthen BdM's role in financial consumer protection by – as an interim step - establishing designated financial consumer protection teams in each supervisory division of BSD and by further building the capacity of GPI regarding complaints handling and financial education	BdM	Short	Greater capacity for monitoring, enforcement
Establish a new financial consumer protection unit within the BdM separate from prudential regulation and supervision in charge of monitoring, supervising and enforcing consumer protection provisions as well as the handling of complaints	BdM	Medium	Greater capacity for monitoring, enforcement
Create a Consumer Protection and Business Conduct Task Force consisting of members of all relevant departments	BdM	Short	Task Force
BdM to systematically consult with industry and consumer associations in developing consumer protection provisions	BdM, AMOMIF, AMB	Medium	Guidelines
Strengthen capacity of consumer associations and include them in consultative processes	Government, BdM, donors	Medium	Guidelines
Borrower information available to bank and non-bank financial institutions needs to be improved, as a complement to the public credit registry requiring all credit providers to input borrower data	BdM	Medium	New Law, BdM Notice
Consider reforming the interim structure of the current institutional arrangements for consumer protection	BdM	Medium	Study
Consumer Disclosure			
Amend Notice 5/2009 including a standard methodology for financial institutions to disclose a price or cost of financial products to consumers, including all costs ('effective interest rate')	BdM	Short	Revised BdM Notice
Require Key Facts Statements for all basic consumer finance products, test consumer understanding of mandatory disclosure	BdM	Short	New Notice
Provide consumers with comparable information for standard financial products via a broad range of distribution channels such as a price comparison website, newspapers, community leaders, consumer associations and suitable outlets in rural areas	BdM	Medium	Disclosure of comparable information via wide range of channels
Industry associations should develop minimum standards of information loan officers should pass to consumers	AMB, AMOMIF	Medium	Guidelines
Oblige financial institutions to inform the consumer of the nature of any relationship that may exist between it and any seller of a tied product.	BdM	Medium	BdM Notice
Business Practices			

Industry Codes of Conducts should be supported, with treatment of disclosure, complaints, product appropriateness and other business areas strengthened, enforced and widely disseminated	AMOMIF, AMB	Short	Amend/draft Code of Conduct
Require financial institutions to gather sufficient information from a consumer to enable the provider to offer a suitable financial product or service to the consumer	BdM, FIs, industry associations	Short	Guidelines, BdM Notice
Allow for a cooling-off period during which new customers are allowed to revoke their contract without any penalty	BdM	Medium	BdM Notice
Enact a Law on Debt Collection Operations	Government, BdM	Long	New Law
Develop a new data protection law, or at least regulations on protection and confidentiality of financial consumers' personal data	Government, BdM	Long	New Law and/or BdM Notice
Dispute Resolution			
Require financial institutions to inform consumers proactively of the right to complain, as well as how to proceed in the event of a dispute	BdM	Short	Revision of Notice 4/2009
Require that all financial institutions centralize data on complaints received and analyze periodically through a revision of Notice 4/2009	BdM	Short	Amend Notice
Consolidate, analyze and publish data on financial consumer complaints on BdM's website	BdM	Medium	Amend Notice
Consider establishing an independent ombudsman for retail financial services	BdM, MoF, MoJ	Long	Analysis, new Law
Financial Literacy			
Conduct a financial literacy survey to measure CPFL levels	BdM, survey firm	Medium	Survey Report
Coordination between stakeholders should be improved through the Steering Committee for the Financial Sector Development Strategy, potentially through a Financial Education Task Force	BdM and other stakeholders	Medium	Financial Education Task Force
Develop tailored financial education programs focusing on reaching low income and also rural populations, including those with low levels of literacy, school children and teachers	MoE, BdM, DNPDR, others	Medium	Program
Ensure proper training of retail officers by establishing minimum curriculum for financial education for financial institutions to provide to their staff and consumers	BdM, AMB, AMOMIF	Medium	Curriculum
Focus on teachable moments by providing reliable and objective information on financial sector issues to consumers (e.g. glossary of terms, brochures)	BdM	Medium	Informational materials
Implement surveys and regular evaluations to assess the impact of financial capability initiatives	BdM, Government	Long	Surveys and studies