NICARAGUA

Diagnostic Review of Consumer Protection in Financial Services

Volume II
Comparison with Good Practices

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NICARAGUA

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ABBREVIATIONS AND ACRONYMS

ANAPRI	Nicaraguan Association of Private Insurance
ANAPS	Nicaraguan Association of Professional Insurance Agents
ASOBANP	Association of Private Banks
ASOMIF	Association of Microfinance Institutions
NBC	Central Bank of Nicaragua
CCNF	Central of Savings and Credit Cooperatives of Nicaragua
CONAMI	National Microfinance Commission
CNCS	Nicaraguan Chamber of Insurance Brokers
CRP	Private Credit Bureau
DDC	Consumer Protection Division
DIRAC	Directorate of Alternative Dispute Resolution
EDE	Entity Operating Electronic Money
FOGADE	Deposit Guarantee Fund
NBCI	Non-Bank Credit Institution
INFOCOOP	Institute of Cooperative Promotion
LDC	Consumer Protection Act
LGB	General Banking Law
LIDECONIC	Nicaraguan Consumer Defense League
LTC	Credit Card Act
LPC	Law on Promotion of Competition
MFI	Non-Profit Microfinance Institution
MIFIC	Ministry of Development, Industry and Commerce
NGO	Non-government Organization
OAUSF	Office of Support to the Financial Service User
PROCOMPETENCIA	National Institute for Promotion of Competition
Promifin	Program of Promotion of Financial Services for Low-Income Populations
RNDC	National Network of Consumer Protection
SAC	Savings and Credit Cooperatives
SIBOIF	Superintendence of Banks and Other Financial Institutions

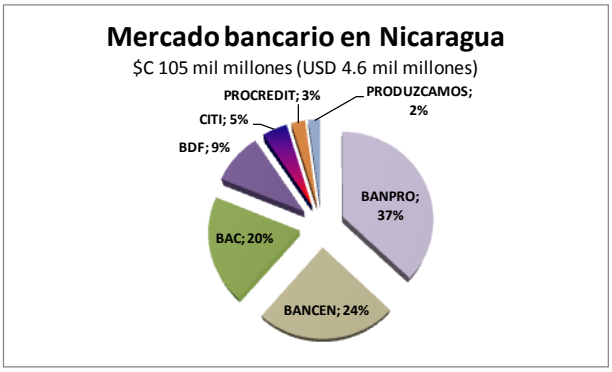
CONSUMER PROTECTION IN THE BANKING SECTOR

Overview of the Banking Sector

The Nicaraguan financial system, as currently conceived, dates from the early 1990s. After a process of nationalization of banks, a new stage of promotion of private investment began in 1990, which established the organic law that created the Superintendence of Banks and Other Financial Institutions (SIBOIF) as a body with functional autonomy. In 1995 the Political Constitution of Nicaragua was reformed, guaranteeing the freedom to establish banking companies, which will be governed according to the specific laws that dictate in the matter. Subsequently, changes were made in the General Banking Law (LGB), the SIBOIF Law and the Law on the Deposit Guarantee System.

The banking system is highly concentrated. The first three banks by asset size represented 81% of total assets of the banking system as of July 2011 (see Figure No. 1). Most companies (except Banco Produzcamos) are subsidiaries of foreign entities and began operations between 1991 and 1995.

Figure No. 1: Nicaraguan Banking System
(As of July 2011)



Source: SIBOIF

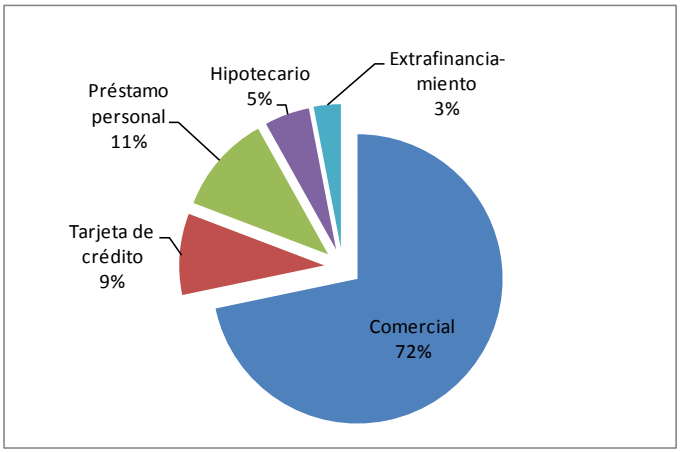
The number of branches, agencies and employees of the financial system experienced a slight decrease, due to the exit of a bank in 2010. As of June 2011, the total number of employees working in financial institutions amounted to 302 people, with 7,690 points of sale (branches or agencies). In December 2007, they reached 323 and 7,902 respectively. The exit of a bank during 2010 (BANEX) was partially offset by the entry of a new financial company (FINCA).

As with other countries in the region, the Nicaraguan banking system has had aggressive commercial policies and flexible credit guidelines, which impacted on the evolution of credit. During 2006-2008, banks pushed policies to maximize loan production (primarily through issuing credit cards with high credit limits). There was neither adequate analysis of repayment capacity nor adequate education to borrowers about the use and risks associated with the financial products and services being offered. This led to a period of significant growth in the loan portfolio (over 30% annually), followed by a period of deterioration in portfolio quality and reduction of its nominal value (with reductions of over 10% annually in the second half of 2009). It was only until mid-2011

that the loan portfolio started to experience some positive growth rates (as opposed to the previous 12 months).

Consumer credit represents 29 per cent of the total loan portfolio. The consumer credit portfolio consists of credit card financing, personal loans, mortgages and extra-financing. The latter corresponds to financing provided by credit card, but structured as a longer-term credit with payment of equal and consecutive installments (comparable to a personal credit). Figure No. 2 shows the composition of the banking loan portfolio.

Figure No. 2: Banking Loan Portfolio
(As of July 2011)



Source: SIBOIF

Legal Framework and Institutional Arrangements for Consumer Protection

The legal framework does not specifically address the protection of the financial consumer, except for credit card legislation. The Consumer Protection Act (LDC) covers consumer protection issues in products and services in general, and establishes the Ministry of Industry, Development and Trade (MIFIC) as the competent enforcement authority. There is no specific chapter that refers to the relationship between a consumer and a provider of financial services. Also, there is lack of clarity regarding the scope and framework for implementation of the Law on Promotion of Competition (LPC), specifically in regard to which agency (the National Institute for Promotion of Competition -Procompetencia- or SIBOIF) has specific authority on banking system competition. On the other hand, the Credit Card Act (LTC) specifically includes aspects related to consumer protection, such as contracts, transparency of information, complaints handling and others.

Three agencies have jurisdiction over financial consumer protection, but there is no evidence of an adequate level of coordination among them. Depending on the product or service in question (credit card or other financial products and services), either SIBOIF or MIFIC (respectively) would be responsible for regulating and monitoring enforcement of relevant regulations, and for handling financial consumer complaints. This would create unequal treatment in terms of financial consumer protection, among different retail financial products and services. On the other hand, the legal ambiguity regarding the agency with primary responsibility for analyzing and evaluating the degree of competition in the banking system, leads to such analysis not being carried out with depth or with specific knowledge of the subject matter, and to the inability of

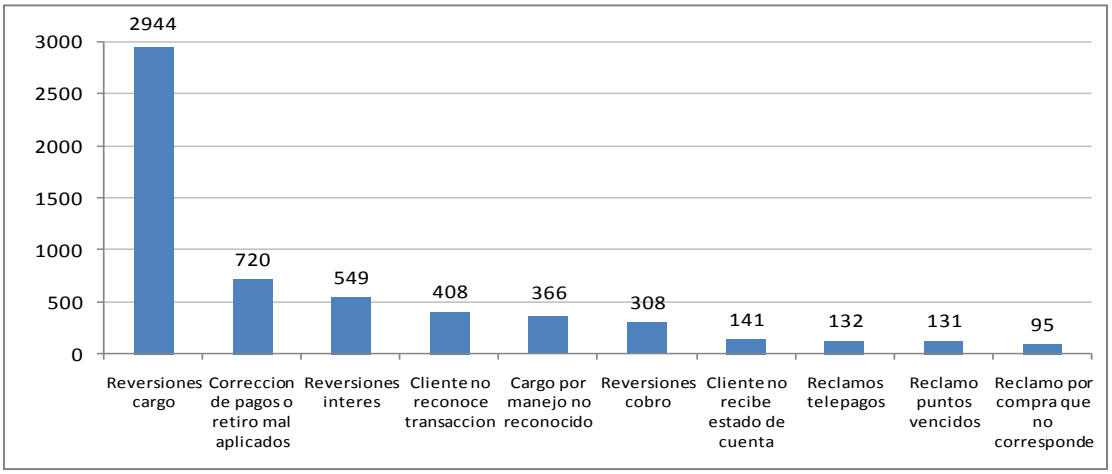
taking effective measures when problems are detected. No inter-agency working groups have been formed, where issues of financial consumer protection are analyzed, and where strategies and action plans that complement with each other are defined.

The creation of the Office of Support to the Financial Services User (OAUSF) within the SIBOIF is a significant step for better customer service. The OAUSF is, in practice, the only entity that acts in the supervised financial system as an institution to resolve a dispute between a client and a financial institution. However, information on the OAUSF has not been widespread. In the contracts of adhesion for credit cards, it is mentioned (in line with SIBOIF regulation) that after 30 days of filing a complaint and not receiving any response by the financial institution or not being satisfied with the response, the cardholder can file a complaint with the SIBOIF. The regulation also indicates the requirements for cardholders to file a complaint with the SIBOIF.

While OAUSF is independent of the Banks Supervision Unit, OAUSF's lack of resources demands the intervention and collaboration of such Unit for the handling and settlement of complaints. The planned extension of OAUSF's tasks in terms of financial consumer protection supervision, as well as handling of other types of consumer complaints beyond those related to credit cards, could also negatively impact on the prudential supervision of banks, if no additional resources are assigned to OAUSF.

The number of complaints handled by financial institutions has remained stable, concentrated in a few institutions, and with a high percentage of complaints being resolved. According to statistics provided by financial institution to the SIBOIF, the average monthly claims treated by them remained around 700 in 2011. A bank concentrates more than 70% of the total number of claims handled by the industry (the second bank has 14%), and focuses most of its operations on the credit card segment. The main type of complaint is on reversal of charges, followed by correction of payments (or misapplied money withdrawal) and reversal of interest. It should be noted that according to the information provided, 92% of complaints were resolved. There is no information on whether the claims were resolved in favor of the financial user or not.

Figure No. 3: Distribution of Complaints handled by Financial Institutions
(As of September 2011)



Source: SIBOIF

The legal framework provides for the establishment of consumer associations. The LDC includes the possibility that consumers associate and constitute consumer groups. While consumer

associations have developed, only some of them (the Nicaraguan Consumer Defense League - LIDECONIC- and the National Network of Consumer Protection-RNDC) have developed specific financial education and financial consumer protection activities.

Banks have not developed codes of conduct. The initiatives carried out recently (in 2010) in terms of transparency of information, complaints handling, standardization of contracts of adhesion, and implementation of financial education programs, were primarily motivated by SIBOIF's LTC regulation. These initiatives did not lead to the elaboration of a code of conduct for banks; this code is not in their plans either. The Association of Private Banks (Asobanp) is conducting a survey among its member banks to, among other activities, assess the development of a common code of conduct applicable to all.

Coordination between the two institutions involved in banking sector competition is nonexistent. It is unclear which of the two institutions (Procompetencia or SIBOIF) has authority on issues related to competition in the institutions supervised by SIBOIF. SIBOIF and Procompetencia have neither prepared any joint analysis of the impact of competition in the banking sector nor published any studies related to banking competition. For example, there is no study on the incidence and impact of publishing banking interest rates and commissions on the level of competition in the sector. While Procompetencia's website contains information about the cases it analyzes and their progress status, there is no available information that is easy to understand and use by a financial consumer regarding competition in general and financial products in particular.

The deposit insurance scheme covers satisfactorily the deposits made in banks. The amount of deposit coverage allows for insurance of the entire balance of 99% of the deposit accounts of the banking system. The scheme has not been tested since its creation (there has been no banking resolution). While SIBOIF and the Deposit Guarantee Fund (FOGADE) advertise which entities are covered by the financial regulation and supervision, and by the deposit insurance, there is room to improve the dissemination and awareness of the general public regarding the scope and limitations of the deposit insurance scheme.

There is no comprehensive financial capability program led by the public sector. Financial education programs are being carried out mainly by the private sector (financial institutions and nongovernmental organizations, NGOs). There is no active participation of the public sector, except for the requirement, through regulation, for banking institutions to carry out financial education programs (this requirement was included in the LTC regulation).

Comparison with Good Practices: Banking Sector

SECTION A	CONSUMER PROTECTION INSTITUTIONS
Good Practice A.1.	***Consumer Protection Regime*** **The law should provide clear consumer protection rules regarding banking products and services, and all institutional arrangements should be in place to ensure the thorough, objective, timely and fair implementation and enforcement of all such rules.** **a. Specific statutory provisions should create an effective regime for the protection of a consumer of any banking product or service.** **b. A general consumer agency, a financial supervisory agency or a specialized financial consumer agency should be responsible for implementing, overseeing and enforcing consumer protection regarding banking products and services, as well as for collecting and analyzing data (including inquiries, complaints and disputes).** **c. The designated agency should be funded adequately to enable it to carry out its mandates efficiently and effectively.** **d. The work of the designated agency should be carried out with transparency, accountability and integrity.** **e. There should be co-ordination and co-operation between the various institutions mandated to implement, oversee and enforce consumer protection and financial system regulation and supervision.** **f. The law should also provide for, or at least not prohibit, a role for the private sector, including voluntary consumer organizations and self-regulatory organizations, in respect of consumer protection regarding banking products and services.**
Description	*Statutory provisions should create an effective regime for the protection of a consumer of any banking product or service.* Law No. 182 or Law on Consumer Protection (LDC), issued in 1994, has the objective of ensuring that consumers purchase goods or services of the highest quality, carrying out trade relations, with public or private, individual or collective, companies that apply friendly, fair and equitable treatment (Art. 1). Article 3 of this Law specifies that it covers all juridical acts performed between two parties in a transaction, in their capacities as supplier and consumer, whatever the class of public or private goods or services is involved, with the only exception being those goods or services provided under an employment relationship and those *professional services regulated by another law*. Section 39 of the LDC states that the competent authority that applies it is the Ministry of Economy and Development. Article 4 of the regulation of the LDC (Decree No. 2187 of September 1999) states that MIFIC's Department of Consumers Defense (DDC) is responsible for ensuring and enforcing both LDC and its regulations. On the other hand, the Credit Card Act (Act No. 515 of December 2004) incorporates consumer protection aspects for credit card services. Its Article 14 grants SIBOIF's Board the power to issue the necessary rules for the proper implementation of this Act, which must be followed by all credit card issuers, including those not supervised by SIBOIF. Finally, the LTC regulation (Law No. 629 of May 2010) states in Article 4 that banks and credit card issuers within the framework of the General Law on Banking

	(LGB), will be subject to the SIBOIF's control and supervision, while the remaining financial entities not included in the LGB will still be subject to the regulations established in the LTC and its regulation. However, there is no specification on which institution will be responsible for the supervision of the latter (credit card issuers not included in the LGB). The joint application of the provisions in the LDC and the LTC, together with their respective regulations, shows that there is a latent conflict of competence between the DDC and SIBOIF on consumer protection maters regarding credit cards (for example, complaints handling and dispute resolution). Both the LDC and its regulation do not include a specific chapter on financial services (only Article 25 of the LDC mentions sales operations where a credit is granted to a consumer, which is related to the financed sale of a good or service). Currently the Legislative Assembly (specifically, the Economic Commission) is processing a proposed amendment to the Consumer Protection Act (which is currently approved at a general level and has its first four articles approved at a more specific level). On the other hand, LTC provides in Article 16 that the SIBOIF Board shall take into account for its regulation, those practices and usages that have characterized the credit card business, and provide for a new addition that would ensure the protection of the rights of all participants in these operations, with emphasis on the rights of users. Consequently, the LTC Regulation developed extensively and incorporated best practices and matters related to consumer protection in credit cards. Except for credit cards (where legislation is clearer as to the SIBOIF's regulatory and supervisory jurisdiction), the legal and institutional framework presented some doubts concerning the scope, powers and responsibilities between different areas of government and SIBOIF regarding financial consumer protection. Another example of potential uncertainty relates to advertising; both the LGB (Art. 119) and the LDC regulation (Article 45) expressly mentions the requirement for truth in advertising, so two institutions (SIBOIF and MIFIC) would have jurisdiction to regulate, monitor and sanction in this area. Furthermore, the Law on Promotion of Competition (LPC), or Law No. 601 of September 2006, provides in Article 1 that its purpose is to promote and safeguard fair competition between economic operators, to ensure market efficiency and consumer welfare by promoting a culture of competition as well as the prevention, prohibition and sanction of anticompetitive practices. Article 5 of the LPC establishes Procompetencia as the body responsible for its enforcement (Procompetencia was established in 2009). Section 15 of the LPC defines that in cases where there is an investigation of practices mentioned in the LPC, carried out in economic sectors and markets subject to regulation (the banking system could be understood as one of those sectors), Procompetencia will issue an opinion that shall be limited to the determination of the practice under investigation, but not deal with specific aspects of the regulation of the sector. Finally, the regulator should take into consideration Procompetencia's opinion when issuing a resolution that covers competition issues under investigation. The joint reading of Articles 5 and 15 has generated confusion about responsibilities of Procompetencia and SIBOIF regarding issues related to competition in the regulated financial system. *A general consumer agency, a financial supervisory agency or a specialized financial consumer agency should take responsibility to implement, monitor and enforce consumer protection for banking services and products as well as to collect and analyze information (including requests for information, complaints and disputes).*

	Given the ambiguity of the wording of the LDC, there are doubts about the responsibility for financial consumer protection of MIFIC's DDC and SIBOIF. On the other hand, the LTC assigned direct responsibility for credit cards to SIBOIF. SIBOIF created the OAUSF (SIB Resolution 143/2010) and named its Head (SIB Resolution 144/2010) in July 2010, and assigned it the jurisdiction to receive, process and track complaints and disputes submitted to SIBOIF by credit card and micro-credit customers from institutions regulated and supervised by SIBOIF (although in practice, OAUSF receives, processes and analyses all complaints submitted by users). The DDC forwards complaints and disputes received from users of SIBOIF-supervised financial institutions to SIBOIF (including those complaints not related to credit cards), and handles complaints received from users of institutions not supervised by SIBOIF (financial users of microcredit institutions, credit unions, and commercial businesses). The DDC interacts with consumer protection associations in the process of responding to consumer complaints and disputes. In practice, the DDC has received and processed a few complaints related to financial users. With regard to the implementation of the LPC in the financial system regulated by the SIBOIF, there have been doubts about the authority responsible for its application (Procompetencia or SIBOIF). The Good Practice H.1 develops this theme further, describing a recent case. *The designated agency should have sufficient funds so that it can fulfill its mandate efficiently and effectively.* The OAUSF has two staff members (the Head and an additional staff). The existence of the OAUSF has not been disseminated to the mass media (television, radio, newspapers) and has not been clearly communicated by the banks to their customers. The standard credit card contract only makes mention of the possibility of making a claim to SIBOIF if the client is not satisfied with the financial institution's response to the claim, or if the client does not receive any response to the claim presented; however, the contract does not include information on the steps and procedures to make a claim with the SIBOIF. This would infer that the demand for treatment of complaints and inquiries may be greater when consumers are more aware of the existence of the OAUSF. On the other hand, currently neither OAUSF nor the SIBOIF's Banking Supervision Unit monitors the compliance with provisions regarding financial consumer protection. If the OAUSF is assigned with the responsibility for off-site and on-site supervision of the application of those rules (which is part of its current strategic plan), it would require more resources to do so. Also, from the start of its operations until the end of 2011, the OAUSF addressed complaint that had not been previously submitted by the consumer to the corresponding bank (thus, OAUSF acted as a "first instance" resource in such cases); and handled and acted on complaints that were not related to violations of laws, regulations or contractual issues (e.g., a request to renegotiate a loan). The SIBOIF noted that this policy was initially adopted as a reaction to the situation of the financial system after the enactment of the Moratorium Act. The OAUSF admitted that in practice, in order to resolve the number of complaints received (totaling 224 as of March 2011), in some cases it has had to ask for support to the Banking Supervision Unit, which has diverted some resources that were intended for the prudential supervision of banks. The aforementioned remarks would imply that, even if the number of complaints was reduced and the financial entities improved their complaint handling processes, the amount of resources available to the OAUSF would not be sufficient to address the current and the projected consumer protection tasks.

	The decision to allocate more resources to OAUSF is pending approval of the amendments to the LDC, which would explicitly assign SIBOIF responsibility on financial consumer protection, including the handling of complaints submitted by clients of financial institutions supervised by SIBOIF, regardless of financial product or service. *The work of the designated agency should be done with transparency, integrity and accountability.* The dissemination of the existence of OAUSF is done through the SIBOIF's website, which includes a section with the articles of the LTC Regulation (32 to 34) that describe the requirements and steps to make a claim with the SIBOIF. Banks generally do not inform their customers of the existence of the OAUSF (only the credit card contract refers to the client's possibility to complain to the SIBOIF), while the information that banks give to their customers physically and the information available on their websites has no reference to that Office or to the right to complain to the SIBOIF. The OAUSF has developed reports that allow the comparison of interest rates and costs of credit cards of different banks, which will help users make financial decisions. The SIBOIF has uploaded on its website a presentation as of March 2011 that describes the implementation of the regulation for credit card operations. Among other information, there are descriptions of the objectives and achievements of the policy reform, and the creation of the OAUSF, statistics on amount, type and bank involved in the claims processed by the SIBOIF, information about the claims addressed by the banks themselves, and the names of the banks whose credit card contracts of adhesion have been approved. *The various institutions mandated to implement, monitor and enforce consumer protection, and financial system regulation and supervision should work in a coordinated and cooperative manner.* Some degree of coordination has been observed between DDC and SIBOIF, notably as regards the forwarding of complaints against institutions regulated by SIBOIF or not. Both institutions were also working together in the draft amendment to the LDC. OAUSF sends a copy of each complaint it receives to the SIBOIF's Banking Supervision Unit, but does not prepare consolidated reports by entity. Due to the lack of clarity regarding the body with primary responsibility in the field of competition in the financial sector, there is a lack of coordination between the two relevant institutions (Procompetencia and SIBOIF). *The law should also provide, at least not prohibit, a role for the private sector, including consumer organizations and voluntary self-regulatory organizations with respect to consumer protection related to banking services and products.* The LDC specifically provides in Article 8, paragraph g), the rights of consumers to associate and form consumers groups. The same Law covers in Chapter IX the role of consumer organizations, which should aim to defend the interests of consumers (being able to represent them), and provide education and information to consumers. These organizations have the legal form of 'association independent from any economic interest' (according to Law No. 147).
Recommendation	The LDC (which is under analysis in the Economic Committee of the National Assembly) should incorporate a specific financial services chapter, which will specify all relevant aspects regarding financial consumer protection, and which will

	be the only chapter of the LDC applicable to financial products and services. The LDC should clarify what institution is responsible for regulating and monitoring the provisions of that chapter in the banking sector (SIBOIF) and other financial sectors. Make sure that the law (LDC) establishes that all financial users are covered by the provisions of this financial services chapter, regardless of the type of financial service provider (bank, microfinance institution, and credit union). The agencies with responsibility for the prudential and consumer protection supervision of such institutions (SIBOIF, National Microfinance Commission-CONAMI) should be the ones to eventually regulate and monitor the implementation of the provisions of the financial services chapter of the amended Consumer Protection Law. The Economic Commission of the Assembly should distribute the draft amended law to different stakeholders, in order to have reactions and comments from them. Include in the financial services chapter of the new Consumer Protection Law, a general definition of terms and practices in contracts of adhesion that are considered unfair; these definitions should use general wordings that would allow for further specification in the regulations to be prepared by the agencies with primary responsibility for financial consumer protection. The definitions should also avoid including regulatory elements, which might create rigidities in the future (the current draft includes several aspects already contained in the regulation of the LTC). Upon approval of the LDC, the various institutions that will be in charge of consumer protection regulation and supervision should act in a coordinated manner. This is important to guarantee a minimum standard of protection for all financial users (regardless of how financial services providers operate) and to "level" the competitive playing field between different suppliers. The legal framework should clarify which institution is responsible for overseeing the credit card issuers not included in the LGB. There should be better coordination between the institution responsible for ensuring competition in different sectors (Procompetencia) and SIBOIF. The functions that each of these institutions have in the area of banking competition should be clarified and then publicly disseminated.
Good Practice A.2	***Code of Conduct for Banks*** **a. There should be a principles-based code of conduct for banks that is devised by all banks or the banking association in consultation with the financial supervisory agency and consumer associations, if possible. Monitored by a statutory agency or an effective self-regulatory agency, this code should be formally adhered to by all sector-specific institutions.** **b. If a principles-based code of conduct exists, it should be publicized and disseminated to the general public.** **c. The principles-based code should be augmented by voluntary codes of conduct for banks on such matters as facilitating the easy switching of consumers' current accounts and establishing a common terminology in the banking industry for the description of banks' charges, services and products.** **d. Every such voluntary code should likewise be publicized and disseminated.**
Description	It has been noticed that banks are (recently) implementing initiatives to provide greater transparency of information, improve the assessment of the client's ability to pay, provide greater clarity in the contracts, improve complaint handling and implement financial education programs. This has been a consequence, in large part, of the rules set by the SIBOIF (specifically the LTC Regulation), the deterioration in the quality of the credit card portfolio, and a greater awareness by banks of the importance of this issue (given its impact on profitability, business and political

	risk). Neither banks have developed codes of conduct regarding their relationship with retail finance clients, nor has the banking association promoted such type of initiative. The banking institutions have incorporated (to a greater or lesser extent) the requirements explicitly included in the credit card legislation regarding financial consumer protection (greater transparency of information, improved assessment of the client's ability to pay, greater clarity in the contracts, improved complaints handling and implementation of financial education programs). In some cases, banks have made progress in establishing in their internal processes higher standards than those required by the regulation (e.g. in terms of time limits for dealing with complaints), although these standards have not been made explicit to the customer, mainly for fear of being unable to meet them (with the consequent reputational and legal risks). Asobanp is conducting a survey to member banks about interest in future projects, which include (among others) the possibility of developing a common code of conduct for the industry. Many banks are in the process of optimizing their processes and systems to improve the transparency of information and complaint handling.
Recommendation	Asobanp could lead the development (in agreement with member banks) of a code of conduct, which institutions would voluntary adhere to (and would publicly disclose). The experience in developing a standard credit card contract is a good background on joint initiatives between member banks. The Code of Conduct, which must be consistent with the existing legal and regulatory framework, should include aspects such as commitment to clients, standard definition of concepts (commissions, fees, etc.), customer service, transparency of information, claims / complaints handling, customer information handling, among others. Initially, the Code could be more generic, and as institutions advance in their full implementation of procedures related to financial consumer protection, it could be upgraded. In order to build credibility with customers, there should be a mechanism for self-assessment of compliance with the code (as well as a scheme of sanctions for noncompliance) among banks that adhere to it. Mechanisms and instances that consumers may use to raise complaints or disputes against banks for breaches of the code should be established and disclosed. The association of banks could be the instance that addresses such complaints. For the purpose of disseminating its existence, the code shall be available in the banks premises and on the banks websites, as well as in the website of the association that represents them.
Good Practice A.3	***Appropriate Allocation between Prudential Supervision and Consumer Protection*** **Whether prudential supervision of banks and consumer protection regarding banking products and services are the responsibility of one or two organizations, the allocation of resources to these functions should be adequate to enable their effective implementation.**
Description	SIBOIF has created a dedicated unit for financial customer care (OAUSF) under the legal department and separated from the prudential supervision of banks (Banking Supervision Unit). While the Resolution that establishes it limits its activity to receive, process and track claims or complaints submitted to the SIOBIF by customers using credit card services and operations of microcredit, in practice OAUSF has addressed claims and complaints by other services or products not covered by the above. The lack of resources of the unit described in paragraph A1c, has required the intervention of staff of the SIBOIF's Banking Supervision Unit to resolve consumer complaints, which has diverted specific resources for prudential supervision.

	OAUSF sends a copy of all individual complaints that it receives to the Banking Supervision Unit, but it does not prepare routine reports (e.g. monthly reports) with the amount and type of complaints received against banks.
Recommendation	The internal resolution that created the OAUSF should incorporate additional activities and tasks that are currently being carried out and those that are planned to be undertaken (such as off-site and on-site supervision of compliance with current regulations). Incorporate additional resources to OAUSF so that it is able to respond to customer complaints without resorting to resources of the Banking Supervision Unit. The monitoring of compliance can be carried out initially at a distance (for example, by verifying information on the website of each bank), while bank supervisors could also report automatically to the OAUSF when they detect any violation to the law while undertaking on-site supervision (for example, irregularities in the contract when reviewing files of credit). Additionally, SIBOIF should evaluate the needed procedures so that in the future OAUSF would only evaluate those claims that have been previously submitted to the bank and that refer to (ex-ante) noncompliance with laws, regulations and contracts (not considering those complaints which, for example, demand a renegotiation that the bank neither is prepared nor considers appropriate to offer). OAUSF should generate routine reports-to be directed to the Banking Supervision Unit- with information on amount and type of claims that have been addressed by banks and those addressed by SIBOIF, as well as comparative analysis, trends, complaint resolution periods and other concepts. This would allow the Banking Supervision Unit to have general information on complaints about banks and have more informed opinions on the commercial, risk and customer-relation policies adopted by the banks under its supervision.
Good Practice A.4	***Other Institutional Arrangements*** **a. The judicial system should ensure that the ultimate resolution of any dispute regarding a consumer protection matter in respect of a banking product or service is affordable, timely and professionally delivered.** **b. The media and consumer associations should play an active role in promoting banking consumer protection.**
Description	There is no judicial jurisdiction to address specific financial complaints or to handle small claims of financial users. These cases are covered by ordinary courts, which are not effective to expeditely resolve disputes between banks and financial users. Alternative mechanisms for conflict resolution are regulated by the Law on Mediation and Arbitration (Law No. 540 of May 2005). The accreditation of institutions (mediation and/or arbitration centers) that can act as mediators is made by the Directorate of Alternative Dispute Resolution (DIRAC), attached to the Supreme Court. The elements that DIRAC considers for the authorization of such centers include their identification, organization, regulation, code of ethics, etc. These institutions play the role of documenting the arrangement under which two parties have reached an agreement. In practice, these centers (totaling 22 in the country) are not well publicized, nor are there statistics to infer how many conflict cases involving financial users have been solved through these mechanisms. There would also be a significant disparity in the costs of using these services (ranging from free up to US$ 100, depending on the Center that offered the service). In practice, the OAUSF plays the role, still incipient, of an administrative body responsible for settling disputes between banks and their customers. There are some media campaigns on financial education (in radio and television), which are promoted by consumer associations (National Network for Consumer Protection) and other non-governmental organizations (Promifin).

Recommendation	The SIBOIF should strengthen its relationship with the mass media and consumer associations, to enhance the dissemination of transparency initiatives, and consumer complaints mechanisms (e.g. publicizing the existence of OAUSF). SIBOIF's interaction with consumer associations would allow it to obtain information on complaints that the associations receive, to receive associations' comments on SIBOIF's proposals or draft initiatives, as well as to support the increase of technical capacity and knowledge of such associations regarding financial sector issues. The preparation and sharing of press releases with the media could be a channel to present projects, news and information on consumer protection. This strategy is complementary to the publication of interest rates for credit cards, in a print media, which is currently done once per quarter. SIBOIF should develop and deliver training courses on financial issues to mediators and judges involved in consumer disputes related to financial services. DIRAC, in coordination with the agencies with responsibility for consumer protection, should publicize the existence of mediation centers as a mechanism for documenting the agreements reached between parties in a (financial services) dispute. DIRAC should publish comparative information on costs of services in different centers.
Good Practice A.5	***Licensing*** **All banking institutions that provide financial services to consumers should be subject to a licensing and regulatory regime to ensure their financial safety and soundness and effective delivery of financial services.**
Description	The LGB provides for the regulation of financial intermediation activities and provision of other financial services with funds from the public, which are considered of public interest. The purpose of this regulation is to protect the interests of depositors, promoting adequate supervision to ensure proper banking system liquidity and solvency (Art. 1). Article 4 of LGB states that people intending to establish a bank must submit an application to the SIBOIF containing the information required to process this authorization. The Superintendent will analyze this information, will consult in a non-binding manner with the Central Bank of Nicaragua (BCN), and will draft a proposal to the Governing Board of the SIBOIF, which will issue a resolution to that effect. The rest of the LGB provides a number of provisions applicable to banks, including on prudential issues, corporate governance, asset and liability operations, inspections, audits, termination and liquidation of banks, among others. On the other hand, the Law of the Superintendency of Banks regulates the operation of the SIBOIF, and assigns it with the responsibility for authorizing and supervising banks. The Law establishes the authority, direction and administration of the SIBOIF, including the powers and functions of the members thereof (Governing Board, Superintendent, Assistant Superintendent and Managers). The SIBOIF establishes the regulatory framework for banks. The emphasis of supervision is focused on prudential issues (liquidity and solvency). The credit unions and microfinance institutions (in the case of the latter, to the extent that they do not receive deposits) are not subject to prudential regulation and supervision. In the case of microfinance institutions, it is expected that the larger will be regulated and supervised by CONAMI (for details, see section Microfinance). It has not been anticipated that the credit unions that also take deposits be subject to a system of prudential regulation and supervision.
Recommendation	SIBOIF should develop a strategy for off-site and on-site supervision that would allow it to assess the effective implementation of financial consumer protection measures. These activities should be carried out separately from the team responsible for prudential supervision (OAUSF has planned to incorporate the task of supervision in the near future). This separation would allow for a team of officials

	to specialize in the subject and would avoid diverting resources from other units that could affect the supervision of the soundness of banks. This shall not affect the necessary interaction and coordination between teams (general information exchange, coordination of visits, etc.). The authorities should establish that all institutions offering financial services be governed by a regulatory and supervisory framework in line with the characteristics and risks taken by the institutions. In this regard, the microfinance institutions that do not take deposits, regardless of their size, should be covered by regulations on transparency, consumer protection and credit reporting. In the case of credit unions (that take deposits), consideration should be given to incorporating them into a system of prudential regulation and supervision.
SECTION B	**DISCLOSURE AND SALES PRACTICES**
Good Practice B.1	***Information on Customers*** **a. When making a recommendation to a consumer, a bank should gather, file and record sufficient information from the consumer to enable the bank to render an appropriate product or service to that consumer.** **b. The extent of information the bank gathers regarding a consumer should:** **(i) be commensurate with the nature and complexity of the product or service either being proposed to or sought by the consumer; and** **(ii) enable the bank to provide a professional service to the consumer in accordance with that consumer's capacity.**
Description	The LTC regulation establishes in Article 8 that *credit card* issuers are obliged, before authorizing a line of credit, to ascertain that the payment and indebtedness capacity of the debtor will allow for debt recovery. To do so prior to the granting of a credit card, the issuer must make a comprehensive assessment of the debtor, which should include the analysis of his or her ability to pay (including sources of income and their stability), the amount of total indebtedness and the appropriate ratio of installment/ income. This analysis should be performed every time a credit line extension is duly granted. On the other hand, Chapter IV of the Rules on Credit Risk Management (Resolution 547 of 2008) establishes the minimum criteria for the evaluation of the debtor. They state that, prior to the granting of *consumer and mortgage credits*, the applicant's payment and indebtedness capacity should be analyzed taking into account, among other factors, the applicant's income, assets, as well as the instalments and balance of his/her various liabilities. In both cases (credit cards and other consumer loans), the financial institution shall require the customer to supply all necessary information. The SIBOIF's Credit Registry should also be consulted, as well as other complementary sources of information that would allow the financial institution to estimate the total obligations of the debtor being assessed, such as credit history information from private credit bureaus. The aforementioned legislation clearly describes the information that a bank must obtain, prior to the granting of a loan. This is based on the need to assess the levels of indebtedness, income and repayment capacity. The SIBOIF manages a Credit Registry containing positive and negative information of all debtors of the financial institutions it supervises. These institutions have timely and free access to information of individuals who have authorized the entity to check their credit history. On the other hand, private credit bureaus contain not only information from some banks, but also information from other lenders (microfinance institutions, credit

	unions and commercial businesses), which complements the SIBOIF's Credit Registry. These sources of credit information are essential to have information on the level of indebtedness and the credit behavior demonstrated by debtors in lending operations that are not channeled through banks. All this credit information allows, together with the analysis of income, to evaluate the payment capacity of a potential borrower. Flexibility in lending policies (primarily through credit card and extra funding) without conducting a proper assessment of a client's level of indebtedness and payment capacity, as well as very aggressive commercial practices of banks (and other lending institutions) resulted in levels of over-indebtedness that hindered the payment of obligations by users. This situation was reflected in significant delinquency rates over the past several years, discontent on the part of users of these products, and strong political pressure to deal with such discontent. This context contributed to the development of social movements that advocated the restructuring of debts, which led to the enactment of the Law on the Renegotiation of Defaulted Debt in Microcredit Institutions (Law No. 716 of April 2010). As stated in the interviews held with banks and SIBOIF officials, these practices have begun to cease and internal policies of the banks have been reviewed. This is explained by the entry into force of the LTC regulation (although in this particular aspect, that legislation has similar provisions to the regulation on credit risk management dating from 2008), increased monitoring by SIBOIF, and learning -by both banks and their customers- from the experiences lived during the last crisis. Consumer associations have taken notice and handled several cases in which a user is contacted by telephone by a retail sales officer offering a credit card, but without: (i) proper assessment of the consumer's ability to pay; (ii) delivery of the contract of adhesion prior to the granting of the credit card; and (iii) clear and transparent explanation of a user's rights and obligations. Additionally, as required by the credit card regulations, banks have carried out campaigns for financial education of their (existing and new) customers and for staff training. Banks have noy measured the impact of such campaigns to assess the results thereof.
Recommendation	SIBOIF should include in its regulation the requirement that the personnel providing credit products through different channels be adequately trained (the credit card legislation refers to the training of staff dealing with claims only, while the risk management policy makes no reference to that training concept). SIBOIF should strengthen its oversight processes regarding policies and procedures being implemented by banks on credit scoring, knowledge of customers, and training of staff. Such oversight should include analysis of policies, regulations and manuals associated with lending policies and evidence of effective implementation thereof.
Good Practice B.2	***Affordability*** **a. When a bank makes a recommendation regarding a product or service to a consumer, the product or service it offers to that consumer should be in line with the need of the consumer.** **b. The consumer should be given a range of options to choose from to meet his or her requirements.** **c. Sufficient information on the product or service should be provided to the consumer to enable him or her to select the most suitable and affordable product or service.** **d. When offering a new credit product or service significantly increasing the amount of debt assumed by the consumer, the consumer's credit worthiness should be properly assessed.**

Description	As mentioned in section B.1, when granting a loan it is important to evaluate the debtor's ability to pay and whether the product or service is the most appropriate for the financial user. Banks offer a range of financial products according to the characteristics of the financial and economic system. In terms of liabilities, the main products offered are savings deposits, current accounts, time deposits. On the credit side, banks offer credit cards (with different names, promotions, levels, etc.), and personal, Lombard and mortgage loans. Virtually all types of credits are offered in foreign currency, or in local currency (Cordoba) adjustable for the variation in the exchange rate. The most important consumer decisions regarding credit focus on how much debt the consumer would assume and whether the debt would be structured as credit card debt or as personal loan. In this regard, banks tend to encourage the consumer to be financed with credit card and only encourage the consumer to get a personal loan when he or she has accumulated an excessive level of debt. For example, banks often advise customers to make "at least" the minimum payment, when it might be more convenient for the customer to "pay the full balance" and then apply for a personal loan. Banks tend to set goals for the sale of certain products, which undermines the incentives of the loan officers to provide advice that might be opposed to the goal that has been assigned. Some banks have reviewed and amended these types of policies.
Recommendation	Banks should include in the training programs for its officials the importance of providing adequate information to the customer and to interpret which of the products offered by the bank is the one that best suits the customer's needs. Banks should create incentives to provide such advice, including through the design of proper sales targets and the structure of associated commissions. The advice and information that banks provide to financial users should cover credit and deposit products and services. In all cases, the banks should aim at helping the user understand the available alternatives, including the costs and benefits of each alternative, as well as the option that best suits the user's needs and possibilities, in order to facilitate the user's choice of a financial product or service. SIBOIF, in its supervision process, should analyze whether the bank credit policies incorporate the assessment of the customers' credit needs (not just their payment capacity).
Good Practice B.3	***Cooling-off Period*** **a. Unless explicitly waived in advance by a consumer in writing, a bank should provide the consumer a cooling-off period of a reasonable number of days (at least 3-5 business days) immediately following the signing of any agreement between the bank and the consumer.** **b. On his or her written notice to the bank during the cooling-off period, the consumer should be permitted to cancel or treat the agreement as null and void without penalty to the consumer of any kind.**
Description	The LDC states the cases where the provider faces civil liability, as well as the consequent procedure for consumer redress (Articles 27 and 28). The cases include: the sale of goods or services, when they are ascribed with characteristics or qualities other than those that they actually have; the lack of compliance with the terms of an offer, promotion or advertising; the sale of used or refurbished goods as if they were new; the promotion of goods and services based on false statements concerning disadvantages or risks of rivals; the offer of guarantees without being able to give them. The Law does not explicitly allow the debtor's right to terminate a contract of

	adhesion within a short period of time without penalty. This right has not been included in any SIBOIF regulation either. The banks provide, in each particular case and without an explicit procedure, the possibility of reducing (and eventually write off in full) costs related to the prepayment of a loan. Some banks provide the consumer with a summary of the specific conditions of a pre-arranged credit, prior to its subscription and disbursement, which would allow the customer to make a more thorough evaluation on the assumption of the credit responsibility. Banks have not incorporated into their policies and procedures, the possibility of not charging the early termination (or cancellation) fee given the client's "repentance" for the transaction.
Recommendation	Banks could incorporate in their policies the option for the consumer to cancel a credit agreement without penalty (prepayment or any other fee), when the consumer requests this option within a small number of days after having signed the contract or received the funds. The types of credit where such a policy would be applicable first should preferably be those granted to consumers in a more quickly and impulsively manner, such as personal loans and extra-financing. These policies should be part of the financial product contract and be disseminated to consumers through the various media channels that advertise the financial product, and through the respective contract of adhesion.
Good Practice B.4	***Bundling and Tying Clauses*** **a. As much as possible, banks should avoid bundling services and products and the use of tying clauses in contracts that restrict the choice of consumers.** **b. In particular, whenever a borrower is obliged by a bank to purchase any product, including an insurance policy, as a pre-condition for receiving a loan from the bank, the borrower should be free to choose the provider of the product and this information should be made known to the borrower.**
Description	SIBOIF's Resolution 146 (February 2001) regulates the insurance intermediation operations that the banks may make. Article 1 of this Resolution provides that a financial institution may offer its customers the service of selling an insurance policy linked to its own operations, but always respecting the freedom of choice of its customers. Additionally, such norm establishes that a bank may not, directly or indirectly, condition the approval or execution of a credit operation to the client's purchase of an insurance product without having the freedom of choice abovementioned. The norm also requires that banks maintain in the department or section where the purchase of insurance is handled, a notice written in a legible and easily visible typewriting, which makes it explicit that the customer has the freedom to choose the SIBOIF-authorized insurance company or intermediary that is more convenient to the customer (Article 2). Finally, Article 3 provides that banks may establish an insurance brokerage or advisory department or office for the purposes stated above, provided that they do not have significant links with an insurance company. Since it was found that some entities were not properly applying those rules, SIBOIF recently issued a Circular (1774, August 2011) reminding that Resolution 146 is valid. Although banks, generally and formally, offer consumers alternatives to choose from to obtain the insurance policy linked to the credit taken, in practice the vast majority of lending operations that require insurance end up having a contract with the insurer that the bank suggests. This is due to different factors, including

	convenience and competitiveness of the product offered by the suggested insurer. There have been no complaints on these issues.
Recommendation	SIBOIF should monitor compliance with Circular 1774 and Resolution 146. Experience in some countries regarding complaints about the customer's lack of freedom to choose the insurance company for coverage related to his or credit, is related to the high level of insurance fees (above market values). This tied selling policy aims to publicize lower credit interest rates which are then offset by higher insurance fees. The development of the concept of a total annual cost, which includes all the components that make up the credit instalment (interest rates, insurance, commissions, bonuses, etc.), would eliminate the incentive for banks to adopt the policies discussed above (this concept is developed more fully in section B.9).
Good Practice B.5	***Preservation of Rights*** **Except where permitted by applicable legislation, in any communication or agreement with a consumer, a bank should not exclude or restrict, or seek to exclude or restrict:** **(i) any duty to act with skill, care and diligence toward the consumer in connection with the provision by the bank of any financial service or product; or** **(ii) any liability arising from the bank's failure to exercise its duty to act with skill, care and diligence in the provision of any financial service or product to the consumer**
Description	Article 24 of the LDC states that contract provisions do not have any effect when they allow the supplier to unilaterally modify the contract to the detriment of the consumer; exonerate the supplier from its civil responsibilities (unless the consumer does not comply with the norm); set statutes of limitation shorter than those established in the Civil Code; restrict or impede the right of consumer action against the supplier, or reverse the burden of proof to the detriment of the consumer; impose compulsory arbitration and waive consumer rights included in the LDC. Regarding credit cards, the SIBOIF approves the contracts, making sure they do not infringe or limit consumer rights or exonerate the duties and responsibilities of banks.
Recommendation	The revised LDC should include in its financial services chapter a list of clauses and practices that are considered unfair. The law should specify that this list is not exhaustive, and that the relevant regulatory and supervisory agency may include in their respective regulations other practices that it might identify. In this context, SIBOIF could establish specific consumer protection rules which specifically define abusive practices and clauses -in accordance with the LDC.
Good Practice B.6	***Regulatory Status Disclosure*** **In all of its advertising, whether by print, television, radio or otherwise, a bank should disclose the fact that it is a regulated entity and the name and contact details of the regulator.**
Description	The LGB includes a number of provisions related to the use of the word bank and the carrying-out of financial intermediation activities by non-authorized institutions. Article 125 provides that companies established under the framework of the LGB may not use in its name words that may create confusion regarding the nature of a banking institution. Article 167 states that the persons not being duly authorized to undertake operations that require prior authorization according to the LGB will be administratively punished by the Superintendent of Banks, and may not continue to exercise such businesses. A similar measure is applicable to those persons that, without being previously authorized under the LGB, use as part of their denomination the words

	bank; banking, savings, lending or financial institution; or any other similar or equivalent word. SIOBIF sporadically publishes in the news media the name of the institutions that are regulated by it and that can take deposits from the public. Also, its website includes the list of institutions per type of entity regulated and supervised by SIBOIF. The banks include in their advertising the word bank, without reference to the fact that they are regulated and supervised by the SIBOIF. In addition, the advertisement that indicates that a bank is a member of the Deposit Guarantee Fund (FOGADE) is not standardized, which reduces the easy identification by the users (a point that is developed more fully in Section F1). Some confusion may exist in terms of the authority in charge of regulating and supervising credit unions (that take deposits) and microfinance institutions (which are not authorized to take deposits). Both types of institutions are not under the regulation and supervision of the SIBOIF.
Recommendation	SIBOIF should include in its regulation a requirement that banks include in their advertising a legend that refers to the fact that the institution is regulated and supervised by SIBOIF.
Good Practice B.7	***Terms and Conditions*** **a. Before a consumer opens a deposit, current (checking) or loan account at a bank, the bank should make available to the consumer a written copy of its general terms and conditions, as well as all terms and conditions that apply to the account to be opened. Collectively, these Terms and Conditions should include:** **(i) disclosure of details of the bank's general charges;** **(ii) a summary of the bank's complaints procedures;** **(iii) a statement regarding the existence of the office of banking ombudsman or equivalent institution and basic information relating to its process and procedures;** **(iv) information about any compensation scheme that the bank is a member of;** **(v) an outline of the action and remedies which the bank may take in the event of a default by the consumer;** **(vi) the principles-based code of conduct, if any, referred to in A.2 above;** **(vii) information on the methods of computing interest rates paid by or charged to the consumer, any relevant non-interest charges or fees related to the product offered to the consumer;** **(viii) any service charges to be paid by the consumer, restrictions, if any, on account transfers by the consumer, and the procedures for closing an account; and** **(ix) clear rules on the reporting procedures that the consumer should follow in the case of unauthorized transactions in general, and stolen cards in particular, as well as the bank's liability in such cases facilitates the reading of every word.**
Description	Banks publish on their websites the main features of the financial products they offer. Both this communication channel and the printed brochures emphasize the benefits of the product. In addition, the list of costs (commissions, interest rates), specifically for credit cards, is available on the website and in the branches premises. Article 5 of the LTC regulation states that credit card issuers must provide their cardholders with clear, appropriate, understandable and comprehensive information on the products and services offered and their associated costs, as well as the terms and conditions of such products and services. Issuers must also provide their cardholders relevant information before, during and after the conclusion of the

	contract. Banks have standardized their contracts of adhesion for credit cards, including all aspects required by the regulation. The contract has been submitted by each bank to SIBOIF for approval (Article 11 of the LTC regulation). Most entities have published their approved contract on their website. In line with regulatory requirements, the credit card contract has highlighted in bold some concepts that the financial entity considers relevant (in general those correspond to the payment responsibilities; for example, they do not include the process for disputing financial charges). The credit card contract of adhesion indicates that every cardholder has 30 business days to dispute a charge. This dispute must be made using the forms that the bank provides in its branches, or by electronic means. The cardholder must submit these forms physically in the bank's offices or by electronic means within the prescribed period, and shall add the documents that support the claim and that would contribute to the investigation and eventual resolution of the dispute. The bank acknowledges the dispute and gives a claim number, and then it has a period not longer than six months to answer the claim, unless the dispute is originated by and made directly by the card issuer, in which case the term to resolve the dispute shall not exceed thirty calendar days. Banks have indicated that the process to resolve disputed credit card charges is shorter than the maximum term stated in the regulation and in the contract, but they prefer not to commit formally to respond sooner. Additionally, the regulation specifies that once such term has expired without the bank responding to the consumer or if the bank's reply does not satisfy the cardholder, then he or she may lodge a complaint with the SIBOIF (although the contracts generally do not specificy the channels and procedures to make a claim before that authority). It is also established that the bank will not make any charge to the cardholder related to the dispute procedures, as long as the claim is not resolved, and that the cardholder may continue to use the credit card within the authorized credit limit (the disputed amount will be part of the limit while the claim is not resolved). In case the dispute is not resolved in favor of the cardholder, the disputed amount will be charged at the next statement after the dispute resolved. The typewriting of the credit card contract of adhesion is adequate (the regulations require that no "fine print" be used). The SIBOIF has not developed regulations for other loans or for deposits, so banks follow the provisions of the LGB (Chapter IV).
Recommendation	SIBOIF should issue regulations that extend to other credit products ingredients (besides credit cards) and deposits, the requirement to include some minimum concepts in their terms and conditions, to include them in the contracts of adhesion and to properly disseminate these concepts. The banks should highlight (in bold) in the contracts of adhesion the rights enjoyed by the customer, such as the right to dispute charges. Banks should also highlight SIBOIF's role as a second instance for handling consumer disputes as well as the procedures that a client should follow to raise a claim to SIBOIF if the client receives no response from the bank or is not satisfied with the response.
Good Practice B.8	***Key Facts Statement*** **a. A bank should have a Key Facts Statement for each of its accounts, types of loans or other products or services and provide these to its customers and potential customers.** **b. The Key Facts Statement should be written in plain language and summarize in a page or two the key terms and conditions of the specific banking product or service.** **c. Prior to a consumer opening any account at, or signing any loan agreement with, the bank, the consumer should have delivered a signed**

	statement to the bank to the effect that he or she has duly received, read and understood the relevant Key Facts Statement from the bank. **d. Key Facts Statements throughout the banking sector should be written in such a way as to allow consumers the possibility of easily comparing products that are being offered by a range of banks.**
Description	Banks do not provide a key facts statement that will summarize in a simple manner the main conditions of the financial products and services being offered. Banks use brochures that describe the features and benefits of some financial products and services and have tables of interest rates and commissions available to the consumers. The websites of the banks include information on interest rates of credit cards and the table of fees (both explicitly required in the credit card regulation). Most entities publish their credit card contracts on their websites. However, only one has also published its deposit contract rules, whereas no entity has published contracts for any other loan products (personal, pledge, mortgage). In order to standardize the transmission of information by bank officers to their customers, some entities have developed text guides ("scripts") covering the main points related to a credit or savings product.
Recommendation	SIBOIF should incorporate into its regulations the requirement that the banks should include as an annex to the contract, a key facts statement or summary sheet that sets out the main features of a financial product. The "scripts" could be the input for the preparation of the summary sheet. The regulations should specify what type of information should be included therein, such as the schedule of payments, the total amount due and legends with warnings about the consequences of non-timely payment of debts (e.g., negative reporting to the credit registers). SIBOIF should require in its regulations that banks make available in branches and post on their websites all contracts of adhesion and deposit contract rules.
Good Practice B.9	***Advertising and Sales Materials*** **a. Banks should ensure that their advertising and sales materials and procedures do not mislead customers.** **b. All advertising and sales materials of banks should be easily readable and understandable by the general public.** **c. Banks should be legally responsible for all statements made in their advertising and sales materials (i.e. be subject to the penalties under the law for making any false or misleading statements)**
Description	The LDC and its regulations, and the credit card regulations, explicitly set the requirement that advertising can not be misleading or false, the consequences of not meeting this requirement, and the requirement of minimum advertising regarding costs (for card credits). Article 19 of the LDC established that the offer, promotion and false or misleading advertising of products, activities or services constitute fraud, notwithstanding other criminal and civil liabilities. This Article also considers that there is deceit when any information, communication, commercial advertising, packages or labels use text, dialogue, sounds, images or descriptions that directly or indirectly imply inaccuracy, obscurity, omission, ambiguity or exaggeration and/or induce the consumer to be a victim of fraud, error or confusion. Article 97 of the LDC regulation provides that in any disputes which may arise from the provisions of Arts. 19 and 20 of the LDC, the advertiser must prove the truth of the statements contained in the advertisement. Article 98 states that when the severity of the claims made in an advertisement considered false or misleading warrants it, the DDC shall order the dissemination of the rectification of its contents, at the expense of the advertiser and using the same media that spread the suspended

	advertisement. Also, LGB provides in Article 119 that the advertisements that the banks use shall neither mislead nor offer benefits or conditions which they are not authorized for or not able to fulfill. When the Superintendent of Banks notes that the advertisement does not meet those conditions or that substantiated complaints are filed against it, the Superintendent may order the appropriate correction, suspend or cancel the advertisement. SIBOIF has adopted a proactive attitude, asking banks to send, in advance of holidays, the advertisements they will use in such occasions. In some cases, SIBOIF asks banks to rectify such advertising. Not penalties have been issued for this concept. Moreover, the LTC regulation (Art. 7) provides that the advertising used by credit card issuers should be clear and not misleading and should adequately capture the conditions of the product or service advertised, without actually or potentially leading to confusion or error to consumers. The promotional conditions that encourage the purchase of a credit card must be maintained by the issuer during the period offered in the advertisement. The awards, promotions or discounts offered by credit card issuers should have rules, which should include restrictions, terms, nature and forms of compliance. These rules shall be published in a print media with national circulation and on the issuer's website. It was found that, overall, banks post on their websites the rules of the promotions they offer. Additionally, Art. 22 requires that the credit card issuers disseminate in their web pages, in an easily accessible place, formulas for the payment of interest and other payments, based on the methodology established in the regulation. This publication shall be accompanied by explanatory examples, so that cardholders may have full knowledge of the tool and may be able to apply the tool for concrete operations that they have carried out. Finally, Article 40 of the regulation provides that issuers must publish at least the first month of each calendar quarter, the Table of Costs in the order and detail provided in the Annex to the regulation, corresponding to each of the credit card products offered to the public, in a print media with national circulation, with a font and number size similar to Arial 12. Banks, with varying degrees of progress, have been implementing the regulatory requirements on advertising. In general, the information on interest rates and costs has been disseminated, as well as the formulas for calculating interests and the impact of paying less than the total balance. However, some website publications are not very readable (they are photocopies of newspaper publications). The monitoring of the implementation of the above rules has not been very intense, which could have greater impact on the degree of compliance with these rules in the future when this issue would not be as recent and there would be less "pressure" to deal with it. Some banks, during the preparation of their advertising, give some units the opportunity to intervene early prior to the finalization of the advertisement, in order to verify its compliance with appropriate levels of transparency. Banks have not developed (nor are they legally required to do so) the concept of total annual cost, which facilitates a comprehensive comparison of the costs of financial products between different financial institutions. The legislation does not provide for the dissemination of a table of interest rates and costs for other credit products (personal loans, mortgages) and liabilities (savings, time deposits).
Recommendation	The draft LDC should incorporate within its financial services chapter the provisions that deal with advertising and that could be applied to financial services. This would clear the doubt about their applicability to the financial sector (although this topic is

	also included in the LGB). SIBOIF should incorporate in its regulations the concept of total annual cost, which facilitates the comparison of the costs of different credit products (loans) payable in installments. The total annual cost should include interest, insurance costs, commissions and any bonuses under the premise that the credit is paid by the customer in a timely manner. This concept (also known in some countries as total financial cost or annual effective interest rate) represents the internal rate of return that equates the funds received by the customer with the installments that the customer will pay for the cancellation of the credit, following the agreed contractual terms. The total annual cost should be part of any advertising of the bank, with equal "hierarchy" (font size, repetition, volume, etc.) than the other concepts (e.g. interest rate) being advertised. In addition, the regulations should establish that the total annual cost be included in the credit proposals, contracts and all information that is given to the customer. SIBOIF should clarify in all the regulations which require the advertising in print media, that the information shall also be published in the website of the bank in question. SIBOIF should also reduce the minimum frequency of dissemination of interest rates on the website of the institutions (from quarterly to monthly), and the dissemination of comparative information of banks in the SIBOIF website. Also, SIBOIF's supervisory process should incorporate the monitoring of sample advertisements (in some cases remotely) to ensure the compliance with this regulation, which is relatively new and requires follow-up to ensure continuity and deepening of its implementation.
Good Practice B.10	***Third-Party Guarantees*** **A bank should not advertise either an actual or future deposit or interest rate payable on a deposit as being guaranteed or partially guaranteed unless there is a legally enforceable agreement between the bank and a third party who or which has provided such a guarantee. In the event such an agreement exists, the advertisement should state:** **(i) the extent of the guarantee;** **(ii) the name and contact details of the party providing the guarantee; and** **(iii) in the event the party providing the guarantee is in any way connected to the bank, the precise nature of that relationship.**
Description	Banks do not offer guarantees on their deposits. While 4 out of 5 Nicaraguan private banks are foreign, their advertisings do not mention any guarantee from their shareholders or controlling banks. The only explicit guarantee corresponds to the deposit guarantee fund, which is governed by the legal and regulatory framework applicable to all institutions supervised by the SIBOIF that receive deposits (theme developed more fully in section F1).
Recommendation	No recommendation
Good Practice B.11.	***Professional Competence*** **a. In order to avoid any misrepresentation of fact to a consumer, any bank staff member who deals directly with consumers, or who prepares bank advertisements (or other materials of the bank for external distribution), or who markets any service or product of the bank should be familiar with the legislative, regulatory and code of conduct guidance requirements relevant to his or her work, as well as with the details of any product or service of the bank which he or she sells or promotes.** **b. Regulators and associations of banks should collaborate to establish and**

	administer minimum competency requirements for any bank staff member who: (i) deals directly with consumers, (ii) prepares any Key Facts Statement or any advertisement for the bank, or (iii) markets the bank's services and products.
Description	One of the aspects that explain the strong growth in number and the overindebtedness of credit card customers was the lack of training of the staff carrying out the sale of such products. This was complemented by aggressive commercial practices of the banking entities. In meetings with consumer groups, information was shared regarding several instances in which the official bank sales officer offered a credit card, highlighting its benefits only, not allowing early access to the contract, and not making an adequate assessment of the client's repayment capacity. As stated by banks, they have developed training programs for their staff, have adjusted their internal processes to conduct an adequate assessment (prior to the granting of credit) of the consumer, and have standardized the information to be provided to the consumer. Additionally, some banks have implemented monitoring mechanisms to verify that these new procedures are implemented (e.g. "mystery shopping", recorded conversations). Asobanp has not developed training programs or minimum standards needed to train staff that will be involved in the marketing of credit and savings products, and in the preparation of advertising material.
Recommendation	The association of banks could develop training courses that ensure a minimum standard of bank staff regarding communication with current and potential bank customers. These standards would not interfere with the individual strategy that each banking entity could later elaborate and implement regarding staff training. Alternatively, the association could develop common guidelines for member banks to apply with regard to the issues that a staff training program should address. These guidelines would not be compulsory but referencial for the bank members. SIBOIF could develop courses aimed at training leaders in banking entities, which would transmit the minimal professional competence requirements for staff that deal directly with consumers or elaborate advertising aimed at them.
SECTION C	**CUSTOMER ACCOUNT HANDLING AND MAINTENANCE**
Good Practice C.1	***Statements*** **a. Unless a bank receives a customer's prior signed authorization to the contrary, the bank should issue, and provide the customer free of charge, a monthly statement of every account the bank operates for the customer.** **b. Each such statement should: (i) set out all transactions concerning the account during the period covered by the statement; and (ii) provide details of the interest rate(s) applied to the account during the period covered by the statement.** **c. Each credit card statement should set out the minimum payment required and the total interest cost that will accrue, if the cardholder makes only the required minimum payment.** **d. Each mortgage or other loan account statement should clearly indicate the amount paid during the period covered by the statement, the total outstanding amount still owing, the allocation of payment to the principal and interest and, if applicable, the up-to-date accrual of taxes paid.** **e. A bank should notify a customer of long periods of inactivity of any account of the customer and provide a reasonable final notice in writing to the customer if the funds are to be treated as unclaimed money.**

	f. When a customer signs up for paperless statements, such statements should be in an easy-to-read and readily understandable format.
Description	Banks give their customers, in general, monthly statements for credit and savings accounts maintained with them, through physical or electronic means. Legislation provides that requirement only for current accounts and credit cards. Furthermore, due to greater dissemination and use of debit cards, consumers have the possibility (and increasingly do) to check balances and transactions through ATMs. In the case of credit cards, the regulation establishes minimum aspects related to statements (Art. 19). In this regard, issuers are required to send their cardholder a monthly statement containing at least: a) identification (the issuer and the cardholder) b) descriptions (items that the cardholder must pay, including date of purchase, respective business, country, amount in the agreed currency, results of promotional activities); c) financial details, displaying in separate item lines the cut-off date, due date, type of interest rate (fixed or variable), current interest rate, current interest amount, default interest rate, amount of default interest, disclosure of commissions, fees and charges, previous balance, amount of purchases of goods and services performed in the cycle, amount of cash withdrawals made in the cycle, minimum payment, including principal portion of the minimum payment, cash payments, payments made in the cycle, and any debit or credit applied to the account; d) the financial impact if the cardholder only makes the minimum payment, including at least the time it will take the cardholder to pay the entire debt should he make only the minimum payment; e) other information: they must show, among others, the procedure and period for the cardholder to challenge the charges in the statement, and to submit claims in general; procedures for reporting card loss, places where payments can be made, cardholder phone service, and any other information that may be of benefit. Issuers may not use the statement to collect payments from credit other than the credit line authorized in the credit card contract. On the other hand, in terms of deposits, Article 46 of the LGB provides that, unless otherwise agreed between the bank and its client, the former is required to provide their depositors, at least once every month, with a statement of all current accounts, showing its movements and the balance on the last day of its term, and asking for the client's agreement in writing. This statement must be submitted or made available to the client through physical or electronic means no later than ten business days following the end of the period in question. If the bank does not receive any response within thirty days of submitting the statement of accounts, this shall be considered accepted and the balances shall be considered final from the date the statement refers to, unless proven otherwise.
Recommendation	SIBOIF should require that banks include the elaboration of a deposit account statement as part of their deposit rules, and that the statements are provided to all clients SIBOIF should define a minimum standard of information to be included in the statements of deposits accouts and lending operations other than credit card (since it is already covered by specific regulations for such operation).
Good Practice C.2	***Notification of Changes in Interest Rates and Non-interest Charges*** **a. A customer of a bank should be notified in writing by the bank of any change in:** **(i) The interest rate to be paid or charged on any account of the**

	customer as soon as possible; and **(ii) A non-interest charge on any account of the customer a reasonable period in advance of the effective date of the change.** **b. If the revised terms are not acceptable to the customer, he or she should have the right to exit the contract without penalty, provided such right is exercised within a reasonable period.** **c. The bank should inform the customer of the foregoing right whenever a notice of change under paragraph a. is made by the bank.**
Description	The credit card contracts of adhesion, in line with the regulations governing such product, establish the conditions under which they may change the interest rate and the rights and obligations applicable to the cardholder in this situation. According to the standard contract, the bank can not change the annual interest rate during the contract period, however, at least thirty days prior to its expiration, the bank shall notify the cardholder any change in the rate, which will apply for the new term of the contract. Such notification must be made through the account statement, and the cardholder may reject the changes, in which case the bank may suspend the use of the credit line. For payment of the balance due, the bank must comply with the interest rate and other terms contained in the contract before the modification. With respect to variable interest rates, Article 17 of the LTC regulation provides that the rate shall be entered in the contract together with the benchmark that will determine the variability of the agreed rate, such as Libor, Prime or any other public index that will objectively justify the variation of the agreed rate. However, the variation can only be made within the period prescribed in the contract for revision of rate, which can not be less than three months. In this case, it is required to notify or obtain acceptance by the debtor. Regarding credit card fees, the cost table which describes them is considered part of the contract and shall not be modified for two consecutive quarters. Any of the fees may be changed at the beginning of the subsequent quarter, without need for prior authorization from SIBOIF, but the cardholder must be notified in the statement. There is no established procedure in the event that the customer rejects the new charges schedule. The legislation does not include provisions on changes of interest rates (and application of variable interest rates) and charges for the remaining savings and credit products.
Recommendation	The contract of adhesion should include the possibility that the user may cancel the contract without penalty if he or she does not agree with the new fee structure (similar to the criteria applicable to changes in interest rates for credit cards). This would be in line with the current wording of the credit card regulation, which does not seem to be fully reflected in current contracts. SIBOIF should incorporate into its regulations that all contracts of adhesion of credit products with variable interest rates shall also follow the provisions of Article 17 of the LTC regulation (the requirement that the reference rate used to define the variability in the interest rate shall be explicitly identified).
Good Practice C.3	***Customer Records*** **a. A bank should maintain up-to-date records in respect of each customer of the bank that contain the following:** **(i) a copy of all documents required to identify the customer and provide the customer's profile;** **(ii) the customer's address, telephone number and all other customer contact details;** **(iii) any information or document in connection with the customer that has been prepared in compliance with any statute, regulation or code of conduct;**

	(iv) details of all products and services provided by the bank to the customer; **(v) all documents and applications of the bank completed, signed and submitted to the bank by the customer;** **(vi) a copy of all original documents submitted by the customer in support of an application by the customer for the provision of a product or service by the bank; and** **(vii) any other relevant information concerning the customer.** **b. A law or regulation should provide the minimum permissible period for retaining all such records and, throughout this period, the customer should be provided ready access to all such records free of charge or for a reasonable fee.**
Description	Banks keep registers (files) of their customers, with supporting documentation for the products they purchased. This includes the contract between the customer and the bank and the documentation used for the customer's evaluation. Nicaragua does not have a data protection law which establishes the customer's rights of access to information held by the bank. It is explicitly contemplated that the client may access the information contained in the private credit bureaus, as well as the máximum term that credit information may remain on them. This period is 5 years from the date the customer has paid all the debt, or a writ of execution is executed, or the debt has prescribed. The legislation on operational risk provides guidelines to be carried out by the bank to, among others, safeguard information and provide access to customer information. The Resolution regulating SIBOIF's credit registry (Number 413, March 2006) states in Article 13 that persons or companies that apply for credit with a financial institution or are clients of a financial institution, may request all credit information contained in the credit report provided by the credit registry. Additionally, financial institutions must provide proof of credit history, when requested to do so by their customers. Regulations do not cover the minimum information that the customer records should include, or the minimum period the bank should retain such information.
Recommendation	SIBOIF should state in its regulations that the customer is entitled to access, within a specified period (e.g., at least once a year) and free of charge, to all his or her information available to the entity. This right should be part of the contract signed with the entity and be communicated properly to the client. The regulations should specify the minimum content of client files and the minimum period that the bank should retain such information.
Good Practice C.4	***Paper and Electronic Checks*** **a. The law and code of conduct should provide for clear rules on the issuance and clearing of paper checks that include, among other things, rules on:** **(i) checks drawn on an account that has insufficient funds;** **(ii) the consequences of issuing a check without sufficient funds;** **(iii) the duration within which funds of a cleared check should be credited into the customer's account;** **(iv) the procedures on countermanding or stopping payment on a check by a customer;** **(v) charges by a bank on the issuance and clearance of checks;** **(vi) liability of the parties in the case of check fraud; and** **(vii) error resolution** **b. A customer should be told of the consequences of issuing a paper check without sufficient funds at the time the customer opens a checking account.**

	c. A bank should provide the customer with clear, easily accessible and understandable information regarding electronic checks, as well the cost of using them. **d. In respect of electronic or credit card checks , a bank should inform each customer in particular:** **(i) how the use of a credit card check differs from the use of a credit card;** **(ii) of the interest rate that applies and whether this differs from the rate charged for credit card purchases;** **(iii) when interest is charged and whether there is an interest free period, and if so, for how long;** **(iv) whether additional fees or charges apply and, if so, on what basis and to what extent; and** **(v) whether the protection afforded to the customer making a purchase using a credit card check differs from that afforded when using a credit card and, if so, the specific differences.** **e. Credit card checks should not be sent to a consumer without the consumer's prior written consent.** **f. There should be clear rules on procedures for dealing with authentication, error resolution and cases of fraud.**
Description	The use of checks by retail customers is not very developed in the Nicaraguan banking system. The most common means of payment in that segment of the population are credit card, debit card and cash. The law that applies to the operation of checks is the General Law of Negotiable Securities (Decree 1824 of 1971). Title IV of the Law covers every aspect related to checks (issuance, format, transfer, presentation and payment, actions in case of non-payment, cancellation, expiration, obligation to issue them with enough funds, overdraft and different types of checks). The SIBOIF has not developed specific regulations on the operation. The BCN regulated the operation of the electronic clearing houses, and the standardization of checks. The regulations (from SIBOIF and BCN) did not cover the handling and settlement of claims of financial users for fraud, mistakes and other situations that may arise in the operation of checks. The current account rules used by banks, which is part of the contract with the customer, provides, in most cases, that three is the number of bounced checks after which the bank would procede to close the account. These rules are not disseminated on the websites of banks. Both the rejection of checks due to insufficient funds and the consequent closure of the account are not reported to credit bureaus. This negative information would only appear in the bureaus if the debtor has a debt with the entity (or in the case of a business customer, if the entity classifies the customer as risky). Entities may proceed with the closure of an account as part of the process to prevent their misuse (money laundering), after verifying that movements in the account are not consistent with the customer profile previously defined by the entity, or have not been duly justified by the client (the contracts provide the standard form for such statements of justification). The rules of the deposit account which the customer subscribes, include the different characteristics of the account (including interests and fees), as well as a statement of the legal origin of funds and the bank's right to close the account when the movements of funds in it are not adequately justified. As stated by the entities, the regulations (and their monitoring) for the prevention of money laundering is very prescriptive and excessively based on formal aspects (not using a risk-oriented supervision).

	Banks do not offer electronic checks or credit card checks.
Recommendation	SIBOIF or BCN regulations should incorporate the treatment and settlement of claims from financial users regarding errors, fraud and other circumstances relating to the operation of checks. SIBOIF should include in the regulation on information that banks must submit, information from holders of the accounts on which checks were rejected for lack of funds, including the dates on which rejection occurred, the number and amounts of checks involved and the eventual lifting (payment) of the checls. SIBOIF would process that information to be shared in the credit registry (with the same criterion as that employed for bank credit information). The banking secrecy is lifted for the dissemination of checks written without funds (literal 3 of Article 113 of the LGB). Consideration should be given to allowing that entities have, in the prevention of money laundering, a risk-based approach. This would reduce red tape to justify funds for which the entity has made (or set) the customer's profile. The regulations should require mandatory dissemination of all the rules of deposit accounts, including the table of interests and costs.
Good Practice C.5	***Credit Cards*** **a. There should be legal rules on the issuance of credit cards and related customer disclosure requirements.** **b. Banks, as credit card issuers, should ensure that personalized disclosure requirements are made in all credit card offers, including the fees and charges (including finance charges), credit limit, penalty interest rates and method of calculating the minimum monthly payment** **c. Banks should not be permitted to impose charges or fees on pre-approved credit cards that have not been accepted by the customer.** **d. Consumers should be given personalized minimum payment warnings on each monthly statement and the total interest costs that will accrue if the cardholder makes only the requested minimum payment.** **e. Among other things, the legal rules should also:** **(i) restrict or impose conditions on the issuance and marketing of credit cards to young adults (below age of 21) who have no independent means of income;** **(ii) require reasonable notice of changes in fees and interest rates increase;** **(iii) prevent the application of new higher penalty interest rates to the entire existing balance, including past purchases made at a lower interest rate;** **(iv) limit fees that can be imposed, such as those charged when consumers exceed their credit limits;** **(v) prohibit a practice called ―double-cycle billing‖ by which card issuers charge interest over two billing cycles rather than one;** **(vi) prevent credit card issuers from allocating monthly payments in ways that maximize interest charges to consumers; and** **(vii) limit up-front fees charged on sub-prime credit cards issued to individuals with bad credit.** **f. There should be clear rules on error resolution, reporting of unauthorized transactions and of stolen cards, with the ensuing liability of the customer being made clear to the customer prior to his or her acceptance of the credit card.** **g. Banks and issuers should conduct consumer awareness programs on the misuse of credit cards, credit card over- indebtedness and prevention of fraud.**
Description	The LTC regulation covers different aspects related to the issuance of credit card and disclosure of relevant personalized information.

	The vehicle to send this information is the account statement, for which the regulations require, inter alia, the inclusion of information on identification, items of expenses, financial details, the result of not paying the entire balance, among others (see details in Good Practice C1). Both the specific legislation and the contracts of adhesion of credit cards, establish criteria and procedures that are applicable to make claims for card loss or theft, and disputes over improper charges (see Good Practice B7). Prior to the enactment of the LTC regulation, institutions blocked the credit card only 48 hours after the client reported the loss or theft, charging improper charges to the customer (now the credit card is canceled immediately after the client's report). Entities provide insurance for loss or theft, which provides coverage for consumption that might have been made fraudulently from the time of loss / theft to the effective time of the report (coverage, depending on the bank, ranges from 80% to 100% of the undue consumption involved). Several banks have conducted financial education programs, which are channeled through brochures and websites. They included topics such as: tips for the proper use of credit card, steps to manage debts, tips to begin solving debt problems, responsible borrowing, and so on.
Recommendation	Banking institutions should include in their policies and procedures awareness of financial users regarding the conditions and risks associated with the acquisition and use of credit cards. The means for this are several, one of the most important being the direct interaction between bank staff and user, for which the first must be properly trained.
Good Practice C.6	***Internet Banking and Mobile Phone Banking*** **a. The provision of internet banking and mobile phone banking (m-banking) should be supported by a sound legal and regulatory framework.** **b. Regulators should ensure that banks or financial service providers providing internet and m-banking have in place a security program that ensures:** **(i) data privacy, confidentiality and data integrity;** **(ii) authentication, identification of counterparties and access control;** **(iii) non-repudiation of transactions;** **(iv) a business continuity plan; and** **(v) the provision of sufficient notice when services are not available.** **c. Banks should also implement an oversight program to monitor third-party control conditions and performance, especially when agents are used for carrying out m-banking.** **d. A customer should be informed by the bank whether fees or charges apply for internet or m-banking and, if so, on what basis and how much.** **e. There should be clear rules on the procedures for error resolution and fraud.** **f. Authorities should encourage banks and service providers to undertake measures to increase consumer awareness regarding internet and m-banking transactions.**
Description	The SIBOIF has developed a specific regulation on technological risks (Number 500, September 2007). This regulation establishes minimum criteria for evaluating the risk management, safety, use and controls over Information Technology of supervised entities. Other regulations that complement this framework include the norms on operational risk management (No. 611 of January 2010), norms on comprehensive risk management (No. 423 of May 2006) and norms for the authorization and operation of entities handling electronic money operations (Number 671, March 2011). The rules of deposit accounts (which according to Article 43 of the LGB each bank should elaborate, and which SIBOIF has not regulated yet) generally include a

	specific rules on electronic services available online. These rules regulate the different services the bank provides through Internet, which may be free or may require payment of a fee to be disclosed in the bank's website. Continued use of the Internet service presumes consent of the terms and conditions by the customer. Those rules mention, among others, the characteristics of the username and password as a means to use the services through the Internet, as well as the services that may be used this way. The regulation specifically states that the customer will be responsible for any transaction made with his or her username and password, even when performed by a third party with or without the customer's permission, without any liability to the bank. The regulation also states that online services are encrypted and have security certificates, that the bank may block access after the password is entered incorrectly three consecutive times, and the suggestion to change the password periodically. The complaints received by the OAUSF related to online services have generally involved the theft of password by family and friends of consumers rather than errors or shortcomings by the banks. The websites of certain entities include information that warns and advises users about the confidentiality of the password, the concept of "phishing" (data theft) operations, and that the entity would not ask the customer, by any means, for personal and confidential data.
Recommendation	The SIBOIF could regulate, using the provisions of Article 43 of the LGB, minimum criteria for information about online services, that should be included in the relevant rules to be disclosed to customers. The association of banks should develop guidelines for the use of similar terminology in the drafting of rules of financial products, to improve understanding of documents by financial users and to facilitate comparison between banks. Financial education programs should emphasize the importance and the precautions to be taken to maintain the confidentiality of the password for access to online services (internet, POSNET operations through ATMs).
Good Practice C.7	***Electronic Fund Transfers and Remittances*** **a. There should be clear rules on the rights, liabilities and responsibilities of the parties involved in any electronic fund transfer.** **b. Banks should provide information to consumers on prices and service features of electronic fund transfers and remittances in easily accessible and understandable forms. As far as possible, this information should include:** **(i) the total price (e.g. fees for the sender and the receiver, foreign exchange rates and other costs);** **(ii) the time it will take the funds to reach the receiver;** **(iii) the locations of the access points for sender and receiver; and** **(iv) the terms and conditions of electronic fund transfer services that apply to the customer.** **c. To ensure transparency, it should be made clear to the sender if the price or other aspects of the service vary according to different circumstances, and the bank should disclose this information without imposing any requirements on the consumer.** **d. A bank that sends or receives an electronic fund transfer or remittance should document all essential information regarding the transfer and make this available to the customer who sends or receives the transfer or remittance without charge and on demand.** **e. There should be clear, publicly available and easily applicable procedures in cases of errors and frauds in respect of electronic fund transfers and remittances** **f. A customer should be informed of the terms and condition of the use of credit/debit cards outside the country including the foreign transaction**

	fees and foreign exchange rates that may be applicable.
Description	The operations of electronic transfer of funds between individual accounts currently is restricted to transactions between customers of the same entity. This limits the risks, but also reduces the usefulness of these (seemingly, there are plans to extend such transfers to customer accounts from different entities). Money transfer operations are not regulated by SIBOIF, while BCN only collects statistical information. Financial institutions websites show that the information provided on this matter is limited to houses and agencies where these transactions may be conducted, without any information regarding fees, deadlines, foreign exchange rate, etc. SIBOIF has issued a regulation for the authorization and operation of entities operating electronic money (EDE) (number 671 of March 2011). It is a new type of regulation (only a few countries have specific legislation on the subject) and includes a number of requirements for the approval of an EDE, including technological and operational requirements to reduce the risks associated with the operation. The regulation requires that the funds supporting the operations of the EDE be deposited in a trust constituted for this purpose only, where each customer balances are clearly identified. The regulation also requires EDEs to have customer service rules adopted by the governing board and that include, among other things, the procedure and deadlines to be met by the EDE to deal with inquiries and complaints from users. Authorized agencies and transaction centers are required to offer their users clear and timely information about products and services provided, conditions of access to them, fees, commissions and other applicable charges and risks associated to such products and services, and in particular those related to loss, theft or destruction of mobile devices. Three entities have registered under that regulation. One is MPESO, a company not linked to any financial system or mobile phone company. MPESO provides services through mobile phones, money remittance (small operations, up to 150 Cordobas), sale of airtime, telepagos (electricity and water companies) and payment to merchants. It is not connected to the POSNET system, since they have not reached an agreement with the banks that manage it. Currently MPESO has 5,000 clients (total mobile phones in Nicaragua is 4.2 million, most of them are in the prepaid system, so the potential market is 2.0 million). MPESO is present in 40 municipalities where there are no bank branches or agencies.
Recommendation	The law should establish which regulatory agency has jurisdiction over money transfer companies and set basic regulatort provisions on consumer protection issues. These provisions would include transparency in the disclosure of fees, exchange rates, deadlines, etc.., and mechanisms for inquiries and complaints.
Good Practice C.8	***Debt Recovery*** **a. A bank, agent of a bank and any third party should be prohibited from employing any abusive debt collection practice against any customer of the bank, including the use of any false statement, any unfair practice or the giving of false credit information to others.** **b. The type of debt that can be collected on behalf of a bank, the person who can collect any such debt and the manner in which that debt can be collected should be indicated to the customer of the bank when the credit agreement giving rise to the debt is entered into between the bank and the customer.** **c. A debt collector should not contact any third party about a bank customer's debt without informing that party of the debt collector's right to do so; and the type of information that the debt collector is seeking.** **d. Where sale or transfer of debt without borrower consent is allowed by law, the borrower should be:** **(i) notified of the sale or transfer within a reasonable number of days;**

	(ii) informed that the borrower remains obligated on the debt; and **(iii) provided with information as to where to make payment, as well as the purchaser's or transferee's contact information.**
Description	The LTC regulation sets in Article 43 that issuers, lawyers, debt recovery officers and automated billing services may contact the cardholder only between 8:00 am and 7:00 pm Monday to Friday and on Saturdays from 9:00 a.m. to 12:00 p.m. Also, this Article states that collection efforts should be mindful of the honor and moral integrity of the cardholder. The SIBOIF issued a circular (No. 816 of April 2011, a reminder of a circular from April 2009) which states that collection efforts, promotions and services directed by the supervised institutions should be made between 8.00 am and 8:30 pm Monday through Friday and from 8:00 am to 5:00 pm on Saturdays. These two regulations present some inconsistency regarding collection times allowed (credit card regulation has more restrictive schedules). On the other hand, Article 44 of the LTC states that pursuant to paragraph h) of Article 11 contract clauses are void if they impose the resignation of the cardholder's home. Bank officers commented that the policy for recovery of past-due debt start with telephone calls using a "script" as defined in their procedures. After certain period (usually 180 days), the debt is derived to debt collection officers hired by the bank (under the provisions of the rules of the SIBOIF about hiring service providers to perform operations or services for financial institutions, Number 421, May 2006). Banks define recovery policies being carried out by collectors, regularly checking that these policies effectively applied by the banks. Credit card adhesion contracts (approved by the SIBOIF) provide that the issuer is authorized to transfer credits and other rights from the contract, without giving prior or post notice to the cardholder or the guarantor, if any. On that basis, the debtor would not know who the creditor is and, if necessary, who can start a debt collection process. Also, adhesion contracts provide that in case of judicial collection, either through an attorney or debt collection office, the cardholder shall recognize and pay the issuer all costs and fees incurred, as provided by applicable law. The cardholder is also informed of his right that any collection measure is conducted only at the times specified in the SIBOIF regulations. As described, adhesion contracts do not specify the actions that the entity would incur if the debtor defaulted. On the other hand, Article 113 of the LGB provides that an exception to the required dissemination of customer information is the publication by any bank of the names of customers in arrears or judicial collection, and of those clients that wrote checks without funds. However, SIBOIF regulated that article through Resolution 441 of September 2006, which stated that banks should disseminate quarterly, in a national newspaper, the names of customers in default or judicial collection, whose debt is equal to or greater than $ 5,000. The dissemination of such information would aim to encourage the payment based on the impact that the mass dissemination of such information may generate (note that banks, through the credit registers, would already have this information in advance). Some banks consider that this provision ultimately does not favor debt recovery. Also, there have been conflicts with debits in deposit accounts -where payroll wages are credited- in terms of full payment of credits, given that the minimum wage is not subject to seizure by law (Section 82 of the Constitution). SIBOIF, given recurrent complaints received on the subject, issued a circular (April 2011) recalling the needed compliance with Section 82 of the Constitution, which states in subsection 3, the unseizability of minimum wages and social benefits, except in cases of

	protection of the debtor's family and in the manner prescribed by law. Some consumer associations shared that they had received complaints in relation to the seizability of accounts where wages are credited.
Recommendation	All banking products and services should be subject to requirements similar to those for credit cards (limits to collection schedule; requirement to preserve the respect, honor and moral integrity of the debtor; non-validity of clauses that require the cardholder to resign to his or her address, etc.). The time allowed for collection efforts should be homogenized (given the actual divergence between Article 43 of the credit card regulation and Circular 816). The regulation should also require that standard credit contract clauses incorporate in their description the different actions which the organization could take to recover the owed amount if the debtor defaulted. SIBOIF should repeal the requirement that banks disseminate in a national newspaper the list of debtors in default or judicial collection for debts of over USD 5,000. From reading the LGB, it does not seem to require that banks disseminate this information, while the SIBOIF resolution includes this requirement. SIBOIF should limit the use of reminders (such as that used in Circular 816), as this would weaken the law since it implies that banks may not be aware of current regulations (hence the need to remind of their validity). The best incentive for compliance is the detection and punishment of those offenses to the regulatory framework. SIBOIF should establish that the issuer shall notify the cardholder in the subsequent statement, of transfer of credits and other rights arising from the contract with the cardholder, to a third party. Institutions should implement procedures regarding the non-seizability of funds proceding from the accreditation of wages. To that end, if an account receives funds from other sources than wages, the entity should implement a "counter" of the resources associated with wages that entered the account, separating them as non-seizable.
Good Practice C.9	***Foreclosure of mortgaged or charged property*** **a. In the event that a bank exercises its right to foreclose on a property that serves as collateral for a loan, the bank should inform the consumer in writing in advance of the procedures involved, and the process to be employed by the bank to foreclose on the property it holds as collateral and the consequences thereof to the consumer.** **b. At the same time, the bank should inform the consumer of the legal remedies and options available to him or her in respect of the foreclosure process.** **c. If applicable, the bank should draw the consumer's attention to the fact that the bank has a legal right to recover the balance of the debt due in the event the proceeds from the sale of the foreclosed property are not sufficient to fully discharge the outstanding amount.** **d. In the event the mortgage contract or charge agreement permits the bank to enforce the contract without court assistance, the bank should ensure that it employs professional and legal means to enforce the contract, including regarding the sale of the property.**
Description	Chapter VI of the LGB sets legal privileges and procedures, and includes privileges of the liabilities that banks have in their favor. Specifically, Article 59 provides that, in case of comercial collaterals, if at the time of award the pledged property does not cover the amount owed, the bank will pursue any other asset of the debtor. This makes it clear that the debt is not canceled with the transfer of the good if its value does not cover the full debt in default.

	On the other hand, Article 66 instructs that if the loans granted by banks are secured by mortgage collateral and the debtor fails in any of the obligations under the Act or the relevant contract, the lenders may apply to court to require the debtor to fulfill its obligations within 30 days. If the debtor fails to do so, the bank, at its option, may require the possession and administration of the mortgaged property or to proceed with an expedite execution of the guarantee. In the case of payment obligations once the deadline of fifteen (15) days from the payment requirement has passed without the debtor having paid, the judge shall order that the possession and administration of the mortgaged property be expeditely transferred to the bank by merely presenting the duly registered proof of debt. However, the bank may continue or stop this legal action, as desired. In the context of its ownership and management, the bank will receive the rents, incomes, or products of the properties and, once all contributions, management fees and other charges are covered, it will apply the remaining funds to the payment of interest and repayment of the loan. If the debtor's obligation consists in paying interests and fixed instalments, the bank shall give back to the debtor the remaining balance after paying itself for past-due interests and instalments. At the time when the debtor pays the amount due, the property shall be returned to him or her. The costs that the bank had incurred in judicial procedures and administration of the mortgaged properties will be charged to the debtor as preferential expenses, including interests similar to those charged by the bank for their loans. On the other hand, Nicaraguan law does not provide for the right to foreclose on a property given as collateral without the intervention of a court. The only mechanism that would enable to dispose of a property without having to resort to a judicial body would be a guarantee trust (the trust legislation is very recent in Nicaragua). Some banks are beginning to analyze whether this mechanism could be used as collateral for loans.
Recommendation	Banks should improve the information they provide financial users about the scope of the mortgage guarantee, specifically in relation to the bank's right to continue demanding payment of the overdue debt in the event that the collateral, once executed, does not fully cover the debt.
Good Practice C.10	***Bankruptcy of Individuals*** **a. A bank should inform its individual customers in a timely manner and in writing on what basis the bank will seek to render a customer bankrupt, the steps it will take in this respect and the consequences of any individual's bankruptcy.** **b. Every individual customer should be given adequate notice and information by his or her bank to enable the customer to avoid bankruptcy.** **c. Either directly or through its association of banks, every bank should make counseling services available to customers who are bankrupt or likely to become bankrupt.** **d. The law should enable an individual to:** **(i) declare his or her intention to present a debtor's petition for a declaration of bankruptcy;** **(ii) propose a debt agreement;** **(iii) propose a personal bankruptcy agreement; or** **(iv) enter into voluntary bankruptcy.** **e. Any institution acting as the bankruptcy office or trustee responsible for the administration and regulation of the personal bankruptcy system should provide adequate information to consumers on their options to deal with their own unmanageable debt.**

Description	The mechanism of individual bankruptcy is not common or economically feasible in Nicaragua. While it could be applied legally, banks and individuals do not apply iy in practice.
Recommendation	No recommendation
SECTION D	**PRIVACY AND DATA PROTECTION**
Good Practice D.1	***Confidentiality and Security of Customers' Information*** **a. The banking transactions of any bank customer should be kept confidential by his or her bank.** **b. The law should require a bank to ensure that it protects the confidentiality and security of the personal data of its customers against any anticipated threats or hazards to the security or integrity of such information, as well as against unauthorized access.**
Description	The legal framework explicitly establishes the confidentiality (secrecy) that banks must keep regarding the information they have about customers, as well as who and under what circumstances this information may be requested. Article 113 of the LGB provides that the institutions regulated by this Act "shall not give reports of debit transactions concluded with customers except to their legal representatives or those with power of attorney to withdraw funds or to intervene in the operation in question, and unless specifically authorized by the customer or when the judicial authority requests it in the context of a case that it is handling, by written order in which it has to express how the depositor, saver or subscriber is linked to such case. In case of death of the depositor, the information may be shared with the beneficiary, if any. The following are exempted from such secrecy provisions: a) The requirements of the SIBOIF; b) The information requested by other banks for approval of transactions with customers; c) The publications, by any means, made by banks of the names of customers in arrears or judicial collection, as well as customers who write checks without funds; d) The information that is channeled under the framework of exchange and cooperation agreements signed by the Superintendent with national or foreign financial supervisory authorities; e) The other exceptions provided for by law. No administrative authority, excepting the SIBOIF, may directly request banks to share private or individual information of their customers. Additionally, Article 114 of the LGB provides that officers and employees of banks will be responsible for the violation of confidentiality. In case of violation of this article, banks and responsible employees will be obliged to repair the damages caused. On the other hand, the regulation on control and internal audit of SIBOIF (Resolution 569 of September 2009) establishes the requirement that the internal audit unit review and evaluate the procedures and controls in the IT field. The regulation on technology risk management (Resolution No. 500 of September 2007) establishes the minimum criteria for evaluating the management of risks, safety, use and controls applied to the Information Technology of supervised entities. According to comments collected from interviews with financial services users and consumer associations, banks would be using for commercial purposes (such as offering financial products), databases in which the data owners did not authorize their use for such purpose. This would reflect the disadvantages of not having a Data

	Protection Act, which could legally restrict such action. These contacts with consumers (usually by telephone) would occur by the time that the financial entity obtains information –from public or private sources– usually without client consent, of an event (e.g., expansion of a house or purchase of an automobile) that demonstrates potential ability to pay and creditworthiness.
Recommendation	Financial institutions should inform the client about the scope of banking secrecy regarding the information they manage in their operations. SIBOIF should also establish in the regulations that entities may not use information obtained in databases in which the entity is not able to confirm that the data owners have authorized the sharing of their information for commercial distribution. Consideration should be given to develop a draft Law on Data Protection, which would provide additional strength to the credit registers and prevent the use of databases without the consent of the data owners.
Good Practice D.2	***Sharing Customer's Information*** **a. A bank should inform its customer in writing:** **(i) of any third-party dealing for which the bank is obliged to share information regarding any account of the customer, such as any legal enquiry by a credit bureau; and** **(ii) as to how it will use and share the customer's personal information.** **b. Without the customer's prior written consent, a bank should not sell or share account or personal information regarding a customer of the bank to or with any party not affiliated with the bank for the purpose of telemarketing or direct mail marketing.** **c. The law should allow a customer of a bank to stop or ―opt out‖ of the sharing by the bank of certain information regarding the customer and, prior to any such sharing of information for the first time, every bank should be required to inform each of its customers in writing of his or her rights in this respect.** **d. The law should prohibit the disclosure by a third party of any banking-specific information regarding a customer of a bank.**
Description	Article 113 of the LGB refers to the banking secrecy regarding savings products (see Good Practice D.1). For private credit bureaus, SIBOIF issued a regulation (No. 577 of March 2009) that established SIOBIF's jurisdiction in this area (in line with the provisions of Article 115 of the LGB) and incorporated several concepts associated with data protection laws. The contract of adhesion of lending and savings products includes clauses where the customer states that the information given to the entity for the elaboration of the contract is accurate. Also, the client authorizes the bank, expressly and in advance, to share (and obtain) without further authorization, the customer's payment history with (and from) any other institution supervised or regulated by the SIBOIF, and to make use of the credit registers. The client also authorizes the credit registers to submit the requested information about the client's payment history. In turn, some contracts incorporate the concept of shared information which specifies additional situations where the bank can share and transfer confidential information. These include information: i) requested by a competent judicial, administrative or supervisory authority, or otherwise required based on statutes, norms, regulations, laws, rules or legal processes; ii) to be shared with a supervisory agency, as requested and required by any other supervisory or regulatory agency, overseer or other competent authority; iii) made public by non-prohibitted means; iv) in connection with any investigation, litigation or proceeding in which the entity is a party or in connection with any legal remedy or appeal; v) to bank branches, subsidiaries, representative offices, affiliates, agents or third parties selected by any

	of the aforementioned entities, whatever their location, for their confidential use (including in connection with the provision of any service or with data processing for statistical or risk analysis). SIBOIF administers a credit registry (Resolution 413 of March 2006), which is fed with information from debtors that its supervised entities must submit monthly. After being validated and processed, this information (both positive and negative) is available for individual consultations by the supervised entities, which must have written permission from the data subject whose information is requested. The credit report provided by the SIOBIF's credit registry provides a significant amount of information about the debtor at the last available date (it contains no historical data): name of bank, number of credits, balance, current interest, past-due interest, risk classification (according to SIBOIF regulation) mode of credit, days past due of principal, days past due of interest, issue date, maturity date, currency, written-down amount, monthly instalment, amount in arrears. On the other hand, there are two private credit bureaus: TransUnion and SinRiesgo. They have been authorized by the SIBOIF under its specific regulations. SinRiesgo is a credit bureau whose shareholders are microcredit institutions and its industry association (ASOMIF). It is a closed system where only the users that provide information to the bureau may consult its credit information. It currently has 5.0 million records and 160 users (contributors), including microfinance institutions, businesses that extend credit, some savings and credit cooperatives and banks. Banks generally only submit negative information (debtors in arrears), which, according to SinRiesgos policy, gives them access only to negative information from the credit bureau. The cost of an inquiry decreases as the number of monthly inquiries increases. SinRiesgos is evaluating the incorporation of new users, such as cell phone, electricity and water companies (the main barrier to their inclusion is the quality of their information).
Recommendation	The banking credit contracts should separate the authorization to use the customer's information for credit assessment purposes, from the authorization for the bank to use the debtor's information for marketing purposes. This would allow the user to have the option to deny such authorization without having to refuse to sign the contract.
Good Practice D.3	***Permitted Disclosures*** **The law should provide for:** **(i) the specific rules and procedures concerning the release to any government authority of the records of any customer of a bank;** **(ii) rules on what the government authority may and may not do with any such records;** **(iii) the exceptions, if any, that apply to these rules and procedures; and** **(iv) the penalties for the bank and any government authority for any breach of these rules and procedures.**
Description	The legal framework explicitly provides confidentiality (secrecy) that banks must keep in terms of the information they have about customers, as well as who may request this information, and under which circumstances. Additionally, Article 114 provides that officers and employees of banks will be responsible for the violation of banking secrecy. In case of violation, banks and employees are obliged to repair the damages caused. Regarding the request for information by a governmental authority, the only institution that can make such request is the SIBOIF, which in turn also has to follow a secrecy requirement. No administrative authority, excepting the SIBOIF, may directly ask banks for private or individual information of their customers. The secrecy obligation applicable to SIBOIF officers is included in the Law of the

	Superintendency. It states that one of the powers of the Superintendent is to inspect the institutions that are under its supervision, through the Superintendency's staff, who must observe the banking secrecy, under penalty of civil and criminal liability (Article 3, paragraph 10).
Recommendation	SIBOIF should establish that banks may not make use of sensitive and confidential information of clients, without their consent, for the elaboration of commercial or risk policies. Consideration should be given to elaborate a Data Protection Law, which preserves the right to data privacy and is applicable to all public or private institutions that handle customers data.
Good Practice D.4	***Credit Reporting*** **a. Credit reporting should be subject to appropriate oversight, with sufficient enforcement authority.** **b. The credit reporting system should have accurate, timely and sufficient data. The system should also maintain rigorous standards of security and reliability.** **c. The overall legal and regulatory framework for the credit reporting system should be: (i) clear, predictable, non-discriminatory, proportionate and supportive of consumer rights; and (ii) supported by effective judicial or extrajudicial dispute resolution mechanisms.** **d. In facilitating cross-border transfer of credit data, the credit reporting system should provide appropriate levels of protection.** **e. Proportionate and supportive consumer rights should include the right of the consumer** **(i) to consent to information-sharing based upon the knowledge of the institution's information-sharing practices;** **(ii) to access his or her credit report free of charge (at least once a year), subject to proper identification;** **(iii) to know about adverse action in credit decisions or less-than-optimal conditions/prices due to credit report information;** **(iv) to be informed about all inquiries within a period of time, such as six months;** **(v) to correct factually incorrect information or to have it deleted and to mark (flag) information that is in dispute;** **(vi) to reasonable retention periods of credit history, for instance two years for positive information and 5-7 years for negative information; and** **(vii) to have information kept confidential and with sufficient security measures in place to prevent unauthorized access, misuse of data, or loss or destruction of data.** **f. The credit registers, regulators and associations of banks should undertake campaigns to inform and educate the public on the rights of consumers in the above respects, as well as the consequences of a negative personal credit history.**
Description	SIBOIF, according to the LGB, is responsible for the regulation of private credit bureaus. In this context, SIBOIF elaborated a regulation coverging credit bureaus that handle information from supervised entities, even if their database also includes information from non-supervised entities. Although Nicaragua does not have a Data Protection Law, the regulations on the credit bureaus and the credit registry contain several provisions that are typical of that type of law.

	SIBOIF's regulation requires that CRPs receive authorization to handle information of bank debtors. The regulation sets out a number of information requirements that the CRP should submit to the SIBOIF. The regulation states that the CRPs shall handle the credit information with due impartiality, confidentiality and respect for the individual rights of data owners, provided that users must use such information only for the purposes authorized by the owner. The CRP shall establish automated procedures for the transmission, communication and access to the data by users, safeguarding at all times the rights of the data owners. For a CRP to share credit information with its users, it must obtain prior written permission from the owner of the information (if the user retains such records, the CRP may conduct audits to verify the existence of such authorization). Moreover, the regulation specifies that the information in the CRP must be accurate, truthful and updated in such a way that corresponds to the real situation of the owner of the information at a certain time. If the information proves to be inaccurate or outdated, in whole or in part, the CPR must, after consultation with the user that provided the information, take corrective actions or eliminate it. The CPR must take all necessary security and control measures to prevent mishandling of information. The CPR is required to maintain the information that is provided by users for a period of five years. The data subjects have the right to request the CPR to send them their credit report, for free once a year, and by paying a fee to cover the processing cost, as often as the data subject wants. The data subject may challenge a CRP data, for which it should send a note identifying the data record. The CRP must submit, within 5 days, a note to the data user (at that time, the CRP identifies the data record as disputed in its database), which must respond within 10 days. If the user accepts all or part of the correction request, the CPR must modify the information in its database and send a corrected credit report to the users who made an inquiry within the last 6 months. If the request is rejected in whole or in part, both the user and the data subject should put their arguments on record. The supervision of CRPs is conducted through the hiring of specialized external audit firms, registered in the SIBOIF register, and with enough resources to carry out the task of auditing a CRP. The regulations establish what type of reports should be prepared, work planning, involvement of the CRP Board, among others. Regarding SIBOIF's credit registry, the legislation includes matters relating to: a) receipt and validation of information: information to be reported, people who can access, requirement of adequate data subject identification, error reporting, accountability of financial institutions and their internal audit); b) access, supply and use of information: data owner's consolidated information from all entities, use for credit-analysis purpose only; c) user's right of access to information: an entity should provide the client with all his or her information contained in the credit report from the credit registry; d) user's right to rectification: when the client considers that the data included in the CDR are inaccurate, the client may request the financial institution to rectify them. Financial education campaigns have not paid special attention to the functions of credit bureaus or the consequences of being reported negatively on them.
Recommendation	Evaluate the possible parameterization by the SIBOIF of what is meant by outdated information for its removal from the CRPs. This would help standardizing between the different CRPs, from when and under what conditions certain information should be considered as outdated. SIBOIF should consider submitting the information held in its credit registry to the

	CRPs authorized by SIBOIF to operate, with the commitment that all institutions supervised by the SIBOIF that provide information to the credit registry, may query specific positive or negative information (with the express permission of the data subject). This would allow access (fee-based) to positive and negative information of CRPs by all banks, which would improve the flow of information, contribute to a better assessment of credit risk, and reduce the risks of overindebtedness. This also would encourage the CRPs to develop and incorpoprate new credit tools and greater value-added to their credit reports (e.g. through "credit scoring"). Specifically: - Banks may have access to positive and negative information of all debtors in the CPR; - The remaining lending institutions that are not banks or financial companies (businesses, credit unions and microcredit institutions) would access information from clients of banks and financial companies; - The CPR could use the resources currently applied to validate the information from banks, to develop new credit assessment tools (as such validation efforts would no longer be necessary, since that task would be done by SIBOIF).
SECTION E	**DISPUTE RESOLUTION MECHANISMS**
Good Practice E.1	***Internal Complaints Procedure*** **a. Every bank should have in place a written complaints procedure and a designated contact point for the proper handling of any complaint from a customer, with a summary of this procedure forming part of the bank's Terms and Conditions referred to in B.7 above and an indication in the same Terms and Conditions of how a consumer can easily obtain the complete statement of the procedure.** **b. Within a short period of time following the date a bank receives a complaint, it should:** **(i) acknowledge in writing to the customer/complainant the fact of its receipt of the complaint; and** **(ii) provide the complainant with the name of one or more individuals appointed by the bank to deal with the complaint until either the complaint is resolved or cannot be processed further within the bank.** **c. The bank should provide the complainant with a regular written update on the progress of the investigation of the complaint at reasonable intervals of time.** **d. Within a few business days of its completion of the investigation of the complaint, the bank should inform the customer/complainant in writing of the outcome of the investigation and, where applicable, explain the terms of any offer or settlement being made to the customer/complainant.** **e. When a bank receives a verbal complaint, it should offer the customer/complainant the opportunity to have the complaint treated by the bank as a written complaint in accordance with the above. A bank should not require, however, that a complaint be in writing.** **f. A bank should maintain an up-to-date record of all complaints it has received and the action it has taken in dealing with them.** **g. The record should contain the details of the complainant, the nature of the complaint, a copy of the bank's response(s), a copy of all other relevant correspondence or records, the action taken to resolve the complaint and whether resolution was achieved and, if so, on what basis.** **h. The bank should make these records available for review by the banking supervisor or regulator when requested.**
Description	The legal and regulatory framework includes the requirement for institutions to have

	a customer service system for cardholders (Title VII of the LTC Regulation). There is also a requirement for banks to have staff trained in credit card operations, consumer protection and transparency of information. Training to be given to staff should be recorded in their respective files, for subsequent control. The regulation states that the customer service provided to cardholders can be custom-made in the card issuers' offices or by telephone or online (Art. 27). The regulation requires the existence of an area to handle the cardholders' complaints. These complaints may originate from, for example, improper charges, breach of contract, or violation of the rights of the cardholder. The entity must make available to the cardholder forms for processing a claim (for which there is a deadline of up to 30 days from the cut-off date, and the client should receive a confirmation of the complaint). The bank shall respond no later than 30 days (which extends to 180 when the disputed charge was neither originated nor made by the entity). If no response is given within that period or the cardholder is not satisfied with the response given, the cardholder still has the right to complain to the SIBOIF. Bank representatives stated that in practice, response times are shorter than the maximum established in the regulations. The procedure for dealing with complaints contemplates the non-payment of disputed charges until the resolution of the claim. The most important aspects of this procedure are incorporated in the credit card contract of adhesion, which requires the approval of the SIBOIF (entities agreed on a standard model). Some bank websites include the forms to dispute improper credit card charges. Some entities reported that the same officers responsible for dealing with complaints about credit card operations also handle complaints related to other operations or financial products, even if the legislation does not explicitly require it. Institutions should make available to the Superintendent, statistical information on claims filed by cardholders. The regulations do not require that this information be informed to the Board of Directors of the entity.
Recommendation	SIBOIF should require in its regulations that the entities have a customer service system that addresses all customer complaints, whether arising from credit card operations or not. Institutions should develop and disseminate (a vehicle could be the code of conduct) procedures to handle customer complaints, including the maximum "self-imposed" period in which they estimate they will respond to them. These procedures and commitments should be disseminated through various media available to the entity. The Board of each bank should receive at least quarterly reports on complaints received, including the type of complaints, response times and whether they were favorable or unfavorable to the client. Banks should strengthen the outreach to their customers, from the moment the contractual relationship starts, about the procedures to be followed, including the department and those responsible for handling complaints and disputes.
Good Practice E.2	***Formal Dispute Settlement Mechanisms*** **a. A system should be in place that allows customers of a bank to seek affordable and efficient recourse to a third-party banking ombudsman or equivalent institution, in the event the complaint of one or more of customers is not resolved in accordance with the procedures outlined in E.1 above.** **b. The existence of the banking ombudsman or equivalent institution and basic information relating to the process and procedures should be made known in every bank's Terms and Conditions referred to in B.7 above.** **c. Upon the request of any customer of a bank, the bank should make available to the customer the details of the banking ombudsman or**

	equivalent institution, and its applicable processes and procedures, including the binding nature of decisions and the mechanisms to ensure the enforcement of decisions. **d. The banking ombudsman or equivalent institution should be appropriately resourced and discharge its function impartially.** **e. The decision of the banking ombudsman or equivalent institution should be binding upon the bank against which the complaint has been lodged.**
Description	The OAUSF is, in practice, the only authority which acts in the supervised financial system as an institution to resolve a dispute between a customer and a bank (second instance). The creation of the OAUSF has not been well widespread. In the credit card contracts of adhesion, it is mentioned (in line with the rules of the SIBOIF) that after 30 days of filing a complaint and having no response by the entity or being not satisfied with it, the cardholder may file a complaint with the SIBOIF (although the contracts do not generally specify the steps to file such complaint). SIBOIF's website includes a tab called "Cardmember Service System", that includes the following information: - Transcript of credit card legislation (Titles VII and VIII, related to submitting claims to the entity and the Superintendent). - Report on implementation of the LTC Regulation (discussed in Section E.1) Additionally, there is a tab with the title "Area of Complaints", which incorporates fields to identify the sender and then a box to describe the query. It does not include however the procedure and contact details on complaints, under the terms established in Title VIII of the LTC Regulation. The SIBOIF has not developed mechanisms that allow a user to raise a complaint before it, physically, from outside Managua. The BCN has not developed a specific area to address complaints (on lack of supply of small bills or coins, counterfeit bills, etc.). Complaints are handled with no specific procedure, or area responsible for disseminating the mechanisms available to address complaints.
Recommendation	SIBOIF should expand, from a formal and internal standpoint, the scope of the OAUSF, covering complaints related to any financial product or service. SIBOIF's website should be redesigned, incorporating information on how to proceed to file a claim before it. SIOBIF should also incorporate mechanisms to facilitate the possibility of filing claims before the SIBOIF from outside Managua (computer terminals in banks, receiving complaints –to be forwarded to the SIBOIF- in third-party banks, etc.). Regulations should require that banks provide information on how to proceed to make a claim before the SIBOIF (the regulation should define the information that entities are required to communicate and by what means). The BCN should incorporate procedures (and disseminate them) to handle claims of financial users in its areas of competence.
Good Practice E.3	***Publication of Information on Consumer Complaints*** **a. Statistics and data of customer complaints, including those related to a breach of any code of conduct of the banking industry should be periodically compiled and published by the ombudsman, financial supervisory authority or consumer protection agency.** **b. Regulatory agencies should publish statistics and data and analyses related to their activities in respect of consumer protection regarding banking products and services so as, among other things, to reduce the sources of systemic consumer complaints and disputes.** **c. Banking industry associations should also analyze the complaint statistics**

	and data and propose measures to avoid the recurrence of systemic consumer complaints.
Description	The credit card legislation provides that banks must make available to the Superintendent, statistical information on claims filed by cardholders. It must contain quarterly historical information of all claims handled by the issuer, indicating the most frequent reasons for claim, distinguishing the number of claims that were resolved in favor of the cardholder and of the entity, and the average time that the procedure took. SIBOIF made available on its website on only one occasion (March 2011) statistics on complaints received directly by it and claims handled directly by banks. The total number of appeals to the SIBOIF totaled 224, of which CITI accounted for 51% and BAC for 25% (these percentages are consistent with the strong involvement of both banks in the credit card market). Among the items for which claims were filed, 50% relate to payment arrangements (cases the SIBOIF has started to not prosecute), 12% to misapplied charges, 8% to inadequate grievance procedures and the rest is distributed in several concepts. Total claims handled directly by the entities amounted to 20,000, of which 12,300 were in favor of the consumer, 4,800 did not proceed, and 2,900 are still pending. Nearly 88% of the claims were against BANPRO. The report contains a description of the work carried out by the OAUSF since its inception. The above information is not prominently on SIBOF's website and is not easily accessible. The report has not been updated and has not been discussed by the different actors with whom meetings had been held (consumer groups and banks, among others). Asobanp does not routinely analyze statistics on consumer complaints made to the member banks. Nor has a channel to receive and process (on appeal) complaints from financial users.
Recommendation	SIBOIF should disseminate and publish on its website statistics on complaints handled by banks and by the SIBOIF, more frequently and through a more direct and identifiable access in its website. SIBOIF could complement its complaints statistics, incorporating a historical series and adjusting them according to the size of the organization (number of cardholders, customers or other variable that is identified as appropriate to facilitate comparisons between entities). Asobanp should routinely incorporate the analysis of statistics on claims to identify those aspects that should be aligned with the rules or policies and processes of its member banks, to improve care and financial protection of the user.
SECTION F	**GUARANTEE SCHEMES AND INSOLVENCY**
Good Practice F.1	***Depositor Protection*** **a. The law should ensure that the regulator or supervisor can take necessary measures to protect depositors when a bank is unable to meet its obligations including the return of deposits.** **b. If there is a law on deposit insurance, it should state clearly:** **(i) the insurer;** **(ii) the classes of those depositors who are insured;** **(iii) the extent of insurance coverage;** **(iv) the holder of all funds for payout purposes;** **(v) the contributor(s) to this fund;**

	(vi) each event that will trigger a payout from this fund to any class of those insured; **(vii) the mechanisms to ensure timely payout to depositors who are insured.** **c. On an on-going basis, the deposit insurer should directly or through insured banks or the association of insured commercial banks, if any, promote public awareness of the deposit insurance system, as well as how the system works, including its benefits and limitations.** **d. Public awareness should, among other things, educate the public on the financial instruments and institutions covered by deposit insurance, the coverage and limits of deposit insurance and the reimbursement process.** **e. The deposit insurer should work closely with member banks and other safety-net participants to ensure consistency in the information provided to consumers and to maximize public awareness on an ongoing basis.** **f. The deposit insurer should receive or conduct a regular evaluation of the effectiveness of its public awareness program or activities.**
Description	LGB provides the mechanisms through which the SIBOIF regulates and supervises banks, situations that require from them a normalization plan (which is presented by the entity for consideration by the Superintendent to address existing risks and weaknesses), as well as the Superintendent's decision to enact a resolution for intervention of an entity (with the Deposits Guarantee Fund becoming the entity's interventor). The Deposits Guarantee Fund (FOGADE) was established in Nicaragua in 2001 and is currently governed by the Law on the Guarantee of Deposits No. 551 of August 2005 (amended by Law 563 of November 2005). The legal and regulatory framework clearly state: a) who are members of FOGADE: all financial institutions that are authorized to operate by the SIBOIF and receive financial resources from the public; b) the items that are covered, calculation mechanism and maximum amount of coverage: deposits (net of loans) to the equivalent of USD 10,000 per depositor; c) the contribution to be paid by member institutions, including the goal of the fund; d) the investment of FOGADE's resources (just as the reserves of the NCBs) e) the steps for the payback of insured deposits, which may not exceed 30 days from the adoption of the bank's intervention. FOGADE has not faced since its inception, any case where it has had to intervene. In 2010, an entity had problems of liquidity and solvency (BANEX), but it was not intervened and was able to handle the payback of its deposits. Regarding dissemination, Article 6 of the Act establishes the obligation of the member organizations to permanently inform the public that they belong to FOGADE, through posters or signs that are clearly identifiable and visible, both in their headquarters and in all their branches, agencies and windows, indicating the amount of deposit protection and the deposits excluded from the protection. In practice, it is neither easy nor clear to identify whether an entity is member of FOGADE. Also, there is no mention of FOGADE in advertising or on the website of each bank. No institution (FOGADE, SIBOIF or Asobanp) has carried out a study on the degree of knowledge (awareness) of financial users about deposit insurance.
Recommendation	Develop a standard identification (e.g., through standardized signage) that allows consumers to quickly find out if the bank is a member of FOGADE. Ensure that effective procedures for the payment of deposit insurance are up to date. Conduct a simulation involving an entity and payment of their deposits.

	Require entities to include in their advertising that they are members of FOGADE. There should be a survey that measures the degree of awareness of the depositor on FOGADE. Depending on the results of the same, design along with the other stakeholders (Asobanp, SIBOIF) a campaign of education and awareness on deposit insurance.
Good Practice F.2	***Insolvency*** **a. Depositors should enjoy higher priority than other unsecured creditors in the liquidation process of a bank.** **b. The law dealing with the insolvency of banks should provide for expeditious, cost effective and equitable provisions to enable the maximum timely refund of deposits to depositors.**
Description	The LGB provides in Article 106 the order of priority of liabilities of a financial institution in liquidation: the obligations to customers in respect of transactions related to the institution's business purposes (among which are the deposits) are placed second, after labor liabilities of the entity. It is the existence of a deposit insurance (rather than the priority in a liquidation), which gives depositors the privilege of having their deposits paid in a short period of time (maximum 30 days). The amount of the guarantee can cover 100% of the deposits fom 99% of depositors of the system (the average deposit is USD 1,000). On the other hand, FOGADE currently has a capital of USD 96 million, representing 2% of total deposits and 19% of total insured deposits. FOGADE has the power, if necessary for the payment of the deposit guarantee, to issue a bond to be repaid with future collected premiums. This instrument would have the guarantee of the State (Art. 24 paragraph 5 of the FOGADE Act).
Recommendation	No recommendation.
SECTION G	**CONSUMER EMPOWERMENT**
Good Practice G.1	***Broadly based Financial Capability Program*** **a. A broadly based program of financial education and information should be developed to increase the financial capability of the population.** **b. A range of organizations, including those of the government, state agencies and non-government organizations, should be involved in developing and implementing the financial capability program.** **c. The government should appoint an institution such as the central bank or a financial regulator to lead and coordinate the development and implementation of the national financial capability program.**
Description	It was verified that all institutions that provide financial services (banks, finance companies, microfinance institutions, credit unions) have on its agenda the development of financial skills (with different names, such as financial education). A similar situation is observed in the different public organizations (SIBOIF MIFIC), NGOs, CRPs, FOGADE, among others. The mentioned institutions have developed different strategies to promote the development of financial skills. Banks, particularly once the LTC regulation became effective, have developed financial education programs channeled through the production of printed materials, organization of workshops, incorporating advice on their website, etc. However, no campaign has been promoted by the association of banks. None of the interviewed banks carried out a further assessment of the degree of impact of the initiatives developed. Some NGOs (as in the case of PROMIFIN) have developed easy-to-understand

	materials that call to basic financial planning, reduction of unnecessary consumption, encouragement of a culture of savings and responsible borrowing. For example, PROMIFIN has developed materials (graphic and audiovisual) with characters that are familiar to the segment of the target population, mainly rural. These materials have been distributed and communicated directly to consumers, and through mass media (television / radio). There is no official campaign to promote the development of financial capability. In consumers. The websites of MIFIC, SIBOIF and BCN have little or no information on the subject. The regulation of the Consumer Protection Act provides for the creation of the National Council for the Defense of Consumer Rights (made by a director general of MIFIC, a delegate of the Association of Municipalities of Nicaragua and two delegates from consumer associations). This council, which has not yet been put into operation, has among its functions is to organize information and education campaigns related to the consumption of goods and services to consumers.
Recommendation	Evaluate the establishment of a working group (which may be informal) led by the BCN (or SIBOIF), which would convene the different stakeholders of public and private sectors related to the development of financial skills by the consumer. Institutions that could be part of that group are the associations of banks, microfinance and insurance and SIBOIF, BCN, MIFIC CONAMI, Ministry of Education, consumer associations active in the area of financial consumer protection, other NGOs (like PROMIFIN) FOGADE, associations of credit cooperatives, private credit bureaus, etc. The group would have as initial purpose, that each actor informs the others about financial education programs that are currently being carried out and those that are to be developed in the future. This would enable the exchange of information and facilitate better coordination among all parties and more efficient use of resources. At a later stage, consideration could be given to provide the group with more a formal status and to expand its objectives. The various public institutions dealing with financial consumer protection issues (MIFIC SIBOIF BCN) must include information on financial capability in their respective websites. In turn, they could suggest their supervised institutions to encourage their customers to visit such websites, for example through links on their websites or in direct communications with customers.
Good Practice G.2	***Using a Range of Initiatives and Channels, including the Mass Media*** **a. A range of initiatives should be undertaken by the relevant ministry or institution to improve people's financial capability regarding banking products and services.** **b. The mass media should be encouraged by the relevant ministry or institution to provide financial education, information and guidance to the public regarding banking products and services.** **c. The government should provide appropriate incentives and encourage collaboration between governmental agencies, banking regulators, the banking industry and consumer associations in the provision of financial education, information and guidance regarding banking products and services.**
Description	As mentioned in the previous section, financial capability initiatives through mass media have been undertaken by NGOs and other private actors. Some consumer associations (e.g. RNDC) participate in radio programs. Other NGOs (PROMIFIN) disseminate audiovisual material through TV programs. No campaigns through mass media have been driven by public organizations to promote financial capability.
Recommendation	As part of a comprehensive strategy, public institutions dealing with financial consumer protection should coordinate financial education campaigns involving the

	mass media. They should include the private sector, so that these campaigns are complementary to the initiatives that this sector is developing. Also, SIBOIF could circulate press releases to news media, keeping them informed of any new information posted on the website (for example, updated information of interest rates and costs of all different credit cards).
Good Practice G.3	***Unbiased Information for Consumers*** **a. Regulators and consumer associations should provide, via the internet and printed publications, independent information on the key features, benefits and risks –and where practicable the costs– of the main types of banking products and services.** **b. The relevant authority or institution should encourage efforts to enable consumers to better understand the products and services being offered to consumers by banking institutions, such as providing comparative price information and undertaking educational campaigns.**
Description	By analyzing material and strategies developed by banks to promote the development of its customers' financial capability, it was observed that some of them pursued marketing goals. An example is the suggestion of some banks to make "at least" the minimum payment credit card, when a sound financial management would suggest paying the full balance in cash, and that funding with credit card would only be an extraordinary financing source (typical financing provided by other credit products, such as a personal loan, is cheaper and allow for better planification). Another example was the promotion of savings by encouraging the opening of specific types of savings accounts in the entity that provided the advice. Although savings is encouraged, the advice would attempt to lead the consumer to make a decision that would benefit certain product marketed by a particular entity. SIBOIF has begun to spread on its website information on interest rates and costs of credit cards of different banks. The information for the first quarter was also published in printed media (February 2011). This information contains current and default interest rates, in domestic and foreign currency, for credit card financing. In turn, it also publishes a simple average of the interest rate of the different credit card products offered by each entity. The same report contains all of the average fees for credit card products offered by different issuers, facilitating comparison by the user. No comparative information has been extended to other financial products such as deposits, personal, mortgage or pawnshop lending. There is no information for financial consumers about the characteristics, risks and benefits of the main financial products and services offered by providers, in websites or other dissemination means used by public institutions.
Recommendation	Public institutions with competence in financial capability (SIBOIF MIFIC, BCN, Ministry of Education) should assume a greater role in educating consumers about the responsible financial management. This involves the dissemination of objective information on the tips and healthy practices in this field through various means. The greater involvement of the public sector and NGOs in developing and designing financial literacy campaigns reduce potential conflicts of interest that may arise when they are led by the private sector. The associations that group private sector entities should lead the coordination of efforts of its affiliates in financial education, advocating that such efforts do not contain hidden advertising. SIBOF should increase the frequency of publication of interest rates and commissions, strengthen their dissemination (e.g. improving the design of the website, having "crossed" links with the websites of banks, advertising in branches, etc.), and expand these comparison publications to liabilities (deposits) and other

	credit products. SIBOIF should regulate the concept of total annual cost for credits in instalments, and incorporate it in the comparative information it disseminates, and require its use whenever the entities advertise credit conditions (interest rates, fees, terms, etc.).
Good Practice G.4	***Consulting Consumers and the Financial Services Industry*** **a. The relevant authority or institution should consult consumers, banking associations and banking institutions to help them develop financial capability programs that meet banking consumers' needs and expectations.** **b. The relevant authority or institution should also undertake consumer testing with a view to ensuring that proposed initiatives have their intended outcomes.**
Description	There is no significant interaction between public and private sectors for the development of financial capability programs. Some NGOs and private institutions (CPRs) have offered their educational materials for the SIBOIF to use them and further disseminate them, although this dissemination has not happened yet. The establishment of the working group (mentioned in Section G.1) would allow better coordination and interaction among all stakeholders to develop the financial skills of the population. The initiatives carried out by relevant institutions (for example, SIBOIF's dissemination of interest rates and fees so as to facilitate comparisons between entities) were not previously tested with consumers to ensure they have been properly designed to obtain expected results.
Recommendation	SIBOIF should hold meetings with different sectors involved in the development of financial capability -association of banks, consumer protection associations- to promote wider dissemination of the initiatives that are being carried out (e.g. publication of bank interest rates, creation of the OAUSF, etc.). Also, these meetings would allow the SIBOIF to receive concerns from these institutions regarding the financial capability of financial consumers, both in terms of current policies that are held as well as current initiatives that the private sector is developing or plans to.
Good Practice G.5	***Measuring the Impact of Financial Capability Initiatives*** **a. The financial capability of consumers should be measured, amongst other things, by broadly-based household surveys and mystery shopping trips that are repeated from time to time.** **b. The effectiveness of key financial capability initiatives should be evaluated by the relevant authorities or institutions from time to time.**
Description	No surveys have been developed to measure the degree of financial capabilitiy of the different segments of the population, and identify the areas that need strengthening. The lack of surveys does not allow measuring the impact of different initiatives carried out (mainly from NGOs and the private sector). None of the government agencies that deals with financial consumer protection issues are planning to conduct a survey to measure the financial capability of the population.
Recommendation	The BCN could lead the development of studies (and surveys) that allow for an assessment of the degree of development of financial capability, leveraging its expertise in sampling and statistics. These surveys should be nationally representative and might be repeated periodically (e.g. every 2 to 3 years) to measure the impact of initiatives to be implemented and identify new needs. The results of the surveys should be disseminated so that all stakeholders may access that information, which would allow them to design better financial education programs.

SECTION H	COMPETITION AND CONSUMER PROTECTION
Good Practice H.1	***Regulatory Policy and Competition Policy*** **Regulators and competition authorities should be required to consult one another for the purpose of ensuring the establishment, application and enforcement of consistent policies regarding the regulation of financial services.**
Description	As described in Section A.1, it is unclear which of the two institutions (PROCOMPETENCIA or SIBOIF) have powers in matters related to competition in the financial system supervised by SIBOIF. This has led to nonexistent coordination between those two institutions (PROCOMPETENCIA and SIBOIF). Recently (in 2010), there was a situation in which this lack of coordination and uncertainty regarding the enforcement authority was evident. The case relates to the presentation made by a consumer association (RDNC, who filed a complaint to PROCOMPETENCIA against banks and Asobanp for alleged collusion in setting credit card interest rates). During this process (which led to an opinion issued by the Secretary of the Supreme Court), PROCOMPETENCIA and SIOBIF acted in a totally independent and uncoordinated manner.
Recommendation	Make the adjustments or legal interpretations to clarify that PROCOMPETENCIA has primary responsibility for competition in the financial system governed by SIBOIF. PROCOMPETENCIA must give the SIBOIF participation at every opportunity to address issues related to the financial system. Such intervention by SIBOIF should be at the beginning of the investigation, as well as prior to the resolution of the case. Both agencies must implement mechanisms for smooth coordination, not only for a particular investigation, but also for ongoing analysis and understanding of both parties on the degree of competition in the financial system.
Good Practice H.2	***Review of Competition*** **Given the significance of retail banking to the economy as a whole and to the welfare of consumers, competition authorities should:** **(i) monitor competition in retail banking;** **(ii) conduct, and publish for general consumption, periodic assessments of competition in retail banking (such as the range of interest rates across banks for specific products); and** **(iii) make recommendations publicly available on enhancing competition in retail banking.**
Description	There are no published studies analyzing the degree of competition in retail banking. There is only a study developed by PROCOMPETENCIA "Competition in the Nicaraguan market. Terms. Analysis of 14 markets", which includes an analysis of the formal banking sector (i.e., does not include microfinance institutions and credit unions). Such study describes the different stages of the Nicaraguan banking history, and then describes the current financial system. Regarding competition, it mentions market imperfections that currently exist in the formal banking system, arising from asymmetric information that are particularly important for competition in the credit card industry, where large banks have more resources for access to the information and greater ability for recruiting and planning ahead. PROCOMPETENCIA's website contains information about cases that are being analyzed and their degree of progress. There is no information that is easy to understand and to use by a financial consumer regarding competition in general, and in the provision of financial products in particular. Neither is there an annual report

	on its activities. The publication of comparison tables of bank interest rates and fees that the SIBOIF is undertaking is a tool that contributes to increased competition between banks.
Recommendation	PROCOMPETENCIA should publish materials that, communicate in a simple manner what competition means in general, and its application to financial products in particular, and that emphasize the importance of competition and how consumers can encourage it and be benefited from it. Specifically, PROCOMPETENCIA could advise consumers to compare costs and terms of credit (referencing SIBOIF's website) prior to signing a credit. PROCOMPETENCIA should publish information on complaints received and addressed, separated by sectors and topics as well as the degree of progress and any results thereof. SIBOIF should extend and strengthen the dissemination of comparative information between entities on terms, costs and benefits of different financial products.
Good Practice H.3	***Impact of Competition Policy on Consumer Protection*** **The competition authority and the regulator should evaluate the impact of competition policies on consumer welfare, especially regarding any limitations on customer choice and collusion regarding interest and other charges and fees.**
Description	SIBOIF and PROCOMPETENCIA have not developed joint analysis of the impact of competition in the banking sector in the welfare of consumers. There has been no study on the incidence and impact on competition of SIBOIF's publication of interest rates and fees of credit cards in the banking sector.
Recommendation	Create a technical working group composed of PROCOMPETENCIA and SIBOIF staff, which will allow carrying out studies on the degree of competition in the financial sector and the possible impact that it creates in the consumer. Such work should include the characteristics of the local financial system, the volume of its operations and the degree of banking, among other variables. The same group should assess the impact of different measures taken by SIBOIF regarding transparency of information -and comparison of information between entities- on competition in the financial system.

CONSUMER PROTECTION IN NON-BANK CREDIT INSTITUTIONS

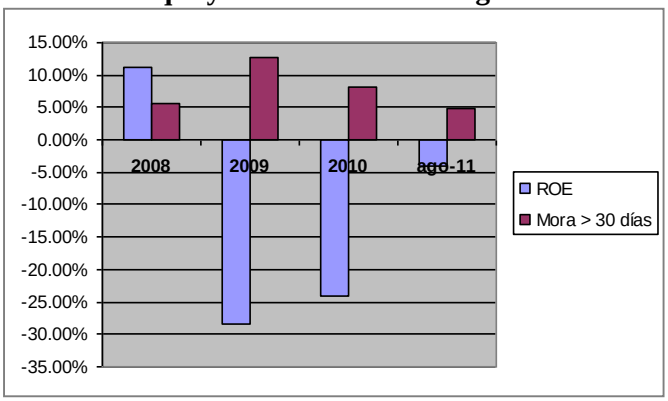
Overview of Non-Bank Credit Institutions

The non-bank credit institutions (NBCIs) in Nicaragua can be divided into three groups: Regulated Financial Companies oriented toward microfinance, Non-Profit Microfinance Institutions (MFIs), and Savings and Credit Cooperatives (SACs). Currently there are 2 financial companies that are regulated by the SIBOIF (FAMA and FINCA-the latter of very recent operation-), 22 MFIs (the most representative of the country are associated in the Nicaraguan Association of Microfinance Institutions, ASOMIF), and 147 SACs (among them, the more institutionally developed are 6 and are grouped in the Central of Savings and Credit Cooperatives of Nicaragua, CCNF). The finance companies are regulated by Law No. 314, General Law on Banks, Non-Bank Financial Institutions and Financial Groups, issued in October 1999. MFIs have been operating under Law No. 147, General Law on Nonprofit Legal Persons (effective May 1992), but from January 2012 they need to register and operate according to Law No. 769 of Promotion and Regulation of Microfinance. The SACs operate in accordance with the provisions of Law No. 499, General Law on Cooperatives, in force since January 2005.

From 2009 to date, there was deterioration in the indicators of portfolio quality, number of customers and profitability in the NBCI sector, as a result of the Non-payment Movement and the effects of the global financial crisis. It is important to mention that in 2010, SIBOIF had to suspend operations of Banco del Éxito, the only commercial bank with a specific microfinance market niche in Nicaragua, due to its many problems of delinquency on its agricultural and commercial portfolios.

For the segment of financial companies, 2009 was the most critical. Given that there are only 2 finance companies oriented toward microfinance, of which FINCA Nicaragua started operations only in the second half of 2011, the available information refers to the performance of FAMA. In 2009 FAMA recorded the highest level of delinquencies over 30 days and the lowest level of return on equity (ROE) in the last 4 years, as seen in Figure No. 4.

Figure No. 4: Return on Equity and Non-Performing Loans Indicators of FAMA

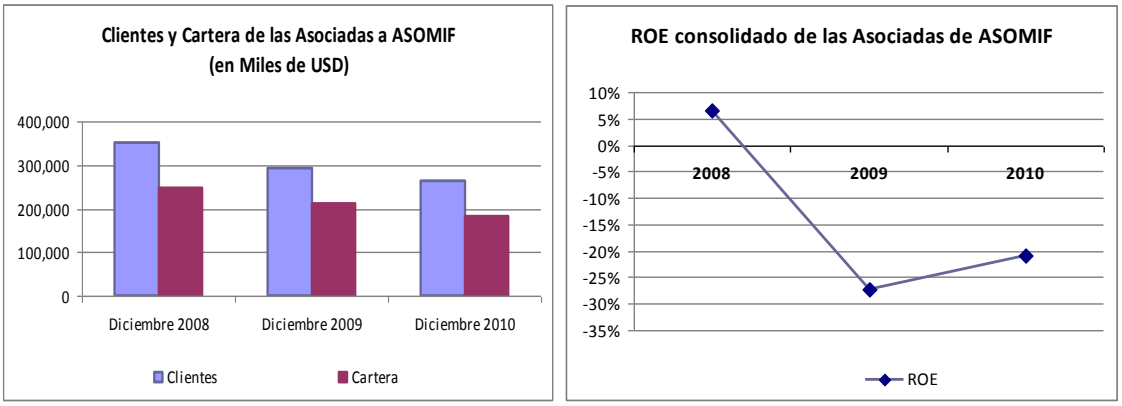


Source: SIBOIF

Several indicators of microfinance Institutions deteriorated in 2009, but they are now slightly recovering. From the information available of the 22 MFIs affiliated with ASOMIF, the number of customers served by December 2010 was approximately 265,000, which represented approximately

25 percent fewer customers in relation to December 2008. Similarly, the amount of portfolio declined more than USD 63.5 million in the same period, to settle at USD 182 million at the end of 2010, as shown in Figure No. 5. Despite this, the ROE indicator, after presenting a sharp deterioration from 2008 to 2009, recovered slightly towards the end of 2010, a trend that is expected to continue in 2011, reflecting improved performance of MFIs.

Figure No. 5: Number of Clients, Loan Portfolio and Profitability of ASOMIF members

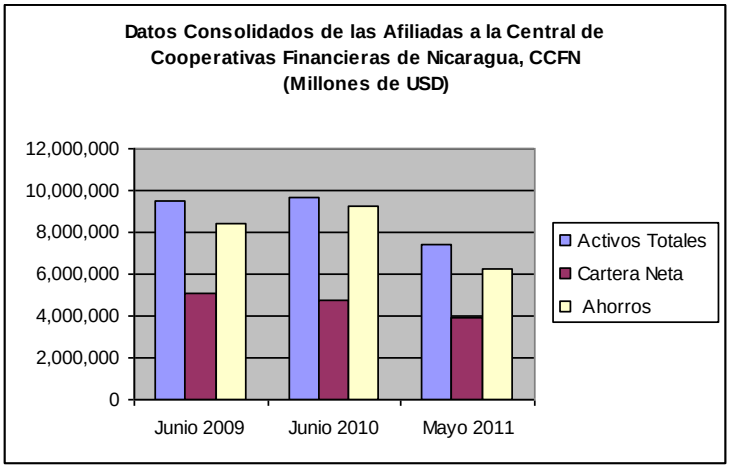


Source: ASOMIF

There is no complete and standardized information of the segment of savings and credit cooperatives, which does not allow determining the evolution, performance, strength and financial viability of this important financial segment. Even when the INFOCOOP has registered 147 SACs as of August 2011, only 73 present their financial statements annually. Among them, only 15 states present their statements in a standard form, and only 2 are audited by external audit firms.

Notwithstanding the limited information available from credit cooperatives, it can be inferred that the Non-Payment Movement has had a significant impact. The information available from 6 SACs associated with the Central (CNNF) shows that the indicators of total assets, net loan portfolio and total amount of savings were significantly reduced (at least 20%) between June 2009 and May 2011, as shown in Figure No. 6.

Figure No. 6: Consolidated Data of Affiliates to the Central of Credit Cooperativas



Source: CCFN

Legal Framework and Institutional Arrangements for Consumer Protection

Consumer protection for microfinance clients in Nicaragua is limited. The Ministry of Development, Industry and Commerce (MIFIC), through the Department of Consumer Defense (DDC), has the legal responsibility of consumer protection in Nicaragua, but their activities are mainly focused on aspects of regulation of medicines and handling of complaints from consumers of basic services. However, in the current Consumer Protection Act there is a lack of clarity that leaves jurisdictional and responsibility gaps in consumer protection regarding unregulated microfinance services. Moreover, since 2010 SIBOIF has an Office of Support to the Financial Service User (OAUSF), which collects complaints, provides related advice and tracks them. However, this Office only serves consumers of financial institutions that are regulated and supervised by the SIBOIF. Additionally, the geographic presence of both the DDC and the OAUSF is concentrated in the capital, which limits the possibility of customers in rural areas to use these instances to file complaints or claims.

Among the non-bank credit institutions operating in Nicaragua, only the finance companies fall under the scope of SIBOIF's financial supervision. Regulated financial companies oriented toward Microfinance are regulated and supervised by the SIBOIF, through its Directorate of Microfinance, which has adequate technical and operational capacity to develop their activities.

For Microfinance Institutions and Savings and Credit Cooperatives, the supervisory authorities are of relatively recent creation and have limited capacity to execute their mandate of regulation and supervision. The Institute of Cooperative Promotion, ***INFOCOOP***, operating since mid 2005, has a broad mandate in regard to the registration, promotion and supervision of a wide and diverse spectrum of cooperatives of different kinds. As of August 2011, there were over 3,700 cooperatives. In this scenario, INFOCOOP does not have adequate capacity to monitor the activities of savings and credit cooperatives. Meanwhile, in the case of MFIs, only in 2012 the National Microfinance Commission, ***CONAMI***, will initiate operations, and it should build institutional capacity to implement its regulatory mandates, regarding social performance, transparency and consumer protection. It is likely that only towards the end of 2012 or even by 2013, CONAMI could have an adequate institutional capacity to undertake its mandates. Meanwhile, MIFIC's DDC would be responsible to cover consumer protection issues in the microfinance segment.

In Nicaragua there are public and private institutions specialized in alternative dispute resolution, but with no major presence in the financial sector. The Directorate of Alternative Dispute Resolution, DIRAC, an organism of the Judiciary, is a public body and low cost that could be an interesting alternative to consider for the financial sector. There are also private Mediation and Arbitration centers, but generally the cost is high considering the average amount of loans granted by MFIs. For this mechanism to be practical and functional, and as a practice of transparency for the parties, there must be defined principles of negotiation, such as: instance(s) to which they should apply to start a mediation process, the process for selection of the mediator, the maximum number of meetings to be held. These principles should be reported to the client, with sufficient clarity, from the moment the financial product or service is analyzed and purchased.

Regarding the role of the associations of non-bank credit institutions, ASOMIF has implemented some initiatives on consumer protection and financial education. ASOMIF developed a Code of Ethics at the industry level, which is voluntary and includes some general aspects of protection to customers of its affiliates (dealing with complaints, handling confidential information, etc.). Additionally, ASOMIF has collaborated with Promifin-SDC in the distribution of

materials and organization of financial education events for customers of its affiliaties. In the cooperative segment, only the Central of Financial Cooperatives has made efforts to promote cooperative principles among its members, and thus indirectly promote some general principles relating to consumer protection.

Although there are several initiatives at the institutional, industry and international cooperation level on financial education and information for microfinance consumers, there is no national strategy in this area. Particularly, it is worth to highlight the role of Promifin that, with funding from the Swiss Cooperation, has implemented various financial education projects, using print and broadcast media. However, it is important that all activities be coordinated under a national strategy and led by an institution of recognized reputation and with covening ability, which will enable (i) reducing information asymmetry between lenders and non-bank customers; (ii) differentiation of financial education methods according to the types of customers and geographical location; (iii) measuring the initial and future impact of the strategy; and (iv) the use of different mass media such as radio and television. At the same time, one of the fundamental aspects to consider in the Financial Education Strategy is the development of a campaign to foster a culture of complaints and claims, with special focus on rural areas, indigenous minorities and women.

Laws and Regulations Applicable to the Microfinance Sector

- Law No. 182, Law on Protection of Consumers (effective November 1994)
- Law No. 516, General Law on Banks, Financial Institutions and Non-Bank Financial Groups (issued in October 2005)
- Decree 15-L, Special Law on Finance, Investment and Other Companies (issued in 1970)
- Law No. 147, General Law on Nonprofit Legal Persons (effective May 1992)
- Law No. 176, Law Regulating Loans between Individuals (effective June 1994)
- Law No. 769, Law on the Promotion and Regulation of Microfinance (issued in July 2011, came into force in January 2012)
- Law No. 499, General Cooperatives Law (effective January 2005)
- Resolution No. 04-2011, Norms for the Preparation and Presentation of Financial Statements of Cooperatives on a comparable basis (resolution of the Board of the Nicaraguan Institute of Cooperative Development, INFOCOOP, published in September 2011)
- Law No. 716, Special Law for the establishment of basic conditions and guarantees for the renegotiation of debts between microfinance institutions and delinquent debtors
- Norm CD-SIBOIF-577-1-MAR18-2009, Norm on Private Credit Bureaus
- Norm CD-SIBOIF-550-2-SEP3-2008, Norm for the Establishment of Criteria for Qualification of Institutions with Financial Character as Non-Bank Financial Institutions
- Law No. 621, Law on Access to Public Information

Comparison with Good Practices: Non-Bank Credit Institutions

SECTION A	CONSUMER PROTECTION INSTITUTIONS
Good Practice A.1	***Consumer Protection Regime*** **The law should provide clear consumer protection rules in the area of non-bank credit institutions, and there should be adequate institutional arrangements to ensure the thorough, objective, timely and fair implementation and enforcement of all such rules, as well as of sanctions that effectively deter violations of these rules.** **a. There should be specific statutory provisions, which create an effective regime for the protection of consumers of non-bank credit institutions.** **b. There should be a government authority responsible for implementing, overseeing and enforcing consumer protection in the area of non-bank credit institutions.** **c. The supervisory authority for non-bank credit institutions should have a register which lists the names of non-bank credit institutions.** **d. There should be coordination and cooperation among the various institutions mandated to implement, oversee and enforce consumer protection and financial sector regulation and supervision.** **e. The law should provide for, or at least not prohibit, a role for the private sector, including voluntary consumer associations and self-regulatory organizations, in respect of consumer protection in the area of non-bank credit institutions.**
Description	Although there is a Law on Consumer Protection in Nicaragua (Law No. 182), this does not include a specific chapter on consumer protection in financial services. In addition, there is little clarity in terms of the mandate for application and enforcement of this Law. In regard to consumer protection services of nonbank credit institutions (regulated finance companies oriented towards microfinance, microfinance institutions and savings and credit cooperatives), the Law on Consumer Protection and its Regulations indicate that the Department of Consumers Defense (DDC) at the Ministry of Development, Industry and Trade (MIFIC) is responsible for handling consumer complaints and disputes. However, the text of the last paragraph in Article 3 of the Law does not make it clear whether DDC has jurisdiction over non-bank credit institutions. For some people, the Law would be applicable, but for others it would not, since the Law indicates that it applies to any public or private service, with the exception of services provided under an employment relationship and *"professional services regulated by another law.'* This lack of clarity has created confusion in MIFIC, since their interpretation is that its scope is only for consumers of goods or services in sectors that do not have a regulator of the sector to which the complaint is made. Finance Companies oriented toward microfinance are regulated by the Superintendency of Banks and Other Financial Institutions (SIBOIF). While the General Law on Banking, Financial Institutions and Non-Bank Financial Groups does not include a chapter on consumer protection, the SIBOIF in 2010 enabled the Office of Financial Services Users (OAUSF) to receive complaints or claims related to microcredit products from customers of regulated financial institutions. For users of unregulated MFIs, particularly those affiliated with the Association of Microfinance Institutions of Nicaragua (ASOMIF), some user protection elements are defined in the Code of Ethics, such as issues of complaint handling, confidentiality of customer information, ethics of advertising and promotion. However, in practice its application has not been formally operationalized, since the

	adoption and implementation of the code is voluntary for ASOMIF affiliates. In the case of savings and credit cooperatives (SACs), although there is a Cooperative Development Institute, INFOCOOP, created under the General Law of Cooperatives (Law No. 499), its statutes do not include specific aspects on consumer protection. At the same time, in particular, SACs do not have formal procedures for dealing with complaints or disputes they receive, although they claim that they handle and resolve such complaints and disputes. The foregoing is currently causing significant gaps in the defense of consumer rights for services or products of non-bank credit institutions (NBCIs). Customers who do not obtain satisfactory results in its direct claims can go to the MIFIC's DDC, an organization that provides support and advice according to their means, but that does not have a specific area for attention, recording and tracking of complaints or disputes related to the financial sector. Complementary to this, it is important to note that Part VI of the Law on Promotion and Regulation of Microfinance, specifies the powers that the National Microfinance Commission (CONAMI) will have to norm, regulate and supervise, on issues of transparency and customer protection, MFIs that meet the entry and registration requirements set out in the Law. However, that Law does not require SACs to be registered under CONAMI, so they would not be covered by regulation and supervision in the areas mentioned above. Additionally, the current Law on Consumer Protection provides the mechanism for the formation of consumer associations in general (Article 36, Law on Consumer Protection), which may not necessarily be specialized in financial services
Recommendation	The inclusion of a specific section on Rights of Users of Financial Services (regulated and unregulated) in the new Consumer Protection Bill being discussed by the National Assembly of Nicaragua, could reduce the institutional gaps that currently exist in terms of jurisdiction to deal with complaints and disputes, especially while other specific initiatives for MFIs and SACs are being finalized. The new law should have internal consistency between its full content and the specific chapter on financial services, and specifically in terms of its application to NBCIs, in order to avoid inconsistencies that may harm the sector. It is expected that this new law, plus the start of operations of CONAMI, may in the case of MFIs, allow regulating the presentation and handling of complaints, and establishing effective mechanisms to address these complaints along with proper staff to implement them. In addition, it will be important to clearly define the scope of jurisdiction that CONAMI will have, to avoid overlaps with MIFIC's DDC. In the case of SACs, to counteract the limited capacity available to INFOCOOP, it is recommended that at a first stage, self-regulatory and second-tier delegated oversight mechanisms be developed (e.g. through centrals and federations of cooperatives), as in countries like Guatemala, Honduras and Ecuador. In this regard, efforts should be made to implement some standardization measures that are needed in this sector, which include handling of consumer complaints and disputes, and regulation of unfair practices towards SAC members. At a second stage, consideration should be given to include SACs under the jurisdiction of CONAMI, which is contemplated under Title V of the Law on Promotion and Regulation of Microfinance.
Good Practice A.2	***Code of Conduct for Non-Bank Credit Institutions*** **a. There should be a principles-based code of conduct for non-bank credit institutions that is devised in consultation with the non-bank credit industry and with relevant consumer associations, and that is monitored by a statutory agency or an effective self-regulatory agency.** **b. If a principles-based code of conduct exists, it should be publicized and disseminated to the general public.**

	c. The principles-based code should be augmented by voluntary codes on matters specific to the industry (credit unions, credit cooperatives, other non-bank credit institutions). **d. Every such voluntary code should likewise be publicized and disseminated.**
Description	ASOMIF has developed its general Code of Ethics, which has been disseminated among its affiliates (the 22 most representative MFIs in the country) through printed copies and on its website. The affiliated entities share the responsibility to disseminate the code with their staff and customers. However, several MFIs consider that the code is very general and weak, since its endorsement is voluntary and there are no sanctioning mechanisms at the industry level. In the case of SACs, although both at the industry and the institutional level there are no codes of conduct per se, they share the cooperative values that are common worldwide. In the case of Nicaragua, INFOCOOP is in charge of disseminating those values with the registered cooperatives.
Recommendation	It is important to develop codes of ethics or conduct and complement those industry codes of conduct with institutional codes, that cover consumer protection issues and that are are suitable for the individual characteristics of MFIs and SACs. These codes should include, preferably, the promotion of the principles of the SMART Campaign for Client Protection. This would apply also to the SACs, which would be a very good complement to the general principles of the Cooperative Movement. Codes of ethics or conduct should be posted on the websites of the institutions and be displayed prominently at the offices or agencies of MFIs and SACs. At the same time, at first, industry associations (ASOMIF in the case of MFIs and apex cooperative institutions in relation to SACs) should define mechanisms to ensure and enforce their codes, which could be done by establishing internal committees in this regard.
Good Practice A.3	***Other Institutional Arrangements*** **a. Whether non-bank credit institutions are supervised by a financial supervisory agency, the allocation of resources between financial supervision and consumer protection should be adequate to enable their effective implementation.** **b. The judicial system should ensure that the ultimate resolution of any dispute regarding a consumer protection matter with a non-bank credit institution is affordable, timely and professionally delivered.** **c. The supervisory authority for non-bank credit institutions should encourage media and consumer associations to play an active role in promoting consumer protection regarding non-bank credit institutions.**
Description	Currently, the NBCIs, excluding financial companies regulated by the SIBOIF, have been outside the regulatory and supervisory scope of any specific authority. The new Law on the Promotion and Regulation of Microfinance is finally incorporating MFIs to financial supervision and consumer protection regimes, under CONAMI. As of September 2011, there were 15 consumer protection associations in Nicaragua, registered and approved by MIFIC's DDC, some of them with financial services as one of their main areas of work. All these associations have been legally constituted as non-profit organizations, most have local coverage (municipal or departmental), and few have nationwide coverage. Their projects are mainly funded by donations or funds / grants, primarily from international institutions such as Consumers International (MIFIC does not provide any funding or subsidy). There is also a National Council for the Protection of Consumer Rights (CONADECO), which is a consultative body within the DDC, and has as main objective the promotion and protection of consumers across the country. This Council has coordination and consultation roles, and its work is conducted pro-bono.

Recommendation	DDC and CONADECO should identify the technical and financial mechanisms, both at the public and private, and the national and international levels, to strengthen the consumer protection associations, and particularly to allow the specialization of some existing ones, with the purpose to develop a more active role in promoting financial consumer protection, especially in the segment of NBCIs. At the same time, both institutions should set some specific and measurable criteria that consumer organizations should follow when carrying out its activities, including: (i) independence of interests; (ii) number of specialist advisers, consultants and permanent staff specializing in financial services; (iii) records of inquiries, complaints and denunciations, and the results of their interventions on a monthly and yearly basis; (iv) technical capacity for project management and implementation; and (v) affiliation or agreement with an international organization of consumer protection. This could facilitate the obtention of financial resources for consumer organizations to support implementation of consumer protection initiatives in the financial sector. Moreover, CONAMI and apex cooperative institutions to be established, should allocate appropriate resources to adequately and effectively implement their oversight functions in general, including on consumer protection aspects in particular.
Good Practice A.4	***Registration of Non-Bank Credit Institutions*** **All financial institutions that extend any type of credit to households should be registered with a financial supervisory authority.**
Description	In the case of Regulated Financial Companies, registration and supervision are carried out by the SIBOIF. At present, there are 2 registered Financial Companies: FAMA and FINCA. MFIs, according to the Law No. 147, Law on Legal Persons Nonprofit, register with the Department of Registration and Control of Associations of the Ministry of Interior. This registry keeps track of associations, foundations, federations and confederations of any kind (whether civil, religious, etc.). In relation to the SACs, registration and registration is done by INFOCOOP, which reported that by August 2011 it had registered 147 SACs.
Recommendation	With the implementation of the Law on the Promotion and Regulation of Microfinance, registration and authorization granted to MFIs will be the responsibility of CONAMI, which will have specific information about this segment. CONAMI has the authority to verify the appointment of Board members, General Manager, Internal and External Audit of MFIs, defining fit and proper requirements (for example, not having been in bankruptcy proceedings or criminal conviction). However, CONAMI will only keep record of MFIs that has a minimum net worth or equity of 4,500,000 Cordobas (U.S. $ 200 thousand). For this matter, it is recommended that CONAMI coordinates with the Department of Registration and Control of Associations of the Ministry of Interior, so that it can establish a register of MFIs that have net worth or equity up to 4,499,999 Cordobas, so that a full inventory of institutions oriented toward the microfinance sector is available. As recommended in practice A.1, in order to complement the role of INFOCOOP in the segment of SACs, in a first stage, the second-tier cooperative entities should be responsible of the registry of SACs, and have the obligation to report monthly to INFOCOOP the additions and removals in the registry. In a second stage, consideration should be given to including SACs in the jurisdiction of CONAMI, as it is allowed under Title V of the Law on the Promotion and Regulation of Microfinance.
SECTION B	**DISCLOSURE AND SALES PRACTICES**

Good Practice B.1	***Information on Customers*** **a. When making a recommendation to a consumer, a non-bank credit institution should gather, file and record sufficient information from the consumer to enable the institution to render an appropriate product or service to that consumer.** **b. The extent of information the non-bank credit institution gathers regarding a consumer should:** **(i) be commensurate with the nature and complexity of the product or service either being proposed to or sought by the consumer; and** **(ii) enable the institution to provide a professional service to the consumer in accordance with that consumer's capacity.**
Description	The assessment of lessons learned by NBCIs in the context of the microfinance crisis in Nicaragua (including a commercial bank specialized in microfinance, which closed operations), made it clear that the practices for analyzing and determining the customers' payment capacity, were not adequate. The information collected from customers was often weak and partial, which facilitated clients' over-indebtedness and significant growth in credit risk exposure at the institutional level.
Recommendation	It is necessary that at first, both at the industry and at the institutional levels, efforts be undertaken to improve methods and systems for analyzing and determining the customers' payment capacity. These methods should include as mandatory the inquiry of information from credit bureaus, and periodic review of the adequacy of the mechanisms of variable compensation for operating staff (to avoid incentives that encourage high-pressure sales). This would allow institutions to provide proper information to the customer and to offer products or services appropriate to the capacity of each customer, in order to minimize client's indebtedness and exposure levels of credit risk at the institutional level. In a second stage, regulators and supervisors should enforce compliance with norms on customer information gathering for the assessment of the consumer's payment capacity.
Good Practice B.2	***Affordability*** **a. When a non-bank credit institution makes a recommendation regarding a product or service to a consumer, the product or service it offers to that consumer should be in line with the need of the consumer.** **b. Sufficient information on the product or service should be provided to the consumer to enable him or her to select the most suitable and affordable product or service.** **c. When a non-bank credit institution offers a new credit product or service that significantly increases the amount of debt assumed by the consumer, the consumer's credit worthiness should be properly assessed.**
Description	The problems derived from the Nonpayment Movement and the downward trend in prices of agricultural products revealed that several non-bank credit institutions and a few commercial banks oriented toward the microcredit sector, had not adequately assessed the creditworthiness of their clients regarding two important aspects: (i) ability to pay, given that all possible contingencies (including possible risks and domestic and foreign crises) that could affect customers were not covered; (ii) overestimation of direct and indirect income they might have to repay debt.
Recommendation	All bodies involved in microfinance in Nicaragua (SIBOIF ASOMIF, CONAMI when fully operational, INFOCOOP, second-tier SACs) should promote, in a technical and coordinated manner, the implementation of best practices for the analysis and assessment of customers' payment capacity. For example, they could propose microfinance institutions to determine the monthly net cash of customers, both at the individual and family levels, minus basic consumption costs (including rent, mortgage payments, school fees, food, etc.) and financial costs (payments

	credit, credit card, etc.). Complementarily, it is important that the use of auxiliary tools for microcredit be extended, such as the credit registers available at SIBOIF, SIN RIESGO and TRANS UNION. Thus, SACs should be encouraged to provide information of their microfinance members. Thus, the financial services industry could have all the information available to determine comprehensively the levels of indebtedness and multiple borrowing (borrowing from various sources of funding caused in several instances by methodological constraints of financial institutions).
Good Practice B.3	***Cooling-off Period*** **a. Unless explicitly waived by the consumer in writing, a non-bank credit institutions should provide the consumer a cooling-off period of a reasonable number of days immediately following the signing of an agreement between the institution and the consumer.** **b. On his or her written notice to the non-bank credit institution during the cooling- off period, the consumer should be permitted to cancel or treat the agreement as null and void without penalty to the consumer of any kind.**
Description	In general, microfinance institutions do not provide customers with a cooling-off period that allows them to cancel a contract agreement without penalty. However, a couple of practices that are permitted at the time of disbursement of a loan product are the non-acceptance of the allowed amount when it is less than required (i.e., if the amount authorized by the institution is less than that requested by the client), and prepayment before the end of the agreed period without penalty (the institution may decide whether it would charge the customer or not for costs incurred by issuing checks and legal credit documents, according to its internal policies).
Recommendation	Although cooling-off period is not offered by microfinance institutions (even at a regional level), it is important to consider that variable incentive mechanisms of loan officers that compensate for the placement of products or services may lead them to use high-pressure sales tactics and, in the case of customers, to accept products or services without analyzing carefully the related terms, conditions and contracts. Therefore, there should be promotion of the principles of cooling-off periods and loan prepayment before the deadline, without penalties, so that they are incorporated by NBCIs.
Good Practice B.4	***Bundling and Tying Clauses*** **a. As much as possible, non-bank credit institutions should avoid the use of tying clauses in contracts that restrict the choice of consumers.** **b. In particular, whenever a borrower is required by a non-bank credit institution to purchase any product, including an insurance policy, as a pre-condition for receiving a loan, the borrower should be free to choose the provider of the product and this information should be made known to the borrower.** **c. Also, whenever a non-bank credit institution contracts with a merchant as a distribution channel for its credit contracts, no exclusionary dealings should be permitted.**
Description	The only tied product that exists in the microfinance sector in Nicaragua (and in most Central American countries), is the microinsurance related to a microcredit (basically as a means of securing the loan balance). The customer is informed of this practice in very general terms, especially with regard to the existence of insurance, but not on product features and exceptions. Given commercial partnerships, the microinsurance product is usually from a provider which has a contract / agreement with the NBCI, so in practice the customer may not select another insurance

	provider (the NBCI does not exclude other providers, but induces the use of a preferred supplier). Under these mechanisms of contracts / agreements between NBCIs and insurers, the reference point of the client for the purchase of the insurance product and for the filing of a claim, is the NBCI. Moreover, even if the village banking product, is relatively of short range and with very low supply in Nicaragua (as most credit products are offered to individuals), there is a methodological precondition for this product, under which customers need to save at least 10% of the loan amount to be received (which, according to the basic principles of this methodology, is done to promote a culture of savings, mainly in women and customers in rural areas).
Recommendation	Although there is only one type of product tying (microinsurance with microcredit), which allows NBCI achieve economies of scale and minimize credit risk, it is important to note that this practice may limit the options for customer choice and competition market. Thus, it is recommended that SIBOIF, CONAMI-when operative- and INFOCOOP, permanently perform diagnostics or evaluations on these practices, to assess whether there is need to regulate them more closely. There should also be coordination with Procompetencia to apply competition rules to the benefit of consumers of microfinance services.
Good Practice B.5	***Key Facts Statement*** **a. Non-bank credit institutions should have a Key Facts Statement for each type of account, loan or other products or services.** **b. The Key Facts Statement should be written in plain language, summarizing in a page or two the key terms and conditions of the specific financial product or service, and allowing consumers the possibility of easily comparing products offered by different institutions.**
Description	The key disclosure documents that NBCIs have for its various products or services, are very general and not homogeneous, but are designed in a friendly, simple and colorful way, which allows easy reading. However, given the diversity of products, and of the information provided in accordance with the policies of the NBCIs, it is difficult for customers to easily compare the same products offered by different suppliers.
Recommendation	As a necessary and mandatory measure, NBCIs should commit to initiatives to establish standards of transparency in the sector. In the broadest sense, there is need to gradually standardize the key information of financial products or services (concepts, formulas, documents, including the total annual cost of credit, etc.) that is disclosed to consumers, so that they can easily compare the products offered by different institutions and choose the most convenient to them. These initiatives should be agreed and driven by a technical group composed of multisectoral actors such as SIBOIF CONAMI, ASOMIF, INFOCOOP, and second-tier or apex cooperative entitites.
Good Practice B.6	***Advertising and Sales Materials*** **a. Non-bank credit institutions should ensure that their advertising and sales materials and procedures do not mislead customers.** **b. All advertising and sales materials should be easily readable and understandable by the general public.** **c. Non-bank credit institutions should be legally responsible for all statements made in advertising and sales materials (i.e. be subject to the penalties under the law for making any false or misleading statements).**
Description	The advertising and promotional materials (posters, brochures, flyers, billboards, etc.), used by NBCIs are developed in a very generic way, in order not to compromise the institution with signs of false or misleading information. Given the audience they target (people with low educational level or with limited knowledge

	of technical terminology and concepts), these materials are designed in simple language, using graphics and flashy colors, allowing them to be easily understood. Currently, in the case of finance companies supervised by SIBOIF, the Law on Banks and Other Financial Institutions Non-Banking (Article 119) states that the advertisement shall be not mislead or provide benefits or conditions which the entity is not authorized or able to fulfill. The Law also states that the Superintendent of Banks may order the respective correction, suspension or cancellation of advertising that does not meet the above conditions or that have been subject of complaints. Regarding MFIs affiliated to ASOMIF, Article 43 of ASOMIF's Code of Ethics states that advertising and promotional material shall not contain the description of financial products with claims or illustrations that are confusing and uncertain, or that highlight qualities and advantages that the product does not have or that hides conditions that the client would not be willing to accept. However, as noted above, adherence to the Code of Ethics is voluntary and ASOMIF can not legally punish its affiliates. If any affiliate commits a violation to the code, the case will be heard and resolved by the Ethics Committee, whose decisions are not binding legally, but morally. As for the SACs, neither the Cooperatives Act nor its Rules indicates any aspect related to promotional and advertising materials. For both MFIs as SACs, Article 19 of the Consumer Protection Act would apply. This Article states that the false or misleading advertising and promotion of products, activities or services is a fraud offense, without prejudice of other criminal and civil liabilities. Additionally, CONAMI has the authority to regulate advertising and promotion of financial products, as indicated by Articles 69 and 70, Truth in Advertising and Obligation to Inform Clients, of the Law on the Promotion and Regulation of Microfinance.
Recommendation	For CONAMI to adequately fulfill its mandate to regulate and oversee matters relating to the promotion and advertising, it must assign sufficient own resources to monitor compliance as described in Articles 69 and 70 of the Law on the Promotion and Regulation of Microfinance. This is an important step towards consumer protection in microfinance practices to avoid false or misleading information. However, for MFIs that are not subject to registration and supervision by CONAMI, the Consumer Protection Division of MIFIC should strengthen its capacity to monitor that such abusive practices are not carried out. It would be important that the discussions on the new Consumer Protection Act contemplate that the Financial Services chapter includes an article similar to Article 69 of the Law on the Promotion and Regulation of Microfinance, which describes general guidelines in terms of advertising to be met by microfinance institutions. In regard to the SACs, there should be a mixed strategy, which considers: (i) capacity building in INFOCOOP, so that it can include within its responsibilities and activities, the monitoring and oversight of these issues, as a general practice in all cooperatives of all types, and (ii) promoting among second-tier cooperative institutions the mechanisms of self-regulation or delegated supervision authorized by INFOCOOP, which should consider aspects of transparency of information promoted or advertised. In the cases of MFIs as SACs, the rules on advertising should be consistent with the new Law on Protection of Consumers, and, where possible, should use similar concepts to those used in the Act, to minimize differences in regulatory frameworks.
Good Practice B.7	***General Practices*** **Specific rules on disclosure and sales practices should be included in the non-bank credit institutions' code of conduct and monitored by the relevant supervisory authority.**

Description	As mentioned in the Good Practice B.6, SIBOIF is the authority responsible for monitoring and supervision of advertising practices by finance companies. In relation to MFIs affiliated to ASOMIF, its Code of Ethics includes aspects of the certainty and reliability of the information required in promotional materials and advertising outreach of MFIs. However, given the voluntary adherence to the Code of Ethics, ASOMIF has no enforcement mechanisms in this regard. As for the SACs, there are no codes of conduct or ethics at either the industry or institutional level, so the issue is not handled in any instance.
Recommendation	It is recommended that ASOMIF, considering its participation in the Board of CONAMI, promote the coordination mechanisms necessary so that the monitoring of sales practices is conducted by CONAMI, once it is operative. In the case of MFIs that are not subject to registration and control by CONAMI, DDC should promote the establishment of Codes of Ethics and monitor compliance. In regard to the SACs, also as recommended in the Good Practice B.6, two bodies should conduct monitoring: (i) through INFOCOOP, as a general practice in all cooperatives of any kind, and (ii) through second-tier or apex cooperatives.
Good Practice B.8	***Disclosure of Financial Situation*** **a. The relevant supervisory authority should publish annual public reports on the development, health, strength and penetration of the non-bank credit institutions, either as a special report or as part of the disclosure and accountability requirements under the law that governs these.** **b. Non-bank credit institutions should be required to disclose their financial information to enable the general public to form an opinion regarding the financial viability of the institution.**
Description	SIBOIF periodically publishes information on the financial situation of the regulated financial sector, which includes finance companies oriented toward microfinance, as part of the disclosure and accountability requirements established in its organic law. Regarding MFIs, ASOMIF consolidates homogeneous information of its affiliates and publishes them half-yearly and annually on its website and other media (Annual Report). The consolidated data refer to the development, strength, outreach and penetration of each of its affiliates. This allows certain audience that handles the terminology and concepts of information, to assess the financial viability of MFIs. Moreover, there is a very important concern and vacuum of reliable and standardized information in the case of SACs, which does not allow having timely, uniform, complete and reliable data in this sector. As an example of this, according to information available to the INFOCOOP, of the 147 registered SACs only 73 present their financial statements, of which 15 are in a homogeneous format and only two are audited by external audit firms.
Recommendation	It is recommended that ASOMIF complements its strategy of disclosure of information of its affiliates, with the use of mass channels, of different types and with formats as simple as possible. This would enable making information available to clients and users, particularly considering that a high percentage of them live in rural areas and have considerable limitations to easily understand complex concepts and terminology that is used to assess institutional financial viability. In the case of SACs, the Procedure for the Preparation and Presentation of Financial Statements of Credit Unions on a comparable basis, issued on September 2, 2011 by the Board of INFOCOOP is a significant step for having comparable data from SACs, which is a prerequisite for transparency in this important sector. However, given the broad mandate of INFOCOOP and its current and future ability to regulate and supervise a wide and diverse spectrum of Cooperatives, consideration should be given to promote self-regulatory or delegated-supervision mechanisms by second-tier cooperatives. This is permitted by the General Law of Cooperatives and would facilitate the standardization, consolidation, presentation and regular reporting of

	accounting, financial and performance information of the SACs. At the same time, it is important to consider self-regulatory and delegated-supervision mechanisms to standardize practices and principles for transparency in management of SACs, such as Corporate Governance, Prudential Standards, Management Provisions, Prevention of Money Laundering, Internal Audit and Liquidity Management.
SECTION C	**CUSTOMER ACCOUNT HANDLING AND MAINTENANCE**
Good Practice C.1	***Statements*** **a. Unless a non-bank credit institution receives a customer's prior signed authorization to the contrary, the non-bank credit institution should issue, and provide the customer with, a monthly statement regarding every account the non-bank credit institution operates for the customer.** **b. Each such statement should: (i) set out all transactions concerning the account during the period covered by the statement; and (ii) provide details of the interest rate(s) applied to the account during the period covered by the statement.** **c. Each credit card statement should set out the minimum payment required and the total interest cost that will accrue, if the cardholder makes only the required minimum payment.** **d. Each mortgage or other loan account statement should clearly indicate the amount paid during the period covered by the statement, the total outstanding amount still owing, the allocation of payment to the principal and interest and, if applicable, the up-to-date accrual of taxes paid.** **e. A non-bank credit institution should notify a customer of long periods of inactivity of any account of the customer and provide reasonable final notice in writing to the customer if the funds are to be transferred to the government.** **f. When a customer signs up for paperless statements, such statements should be in an easy-to-read and readily understandable format.**
Description	The widespread practice in the sector, in the case of credit products, is to issue and deliver to customers, at the time of payment, copy of their Payment Schedules, as the only paper statement. The Payment Schedule describes the most important aspects and features of credit: personal data, amount, term, interest rate, payment dates, projected payments for principal, interest and balance. There is no rule that requires periodic issuance and delivery of customer statements (particularly credit products), and although the customer may request it at any time, in most cases there is an additional cost. In the case of savings products, specifically those offered by the SACs, the management of account statements is basically done with the passbook account, that is updated with each movement, withdrawal or deposit.
Recommendation	To promote transparency of the microfinance sector, even if customers do not request periodic statements of the products or services they have in a financial institution, they should at least be updated and delivered to the customer at the time of notifying them of any modifications to the terms and conditions initially set (changes in interest rates, adjustments to the plan payments from prepayment, restructuring, penalty for late payment, etc.). At the same time, the principles of clarity, simplicity and detail of accounts statements should be maintained, so that customers can understand them easily. With the use of new information technologies, consideration should be given to the future implications of access to statements via Internet and mobile banking.
Good Practice C.2	***Notification of Changes in Interest Rates and Non-Interest Charges*** **a. A customer of a non-bank credit institution should be notified in writing by**

	the non-bank credit institution of any change in: **(i) the interest rate to be paid or charged on any account of the customer as soon as possible; and** **(ii) a non-interest charge on any account of the customer a reasonable period in advance of the effective date of the change.** **b. If the revised terms are not acceptable to the customer, he or she should have the right to exit the contract without penalty, provided such right is exercised within a reasonable period.** **c. The non-bank credit institution should inform the customer of the foregoing right whenever a notice of change under paragraph a. is made by the institution.**
Description	In Nicaragua, credit agreements are based on variable interest rate, which allows NBCIs make the changes in the rate during the term of the loan, without having to change the contract. Although not very common to make changes or adjustments of interest rates, and interest charges prior to the date of application of the new rate, where this practice is performed, the adjustment is reported verbally to the client, who is given a copy of the new payment plan. The period of notice to the customer about the changes varies according to the policies of the NBCIs. Notwithstanding the foregoing, if the customer does not accept any changes arising from changing interest rates, the customar can terminate it unilaterally, but must take into account whether the contract includes a penalty clause or not.
Recommendation	Financial institutions should ensure that the client receives all the information necessary to understand the clauses that define the frequency and procedures that NBCIs have to make changes or adjustments of interest rates during the term of the loan, when the rate is variable. At the same time, it is very important that a copy of the new contract with the amendments made is delivered to the customer, in addition to the new payment schedule. There should also be a minimum period in which the NBCIs must inform the client before undertaking any changes thereto. Complementary to this, there should be a regulation indicating that NBCIS shall not collect any new interests prior to the date of application of the new interest rate (or retrospectively), as this would constitute an unfair practice for the consumer of the product or service. In the case of Financial Companies, SIBOIF monitors the implementation of these principles. Regarding MFIs, CONAMI should be the responsible monitoring body, and for SACs, the INFOCOOP complemented by delegated monitoring mechanisms such as second-tier cooperatives. In the case of MFIs not subject to registration and control by CONAMI, MIFIC's DDC must be the entity that oversees the application of the principles mentioned above.
Good Practice C.3	***Customer Records*** **a. A non-bank credit institution should maintain up-to-date records in respect of each customer of the non-bank credit institution that contain the following:** **(i) a copy of all documents required to identify the customer and provide the customer's profile;** **(ii) the customer's address, telephone number and all other customer contact details;** **(iii) any information or document in connection with the customer that has been prepared in compliance with any statute, regulation or code of conduct;** **(iv) details of all products and services provided by the non-bank credit institution to the customer;** **(v) a copy of all correspondence from the customer to the non-bank credit**

	institution and vice-versa and details of any other information provided to the customer in relation to any product or service offered or provided to the customer; **(vi) all documents and applications of the non-bank credit institution completed, signed and submitted to the non-bank credit institution by the customer;** **(vii) a copy of all original documents submitted by the customer in support of an application by the customer for the provision of a product or service by the non-bank credit institution; and** **(viii) any other relevant information concerning the customer.** **b. A law or regulation should provide the minimum permissible period for retaining all such records and, throughout this period, the customer should be provided ready free access to all such records.**
Description	A common practice of NBCIs is to have a file for each client, which includes, among others, the following documents: copies of identification documents; forms for credit application, analysis and resolution (duly signed and sealed); payment schedules; documents supporting the request for credit; original contract; communications addressed to the client; microinsurance contract form and definition of beneficiaries; copies of pay stubs; application form to open an account and log of signatures (for savings accounts provided by SACs). Although there is no specific legislation (law or regulation) that establishes the minimum period that records must be retained, institutional policies in this regard range from 3 to 5 years. In practice, financial institutions take as parameters the retention requirement of accounting and financial documents that the Tax Administration requires for any fiscal review and audit, which is usually up to 5 years.
Recommendation	All customer information should be kept in an individual file, which includes updated documentation of its contractual relationship with the NBCI. At the same time, it should provide, in accordance with the policies of each institution, the customer access to the file. Both aspects should be promoted by industry associations and then by the supervisory bodies.
Good Practice C.4	***Credit Cards*** **a. There should be clear rules on the issuance of credit cards and related customer disclosure requirements.** **b. Non-bank credit institutions, as credit card issuers, should ensure that personalized disclosure requirements are made in all credit card offers, including fees and charges (including finance charges), credit limit, penalty interest rates and method of calculating the minimum monthly payment.** **c. Non-bank credit institutions should not be permitted to impose charges or fees on pre-approved credit cards that have not been accepted by the customer.** **d. Consumers should be given personalized minimum payment warnings on each monthly statement and the total interest costs that will accrue if the cardholder makes only the requested minimum payment.** **e. Among other things, the rules should also:** **(i) restrict or impose conditions on the issuance and marketing of credit cards to young adults (below age of 21) who have no independent means of income;** **(ii) require reasonable notice of changes in fees and interest rates increase;** **(iii) prevent the application of new higher penalty interest rates to the entire existing balance, including past purchases made at a lower interest rate;** **(iv) limit fees that can be imposed, such as those charged when consumers exceed their credit limits;**

	(v) prohibit a practice called ―double-cycle billing‖ by which card issuers charge interest over two billing cycles rather than one; **(vi) prevent credit card issuers from allocating monthly payments in ways that maximize interest charges to consumers; and** **(vii) limit up-front fees charged on sub-prime credit cards issued to individuals with bad credit.** **f. There should be clear rules on error resolution, reporting of unauthorized transactions and of stolen cards, with the ensuing liability of the customer being made clear to the customer prior to his or her acceptance of the credit card.** **g. Non-bank credit institutions and issuers should conduct consumer awareness programs on the misuse of credit cards, credit card over-indebtedness and prevention of fraud.**
Description	Currently, none of the NBCIs issues credit cards.
Recommendation	Even if at present NBCIs do not issue credit cards, once this product is offered, rules applicable to NBCIs should follow the rules of credit cards issued by the SIBOIF to avoid practices harmful to the client and lack of transparency in managing the terms and conditions of this product.
Good Practice C.5	***Debt Recovery*** **a. All non-bank credit institutions, agents of a non-bank credit institutions and third parties should be prohibited from employing any abusive debt collection practice against any customer of the non-bank credit institution, including the use of any false statement, any unfair practice or the giving of false credit information to others.** **b. The type of debt that can be collected on behalf of a non-bank credit institution, the person who can collect any such debt and the manner in which that debt can be collected should be indicated to the customer of the non-bank credit institution when the credit agreement giving rise to the debt is entered into between the non-bank credit institution and the customer.** **c. A debt collector should not contact any third party about a non-bank credit institution customer's debt without informing that party of the debt collector's right to do so; and (ii) the type of information that the debt collector is seeking.** **d. Where sale or transfer of debt without borrower consent is allowed by law, the borrower should be:** **(i) notified of the sale or transfer within a reasonable number of days;** **(ii) informed that the borrower remains obligated on the debt; and** **(iii) provided with information as to where to make payment, as well as the purchaser's or transferee's contact information.**
Description	In the microfinance sector the common practice of collection of debts from customers in default or in arrears of their credits, is through direct management by credit officers of the institutions themselves. In this case, collection procedures are established in handbooks and institutional policies, which allow the institution to keep track of the behavior of its staff and the results of collection actions. Currently, a number of MFIs and SACs are outsourcing the collection of non-performing or defaulted loans through private companies. If no clear debt collection rules are established, this practice could lead to the development of abusive practices by companies contracted by the NBCIs. Articles 67 and 68 of the Law on Regulation and Promotion of Microfinance govern the procedures for recovery of loans in default and the endorsement or transfer of debts. CONAMI will be responsible for ensuring that this standard is met by the NBCIs under its supervision.

Recommendation	The NBCIs that outsource the collection of delinquent or past due portfolio should, as part of the responsibility to their clients, agree with the hired firms on minimum criteria required to avoid any type of abuse against the customer (collection times, allowed documents to proceed with the collection, prohibition of perjury, unfair practices, etc.). The NBCIs that undertake collection activities directly through its own staff should, a fortiori, have formally established -and comply with- standards of conduct and ethical behavior for collection activities, both at the administrative and legal levels. In both cases, the customer should be informed at the time of disbursement of credit about the procedures to be used in situations of default or delinquency, with the purpose of ensuring that the client understands the mechanisms and practices to be followed for collection of such debts. The different aspects identified in the regulations on credit card debt collection issued by the SIBOIF, should guide the negotiation and outsourcing processes regarding NBCIs' debt collection. ASOMIF (while CONAMI becomes operative) as well as INFOCOOP and the second-tier cooperatives with delegated oversight authorities, could support the dissemination and implementation of the regulations issued by the SIBOIF through their codes of conduct. In the case of MFIs that are not under registration and control by CONAMI, MIFIC's DDC should be responsible for disseminating and supporting implementation of that legislation.
SECTION D	**PRIVACY AND DATA PROTECTION**
Good Practice D.1	***Confidentiality and Security of Customers' Information*** **a. The financial transactions of any customer of a non-bank credit institution should be kept confidential by the institution.** **b. The law should require non-bank credit institutions to ensure that they protect the confidentiality and security of personal data of their customers against any anticipated threats or hazards to the security or integrity of such information, and against unauthorized access.**
Description	The General Law on Banks, Financial Institutions and Non-Bank Financial Group defines bank secrecy, which is applicable to finance companies. This article provides that any personal information about its customers should be treated with absolute confidentiality and security, and establishes penalties for officials who violate this rule. For MFIs affiliated to ASOMIF, the Code of Ethics in its Articles 29 and 39 lays down the principles for handling confidential customer information by staff in each affiliated institution. However, voluntary adherence to the Code does not ensure compliance with its principles, whereas ASOMIF has no sanction or penalty mechanisms in this regard. The General Law of Cooperatives and the mandate of INFOCOOP do not include any provision related to confidentiality and information security.
Recommendation	The implementation of Article 58 of the Law on the Promotion and Regulation of Microfinance is much broader than that of ASOMIF's Code of Ethics, since it will require ensuring the confidentiality of customer information related to lending operations and services provided by MFIs supervised by CONAMI. Also, this Article provides that any MFI officer that does not meet this provision will be personally and criminally liable for violation of confidentiality, and will be required to compensate for any damage caused to the customer or the MFI. For cooperatives, it is recommended that in the first stage, second-tier institutions promote the adoption of terms of confidentiality and security of customer information, in the contracts of products or services they provide. In a second stage, consideration should be given for SACs to be included in the jurisdiction of

	CONAMI, so that they are also governed by Article 58, Confidentiality of Operations, of the Law on the Promotion and Regulation of Microfinance.
Good Practice D.2	***Credit Reporting*** **a. Credit reporting should be subject to appropriate oversight, with sufficient enforcement authority.** **b. The credit reporting system should have accurate, timely and sufficient data. The system should also maintain rigorous standards of security and reliability.** **c. The overall legal and regulatory framework for the credit reporting system should be: (i) clear, predictable, non-discriminatory, proportionate and supportive of consumer rights; and (ii) supported by effective judicial or extrajudicial dispute resolution mechanisms.** **d. Proportionate and supportive consumer rights should include the right of the consumer** **(i) to consent to information-sharing based upon the knowledge of the institution's information-sharing practices;** **(ii) to access his or her credit report free of charge (at least once a year), subject to proper identification;** **(iii) to know about adverse action in credit decisions or less-than-optimal conditions/prices due to credit report information;** **(iv) to be informed about all inquiries within a period of time, such as six months;** **(v) to correct factually incorrect information or to have it deleted and to mark (flag) information that is in dispute;** **(vi) to reasonable retention periods of credit history; and** **(vii) to have information kept confidential and with sufficient security measures in place to prevent unauthorized access, misuse of data, or loss or destruction of data.** **e. The credit registers, regulator and associations of non-bank credit institutions should undertake campaigns to inform and educate the public on the rights of consumers in the above respects, as well as the consequences of a negative personal credit history.**
Description	With regard to the protection of personal data, Law No. 621, Law on Access to Public Information, mentions only the guarantee of protection of private personal data, so that its use in advertising would basically constitute a violation to personal or family privacy. There is no Act or Regulation on Data Protection that covers financial consumer data protection and ensures the confidentiality and non-trading of personal data. Article 2 of Resolution No. CD-SIBOIF-577, Rule on Private Credit Bureaus, regulates the accuracy, confidentiality and appropriate use of the information these bureaus handle, but specifically for the data provided by banks and financial institutions non-bank supervised by the SIBOIF. Similarly, Article 9, paragraph 2, states that information may only be used for purposes of determining exposure to credit risk from customers.
Recommendation	Even when the private credit bureaus have contract clauses on confidentiality, protection and marketing of customer data they handle, this should be supplemented by a comprehensive Data Protection Law which includes matters relating to data protection of consumers of financial services, particularly from MFIs and SACs. Otherwise, the industry organizations representing NBCIs should negotiate directly with private credit bureaus the inclusion of a specific provision governing the accuracy, confidentiality and appropriate use of the information they hold, similar to the provision in the case of data provided by banks and nonbank financial institutions supervised by SIBOIF. At the same time, it is important to encourage SACs to provide credit information of

	their members to private credit bureaus and SIBOIF, in order for them to have all information available to determine comprehensively the consolidated levels of debt of microfinance customers.
SECTION E	**DISPUTE RESOLUTION MECHANISM**
Good Practice E.1	***Internal Complaints Procedure*** **Complaint resolution procedures should be included in the non-bank credit institutions' code of conduct and monitored by the supervisory authority.**
Description	Neither MFIs nor SACs have formal mechanisms for dealing with complaints and dispute resolution (specific office or designated official, established procedures), although a number of MFIs and SACs interviewed indicated that they undertake non-written practices in this regard. For MFIs affiliated to ASOMIF, Article 22 of the Code of Ethics indicates that the members should establish their own mechanisms and procedures for the reception and handling of consumer complaints, and make sure they are addressed with diligence and adherence to the MFIs mission, taking into account the customer's socioeconomic conditions. However, in practice very few MFIs are in the initial processes of establishing specific documented procedures in this regard. In addition, as mentioned above, compliance with this rule is voluntary for MFIs, and ASOMIF has no mechanisms to monitor compliance. In addition to the above, it is recognized that in rural areas there is little culture of raising complaints.
Recommendation	As a mechanism of institutional transparency and consumer protection for microfinance services, there should be formal and permanent mechanisms to handle complaints and disputes (such as a specific office or designated official, complaints box) The institutionalization of CONAMI will in the future, allow the implementation of Article 76 of the Law on the Promotion and Regulation of Microfinance, which indicates that MFIs should have staff and effective mechanisms to address complaints and disputes. The article also states the power that CONAMI would have to impose mandatory administrative measures, subject to penalty, in case the institutions under its jurisdiction do not provide timely and informed responses to consumer complaints and claims. In the case of SACs, it is of utmost importance that in a first stage, second-tier cooperative mechanisms promote the establishment of written policies for the proper management and resolution of any claim or complaint of members, which should include mechanisms such as those indicated in the preceding paragraph. In a second stage, CONAMI could include SACs within its scope, and therefore oversee their implementation of complaints and dispute handling mechanisms. Complementary to this, one of the aspects to be considered for financial education is the promotion of a complaints culture for consumers, especially in rural areas and indigenous minorities of the country. Thus, consumers should be informed on the instances that are mandated to monitor and oversee the resolution of complaints and on their right to ask that their complaints be resolved initially by the NBCIs.
Good Practice E.2	***Formal Dispute Settlement Mechanisms*** **a. A system should be in place that allows consumers to seek affordable and efficient third-party recourse, such as an ombudsman, in the event the complaint with the non-bank credit institution is not resolved to the consumer's satisfaction in accordance with internal procedures.** **b. The role of an ombudsman or equivalent institution in dealing with consumer disputes should be made known to the public.**

	c. The ombudsman or equivalent institution should be impartial and act independently from the appointing authority, the industry and the parties to the dispute. **d. The decisions of the ombudsman or equivalent institution should be binding upon non-bank credit institutions. The mechanisms to ensure the enforcement of these decisions should be established and publicized.**
Description	Except for the consumers of services or products of Financial Companies, who can file complaints to SIBOIF's OAUSF, there are no alternative dispute resolution systems to address grievances or complaints from consumers of NBCIs that have not been resolved through internal procedures of NBCIs. Article 76 of the Law on the Promotion and Regulation of Microfinance empowers CONAMI to address complaints or disputes of users who have resorted to microfinance institutions under its supervision and who did not obtain satisfactory resolution of their claims. The Law also indicates that CONAMI resolutions shall be considered final administrative provisions that are enforceable and will be subject to penalty if not followed. Additionally, according to Article 6 and Chapter IV of the Rules of the Law on Consumer Defense, MIFIC's DDC has the power to resolve claims and complaints that consumers interpose by promoting a conciliation process. The decisions issued by the DDC can only be appealed to the Minister of Industry and Commerce, after which the administrative process ends. We identified public and private alternative dispute resolution mechanisms, such as the Office of Alternative Dispute Resolution (DIRAC), under the Supreme Court, which provides public mediation services to various claims or judgments of the Judicial Sector in Nicaragua (including those related to the financial system). There are also private Mediation and Arbitration centers, but they are more focused on dispute resolution and arbitration of commercial, community and family aspects (on top of that, some of these centers have very high costs for the processes they do). Importantly, most mediation centers, both public and private, are located in the capital, with some presence in major cities of the interior, but with minimal coverage in rural areas. In addition, the agreements reached are voluntary and not legally binding.
Recommendation	It is necessary that DDC and CONAMI be endowed with sufficient resources necessary to fulfill their mandates on prompt attention to consumer complaints or disputes of NBCI products or services. Complementary to this, a good practice that could be implemented, particularly at MFIs and SACs, would be the inclusion in contracts of a mediation clause between the client and the institution as a mechanism that allows alternative dispute resolution between the parties prior to the monitoring of recovery through the courts. This clause should clearly describe, among others, the following: instance(s) to go to start with the mediation process and to select the mediator, as well as the maximum number of meetings to be held (to avoid use of this method as a delaying tactic to extend the process to the detriment of finding a quick solution). This clause should be reported to the client, with sufficient clarity and from the moment that a product is analyzed and contracted. At the same time, it is necessary to identify mechanisms to strengthen the resolutions of the mediating bodies, public and private, so that the consensus or agreements reached are legally binding on the parties (or at least the financial institution). This would allow avoiding the current situation where the agreements are voluntary, which limits the effectiveness of this mechanism. Finally, it would be desirable to determine the scenario of future evolution of consumer protection, to consider the most appropriate time for the creation of the Ombudsman for the Defense of Financial Services Users, as it exists in Mexico,

	with an independent operating structure that regulates and supervises all matters relating to the rights of consumers of these services.
SECTION F	**CONSUMER EMPOWERMENT**
Good Practice F.1	***Broadly based Financial Capability Program*** **a. A broadly based program of financial education and information should be developed to increase the financial capability of the population.** **b. A range of organizations–including government, state agencies and non-governmental organizations–should be involved in developing and implementing the financial capability program.** **c. The government should appoint an institution such as the central bank or a financial regulator to lead and coordinate the development and implementation of the national financial capability program.**
Description	There are several organizations in Nicaragua undertaking financial education efforts and initiatives for the NBCI sector (SIBOIF, MIFIC, ASOMIF, PROMIFIN-SCD, microfinance institutions, etc.) of different nature and magnitude, in urban and rural areas. However, these efforts are not coordinated and undertaken in an isolated manner.
Recommendation	It is recommended that all the various financial education initiatives from government, industry associations, indidivual institutions, consumer associations, and international cooperation, which are being developed, especially in the NBCI sector, be conducted and coordinated as part of a broader strategy. This strategy should be under the leadership of a renowned national organization with adequate convening powers. The strategy should (i) differentiate financial education methods according to the types of customers and their geographical location, (ii) measure the initial and future impact of the strategy, and (iii) use different mass media, such as radio and television. Involving other stakeholders is key to the success of a strategy, so it is important to consider the participation of the Ministry of Education, public and private associations, among others.
Good Practice F.2	***Using a Range of Initiatives and Channels, including the Mass Media*** **a. A range of initiatives should be undertaken by the relevant authority to improve the financial capability of the population, and especially from low-income communities.** **b. The mass media should be encouraged by the relevant authority to provide financial education, information and guidance to the public, including on non-bank credit institutions and the products and services they offer.** **c. The government should provide appropriate incentives and encourage collaboration between governmental agencies, the supervisory authority for non-bank credit institutions, the associations of non-bank credit institutions and consumer associations in the provision of financial education, information and guidance to consumers.**
Description	There is a wide scope of initiatives that aim to generate knowledge and improve financial education for NBCI customers. In particular, it is worth to highlight the method developed by the SCD-funded PROMIFIN program, which is the most disseminated within the the microfinance sector. Some of these initiatives are being implemented using mass media, such as radio, television and press, whereas others use Internet and printed materials.
Recommendation	It is advisable to develop a multisectoral mechanism work (leading group, technical council, etc.), which can be integrated, among others, by SIBOIF, Central Bank,

	ASOMIF, CONAMI, INFOCOOP, MIFIC, consumer associations. This mechanism should encourage the use of every possible media (in addition to classroom education), to promote a national campaign of financial education, information and guidance, regarding the institutions that provide microfinance services, as well as the different types of financial products and services they provide.
Good Practice F.3	***Unbiased Information for Consumers*** **a. Consumers, especially the most vulnerable, should have access to sufficient resources to enable them to understand financial products and services available to them.** **b. Supervisory authorities and consumer associations should provide, via the internet and printed publications, independent information on the key features, benefits and risks – and, where practicable, the costs – of the main types of financial products and services, including those offered by non-bank credit institutions.** **c. The relevant authority should adopt policies that encourage non-government organizations to provide consumer awareness programs to the public regarding financial products and services, including those offered by non-bank credit institutions.**
Description	Currently, there are no uniform or standardized practices in the microfinance sector, which would allow consumers to understand and compare easily the key features of the products or services they provide, especially considering the characteristics of the clients of these services: population with limited education and living in rural areas. Several initiatives from SIBOIF and ASOMIF as well as some consumer associations have been implemeted to provide specific financial education via the Internet or, in some cases, printed materials, mainly regarding the risks of indebtedness, the timely payment of credit instalments and budget management.
Recommendation	It would be appropriate, that under the multisectoral mechanism proposed in the Good Practice F.2, agreement could be reached on standard definitions and formats to disclose key information on products or services offered by NBCI (concepts, formulas, legal documents, calculations on total annual cost of loans, etc), so that consumers may be able to easily compare the products offered by different providers and decide on the best one according to their interests and their ability to pay.
Good Practice F.4	***Consulting Consumers and the Financial Services Industry*** **The relevant authority should consult consumer associations and associations of non-bank credit institutions to help the authority develop financial capability programs that meet the needs and expectations of financial consumers, especially those served by non-bank credit institutions.**
Description	Currently, ASOMIF, as the first microfinance network of Central America, has significant recognition as a representative body for MFIs in Nicaragua. Moreover, the two central of cooperatives, as second-tier cooperative mechanisms, have important knowledge about the market, its peculiarities and needs, which can be very useful for the design of financial education programs. Additionally, there are (i) the National Council for the Protection of Consumer Rights, CONADECO, which, as advisory and consultative body, could also contribute its knowledge and perspective of the problems and needs for strengthening capability of microfinance users; and (ii) some consumer groups that are active in financial sector issues, particularly in relation to financial education and monitoring of credit card complaints.
Recommendation	For future design processes and implementation of financial education programs, we recommend taking into account the perspectives of CONADECO, ASOMIF, the second-tier cooperatives, and consumer protection associations so they can provide inputs and recommendations based on their knowledge of customer needs and the

	areas they serve (mainly rural areas).
Good Practice F.5	***Using a Range of Initiatives and Channels, including the Mass Media*** **a. Policymakers, industry and consumer advocates should understand the financial capability of various market segments, particularly those most vulnerable to abuse.** **b. The financial capability of consumers should be measured, amongst other things, by broadly based household surveys that are repeated from time to time.** **c. The effectiveness of key financial capability initiatives should be evaluated by the relevant authority from time to time.**
Description	At present, because the financial education initiatives are scattered and isolated, there is no information on the scope and impact they are having. It would be particularly important to know whether consumers are aware of the types of institutions that provide nonbanking credit services and the rights and responsibilities associated with the products and services offered, and whether consumers understand the information on prices, fees and charges disclosed by financial institutions. It would be extremely useful to have this information segmented by age, educational level, gender, experience in credit, etc. This information would help design and then modify or update the financial education strategy being implemented, in order to improve its effectiveness.
Recommendation	According to the recommendation stated in F.1 practice, in order to measure the impact of the financial education strategy, periodic surveys should be conducted on a large scale, starting with a baseline survey. To determine measurable impacts in time, the survey should be repeated every three to five years. In addition, small-scale surveys and consumer research should be included from the outset in different targeted financial education initiatives. The results should help the authorities (National Assembly, the Executive Branch) to decide, based on well-founded results, what initiatives should continue (and perhaps expanded) and which should be modified or discontinued. For proper coordination, it is proposed that the renowned national entity in charge of coordinating the Financial Education Strategy, be responsible for developing and monitoring these surveys, so that their results can provide feedback to those responsible for designing programs, policies, regulations and laws.

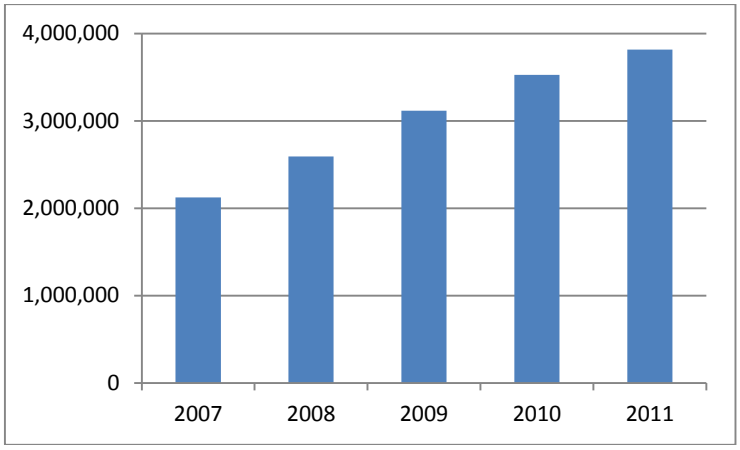
CONSUMER PROTECTION IN THE INSURANCE SECTOR

Overview of the Insurance Sector

The insurance market in Nicaragua was a state monopoly until 1998, when it was opened and allowed the market activity and competition from private insurers. This industry is regulated by Law No. 733, 2010, which includes the main recommendations of modern legislation, including rules on consumer protection and strengthening of their rights. Currently there are 5 insurance companies in Nicaragua (4 private and one state) and they all offer both life insurance and general insurance. As of December 2010 there were 24 individual and 58 companies registered as intermediaries in Nicaragua, employing a total of about 400 people.

The assets of insurance companies have grown significantly in recent years. Assets grew nearly 80% in just five years, reaching nearly 4,000 million cordobas to June 2011. Because no information is available for a particular class of asset life and general, it is not possible to know which segment contributed most to this growth.

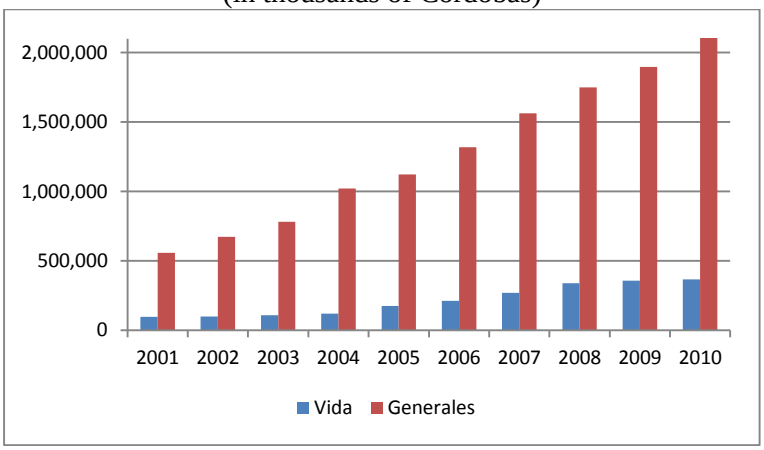
Figure No. 7: Evolution of Assets of the Insurance Market
(in thousands of Cordobas)



Source: SIBOIF, 2011

The insurance market in terms of written premiums, has grown significantly over the past 10 years. Total written premiums in Nicaragua almost quadrupled in nominal terms. Despite this growth, the insurance market is still small with net written premiums representing approximately 2,500 million cordobas (equivalent to USD 113 million), as shown in Figure No. 8.

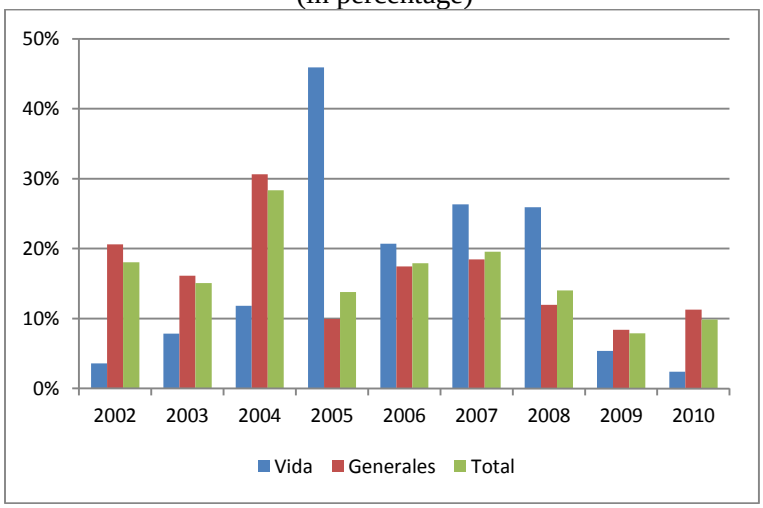
Figure No. 8: Evolution of Net Insurance Premiums Issued
(in thousands of Cordobas)



Source: SIBOIF, 2011

The last decade has marked a rapid growth in the market for both types of insurance. As shown in Figure No. 9, initially the general insurance industry was the most dynamic, but then between 2005 and 2008, the life insurance category grew the most significantly, reaching a growth rate greater than 40 percent in 2005. While this rate slowed down in 2009 and 2010 for both types of insurance, the insurance industry growth rate was still 10% in 2010.

Figure No. 9: Growth in Insurance Market
(in percentage)



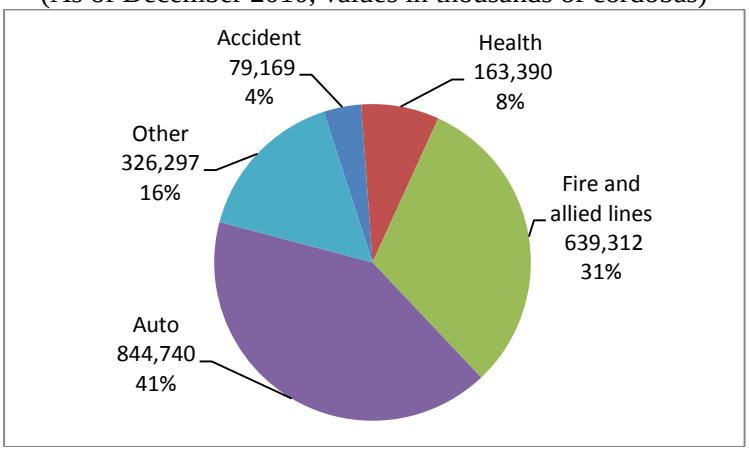
Source: SIBOIF, 2011

The insurance market is dominated by the general insurance segment. General insurance accounted for more than 80% of the total over the last 10 years, especially due to the auto insurance product, which is legally required to be purchased. The general insurance market has grown at a much more stable rate in 2006-2011, with an average of 15%. The only product in the market for life and benefits insurance is life insurance. Pension and benefits insurance products do not exist or are not classified as such in Nicaragua.

The product that is more prevalent in the general insurance market is car insurance. In 2010 the auto insurance accounted for 41% of the general insurance market. The only other product with

similar market share was fire insurance and allied lines with 31%. Health insurance and accident and illness have a much smaller share by comparison.

Figure No. 10: Structure of the General Insurance Market per Type of Product
(As of December 2010, values in thousands of cordobas)

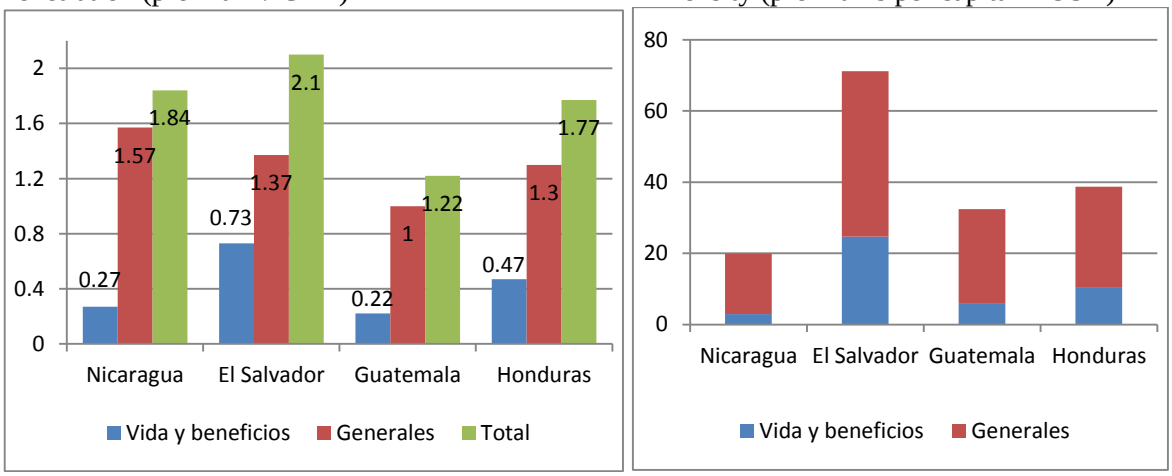


Source: SIBOIF, 2011

Despite the recent growth of the insurance market in Nicaragua, the density indicator is the lowest in Central America. As for life and benefits insurance, Nicaragua has a much lower penetration than those of El Salvador and Honduras, and similar to that of Guatemala. The general insurance penetration is the highest of all these countries, leaving the total penetration at an intermediate level. The density (premiums per capita) is largely the lowest in the region, both in terms of life and benefits insurance and general insurance. In Nicaragua, the density is $ 20, compared with an average of $ 47 from other countries.

Figure No. 11: Indicators of Insurance Penetration and Density as of December 2010

Penetration (premium / GDP) Density (premiums per capita in USD)



Source: Axco, 2011

Legal Framework and Institutional Arrangements for Consumer Protection

The Superintendency of Banks and Other Financial Institutions (SIBOIF) is the oversight agency for insurance in Nicaragua. The agency was established in 1991 by Act 125, which has had subsequent reforms. The Intendence of Insurance oversees and regulates the sector, including the drafting of legislation, issuance of regulations under the law, and issuance and revocation of licenses for insurance sales. Its activity is governed by the General Law on Insurance, Reinsurance and Bonds (Law No. 733), 2010.

Protecting the insured is manifested in various sections of the Law 733, such as education, regulation of advertising and marketing policies, claims attention, conflict resolution, and supervision by SIBOIF's Intendence of Insurance. It is also contemplated in this legislation, the development of microinsurance, to people and families with low incomes, to simplify product design and marketing.

Three associations are currently operating in the insurance sector. The Nicaraguan Association of Private Insurance (ANAPRI) was formed in 1997 by four private insurers, and in 1999 was officially recognized trade association. ANAPRI actively participated in the preparation of the new Insurance Act. It has also created a risk database with information on policyholders who have not paid your premiums on time or have given fraudulent documents. Insurance intermediaries are grouped in the Nicaraguan Association of Professional Insurance Agents (ANAPS) and the Nicaraguan Chamber of Insurance Brokers (CNCS).

The following laws relate to consumer protection issues in the insurance sector:

- General Law on Insurance, Reinsurance and Bonds (Law No. 733), 2010. This law establishes an instance of internal complaints and the possibility of the insured to submit your complaint to the superintendent.
- Mediation and Arbitration Law (Law No. 540), 2005.
- Regulatory Standards for Approval of Insurance Intermediaries and the Exercise of Functions Intermediation (Resolution SIB-OIF-IV-26-96, November 2006, as amended in 2005).

Comparison with Good Practices: Insurance Sector

SECTION A	**CONSUMER PROTECTION INSTITUTIONS**
Good Practice A.1	***Consumer Protection Regime*** **The law should provide for clear rules on consumer protection in all matters of insurance and there should be adequate institutional arrangements for implementation and enforcement of consumer protection rules.** **a. There should be specific provisions in the law, which create an effective regime for the protection of retail consumers of insurance.** **b. The rules should prioritize a role for the private sector, including voluntary consumer organizations and self-regulatory organizations.**
Description	As noted in the previous section, Nicaraguan legislation provides clear rules to protect policyholders in the different areas from the solvency regulation and free competition, and the sale of insurance and resolution of conflicts that may occur in the implementation of their contracts.

	i) Equity requirements In our opinion, the main safeguard for consumers and policyholders is to ensure that the insurance industry operates with appropriate equity and reserves backups to meet future obligations of that contract, and do so in a framework of free competition, which the Insurance Act provides for by effectively regulating capital requirements, reserves and investments. Thus, the Act requires a minimum capital required tooperate different types of insurance, covering risks for either property or persons, and in the event that they cover both together, the requirement is doubled. In the case that they only entrench obligations of third parties, the capital requirement is smaller. For those active in the field of reinsurance, the capital requirement is one and half times higher than in the respective sector which reinsures. The Act requires cash capital and venture capital, and authorizes the Board of Directors of the Superintendence to set rules on calculation formulas of general application, which must comply with international standards. The Act also regulates the establishment of reserves, requiring reserves for ongoing risk of loss incurred but not paid, reserves for statistical deviations of accidents, catastrophic reserves and other reserves that the Superintendent determines, empowering the Board to issue general rules in this respect. Along with the requirements of equity capital and reserves, there are also regulations on the investments that might support them, so as to combine security and liquidity to meet the obligations to policyholders. *ii) Insurance contracts and rates* The Insurance Act also regulates the provision of insurance by submitting to the supervisory authority's approval of contracts, in terms of both general and particular, applications, questionnaires, addenda and other documents forming policies, together with the approval of the technical notes to justify the rates to account for the obligations and risks involved. *iii) Claims procedures* The Insurance Act requires insurers to have internal procedure manuals for claims of policyholders, and to give them to consumers in conjunction with the insurance policy. The insured shall have a period of 30 days counted from receipt of the policy before commenting on the conditions of contract and can verify that they are indeed those that correspond to their needs. *iv) Advertising and consumer protection and education to the insured* The Insurance Act guarantees free competition, establishing the insured's right to freely contract the insurance the insured wants. It also ensures transparency, regulates advertising, truthfulness, and information that shall be delivered to the insured. In addition, its final article provides for education to the insured, and mentions that the Superintendence could include text in the contracts that inform customers about their rights. *v) The right to appear before the Superintendence* The Act establishes the right of the insured to appear before the Superintendence, which should ensure compliance with the law in this area. *vi) Resolution of disputes* Without prejudice to the internal complaint mechanism within the insurance company itself and the power to appear before the Superintendence, the Insurance Act provides that disputes between policyholders and insurance beneficiaries can be resolved through mediation and arbitration, empowering them to resort to any center established under the special law governing this dispute settlement body.
Recommendation	Nicaragua's legislation on the protection of the rights of policyholders is very complete, so the main recommendation is to strengthen the capacity of the

	Superintendence to ensure compliance and use all the powers that gives the regulation of this industry. In particular, emphasis should be placed on monitoring the operations of foreign insurance intermediaries that have not been authorized to operate in Nicaragua. While it is true that the Act requires the approval of each policy the various insurers sell, and each of its components and technical notes, we recommend that once they have been approved by the Superintendence, they could be used by the rest of the industry, which would make it easier for the consumer to compare coverages, conditions and prices, and for the insurers to have the same reserve requirements for the same product.
Good Practice A.2	***Contracts*** **There should be a specialized insurance contracts section in the general insurance or contracts law, or ideally a separate Insurance Contracts Act. This should specify the information exchange and disclosure requirements specific to the insurance sector, the basic rights and obligations of the insurer and the retail policyholder and allow for any asymmetries of negotiating power or access to information.**
Description	In terms of insurance contracts, Law No. 733 also regulates the issue, giving the supervisory authority responsibility for approval of the contracts' general and special conditions, applications, questionnaires, addenda and other documents that are part of the policies. SIBOIF is also authorized to introduce reporting requirements or to remove wording that does not comply with the law or misleads the insured. As also stated in paragraph A.1 above, the authority not only approves the contracts, but also regulates insurance advertising, transparency and education to the insured.
Recommendation	Regarding contracts, we reiterate our recommendation that all insurers use models and standard conditions approved by SIBOIF. These models can be based on contracts already approved by SIBOIF for a particular insurer, or a new model to be defined through consultation between SIBOIF and representatives of the insurance industry. The use of model contracts is intended to facilitate comparison of prices, conditions and coverages of the same product.
Good Practice A.3	***Codes of Conduct for Insurers*** **a. There should be a principles-based code of conduct for insurers that is devised in consultation with the insurance industry and with relevant consumer associations, and that is monitored and enforced by a statutory agency or an effective self-regulatory agency.** **b. If a principles-based code of conduct exists, insurers should publicize and disseminate it to the general public through appropriate means.** **c. The principles-based code should be augmented by voluntary codes for insurers on such matters specific to insurance products or channels.** **d. Every such voluntary code should likewise be publicized and disseminated.**
Description	The Insurance Act includes basic principles of a good code of conduct, which provides protection to policyholders. Policyholders can seek advice on the recruitment of their insurance through middlemen or brokers, to whom the law assigns the obligation to advise policyholders. However, there are no explicit codes of conduct for these intermediaries. In our interviews with various players in the insurance market, they had no knowledge of the existence of voluntary codes of good practice, notwithstanding that the SIBOIF may introduce in the contracts it authorizes some basic principles of conduct that it considers necessary (for example, regarding education and dissemination of information to policyholders). It is not known whether it has ever exercised that power. There is also no major information on the existence of

	questionable practices by insurers.
Recommendation	Trade associations in the insurance market should encourage the development and adoption of a code of conduct for the insurance sector, as well as institutional and voluntary codes, so it is not necessary that they be imposed by the authority. A good practice would be the creation by the insurance industry of an Insurance Ombudsman, who would receive complaints of policiyholders and whose decisions would be binding on the insurers and not on the insured. The adoption of a code of conduct in the sector could provide the overall framework for operation of the Insurance Ombudsman.
Good Practice A.4	***Other Institutional Arrangements*** **a. Prudential supervision and consumer protection can be placed in separate agencies or lodged in a single institution, but allocation of resources between prudential supervision and consumer protection should be adequate to enable the effective implementation of consumer protection rules.** **b. The judicial system should provide credibility to the enforcement of the rules on financial consumer protection.** **c. The media and consumer associations should play an active role in promoting consumer protection in the area of insurance.**
Description	Consumer protection and prudential oversight of the industry are cast in the SIBOIF, which has the power in both areas. The Intendence of Insurance is responsible for the prudential supervision of insurance companies, but also collaborates with the OAUSF in the resolution of policyholder complaints. The media outreach activities have been replaced by advertising and information on protection to the insured in policies themselves, so the media is currently not playing any major role in this sector. Meanwhile, consumer organizations have been active in the field of credit, but not in the insurance. Conflicts and disputes in insurance are generally not resolved in the judiciary, but they are previously resolved in the internal claims unit that each insurer must have, at the hearing before the Superintendent, or finally in the process of mediation and arbitration contemplated in the policies. Reportedly, the Center for Mediation and Arbitration of the Chamber of Commerce has only had one request for arbitration in insurance, but the dispute was resolved before the occurrence of the arbitration. In any case, it was observed that despite the large volume of insurance contracts that are signed, the degree of controversy between insured and insurers is lower than other industries.
Recommendation	We reiterate our recommendation that insurance companies should consider creating an Insurance Ombudsman as well as having expedited and clear complaints procedures. Consideration should also be given to promoting more active participation of the media in disseminating information of the insurance market for consumers. SIBOIF could develop press releases summarizing key information on the insurance market. Also, SIBOIF and industry associations may invite representatives of consumer associations to participate in conferences and round tables on insurance issues, to train them on key issues in this sector. In the future, the role of OAUSF could be expanded and its capacity could be strengethened to assume responsibility for consumer protection at the level of all financial sectors, including insurance.
Good Practice A.5	***Bundling and Tying Clauses*** **Whenever an insurer contracts with a merchant or credit grantor (including banks and leasing companies) as a distribution channel for its contracts, no**

	bundling (including enforcing adhesion to what is legally a single contract), tying or other exclusionary dealings should take place without the consumer being advised and able to opt out
Description	The insurance legislation expressly contemplates this situation and requires the insurer to inform the insureds of their right to purchase an insurance policy freely, without restriction and independently (Articles 84 and 89).
Recommendation	We recommend special supervisory attention to this issue to prevent the sale of bundles with insurance.
SECTION B	**DISCLOSURE & SALES PRACTICES**
Good Practice B.1	***Sales Practices*** **a. Insurers should be held responsible for product-related information provided to consumers by their agents (i.e. those intermediaries acting for the insurer).** **b. Consumers should be informed whether the intermediary selling them an insurance contract (known as a policy) is acting for them or for the insurer (i.e. in the latter case the intermediary has an agency agreement with the insurer).** **c. If the intermediary is a broker (i.e. acting on behalf of the consumer) then the consumer should be advised at the time of initial contact with the intermediary if a commission will be paid to the intermediary by the underwriting insurer. The consumer should have the right to require disclosure of the commission and other costs paid to an intermediary for long-term savings contracts. The consumer should always be advised of the amount of any commission and other expenses paid on any single premium investment contract.** **d. An intermediary should be prohibited from identically filling brokering and agency roles for a given general class of insurance (i.e. life and disability, health, general insurance, credit insurance).** **e. When a bank is the intermediary, the sales process should ensure that the consumer understands at all times that he or she is not purchasing a bank product or a product guaranteed by the bank.** **f. Sanctions, including meaningful fines and, in the case of intermediaries, loss of license, should apply for breach of any of the above provisions.**
Description	The Insurance Act provides for a special title on the work of intermediaries and insurance auxiliaries, with their respective obligations to policyholders who contract policy through them or using their services. As for the types of intermediaries defined by law, the Agents are individuals representing an insurer, and the insurance Agencies are commercial companies that offer insurance on behalf of an insurer and which in turn may hire individuals as Subagents. Insurance Brokers are individuals or legal entities engaged to solicit, negotiate or obtain insurance on their own. In turn, insurance broker companies can hire natural persons as subagents. Insurance intermediaries are required to advise their clients, are independent of insurance companies, and must answer for their mistakes and omissions. Therefore all intermediaries are required to maintain an insurance policy on errors and omissions or a surety, with the exception of the agents (as insurers respond for them). The requirements of this policy are set by the Board of Directors of SIBOIF, based on turnover and class of risks operated by the intermediary. Insurance brokers and agents are required to disclose consumers the type of intermediary that they are, according to the Rules on Intermediaries. However, the Rules do not prohibit an intermediary to assume identical roles of broker and agent

	for a general class of insurance. Also, the Act does not establish an obligation to disclose the commissions paid to intermediaries in the insurance policies or applications, which is also not disclosed in practice by insurers or brokers, affecting the transparency of the market. Regarding the participation of banks in the selling of insurance linked to their financial products, the Act establishes the requirement to separate the two contracts and report to the insured the right to freely contract the required insurance. The violation of these regulations may constitute infringement of the rules governing financial activities and insurance in particular, which can be sanctioned administratively by SIBOIF.
Recommendation	SIBOIF should require insurers to incorporate in the insurance application and the particular policy conditions, the breakdown of the premium of each contracted coverage, and separately the amount of the insurance broker's commission. SIBOIF should also require that agents and brokers not play both roles for the same kind of insurance.
Good Practice B.2	***Advertising and Sales Materials*** **a. Insurers should ensure their advertising and sales materials and procedures do not mislead customers. Regulatory limits should be placed on investment returns used in life insurance value projections.** **b. Insurers should be legally responsible for all statements made in marketing and sales materials they produce related to their products.** **c. All marketing and sales materials should be easily readable and understandable by the general public.**
Description	The Insurance Act regulates the advertising of insurers and requires that it be truthful and faithful to the legal and economic reality of the product being promoted. The Superintendent is empowered to order the modification, suspension or cancellation of the promoted product or service. The typeface must be legible and any ambiguous wording will receive the interpretation that is most favorable to the user.
Recommendation	SIBOIF should promote self-regulatory rules on advertising for the insurance industry, to complement the existing rules on advertising and support the monitoring of advertising practices in the industry.
Good Practice B.3	***Understanding Customers' Needs*** **The sales intermediary or officer should be required to obtain sufficient information about the consumer to ensure an appropriate product is offered. Formal —fact finds‖ should be specified for long-term savings and investment products and they should be retained and be available for inspection for a reasonable number of years.**
Description	One of the duties of insurance intermediaries is to provide technical advice to their clients "to obtain the appropriate risk coverage according to their interests." To do this, intermediaries need to know clearly what the interests and needs of customers are, in addition to obtaining sufficient information on the personal and financial condition of the potential insured. In Nicaragua, coverage for long-term saving insurance products has not developed, although the Mission was informed that there is a very strong insurance competition by foreign insurers even when they are prohibited from marketing their products if they are not authorized to operate in the country.
Recommendation	SIBOIF regulations should specify the requirement of "fact finding", or the need to obtain sufficient information on the personal and financial condition of the insured, in order to provide adequate technical advice. This will be even more relevant when the insurance market with long-term components expands.

Good Practice B.4	***Cooling-off Period*** **There should be a reasonable cooling-off period associated with any traditional investment or long-term life savings contract, after the policy information is delivered, to deal with possible high pressure selling and mis-selling.**
Description	The Insurance Act establishes the right of the insured to request the termination of the policy taken within 30 days of receiving the contract or policy, if the terms were not consistent with those expressed in the insurance application. In the same period, the insured may request amendment of the agreement with respect to the special conditions. In the event of a loss before the modification of the contract, the terms set forth in the application remain valid.
Recommendation	It is advisable to establish the policyholder's right to withdrawal within a short period of time after purchasing the insurance policy, which includes a right to have the amount of paid premiums returned, in order to minimize the risk of misleading or high-pressure selling. This is independent to the need to specify the policyholder's right to terminate the purchased policy, independent of whether the terms of the policy are inconsistent with those expressed in the application, in this case without a right to have the premiums returned since the consumer had coverage until the termination date. This will help dealing with any high-pressure or misleading selling practice. In the case of disparity between what the policy stated and the terms of the application, there is also liability of the intermediary, who is responsible and must advise the insured at the time of signing the contract.
Good Practice B.5	***Key Facts Statement*** **A Key Facts Statement should be attached to all sales and contractual documents, disclosing the key factors of the insurance product or service in large print.**
Description	Within the responsibility of disclosure, the Act requires that on the first page of the policy the contracted coverage and exclusions be displayed, without prejudice to other information required by the authority. However, there is no specific standard format.
Recommendation	SIBOIF should monitor more this obligation, because it is not fully complied with in practice. Also, the internal complaint procedure is not being disclosed to the consumer along with the policy. SIBOIF should also develop specific formats for delivery of this information summarized by type of insurance product, by way of a Summary Sheet or Key Facts Statement. Using the same type of format would allow the insured become more familiar with the basics and able to more easily compare the terms offered by different insurance companies.
Good Practice B.6	***Professional Competence*** **a. Sales personnel and intermediaries selling and advising on insurance contracts should have sufficient qualifications, depending on the complexities of the products they sell.** **b. Educational requirements for intermediaries selling long-term savings and investment insurance products should be specified, or at least approved, by the regulator or supervisor.**
Description	The Insurance Act requires ongoing training of brokers and agents selling insurance, so they can explain the characteristics of the insurance market and advise their clients properly (Article 119) The regulation on insurance intermediaries indicates that applicants for a license to operate as an insurance intermediary must prove to have the knowledge required to perform that function. Also, the SIBOIF may at its discresion require the applicant to take an examination or test of capacity, or decide based on experience,

	professional readiness or qualifications of the applicant. While it is true that the Act allows the marketing of long-term savings and investment insurance products, this still has not been done in Nicaragua, given the competition with similar products from foreign insurers.
Recommendation	SIBOIF should establish specific training requirements for brokers and insurance sales staff, in coordination with the insurance industry. This will be even more necessary when insurers start offering long-term savings and investment insurance.
Good Practice B.7	***Regulatory Status Disclosure*** **a. In all of its advertising, whether by print, television, radio or otherwise, an insurer should disclose: (i) that it is regulated, and (ii) the name and address of the regulator.** **b. All insurance intermediaries should be licensed and proof of licensing should be readily available to the general public, including through the internet.**
Description	The Insurance Act requires that policies include in salient typeface, the number and date of the Superintendent's Resolution that approved the existence of the respective insurer, and which in turn enables him to introduce the necessary changes in policies so that they comply with current legislation. Similarly, insurance intermediaries must also be registered and approved by the SIBOIF to operate in its field. The regulatory framework requires intermediaries to mention his intermediary character after their name so as not to mislead the public into believing that they work in an insurance company. The rule also requires intermediaries to provide individuals with whom they interact in their intermediation services, their intermediary ID or card and include in the documents they use their appropriate name and identity number. SIBOIF includes in its website the list of all insurance companies and all intermediaries authorized to operate in Nicaragua.
Recommendation	SIBOIF must supervise the marketing of foreign insurance by insurers not registered in the country.
Good Practice B.8	***Disclosure of Financial Situation*** **a. The regulator or supervisor should publish annual public reports on the development, health, strength and penetration of the insurance sector either as a special report or as part of the disclosure and accountability requirements under the law governing it.** **b. Insurers should be required to disclose their financial information to enable the general public to form an opinion with regards to the financial viability of the institution.** **c. If credible claims paying ability ratings are not available, the regulator or supervisor should periodically publish sufficient information on each insurer for an informed commentator or intermediary to form a view of the insurer's relative financial strength.**
Description	SIBOIF is empowered under its own Act to publish reports on the solvency of the institutions under its supervision and control, and make them available to the general public. The Insurance Act requires that insurance companies publish their annual audited financial statements. SIBOIF publishes on its website statistics, indicators and monthly financial statements of each insurance company, and includes a summary of the insurance sector in the Annual Report.
Recommendation	SIBOIF should publish on its website analytical reports on the insurance market that it drafts, which should be prepared more frequently to promote greater market

	analysis. It is also desirable that this information is transmitted through the media, to enhance the dissemination of the insurance market to the Nicaraguan population.
SECTION C	**CUSTOMER ACCOUNT HANDLING AND MAINTENANCE**
Good Practice C.1	***Customer Account Handling*** **a. Customers should receive periodic statements of the value of their policy in the case of insurance savings and investment contracts. For traditional savings contracts, this should be provided at least yearly, however more frequent statements should be produced for investment-linked contracts.** **b. Customers should have a means to dispute the accuracy of the transactions recorded in the statement within a stipulated period.** **c. Insurers should be required to disclose the cash value of a traditional savings or investment contract upon demand and within a reasonable time. In addition, a table showing projected cash values should be provided at the time of delivery of the initial contract and at the time of any subsequent adjustments.** **d. Customers should be provided with renewal notices a reasonable number of days before the renewal date for non-life policies. If an insurer does not wish to renew a contract it should also provide a reasonable notice period.** **e. Claims should not be deniable or adjustable if non-disclosure is discovered at the time of the claim but is immaterial to the proximate cause of the claim. In such cases, the claim may be adjusted for any premium shortfall or inability to recover reinsurance.** **f. Insurers should have the right to cancel a policy at any time (other than after a claim has occurred – see above) if material non-disclosure can be established.**
Description	In Nicaragua the segments of life insurance or insurance savings and investment contracts have not developed yet, as noted above. There is no obligation to inform the renewal date of non-life insurance products. The power to terminate the insurance contract is governed by the terms of the policy.
Recommendation	SIBOIF should require insurance companies to notify the insured in advance regarding the renewal of their insurance products. Insurers are interested in marketing their products while insured are interested in keeping their risks covered, so the provision of prudent renewal notices to the policyholder should be considered as good practice, even better than the automatic renewal of insurance policies, even if it seems to be against the theory of inertia that involves the automatic renewal.
SECTION D	**PRIVACY & DATA PROTECTION**
Good Practice D.1	***Confidentiality and Security of Customers' Information*** **Customers have a right to expect that their financial transactions are kept confidential. Insurers should protect the confidentiality and security of personal data, against any anticipated threats, or hazards to the security or integrity of such information, and against unauthorized access.**
Description	Confidentiality of insurance contracts is expressly protected in the Insurance Act (Article 91), except in cases explicitly exempted in this Article, for example, the requirements of the Superintendence.
Recommendation	SIBOIF should ensure that this confidentiality requirement is strictly followed by insurers.
SECTON E	**DISPUTE RESOLUTION MECHANISMS**

Good Practice E.1	***Internal Dispute Settlement*** **a. Insurers should provide an internal avenue for claim and dispute resolution to policyholders.** **b. Insurers should designate employees to handle retail policyholder complaints.** **c. Insurers should inform their customers of the internal procedures on dispute resolution.** **d. The regulator or supervisor should investigate whether insurers comply with their internal procedures regarding consumer protection.**
Description	Article 83 of the Insurance Law requires insurers: the approval of internal complaints procedures, and that a manual containing such procedures be developd; to appoint an administrative body responsible for receiving, attending and responding to customer complaints; to keep records with details of the complaints filed and how they were settled. The article also requires insurers to provide policyholders along with their policies a brochure on the procedure or the basic requirements for filing a complaint.
Recommendation	SIBOIF should oversee the enforcement of the requirement to have the procedure manual, disseminate that information to the user, and advise the insureds to make use of that channel, before resorting to other bodies or judicial conciliation.
Good Practice E.2	***Formal Dispute Settlement Mechanisms*** **a. A system should be in place that allows consumers to seek affordable and efficient third-party recourse, which could be an ombudsman or tribunal, in the event the complaint with the insurer cannot be resolved to the consumer's satisfaction in accordance with internal procedures.** **b. The role of an ombudsman or equivalent institution *vis-à-vis* consumer disputes should be made known to the public.** **c. The ombudsman or equivalent institution should be impartial and act independently from the appointing authority and the industry.** **d. The decisions of the ombudsman or equivalent institution should be binding upon the insurers. The mechanisms to ensure the enforcement of these decisions should be established and publicized.**
Description	In addition to the internal complaints procedure, the insured may appear before the SIBOIF and before the Arbitration and Mediation Center to resolve a dispute with an insurer. However, there is no public insurance advocate or ombudsman.
Recommendation	SIBOIF's capacity should be strengthened for it to take responsibility to address and resolve complaints from the financial sector. A first step is the transformation of OAUSF into a Division that also assumes responsibility for protecting the insured. Then the role of SIBOIF in this area should be publicized so that policyholders are aware of this resource. The insurance industry should consider creating the institution of the Insurance Ombudsman, whose decisions are binding on insurers. To promote the insureds' trust in the system there will be need to choose a professional independent personality, and to ensure the Ombudsman maintains a policy of high transparency regarding its decisions and management.
SECTION F	**GUARANTEE SCHEMES AND INSOLVENCY**
Good Practice F.1	***Guarantee Schemes and Insolvency*** **a. With the exception of schemes covering mandatory insurance (and possibly long-term insurance), insolvency guarantee schemes are not to be encouraged for insurance because of the opaque nature of the industry and the scope for moral hazard. Strong governance and prudential supervision**

	are better alternatives. **b. Nominal defendant arrangements should be in place for mandatory insurances such as motor third party liability insurance to cover situations where there is no insured guilty party.** **c. Assets covering life insurance mathematical reserves and investment contract policy liabilities should be segregated or at the very least earmarked, and long-term policyholders should have preferential access to such assets in the event of a winding-up.**
Description	The Insurance Act provides for capital and reserve requirements to respond to the obligations of the insurance industry. Furthermore, Article 39 states that insurers must keep records of their investments to be fully identified for each type of technical and mathematical reserves, while Article 40 indicates that the SIBOIF will issue specific rules to regulate investments. Article 150 indicates that in the case of liquidation of an insurer, the amount of reserves of life insurance policies have a second order of priority. There are no procedures or arrangements for a nominal defendant in the case of compulsory insurance (such as automobile insurance), or to cover damage to third parties when there is no insured guiltiy party.
Recommendation	Consideration should be given to creating a nominal defendant motor third-party liability insurance. In addition, SIBOIF regulations should cover the earmarking or segregation of assets covering life insurance reserves and investment contract policy liabilities.
SECTION G	**CONSUMER EMPOWERMENT**
Good Practice G.1	***Broadly based Financial Capability Program*** **a. A broadly based program of financial education and information should be developed to increase the financial capability of the population.** **b. A range of organizations–including government, state agencies and non-governmental organizations–should be involved in developing and implementing the financial capability program.** **c. The government should appoint an institution such as the central bank or a financial regulator to lead and coordinate the development and implementation of the national financial capability program.**
Description	In the insurance sector, Article 189 of the Insurance Act indicates that insurers are required to develop financial education activities for their clients to increase their knowledge of insurance products. It is also contemplated that the SIBOIF could issue rules in this regard.
Recommendation	A National Financial Education Strategy should be developed, with leadership from a government entity, but with the participation of all stakeholders in the public, private and civil sectors. This strategy would establish basic guidelines for conducting financial education initiatives by the private sector, and should promote the exchange of experiences and lessons from implementation of initiatives by different institutions. Industry associations should play an important role in this effort to coordinate efforts among its affiliates.
Good Practice G.2	***Unbiased Information for Consumers*** **a. Consumers, especially the most vulnerable, should have access to sufficient resources to enable them to understand financial products and services available to them.** **b. Financial regulators should provide, via the internet and printed publications, independent information on the key features, benefits and risks—and where practicable the costs–of the main types of financial products and services.**

	c. Non-governmental organizations should be encouraged to provide consumer awareness programs to the public regarding financial products and services.
Description	The Insurance Act of Nicaragua includes the need to educate the insured, authorizing the Superintendent to issue regulations governing this matter. The SIBOIF publishes on its website statistical information on insurance at individual and sectoral levels. It also includes a section on the insurance sector in the Annual Report. Consumer associations do not usually pay attention to issues related to the financial system and those that do so are concentrated more on banking and credit products.
Recommendation	SIBOIF should produce easy-to-understand materials for consumers on the features, benefits and risks of insurance products offered in Nicaragua, post them on their website and promote their dissemination by the media. SIBOIF and industry associations should support the consumer organizations, helping them in their financial education programs.
Good Practice G.3	***Measuring the Impact of Financial Capability Initiatives*** **a. Policymakers, industry and advocates should understand the financial capability of various market segments, particularly those most vulnerable to abuse.** **b. The financial capability of consumers should be measured through a broad-based household survey that is repeated from time to time.** **c. The effectiveness of key financial capability initiatives should be evaluated.**
Description	There have been no measurements on the impact of financial education initiatives or financial skills of consumers related to the insurance market.
Recommendation	A survey of financial skills should be conducted, to capture information about the knowledge of insurance products by the Nicaraguan people.

ANNEX: SUMMARY OF THE RESULTS OF CONSUMER RESEARCH

Overview

This market study focuses on capturing the experiences of financial consumers of medium to medium-low socio-economic profile, recognizing that their experience and financial capacity may be different from other market sectors. This study is intended to complement the legal and institutional analysis of the financial industry, focusing on four main themes: decision making and financial capacity, transparency and access to information, business practices, and complaints resolution and consumers rights.

The market research consisted of 6 focus groups and 14 individual interviews with consumers in Managua, Teustepe region, and northern San Rafael, near Jinotega. Consumers had the profiles indicated below (and summarized in Table No. 1):

- *Socio-economic status.* Consumers ranging from low-income women to middle-income urban merchants and farmers.
- *Sectors of employment.* Mainly traders, with considerable variation in the size of their small businesses in Managua and Teustepe; and farmers in San Rafael del Norte.
- *Financial experience.* Consumers showed varying degrees of access to financial services, depending on economic status and geographic location. Thus, consumers with greater access lived in Managua and were middle-class merchants. However, in general there was a stunning lack of access to banking and insurance products, including in cases of merchants with highly profitable business.
- *Evidence of multiple loans.* Based on the filters applied to the participants and their comments during the focus groups, there is enough evidence of microfinance clients with multiple loans, usually because the credit they received not met their requirements. This observation is not as relevant to rural segments, not because they are not interested in having several loans, but because they have less access to credit and they are more difficult to qualify as a credit subject due to lack of collateral or low income. Table summarizes the characteristics of the market study.

Table No. 1: Characteristics of the Consumer Research Groups

Comunidad	Consultas realizadas	Ingreso mensual mediano de la muestra (estimado)	Productos financieros accedidos por la muestra
Managua	-3 focus groups -6 interviews	Group 1: 50,000 Cordobas Group 2: 6,000 Cordobas Group 3: 5,000 Cordobas Interviewees: 6,000 Cordobas	Microcredit, bank credit, insurance (prívate and public), savings, remmittances, credit cards
Teustepe	-3 focus groups -3 interviews	Group 1: 4,000 Cordobas Group 2: 4,500 Cordobas Group 3: 3,300 Cordobas Interviewees: 4,000 Cordobas	Microcredit, savings (linked to credit), lenders
San Rafael del Norte	-5 interviews	Interviewees: 8,333 Cordobas	Microcredit, bank credit, crédito de cooperativas, insurance (lone and linked to credit), savings, credit cards, lenders

Decision Making and Financial Capability

As expected, there was a significant change in financial capacity among participants in the market study. These differences were explained more by the entry of the participant, by his experience with different financial institutions (the poor and rural areas being less skilled), and for being a cooperative partner (partners showed a higher confidence in their ability to solve problems that occur with financial products).

In general, participants in focus groups and interviews showed ability to evaluate financial products, and were able to name different terms of products used for analysis. However, it should be noted that in rural microfinance groups was noted that several respondents did not care much the terms of the products they received, but that his decision depended on the decision-making microfinance more qualified customers.

A first important finding in this area is that microfinance institutions are an important *source of financial education and capability*, particularly in rural areas. A major challenge in the future for SIBOIF will better enable consumers to improve their financial knowledge of the terms of financial products and they can make decisions best suited to their needs and household budget. The study results suggest that market would be necessary to use different channels to provide financial information to more skilled and urban residents, compared with less skilled and rural areas. Talking to rural consumers with limited access, it shows the high level of dependence and trust, which are in the promoter of the microfinance institution to which they belong. Several consumers reported that they had received financial training through its IMF, so we believe that this could be an important source for important messages to convey financial education to people with little access to finance.

The market study also showed that for many consumers *the most useful tool is the experience*. Consumers learned through their experiences, particularly their bad experiences. Specifically, they observed that the use of credit cards had negative effects on many consumers who used them before but now no longer have them. The majority of consumers have stopped using or reduced their use of these cards have been "entangled" in trouble with the collection of charges moratoriums. In cases where consumers still used them, heard comments like "if I use it, but only pay for the energy to keep it active for emergencies."

The study also noted a *lack of confidence* in banks by almost all consumers, mainly due to poor treatment received, or perceived. This lack of confidence was common not only among the poorest consumers in this sample. Consumers of higher economic status also had a good perception of the banks. This is explained not only by the requirements for the granting of a financial product, such as minimum guarantees and capital, but also because consumers did not feel "welcome" or "treated with respect" when they enter the branch.

In some cases the ability to make financial decisions was influenced by the limited *access to financial services*, rather than an issue of financial capability. In the climate of decreasing financial market in Nicaragua in the last three years, for consumers, including rural consumers, can be characterized as a problem of access to protection and capacity. Some of the desired products included but not achievable savings accounts, loans for housing, and general products with longer maturities and less demanding guarantees. Respect to savings accounts, you could see several complaints about high requirements for opening an account, lack of access to banks that take deposits, and in some cases unanticipated fees and cobras. Particularly with the economy, it was surprising that almost no member of the MFIs had a savings account (not counting mandatory savings tied to the term of the loan.) Although this topic is a bit outside the scope of consumer

protection, there value could explore as they expand access to products other than credit for capital to be accumulated and may not need to pay for your business or household needs.

Transparency and Access to Information

In general, participants understood the basic product information, and put emphasis on the term, instalments, payment, amount to be received, and interest rate. However, the interest rate did not seem as important as expected, whereas "personal" factors such as treatment and reputation of the institution were important to many consumers in their comparative analysis. Consumers with more experience and ability had a stronger tendency to make comparisons between different institutions, and did not prioritize "easy access" as much as the less experienced consumers did. In general, although there was no greater abuses in terms of transparency, some comments drew attention, such as confessions like "We do not look at the cost. As they always give us the same [amount], then we do not read it. "

A key finding in terms of transparency of information is that the *universal format for the payment schedule* was the more relevant document for consumers to make decisions and to have guidance on the terms of a product. During the field study an exercise was conducted where participants reviewed a current payment schedule from another institution. The results showed two important implications: consumers (particularly those with less experience) quickly get used to a single format of their institution and find it difficult to review a document that is not like that format. Although there are common terms in payment schedules of various institutions, there is no universal or standard practice for the development of payment schedules. To improve transparency and comparison of similar products, it is recommended that more intensive testings of different formats are conducted among consumers and, depending on the results of these tests, a universal standard for payment schedules is designed for credit products (and then savings and insurance.)

Moreover, the vast majority had never received a *copy of the contract*. Among more than 50 participants, we found only 3 people who had received copies of their credit agreements. In most cases the contracts are only read aloud by the lawyer or manager of the institution and then little time is given to the consumer to review and sign it. This does not seem a major problem when the consumer signs the contract and gets the loan, but there was evidence that the lack of access to the contracts limited consumers to have problems resolved when they arose. For example, in one case several consumers lost their savings when an agent of an institution was bringing their money, and since they did not have copies of their contracts they faced difficulties in solving the problem. One of the interviewees that experiences that problem said "It is good to have a contract, given what happened to her [another member who lost his savings]. One might go to the police with that paper, and then they would have to respond. "Another participant agreed with this statement, commenting "Yes, because when you make a complaint, the first thing they ask is a paper."

Several consumers reported problems with *charges not included in the payment schedule*, or found in the "fine print" of the contract. To solve this problem, consideration could be given to adding all charges to one or two categories included in the payment schedule, to clearly indicate all that the institution would charge the customer after signing the contract, or presenting a summary at the beginning of the payment schedule which would differentiate all charges included in the loan and its total cost.

Consumers also expressed problems due to lack of knowledge or understanding of *delinquency charges*. The charges made by financial institutions in case of delinquent payments

could be divided into delinquency rates and additional charges. Significant problems were noted with this second type of charge. For example, fees for administrative and other operating costs related to the collection of arrears, for which consumers were not aware or did not understand their conditions. Since most consumers will only review the payment schedule, it would be useful to include clear and complete information about delinquency charges in the payment schedule.

Business Practices

While the financial segment which serves low-income consumers is not characterized by exaggerated abusive practices, market research showed that a need for greater oversight to prevent abuses arising out of or increase when the financial sector recovers and has more suppliers. The experiences of consumers who were interviewed show several bad practices that are obvious, which is explained by the fact that there is little market surveillance. But these practices do not present any complexity to be resolved. Some areas have been identified where easy but important changes could be made to strengthen consumer protection.

Interviews with consumers showed a lack of transparency in how to manage *compulsory savings*. While most microfinance consumers saw these savings as a benefit and not an additional credit charge, there is a lack of transparency in how these savings are handled, and how they are returned to consumers. This situation is further complicated when the MFI intermediates savings for consumers, or covers delinquent charges through compulsory savings.

Several consumers expressed their dissatisfaction with the quality and the amount charged by way of *legal services*. A common practice was charging excessive fees for services of attorneys, including calls made by lawyers to notify consumers who had arrears in their payments. In one case, an institution charged C$ 10 for each call the lawyers made to the consumer, which amounted to C$ 1,500 in fees from the institution's atorney for a loan of C$ 3,000. In addition to this common problem, many consumers shared how they had to wait several hours at a branch for the attorney to assist them with the signing of the contract and disbursement of credit.

Other concerns expressed by consumers were the *penalty for prepayment or early payment and the calculation of flat interest rates*. Several respondents shared their negative experiences with prepayment penalties. On the other hand, respondents also commented that a widespread practice is the calculation of flat interest rates, which leads to the debtors not being able to reduce the principal of their debt in their first payments.

Complaints Resolution and Financial Consumer Rights

Consumers who had problems with financial products often do not know where to go to resolve their *inquiries or problems, within financial institutions*. In general the interviewed clients have gone within the same financial institutions to raise a complaint; however, these institutions do not solve their problems. Furthermore, in most cases they find it difficult to talk to the most appropriate officer. In addition, customers mentioned that in most institutions there is no mailbox for complaints and suggestions. Therefore, it is recommended that the customer is given contact information (name, address, and phone numbers) of customer services, both within the institution and outside it (government entity or other institutions that assist consumers).

While many consumers were aware of *external mechanisms for dispute resolution*, few had used them. When consumers were asked about what resources exist to solve their problems in the financial market, several commented on the Consumer Protection Division (DDC) or the National Network for Consumer Protection (RNDC), but despite knowing of them, they generally do not use them. However, some respondents commented that the only mention of one of these resources helped them with a financial institution. For example, a microfinance institution was trying to charge a client in Managua C$ 2,500 for concept of additional charges. She threatened to go to the National Network for Consumer Protection, and the bank officials settled the case in her favor.

For rural consumers, the main problem with these mechanisms is *access*. Thus, many consumers said "I know of the consumer affairs office, but it only exists in the cities." The participants of the market study made several recommendations on how consumers should be informed about these resources, including the use of TV ads and suggestion (and comment) boxes in the branches of financial institutions.

Several respondents were able to easily identify the role of consumer protection agencies in relation to basic goods, but they found it difficult to understand the concept of *"financial rights"* of the consumer. As one member of a cooperative in San Rafael del Norte said, "I have heard of the famous Consumer Center, but they are more for basic services, not for finance." This means that there is need for guidance to consumers about their rights as financial consumers. A simple campaign of three to five key messages on the rights of financial consumers could have a significant impact in this regard.

Key Recommendations

Based on what low-income consumers are experiencing in the Nicaraguan financial sector, we recommend the following actions to improve their protection, financial capability and awareness of their financial consumer rights:

- Develop a basic campaign on financial information and consumer rights, particularly in the microfinance segment. The campaign should focus on communicating to consumers their right to demand a copy of their contract and their right to claim, as well as the place where they can go to make inquiries or lodge a complaint.
- Review current practices of disclosing information to consumers regarding terms of financial products, particularly credit products. They should also try new options for standard formats, based on the new transparency provisions included in the Microfinance Act, 2010.
- Consider norms to prohibit certain types of delinquent and administrative charges, and investigate further the issue of compulsory savings.
- Coordinate the different individual efforts of financial education in the different segments of the financial industry.