Sixth Intergovernmental Group of Experts on Consumer Law and Policy

Financial Consumer Protection & Financial Literacy and Education

Speaking Points for PSM

- **India has made tremendous progress in bringing its citizens into the formal financial system over the last few years. There have been many recent developments in the country's financial inclusion scenario, especially through various financial inclusion initiatives by the Government of India. Such initiatives changed the financial inclusion landscape as they are bringing the excluded sections into the financial mainstream and ensuring them access to various financial services.**
- **According to the World Bank's Global Financial Inclusion Database or Global Findex Report 2017, 80% of Indian adults (age 15+) have a bank account, which is almost double the share of adults with a bank account in 2011 (35%) and 2015 (53%).**
- **The Pradhan Mantri Jan Dhan Yojana (Prime Minister's People's Wealth Scheme) launched on August 28, 2014, fostered financial inclusion. It ensured people have access to financial services, namely, banking, remittance, credit, insurance, pension in an affordable manner. Bank accounts under this Yojna (scheme) have increased to more than 44 crore in over 7 years till 2021.**
- **Also, its reported that number of transactions with respect to digital payments in India grew five times from 1,004 crores (10.04 billion) in 2016-17 to 5,554 crores (55.54 billion) in 2020-21.**
- **However more and more unbanked people are banked, they are more vulnerable and subject to financial frauds.**
- **With increase in financial services, online frauds and cyber-attacks persistently increased. For instance, in the month of May 2022 alone,**

there were at least 61,100 complaints of financial frauds involving digital payments received by the government. There has been a sharp surge in such scams, and the recorded numbers itself may be a significant underestimate.

- **Therefore, the need and importance of the consumer protection is expanding at a rate of knots in financial sector. While a number of vulnerability elements a consumer is confronted with, in a huge country like India, information vulnerability is the key challenge faced by consumers. This problem is greatly accentuated in case of uneducated and excluded sections of the population, who neither possess the tools nor the skills to effectively utilize the available information. Another dimension is the problem of information overload, wherein a consumer is unable to distinguish the 'message' from the 'noise', thereby prompting him to ignore the entire information. The possible solution to insulate consumers from such vulnerabilities is by ensuring adequate financial literacy and education.**
- **According to the National Centre for Financial Education (NCFE) that carried out All India Financial Inclusion and Financial Literacy surveys in 2013 and 2019 adhering to the OECD methodology, which looks at financial attitude, financial behaviour and financial knowledge:**
  - ✓ **In 2019, 27.18% of the respondents have achieved minimum target score/minimum threshold score in each of the components of financial literacy prescribed by OECD-International Network on Financial Education as compared to 20% in 2013.**
  - ✓ **The survey also pointed out that the financial literacy is higher among men compared to women, with 29% of males surveyed qualifying on all fronts as against 21% for females.**
- **Also, it's been reported that India has the potential to be among the top financial literate country in the world as 27.6% of its people between**

the age group 25-44 continue participating in the financial inclusion program through financial education. This rate could expand by more than 20% in the next two decades, if the youngsters within the age group 10-19 are also provided proper financial education. This group constitute about 21.8% of India's population.

- **If we look into the current framework for financial consumer protection in India, over 60 Acts and multiple rules and regulations currently govern the financial sector. There is no exclusive legislation governing consumer protection for financial services. An aggrieved customer can approach either the consumer courts set up under the Consumer Protection Act or may also resort to mechanisms set up by product and services-specific regulators.**
- **The Indian Financial System has independent regulators for different sectors like Banking, Insurance, Capital Market, Commodity Market and Pension Fund. As many as six Ministries of the Government of India and State Governments have an implicit or direct role.**
- **Reserve Bank is India's central bank and regulatory body responsible for regulating the Indian banking system. It is constantly making efforts to protect the interest of consumers. For greater effectiveness and a more focused approach, several committees were appointed on aspects of customer service in banks.**
- **In 2021 Reserve Bank adopts 'One Nation One Ombudsman' approach by making the Reserve Bank Ombudsman mechanism jurisdiction neutral. Through the Reserve Bank - Integrated Ombudsman Scheme, 2021 it integrates the existing three Ombudsman schemes of RBI namely, (i) the Banking Ombudsman Scheme, 2006; (ii) the Ombudsman Scheme for Non-Banking Financial Companies, 2018; and (iii) the Ombudsman Scheme for Digital Transactions, 2019.**

- **Reserve Bank also created a dedicated Customer Service Department in 2006 that was later renamed the Consumer Education and Protection Department (CEPD), which acts as the nodal department in the Reserve Bank for grievance redressal of complaints received from the public. CEPD frames policy guidelines for consumer protection and oversees the functioning of the 22 Offices of RBI Ombudsman and 30 Consumer Education and Protection Cells.**
- **Various other financial regulators have their redressal mechanisms in place. For instance, the insurance ombudsmen requires that all insurance companies have internal grievance redressal mechanisms. For consumers of securities, a complaint redressal mechanism called SEBI Complaints Redress System exist. Financial stability, consumer protection, maintaining market confidence, and reducing possibilities of financial crime or fraud are the main objectives of these regulatory bodies in India.**
- **While these forms the basic tenets of India's current financial consumer protection landscape today, there are some fundamental gaps such as:**
  - ✓ **lack of mechanisms to deal with conflicts of interest inherent in regulators in their dual functions of prudential regulation and consumer protection;**
  - ✓ **increasing inter-regulatory conflicts arising out of a rapidly evolving financial sector;**
  - ✓ **lack of response to a growing body of evidence on consumer behaviour and preferences.**
- **There is an urgent need for a robust consumer protection mechanism, setting clear rules for financial institutions regarding their dealings with retail customers and addressing financial exclusion.**
- **The increasing availability and use of financial instruments put together with a multiple set of regulators/regulations, strengthens the argument**

for having one regulator for the financial sector in India. One of the advantages of having one regulator for similar sectors is that it results in efficient use of resources (human, financial, etc.) and ensures the covering of grey areas.

- **Country also needs to adopt and implement a separate Financial Consumer Protection Act. Such law must consider successful and not-so-successful practices implemented by various states and comparable jurisdictions. It should establish a new national single financial consumer protection mechanism (regulator), having state units/regional offices, thus covering the entire country.**
- **There is a need to strengthen national campaigns for financial literacy. The digitalisation of financial products and services and the consequent need to strengthen digital financial literacy have become pertinent. We need to ensure that consumers are aware of their potential exposure to digital crimes and their rights and responsibilities. Digital literacy becomes more importance among the older population in particular.**
- **Need to strengthen the existing grievance redressal mechanism. Currently, the redressal forums have highly technical and burdensome procedures that consumers must follow. Often complaints get rejected by the Ombudsman either because of not properly representing or not being able to provide complete information in the complaint.**
- **The internal grievance redressal mechanism needs overhauling to make it independent of service providers and fully accountable. Service providers should consider appointing at least one independent member in the internal grievance redressal mechanism.**
- **Consumer participation in financial services regulation is highly desirable because of its crucial role in inclusive economic development and consumer protection. The present level of consumer participation in the financial sector is not satisfactory, and the regulators should promote**

consumer participation from the planning process to the implementation. Informed and inspired consumers can be effective partners in the growth of the financial sector.