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IMPROVING CONSUMER PROTECTION ON BANK MARKET

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Abstract

Consumer protection within a broader area of social responsibility and ethics in banking has recently been attracting increased interest of researchers and professionals. The global financial crisis, which started in 2007, has put consumer protection under great scrutiny by initiating changes in behavioural patterns both of banks and consumers. Besides being an ethical question, consumer protection is also an important social and political question, usually appearing together with excessive problems, significant for financial stability as well.

The aim of this paper is to investigate problems in bank consumer protection in Croatia both from regulatory and from practical aspect, and planned solutions for detected problems, as well as to analyse examples found in developed countries. Qualitative methodology is applied in the research, based on in-depth interviews with subject matter experts. By studying practical solutions for consumer protection on a global level, particularly focusing on the USA and Western European countries, the paper proposes the best practice of consumer protection applicable in Croatia.

Keywords: consumer protection, financial services, social responsibility

1. INTRODUCTION

The protection of consumers-users of financial and banking services is the foundation of an efficient and fair financial system. It refers to clients' rights to true, timely and understandable information prior to using financial services, as well as access to efficient and economical protection mechanisms. Consumer protection is closely related to financial literacy (World Bank, 2011). Though consumer protection in a financial system also includes investors, its main task is protection of depositors, according to the practice worldwide.

The importance of consumer protection for financial system stability became more prominent with the financial crisis which caused many problems in the field of consumer protection. Financial stability was significantly undermined due to, among other, consumers borrowing beyond their means, which raised new issues in the field of consumer protection. Consumers and their problems have been in the spotlight across the EU, where the crisis imposed a need for more attention towards consumer protection issue.

Bank consumer protection is still a novelty on the Croatian financial market. The regulator started to deal with this issue more intensely in 2007, which was not the case worldwide. More significant amendments and annexes to the existing laws, together with passing new legislative in the USA and EU, came as a result of the financial crisis outbreak.

The paper consists of five segments. After the introductory part, the second one gives an overview of regulatory frameworks for consumer protection in the USA and EU. The third part gives a detailed development of consumer protection regulatory framework in Croatia while the fourth part analyses specific problems of consumer protection on the Croatian banking market. The fifth part gives concluding remarks.

Different research methods and sources of information are used in the paper. In investigating regulatory framework of bank consumer protection in the USA and European Union, common scientific methods of description, comparison and analysis are used. Research of Croatian context is based on in-depth interviews with subject matter experts. The above mentioned research methods are used in this part of research as well.

2. OVERVIEW OF BANK CONSUMER PROTECTION REGULATORY FRAMEWORK IN THE USA AND EU

Consumer protection regulation was developed in the USA during the 1960s and 1970s (Deutsche Bank Research, 2011, p. 5). The legal framework of bank consumer protection in the USA has undergone dramatical changes and redefining during the current crisis, which spilt from the USA to other financial markets leaving the world economy deeply scared, meanwhile making the improved financial, i.e. bank consumer protection a constituent part of financial regulation in the USA and EU countries. It was exactly the crisis which encouraged re-examining, redefining and tightening not only of financial institutions' regulations, but also of bank consumer protection. Many researches were conducted over the last several years in order to determine potential significance and the impact of consumer protection on minimising financial risks, primarily those caused by imprudent housing loans, inadequate regulation and supervision of granting subprime loans. The main findings (Reiss, 2012, p. 17) point to importance and necessity for consumer protection within the «shadow mortgage banking regulation», i.e. housing mortgage loans and securitization of housing loans.

Financial consumer protection is essential in cases of low financial literacy, inadequate knowledge of complex structural financial products, increased households borrowing, unclear and correct information on market movements, low awareness and inadequate risk taking from the financial consumers. Financial education and financial consumer protection in such conditions contribute to restoring and increasing consumer confidence in the entire financial system with the aim of lowering risk exposure, consequently leading to financial stability. (Rutledge, 2010).

Transparency and information disclosure on financial products and services, together with their prices and remunerations, stricter legal, regulatory and institutional framework for consumer protection, data and privacy protection, consumer financial education, risk knowledge and knowledge of available financial products and services are the best methods for achieving financial consumer protection (Financial Stability Board, 2011, p. 43-45, OECD, 2011, p. 1-7.). Financial consumer protection implies consumer protection from negative consequences of irresponsible management by the financial services provider, if such services are connected with profiteering or fraud (Deutsche Bank Research, 2011, p. 1-2, Rutledge, 2010, p. 1-2).

Consumer protection and financial literacy are significant factors in maintaining financial system stability. They also encourage efficiency, transparency, competition and consumer access to financial service market by reducing the problem of asymmetric information and imbalance of power between the service provider and service user (A Financial Technologies Group Initiative, 2011, p.44). Financial education can be an efficient mechanism for consumer protection, but it cannot replace regulation (Rutledge, 2010, p. 2).

Table 1

Global overview of bank consumer protection regulation

International or national institution	Acts, regulations, directives and recommendations
Bank for International Settlements - BIS	Basel Committee on Banking Supervision, Core Principles for Effective Banking Supervision, September 1997, revised October 2006 Supervisory Guidance on Dealing with Weak Banks, 2002
World Bank - WB	General Principles for International Remittance Services, 2007
United Nations - UN	Guidelines for Consumer Protection
Organization for Economic Cooperation and Development	Guidelines on the Protection of Privacy and Transborder Flows of Personal Data, 1980 Guiding Principles for Regulatory Quality and Performance, 2005 Best Practices for the Formal Exchange of Information Between Competition Authorities in Hard Core Cartel Investigations, 2005 Recommendation of the Council concerning Merger Review, 2005 Recommendation of the Council concerning Structural Separation in Regulated Industries, 2001 Recommendation of the Council concerning Effective Action against Hard Core Cartels, 1998 Recommendation of the Council concerning Co-operation between Member Countries on Anticompetitive Practices affecting International Trade, 1995
FATF – Financial Action Task Force	Forty Recommendations on Money Laundering, 2003 Nine Special Recommendations on Terrorism Financing, 2001 as expanded in 2004
Asia-Pacific Economic	APEC Privacy Framework, 2005

Cooperation	APEC Policy Dialogue on Deposit Insurance: Key Policy Conclusions, 2004
EU	<p>Directive on Consumer Credit, 1987/102/EEC, as amended</p> <p>Directive on Credit Agreements for Consumers, 2008/48/EC, repealing Directive 87/102/EEC</p> <p>Directive on Consumer Protection in the Indication of the Prices of Products offered to Consumers, 1998/6/EC</p> <p>Directive on Unfair Terms in Consumer Contracts, 1993/13/EEC</p> <p>Directive concerning Unfair Business-to-Consumer Commercial Practices in the Internal Market, 2005/29/EC</p> <p>Directive on Misleading and Comparative Advertising, 2006/114/EEC</p> <p>Directive on the Distance Marketing of Consumer Financial Services, 2002/65/EC</p> <p>Directive on Payment Services in the Internal Market, 2007/64/EC</p> <p>Directive on Deposit Guarantee Schemes, 1994/19/EC</p> <p>Directive on Protection of Consumers in Respect of Distance Contracts, 1997/7/EC</p> <p>Directive on the Protection of Individuals with regard to the Processing of Personal Data and on the Free Movement of such data, 1995/46/EC</p> <p>Commission Recommendation on the Principles for Out-of-court Bodies involved in the Consensual Resolution of Consumer Disputes, 2001/310/EC</p> <p>Communication from the Commission - Sector Inquiry under Art 17 of Regulation 1/2003 on Retail Banking, COM (2007) 33 final</p> <p>Commission Staff Working Document on the Implementation of the Commission Decisions on Standard Contractual Clauses for the Transfer of Personal Data to Third Countries 2001/497/EC and 2002/16/EC, SEC (2006) 95</p> <p>Treaty establishing the European Community (EC Treaty), 1957 as amended</p>
USA	<p>Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010</p> <p>Credit Card Accountability, Responsibility, and Disclosure Act of 2009 (Credit CARD Act of 2009), 2009</p> <p>Truth in Lending Act (TILA), 1968</p> <p>Truth in Savings Act, 1991</p> <p>Check Clearing for the 21st Century Act, 2003</p> <p>Fair Debt Collection Practices Act, 1977</p> <p>Regulation E – Electronic Fund Transfers, 1966</p> <p>Federal Trade Commission Act, 1914</p> <p>Equal Credit Opportunity Act, 1974</p>
UK	<p>Financial Services and Markets Act, 2000</p> <p>Consumer Credit Act, 1974</p>

Source: *The World Bank, 2011, Good Practices for Financial Consumer Protection, March, p. 33-34.*

The research on a sample of 142 countries confirmed a high level of financial consumer protection. Results show that 118 countries have legally regulated bank consumer protection, with most amendments and changes being made over the last two decades, following the turmoil on the financial market. Consumer protection has been regulated within three acts in 36 countries: Credit Institutions Act, Financial Consumer Protection Act and other forms of regulation, while 45 countries have double regulation of consumer protection - within the Financial Institutions Act and Financial Consumer Protection Act. A detailed overview is given in the chart (A Financial Technologies Group Initiative, 2011).

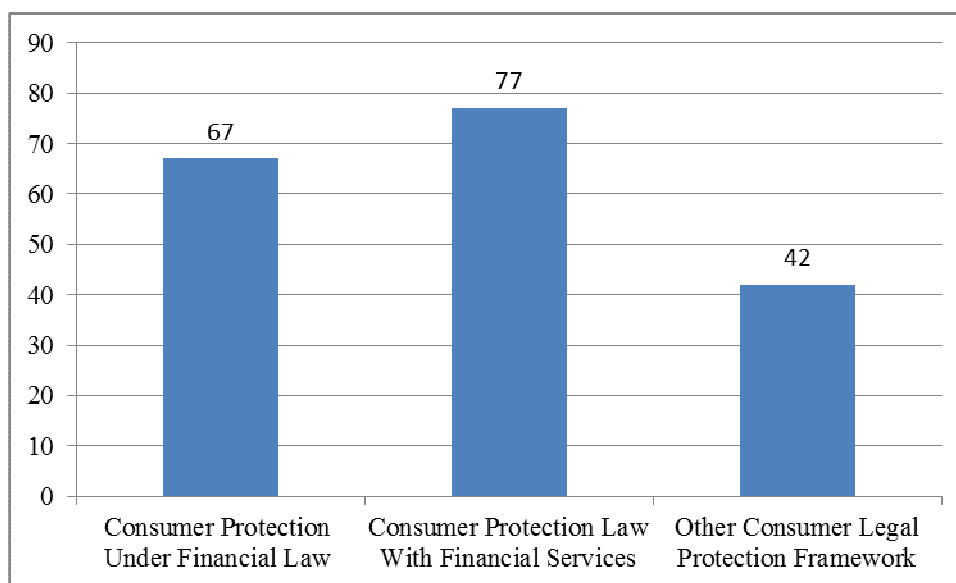


Figure 1 Number of countries and regulation methods for financial consumer protection

Source: World Bank

The Financial Regulatory Reform or Dodd–Frank Wall Street Reform together with the Consumer Protection Act or Dodd-Frank Act were created as a response to the crisis, with the aim of minimising systemic risk (Reiss, 2012, p. 5). The Act tightly regulates financial consumer protection in the segment of «shadow banking», scrutinizing housing mortgage market through: responsible granting of housing mortgages or defining minimum mortgage quality, defining authorised holders for issuing mortgages, obligatory counselling and informing bank clients before granting mortgage credit etc. in order to reduce damages caused by granting subprime mortgage loans and preventing future losses and risk exposure in housing finance by controlling the quality of granted mortgage loans. The Act came into effect in July 2010. The main objective of this Act is to achieve and maintain financial stability of the US financial system through enhancing confidence and transparency lost in crisis due to banks’ irresponsible business activities and their excessive risk exposure, knowing they were «too big to fail ». This Act aims not only at protecting taxpayers, whose funds rescued the fallen banking system, but also at protecting consumers from ill-intentioned activities of financial institutions and the risk of spill over effect from financial institutions to bank consumers. *Dodd-Frank Act* assumes stricter control of registration and business activities of investment advisors, hedge funds and private equity funds (*Private Fund Investment Advisers Registration Act, 2010*). *Dodd-Frank Act* and the rest of legislature anticipates consolidation of consumer protection regulatory bodies (merging and abolishing 7 existing banking and financial regulators by creating a new regulatory body *Consumer Finance Protection Bureau, CFPB or Bureau of Consumer Financial Protection (BCFP)* (Financial Stability Board, 2011, p. 6), i.e. creating a supervisory body for assessment and supervision of systemic risk, a

comprehensive financial markets regulation, including increasing transparency by trading derivatives on the stock exchange; a new, stricter consumer protection through standardization of «plain vanilla» financial products, more rigid business and supervision standards, enhanced protection of investors on the financial market, defining tools and procedures or crisis mechanisms, which would help the Federal Deposit Insurance Corporation in liquidation of financial institutions due to bankruptcy etc.

Newly established regulatory agencies in the USA are: *Financial Stability Oversight Council* (FSOC), *Office of Financial Research* (OFR), serving as a support to FSOC and *Bureau of Consumer Financial Protection* (BCFP). Suggested changes in the US financial system regulation, with the aim of tightening regulation, also refer to transfer and allocation of power to the existing bodies in charge of financial system regulation: *Federal Deposit Insurance Corporation* (FDIC), *U.S. Securities and Exchange Commission* (SEC), *Office of the Comptroller of the Currency* (OCC), *Federal Reserve* (FED), *Securities Investor Protection Corporation* (SIPC).

The emphasis of the new regulation – Dodd-Frank Wall Street Reform and Consumer Protection Act is put on (Financial Stability Board, 2011, p. 43-45):

1. Bank consumer protection through more rigid institutional, legal and regulatory framework; creating a new independent supervisory agency within the FED with the role of ensuring complete information disclosure on all bank products and service to consumers, primarily all aspects of mortgage loans and transparency when calculating interest rates, especially for housing loans, credit cards; complete information disclosure on all other financial products in order to protect consumers from hidden remunerations and commissions, ill-intended mortgage credit conditions (usury rates, interest rate calculation methods, interest rate growth) and other frauds or bad business practice of financial institutions;
2. Ending with the practise of covering losses with the taxpayers' funds due to bad business of large financial institutions using regulation of efficient liquidation of fallen financial giants due to bankruptcy; new capital requirements and possibilities of leverage which should hinder excessive growth of banks; redefining the role of the FED on the financial market; establishing more rigid standards, control and supervision in order to protect financial consumers, investors and create safe environment for financial institutions' business
3. Creating financial crisis early warning systems;
4. Transparency and responsible trade of exotic instruments without their misuse and unregulated trade for: OTC derivatives, ABS, hedge funds, mortgage brokers etc., new code of conduct, information disclosure and other.
5. Protection of investors on the financial market through encouraging transparency and responsibility of the credit rating agencies when assigning ratings to financial institutions and instruments; insight into scoring when rating creditworthiness; preventing conflict of interest in rating agencies, etc.

Mortgage reform had a special emphasis on: more rigid assessment of credit worthiness of mortgage debtors, with the emphasis on securitized loans; preventing predatory lending which used granting subprime loans; penalizing irresponsible credit granting; additional protection of debtors from «expensive» mortgage credits by limiting maximum growth of interest rates; protection from excessive fees, i.e. protection from high transaction costs and unjustified growth of credit interest rates; counselling on housing possibilities (renting or ownership) in accordance with one's financial possibilities, etc.

Consumer protection on the European market is regulated by the *Directive 2011/83/EU on consumer rights*. The rest of regulation deals with the same problematic as shown in Table 1, with the latest being: *Directive 2008/48/EC on Credit Agreements for Consumers relating to residential property*, *Directive 2009/14/EC on Deposit Guarantee Scheme*, *Directive 2008/48/EC on Consumer Credit*, *the Law on the Payment Services and Payment Systems (2011)*, and a proposal *A Mortgage Credit Directive (2013)*. Similar to legal framework in the USA after the

crisis outbreak, these regulations attempt to improve financial consumer protection and financial literacy. The EU has previously regulated financial consumer protection with *Directive 2002/58/EC concerning the processing of personal data and the protection of privacy in the electronic communications sector*, and with *Directive 2002/65/EC on distance marketing of consumer financial services*.

Although regulatory framework of bank consumer protection in the USA does not represent a direct basis for creating regulatory framework in Croatia (this being the *acquis communautaire*), its understanding is relevant since the USA is the source of both the problems and solutions. The EU has similarly incorporated bank consumer protection within the newly adopted directives.

3. DEVELOPING REGULATORY FRAMEWORK FOR BANK CONSUMER PROTECTION IN CROATIA

The basis for legal framework of financial consumer protection in Croatia are the following acts: *Consumer Protection Act*, *Consumer Credit Act*, *Payment System Act* and *Credit Institutions Act*.

The Consumer Protection Act from 2007 was based on the previously mentioned *Directive on consumer rights*. It does not only refer to bank consumers, but also regulates general consumer protection, with bank consumer protection being included with regulations on consumer loans. *The Consumer Protection Act* incorporates regulations on protection of consumers' economic interests, protection from life, health and assets hazard, right to legal protection, right to information disclosure and consumer education, right to establish consumers' associations to protect their interests and to represent consumers and participate in the work of respective bodies (*The Consumer Protection Act*, 2007, Article 1.).

Legal framework for consumer protection in Croatia was significantly strengthened by the *Consumer Credit Act* in 2009, based on *Directive on Consumer Credit* in the jurisdiction of Ministry of Finance. The *Consumer Credit Act* regulates consumer credit contracts, information and rights in the loan agreement together with other important consumer protection issues as database access, supervision and financial consumer protection (*Consumer Credit Act*, 2009, Article 1.)

For example, according to the Act mentioned above, prior to accepting the offer or entering into the loan agreement, the lender and credit intermediary are obliged to, in due time, provide the consumer with all relevant information such as type of credit, information on lender, total credit amount, duration of the agreement, interest rates, effective interest rates, amount, number and frequency of payments, default rates, missing payments warnings, collateral instrument of insurance, possibility to withdraw from the loan agreement, the right of prepayment together with lender's and intermediary's right to compensation (*Consumer Credit Act*, 2009, article 5.)

The legislator has given special attention to the method of calculating interest rates, where the lender is obliged to inform the consumer on conditions of regulating interest rate, when these conditions are available and also inform the consumer on any sort of index or reference rate applied to the initial interest rate, as well as inform the consumer on the term, conditions and changes made with the interest rate. In order to prevent usurious interest, interest rate cannot exceed the limit defined by the *Civil Code* (Law on the Amendments of the Consumer Credit Act, 2012, Article 7). Also, the lender needs to inform the consumer on the effective interest rate and the total credit amount the consumer has to pay, shown in an representative example, stating all criteria used in calculating the interest rate (*Consumer Credit Act*, 2009, Article 5). The *Consumer Credit Act* contributed to better interpretation of effective interest rate calculations, since the earlier *Credit Institutions Act* and *Consumer Protection Act* used different methodology for this purpose.

According to *Consumer Credit Act*, the consumers have the right to timely and free information disclosure on database consultations used for creditworthiness assessments (Consumer Credit Act, 2009, Article 5 and Article 9). All information, facts and circumstances collected in this manner are, thereby, considered bank secrecy (Credit Institutions Act, 2008, Article 168).

Since part of regulations fall also into the category of money transfer (previously mentioned *Directive on Consumer Credit, the Law on the Payment Services and Payment Systems*), the domestic *Payment System Act* is also a segment of regulatory framework of financial consumer protection in Croatia. This Act, among other, regulates obligations to inform the payment service user about the terms of service, as well as other rights and obligations and transaction accounts. For instance, the Act mentioned prohibits charging for closing the account in case of terminating the framework agreement after 12 months (*Payment System Act*, 2009, Article 22), since such practise reduces competition among payment service providers, which could consequently have a negative effect on *European single market* development, as the cornerstone of cooperation between the EU countries. Also, payment service users' personal data are confidential; therefore data processing by the payment service provider is done in accordance with the regulations on personal data protection (*Payment System Act*, 2009, article 54).

Bank consumer protection is also regulated by the *Credit Institutions Act* from 2008. The Act regulates conditions for establishing, operating and dissolution credit institutions with registered offices in the Republic of Croatia, as well as their supervision and the conditions under which legal persons with registered offices outside the Republic of Croatia may provide banking and/or financial services in the Republic of Croatia.

The *Credit Institutions Act*, among other, improved institutional structure of consumer protection. According to the Act, banks are obliged to entrust at least one of its employees with the task of addressing consumer complaints (Credit Institutions Act, 2008, Article 309) or establish organisational units responsible for addressing consumer complaints. The Act has recently undergone changes in consumer protection amendments that state credit institution must appoint at least one person responsible for addressing consumer complaints (The Act on Amendments to the *Credit Institutions Act*, 2013, article 117). A special emphasis is put on the importance of internal audit.

The latest amendments to the Credit Institutions Act, provoked by recent problems with repayments of foreign currency mortgages, place greater responsibility on credit institutions in the matter of variable interest rate. The credit institution is obliged to warn consumers of all variable rates risks, clearly and unambiguously define contract parameters influencing the agreed interest rates in the credit agreement (The Act on Amendments to the *Credit Institutions Act*, 2013, Article 116).

The regulatory framework directed at bank consumer protection has improved considerably over the last several years, having a positive effect on maintaining and enhancing consumer confidence and trust into the banking system. This framework reflects the EU guidelines, implemented in the national legislation. It is also the reason why consumer protection in different countries cannot be absolutely compared.

According to *Diagnostic Review of Consumer Protection and Financial Literacy* issued by the International Bank of Reconstruction and Development/World Bank in February 2010, the Republic of Croatia succeeded in harmonizing the regulatory framework of consumer protection with the *acquis communautaire* in short term. The EU guidelines incorporated into Croatian legislation resulted in improved laws and regulations relating to consumer protection (International Bank of Reconstruction and Development/World Bank, 2010, p.11). The period included in the analysis marked the greatest progress in developing consumer protection in Croatia.

4. PROBLEMS AND IMPROVEMENT SUGGESTIONS FOR BANK CONSUMER PROTECTION IN CROATIA

The previous analysis of consumer protection regulatory framework in Croatia has confirmed its harmonisation with the EU guidelines. Therefore, there are no more new guidelines to be implemented into Croatian legislation. However, certain practical issues are still present in the field of consumer protection. What represents a widespread problem in Croatia is a sort of deviant practice in the entire financial sector, especially banking, in relation to consumers. Therefore, the governing bodies in Croatia have been dedicated to suppressing such undesirable and maleficent practice, which will probably result in amendments to the existing consumer protection legislation.

Apart from problems in credit payments, present in all crisis-affected countries, a widespread problem is also the practise of aggressive, misleading sales of banking services. Many bad practices are present on the Croatian banking market, though not against the law, they create a paradoxical situation where a certain banking practice is not illegal, but is also not responsible or ethical. One such example is the sale of banking services that are not in compliance with the client's needs or are even unnecessary. To solve this problem, a more rigid regulation is required, explicitly prohibiting and sanctioning deviant behaviour among Croatian banks (World Bank, 2010, p.4). The solution to this problem should start with the change in the banks' attitude. Banks should adopt this kind of strategy since serious approach to business relation can build trusting relationship, thus preventing possible future problems for themselves.

Key solution for preventing undesirable and maleficent practice, apart from regulation, is financial literacy, essential for consumers when deciding on a financial service. Consumers have to be informed and educated on offered financial products and services in order to improve the quality of their decision making. Financial literacy increases the level of individual responsibility in taking risk when making a financial decision and only financially literate consumers can help financial sector contribute to real economic growth and poverty reduction (Vehovec, 2011, p. 68, 66).

Financial literacy in Croatia has recently been under special attention but still not adequately enough. The OECD defines financial education as the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help and to take other effective actions to improve their financial well-being (OECD, 2005, p. 26). One of restraints to improving financial literacy turned out to be insufficient funding, since coordinators for this project are Ministry of Science, Education and Sports in cooperation with Ministry of Finance. Workshops organised by the Croatian Banking Association have had positive reactions in the public, but it remains difficult to define to what extent they are used as a marketing channel for banks and how much are they really aimed at consumer protection. A positive, initial step in improving financial literacy in Croatia is the Draft of National Strategic Financial Literacy Framework under the jurisdiction of Ministry of Finance, sort of a snapshot of the current state, a starting point for creating financial literacy guidelines.

Germany, a very active country in developing financial literacy or Portugal could serve as successful examples of improving financial literacy with the help of governing bodies. Bank of Italy has a longer history in developing financial literacy and its target group are young citizens, potential bank clients.

Apart from problems in misleading sale of banking services and the primary problem of financial literacy, which makes consumers in Croatia even more subject to bad practices, there is also the problem of foreclosure. Most consumer complaints refer to misunderstanding of obligations, especially when guarantors are concerned (World Bank, 2010, p.10). When the foreclosures happen, consumers mostly complain about insufficient transparency about the

banking service offered, however, validity of such contracts is undisputable. Regulation was also a factor in helping banks transfer risk to clients.

Complaints concerning the foreclosure problem, as well as all other financial problems, are usually submitted to Croatian National Bank. However, bank consumers together with the general public perceive the role of CNB in a completely wrong way. Citizens also address the Central Bank concerning their particular complaints, which do not fall under the jurisdiction of the Bank (Credit Institutions Act, 2008, Article 309), since the legislator did not prescribe this obligation to the Bank due to the volume and time required for performing such tasks (Maletić, 2005, p 16). According to the Amendments to the Act on the Croatian National Bank, the Bank will no longer be responsible for handling consumer complaints, opposite the current practice. Individual complaints to the Croatian National Bank can only be an indicator of a general approach to retail in Croatian banking sector. The Bank, for example, follows periodical trends on number of consumer complaints to a particular credit institution (The Act on Amendments to the *Credit Institutions Act*, 2013, Article 117). Certain countries already have the Financial Ombudsman – public attorney for consumer rights. Such an institution is typical for countries with a single institution supervising not only banking, but all financial service, this not being the case in Croatia. Research show that consumer protection is better implemented in those countries that have financial supervision integrated within one institution (Maletić, 2005, p 16). Instead of doing above mentioned, the Croatian National Bank is more involved in improving financial literacy, for example, through its official site.

Generally speaking, most shortcomings noticed in bank consumer protection in Croatia refer to legal mechanisms used to deal with consumer complaints, since this practice has not been successful in Croatia so far. The Mediation Centre of the Croatian Chamber of Economy was created as an institution for dealing with consumer complaints, although Croatian citizens can file a mediation request to any mediation centre in Croatia as well. Mediation centres are designed as places for arbitrage and alternative, out-of-court settlements. However, this kind of inexpensive method of dispute settlements is not adequately developed in Croatia. Its potential is underused, unlike in the EU countries where they play an active role in the mediation process.

Certain shortcomings exist in the area of consumer informing. Though regulatory framework of consumer protection in Croatia is completely comparable to those in the countries analysed, the law-required consumer informing often comes down to lengthy contracts and unclear terminology.

Following the above, Croatian banking market should pay more attention to all aspects of consumer protection, especially to developing protection mechanisms in dispute cases, as well as implementing financial literacy. This makes issues of strengthening institutional structure of consumer protection and financial literacy current priorities for government bodies.

Concerning the mechanisms for consumer protection in dispute cases and in accordance with the practice from different world countries, a unique association for consumer complaints would mark a great headway for Croatian banking market. One such body could be created as a centre for financial consumer complaints to all types of financial services. Apart from the administrative function, this body would, with time, deal with disputes going up to a certain amount of money, while disputes with higher amounts would fall under the jurisdiction of mediation centres, being an efficient and easily available out-of-court way of settling disputes. Taking into consideration the problems of settling disputes in Croatia, a certain progress is noticeable, achieved by committing banks to form special organisational units and appoint a person responsible for dealing with customer complaints.

The widespread problem of financial illiteracy in the Republic of Croatia is a topic which deserves greater attention from the government structures, financial experts and scientists. In Croatia, financial literacy is often incorrectly perceived as a substitute for consumer informing and a mechanism for resolving disputes. Apart from the above mentioned, the necessity for improving financial literacy is seen in financial problems that occur due to its absence, which results in bad financial decisions. Existing measures for improving financial literacy in Croatia are not

noticeable enough for the public, making it difficult to include wider population, not to mention particular interests behind these efforts. Therefore, the *Draft of National Financial Literacy Framework* is just the first stage in assessing current state and requirements and should lead to other independent measures for improving financial literacy. The programmes of financial literacy should be incorporated in educational systems from the early age. Also, more public/media space should have positive effects on spreading financial literacy, as research in developed countries has shown. Similar measures are suggested by other authors (for example Vehovec, 2011).

The practice of disclosing information on Croatian banking market could be improved or simplified by issuing documents with essential information (World Bank, 2011, p. 4), written in clear and simple language, informing consumers of key features and especially risks connected with certain banking services. The USA established a unique, independent regulatory institution within the Central Bank whose task is consumer informing. The independence of one such institution in Croatia would guarantee fulfilling the role it was created for, without serving to marketing interests of banks.

Apart from suggested measures, for enhancing consumer protection the Republic of Croatia could follow and use existing documents, created within the banking sector. One such example is the *Code of Good Banking Practice*, similar to documents found in other countries, created by the Croatian Banking Association in 2000. It provides banks with useful instructions on issues like consumer protection, bank secrecy; consumer's right to consumer data access for checking or correcting inaccuracies, consumer data protection and efficient resolving of problems during business activities (HUB, 2009). However, the *Code* is not given enough attention in the banking practice, while consumers' associations or legal community are not acquainted enough with the existing document (World Bank, 2010, p.19). Since there has been a certain period of time since the Code has been created, current trends in the Croatian banking sector impose a need for its revision.

Finally, consumer protection is not an isolated issue but a policy that should be incorporated into all other government policies. A long term approach and a harmonised policy are what is necessary to create a system in which consumers will feel safe and protected, their long-term confidence being the best value for banking system.

5. CONCLUSION

Due to important economic and social role of banks, consumer protection has a large significance in achieving stability and ensuring financial system sustainability. The USA and the EU have already realized the importance of consumer protection, which is confirmed by the fact that legal protection for consumers has the longest history in these countries. Croatia has also joined these countries in shaping the regulatory framework for consumer protection, though only recently. However, the key problems in bank consumer protection on the Croatian banking market are of practical nature. They are primarily reflected in the misleading sales practices, as well as in the problem of foreclosures. Therefore, it is expected that the future will certainly bring some improvements of the consumer protection regulatory framework. Research on bank consumer protection in Croatia has shown the need for improvement in all aspects of this area – consumer informing, consumer rights protection in cases of disputes and improving financial literacy, with the special accent on the previous two aspects.

Consumer protection is essential for creating a just system for the entire social community. Encouraging financial literacy, with the aim to financially educate bank consumers, is the key factor to achieving this goal, hopefully, with more help from Croatian government structures in the future.

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