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USAID/FINREP Supports Better Protection of Financial Services Consumers

Rights of Ukrainian users of financial services are easily ignored and abused due to inadequacies in the legislative and regulatory framework, and deceptive practices by financial institutions. These are the findings of recent studies conducted by the U.S. Agency for International Development's Financial Sector Development Project (USAID/FINREP), which will be presented at a roundtable at the Verkhovna Rada Committee on Finance, Banking Activity, Tax, and Customs Policy on September 22, 2011. Official statistics show that almost 200,000 legal disputes from lending transactions were registered in the court system in 2010.

According to Roksolana Khanyk-Pospolitak of the national university Kyiv Mohyla Academy, and author of the legal study *Financial Services Consumer Protection in Ukraine: Legal Analysis*, Ukrainians suffer from:

- The failure of a basic consumer protection law to address the needs of financial services consumers;
- The fragmentation and inconsistency of financial sector laws, and lack of basic definitions to protect consumer rights;
- A weak and divided institutional structure to regulate financial services providers and protect consumers; and
- Lack of an effective court system or alternate dispute resolution mechanism to adjudicate cases brought by consumers.

"We need to create a high-level Task Force to review and revise existing laws and regulations on consumer lending, thereby creating a level playing field between creditors and consumers," recommends Ms. Khanyk-Pospolitak as a part of action plan to address consumer problems. She also proposes more vigorous enforcement of existing laws against creditors who engage in deceptive practices, taking action to prohibit deceptive and unfair advertising, and developing industry-wide model template contracts for consumer lending.

In the companion study *Consumer Lending in Ukraine: Surveying the Landscape*, banking expert Alexei Kutsenko finds that while growth in consumer lending has recovered from the financial crisis of 2009 (lending in the first half of 2011 almost equaled the total for all of 2010) serious problems remain with consumer protection. The study reveals that consumers have benefited from a move away from foreign currency lending, but credit is less available, at higher prices, and with shorter terms than previously. Deceptive marketing and disclosure practices remain a serious problem. Mr. Kutsenko also warns that "unregulated non-bank institutions are becoming more active in consumer lending, and this development poses a hazard for consumers."

The new studies are part of ongoing efforts to promote serious discussion of creditor rights, consumer rights, and financial education. "USAID FINREP's goal is to assist Ukraine to rebound from the financial crisis and establish a strong, resilient, broad-based financial system," said USAID/FINREP Project Director Robert Bond. "To encourage greater trust in the financial sector, there must be enhanced protection for consumer rights and increased financial literacy." In December, 2010, USAID/FINREP published the first-ever survey of financial literacy and consumer awareness in Ukraine.

Commenting on what is missing in protecting rights of financial services consumers, Yuriy Poluneev, Member of the Verkhovna Rada Committee on Finance, Banking Activity, Tax, and Customs Policy, emphasized that this roundtable was very important for Ukraine to analyze the best practices of other countries. “Having experts from OECD in Paris, the United States, and the Czech Republic will permit us to benchmark our legislation and practice in consumer lending against others. Hopefully, this roundtable will inform future legislation in this area.”

For more information about USAID’s Financial Sector Development Project and its activities, contact the project’s Communications team at: +38 (044) 379-1375 or visit www.finrep.kiev.ua.

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