



FINANCIAL CONSUMER PROTECTION REPORT



2015

*‘... we must choose a path which
will most probably take us to prosperity.’*

Ferenc Rákóczi II



FINANCIAL CONSUMER PROTECTION R E P O R T

2015

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Act CXXXIX of 2013 on the Magyar Nemzeti Bank designates the supervision of the financial intermediary system, and within this mandates particularly the protection of the interests of the consumers using the services rendered by the financial organisations as the duty of the Magyar Nemzeti Bank, for the purpose of strengthening public trust in the financial intermediary system. Prudently operating, profitable institutions cannot exist in the long run without satisfied consumers, which would also render the existence of a stable financial sector duly supporting the national economy goals impossible. Consumer confidence and stability are two inseparable notions; accordingly, since the time that the supervisory duties have been integrated in the central bank, the Magyar Nemzeti Bank pursues its duty with reinforced consumer protection and market surveillance approach.

The purpose of the publication entitled “Financial consumer protection report” is to inform the institutions of the financial system and the public on the current financial consumer protection issues, thereby also enhancing the risk awareness of the stakeholders, as well as maintaining and strengthening trust in the financial system. The goal of the Magyar Nemzeti Bank is to perform the public authority activity with the aim to identify and reduce risks; in addition the informative and educational activities of the central bank and its work fostering the enhancement of financial literacy contributes to making the information necessary for the decisions related to financial institutions and the products available for the stakeholders, thereby strengthening the stability of the entire financial system.

This report, as the continuation of the previous publication, covers the second half of 2014, and the year of 2015.

In the future, the Financial Consumer Protection Report will be prepared for calendar years, in accordance with the other annual publications of the MNB.

The Report was prepared by staff members of the executive directorate in charge of consumer protection and market supervision. The Report was approved for publication by Deputy Governor Dr. László Windisch.

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1 Executive Summary

1.1 REINFORCING CONSUMER CONFIDENCE, PREVENTION AND MANAGEMENT OF RISKS

Restoring public trust and stability is the cornerstone of the central bank's consumer protection activity. **The enhanced efficiency of the integrated central bank and supervisory functions bears utmost importance both in prudential and consumer protection terms: restoring and reinforcing public trust in financial markets and the financial intermediary system is a key priority both in economic and social terms.**

The primary objective of modern financial consumer protection is to **prevent risks** by the continuous analysis of the available data and signals, as well as to **identify and eliminate the breaches of law**. Other cornerstones of prevention include **financial education, the development of informative and educational activities necessary for making informed financial decisions and the enhancement of financial literacy**. In addition, the systemic management of the problems originating from the previous periods is also a consumer protection duty, where **the settlement and the conversion into forint** bear special importance.

1.2 IDENTIFICATION AND ELIMINATION OF INFRINGEMENTS AS SOON AS POSSIBLE

The Magyar Nemzeti Bank (MNB) performs the identification and management of the risks jeopardising the financial system resolutely and without compromises; in the course of this it acted with due determination against the irregularities and illegal conducts experienced in the financial market in the second half of 2014 and in 2015. Owing to this approach in the first half of 2015 the MNB managed to identify a series of suspected criminal offences pursued for almost two decades at several financial institutions (so-called broker affairs) and to prevent further damage. The MNB identified the illegal conduct at the respective institutions right upon the first audit performed after the takeover of the supervisory duties. The measures taken by the MNB were in all cases justified by the protection of investors and the maintenance of the stability of the financial system. The innovative proposals formulated in connection with the supervisory activity are always subjected to serious deliberation, as the MNB also wishes to increase its strong gatekeeper role by all means.

1.3 DEVELOPMENT OF A FLOW-ORIENTED SURVEILLANCE SYSTEM ALIGNED WITH THE MARKET ENVIRONMENT

The administrative consumer protection activity is characterised by proactive approach, ability to respond swiftly, inspection activity with focus on market phenomena, fast and efficient expert analysis of consumer signals, reinforced protection of the consumers, active, predictable, firm and guiding enforcement of rights, prohibition of infringements as soon as possible, and proportional sanctioning.

Although in the past period financial consumer protection has been reformed and reinforced, the central bank still has a number of duties in this area, since the changing environment continuously generates new tasks both for the supervised financial institutions and the MNB's supervisory area. The primary objective is to achieve that the customers and consumers meet financial service providers that generally behave fairly rather than mechanically comply with the laws stipulating the consumers' rights.

To this end, the MNB checks not only the enforcement of the consumers' rights in the individual proceedings, but also inspects the attitude shown to consumers in general, and expects the financial service providers to exhibit a fair approach towards the consumers not only during the customer acquisition, but also thereafter. It

follows from this methodology that instead of investigating individual complaints the MNB strives to perform targeted, thematic and comprehensive audits, and root out the problem by more efficient action rather than applying symptomatic treatment.

The instruments of the consumer protection activity functioning along the new organising principles reflect a dynamically changing approach aligned with the market environment, where the processes built on each other and their appearance as system components ensure continuous renewal.

The key objectives include institutional and consumer protection stability, preventing the build-up of risks, as well as the fast and efficient management of the identified problems. The objectives can be achieved by applying a consumer protection supervisory methodology of stronger audit focus, aligned with the dynamically changing environment, hence the continuous renewal and enhancement of the audit methods is a priority objective. The MNB introduced the method of continuous consumer protection surveillance, which – operating as a rapporteur-based system – ensures that the MNB can perceive and assess the supervised institutions' consumer protection-related activity on a continuous basis and immediately act upon the undesirable conduct, when necessary. The methodology where in justified cases after a trial purchase the MNB also informs the managers of the inspected institution about the experiences during a personal consultation, and shortly thereafter it checks the measures taken to eliminate the identified problems and then ascertains by a repeated trial purchase whether the measures were efficient, was introduced as an enhancement of the inspection methods.

In 2014 H2 and in 2015, in addition to the thematic inspections related to the settlement, occupying a large part of the resources, **1,146 consumer protection inspections** were launched; the penalty imposed in the closed inspections amounted to **HUF 132.3 million** in total. Almost two-thirds of the consumer protection inspections affected the money market sector and one-third the insurance sector; the ratio of the inspections related to the capital market and the funds market was roughly three per cent of all inspections. Almost 77 per cent of the infringements found during the ex officio inspections concerned the institutions' complaint management, shortcomings in the provision of information and the conduct of unfair commercial practices. In the framework of the **comprehensive inspections** consumer protection penalty in the amount of **HUF 70.55 million** was imposed on **further 18 institutions**, thus the **aggregate amount of the consumer protection penalty** imposed in the period under review was **HUF 202.85 million**.

In addition to the inspection activity, the MNB also treats the identification, analysis and prevention of risks and the mitigation of the negative consequences as priority areas. The list of the risks identified during the period under review is led by the risks related to the implementation of the laws remedying the unfair conduct of lenders, including the statutory compliance related to the settlement processes and the settlement practice of the workout companies. The source of the risk is that the financial institutions have to adjust several millions of settlement data of several millions of contracts. The changeover to the fair banking regulation also appears as a new risk factor related to this. A new risk on the consumers' side is that the verifiability of the settlement is rather limited, and most of the consumers do not understand why their extra liability arising from the exchange rate risk is not included in the settlement.

The spreading of e-communication also represents a new risk, since the e-mail systems often identify the notification as spam, hence they end up in the virtual bin without the consumers' noticing them.

The MNB also identified considerable risk in relation to pawn loans. Based on the experiences it cannot be precluded that a specific circle of the financial institutions that grant pawn loans impeded the enforcement of the legislator's intention with the APR regulation by having issued pawn tickets of extremely short, i.e. a few days, maturity. The MNB informed the respective institutions about its concerns related to this practice and took the necessary measures.

A new risk factor started to take shape in connection with the stop-loss orders as well. Experiences show that the consumers often do not understand the conditions of the order in full, hence they may suffer considerable losses.

The operation of the branches and the activity of the financial institutions rendering cross-border services also appear as risk factors in the sense that they fall outside the scope of the MNB's prudential supervision. The fact that typically it is not the Hungarian language that is stipulated as official language between the parties and the legal disputes are governed not by the Hungarian laws may also be the source of additional problems. A large part of the consumers are not aware of the special rules, which may generate significant disadvantages for them.

On the institutions' side the risk of misselling, while on the consumers side – similarly to the previous period – the inappropriate management of the risk of debt overhang are still typical phenomena.

Compared to the previous year the leveraged transactions have higher priority on this year's list. With the online platforms' gaining ground, the high-risk leveraged products are easily accessible for the small investors as well. In most of the cases the prospective customers with no experience in capital markets are unable to judge the degree of the potential financial risk realistically, which may lead not only to fast capital loss, but in certain cases consumers may also incur financial liability substantially exceeding the capital.

The newly identified risk factors were compiled based on the present market trends, the received requests, the experiences from the conducted inspections and the enquiries received by the customer service desk.

1.4 ENHANCING FINANCIAL LITERACY; EFFICIENT AND CLEAR COMMUNICATION

The transmission of broad financial knowledge, the enhancement of financial literacy and the support of the civil organisations engaged in financial consumer protection are essential for improving financial awareness. The objective of the communication strategy is to develop a complex information system. The fostering of the consumers' informed decisions has priority in the MNB's customer service activity.

The MNB performs its financial consumer protection awareness activity also in the service of the good state and in the interest of public good; for the purpose of fostering this and making it more efficient, the central bank treats civil organisations as strategic partners, hence it established the National Financial Consumer Protection Civil Network in 2014. In the past period the member organisations contributed to the development of financial consumer protection, by actively participating in a number of forums, professional consultations and trainings.

1.5 SPECIAL CASES, SPECIAL ATTENTION

In the reporting period the settlement, the conversion into forint and the contract modification played key role, as a result of which the consumer loan-related exchange rate exposure of the banking system and the consumers became marginal by the end of 2015; nevertheless, it may be necessary to take further measures.

The settlement, the conversion into forint and the contract modification are complex processes affecting a wide range of the consumers, hence the MNB has paid and will pay special attention to the control of the process and the related information tasks. The performance of the extraordinary tasks necessitated the preparation of regulation by decrees, the development of the responses to be given to the potential statutory interpretation issues, the facilitation of the implementation of the duties burdening the financial institutions along uniform principles, the prevention of conducts detrimental for the consumers and in the event of infringement the immediate termination thereof, as well as the continuous control of the financial institutions' fulfilment of their duties. From the first quarter of 2015 the MNB launched **thematic inspection at 321 financial institutions to audit the implementation of the settlement, the conversion into forint and the contract modification**; with a view to identify and eliminate the potential risks as soon as possible, it continuously monitors the signal and requests received from the consumers. Until the end of 2015 the central bank imposed **temporary measures on 104 occasions**, it resorted to the option of **consumer protection warning on 133 occasions**, calling upon the various financial institutions to immediately abandon the conduct noticed and criticised by it, and **imposed consumer protection and procedural penalty in the amount of HUF 124.3 million**. The penalties were primarily

imposed due to missing the statutory deadlines. With the settlement, the ratio of non-performing consumer loans gradually decreased during the summer; however, by September an increasing trend started to take shape once again. This indicative signal points to the fact that further, alternative solutions – covering an even broader spectrum than now – may be necessary.

1.6 FORWARD-LOOKING FINANCIAL CONSUMER PROTECTION

The purposes of the boxes included in the Report is to describe the observations, partially forward-looking expectations and proposals that the MNB deems relevant in financial consumer protection terms. These writings deal with issues affecting a wide range of the consumers and the financial institutions, they arouse the attention of the stakeholders and strengthen their risk awareness.

2 The MNB's financial consumer protection activity

2.1 REGULATORY INITIATIVES

The **changing market processes** determine the **need for the continuous change and reform of the regulatory environment**. In order to enforce a corresponding regulation, the MNB elaborates a number of legal provisions, comments on draft legislation and prepares proposals for legislative changes year by year with a view to eliminate the factors generating legal uncertainty as soon as possible. The central bank continuously monitors the market and initiates, as necessary, changes in the regulatory instruments or the introduction of new ones. The purpose of the consumer protection-related legal provisions and the recommendations focusing on financial consumer protection is primarily to prevent frauds to the detriment of consumers and to foster fair market conduct and information by the institutions.

2.1.1 Decrees of the Magyar Nemzeti Bank on the subject of settlement, conversion into forint and contract modification

Act XL of 2014 on the Rules of the Settlement of Accounts Provided for by Act XXXVIII of 2014 on the Resolution of the Curia Concerning the Uniformity of Law Regarding Consumer Loan Agreements of Financial Institutions, and on Certain Other Provisions **authorise the Governor of the MNB to regulate the detailed rules related to the settlement**, the conversion into forint and the **contract modification**. **Under powers set by the Act** the MNB issued four decrees with regard to the settlement methodology and the tasks related to the provision of information. The settlement, conversion into forint and the contract modification, including the description of the related MNB decrees – in view of the significance of the topic – are covered in Chapter 3.1 of this Report.

2.1.2 Modification of the complaint management decree

The MNB modified the MNB Decree of 28/2014 (VII. 23) on complaint management by financial organisations with effect of 1 August 2014. The modified provisions make it easier for the consumers to lodge consumer submissions and petitions with the MNB and the Financial Arbitration Board (FAB), respectively.

According to the modified complaint management procedure, the **consumers may request the financial service provider** that it should send the **standard forms** for the consumer submissions to be lodged with the MNB or **for the petition** to launch the proceedings of FAB.

The financial service provider, if it rejected the complaint, had to inform the consumer before as well that the proceedings of which organisation he may initiate with his petition; this is now supplemented by the obligation to send the printed standard forms by post free of charge, which – based on the request – the financial service provider must fulfil for no consideration. The service provider is also obliged to inform the consumer about the exact the telephone numbers, e-mail or postal address at which the consumer may ask for these standard forms.

The sending of the documents may be of **help particularly for the consumers with no internet access and printing facility**. In addition, the application of the standard forms may also reduce the ratio of incomplete or incorrect petitions submitted to the MNB and to FAB, which until now often delayed the start of these two organisations' proceedings until after the completion of the petition.

Box 1**Complaint management recommendation**

In addition to the complaint management decree as a law, the MNB also deems necessary to formulate its expectations with regard to complaint management in the form of recommendation. It is the fundamental expectation of the MNB that the financial institutions should, apart from complying with the laws, elaborate a cooperation-based complaint management procedure that facilitates the efficient and transparent management of the legal disputes and the prevention of future disputes. The objective of the MNB with the preparation of the recommendation related to the complaint management procedure is to ensure that the principles serving the protection of the customers' interest and expected by the MNB are efficiently integrated in the financial service providers' daily operation, constituting an integral part of the approach of the bank tellers responsible for complaint management and thereby also of all customer-related activities of the institutions. The more efficient complaint management practice, focusing on the customers' interest, contributes to the preservation and reinforcement of public confidence in the operation of the financial service providers, as well as to the efficient management of the legal disputes that may arise between the financial organisation and the customers, and also to the prevention of the future disputes. The recommendation was issued in the second half of 2015.

2.1.3 Recommendation no. 5/2015 (V. 05) of the Magyar Nemzeti Bank on the Electronic interfaces serving the presentation and comparison of insurance products and used during insurance intermediation

The European Insurance and Occupational Pensions Authority (EIOPA) published the study entitled "EIOPA's Initial Overview of Key Consumer Trends in the EU" in February 2012, in which one of the identified consumer trends is the spreading of the comparison applications and the appearance of the related consumer risks.

The EIOPA examined the applications – functioning in the territory of the European Union – that compare insurance products, based on which it published its Report on Good Practices on Comparison Websites. The report touches upon the structure and types of the **comparison applications**, the related **consumer risks**, and it also outlines the **good practices focusing on consumer protection** (information requirements, transparency, comparability). The MNB also **takes into consideration** the proposals included in the report during the development of the **Financial Navigator product selection application operated on the MNB's website**.

The distinct **recommendation** of the **MNB** – which contains the **requirements** related to the minimum content and function of the electronic interfaces aimed at the **comparison of the insurance products** and the **information to be provided to the customers**, to ensure that the comparison interfaces, available in an ever increasing number in the insurance market, work in a manner that is transparent for the consumers – was elaborated partially based on the considerations included in the recommendation referred to. This helps customers take out insurance aligned with their real needs.

The timeliness of the recommendation was also justified by the fact that the online brokers have been present in the market for more than ten years and the current legislative environment determines the framework of the intermediation, nevertheless there were uncertainties about the way to comply with certain rules in the online interfaces. The MNB will review the efficiency of the recommendation later on.

2.1.4 Recommendation no. 2/2014 (V. 26.) of the Magyar Nemzeti Bank on pension insurances

On 26 May 2014 the MNB published a recommendation on pension insurances following the introduction of the personal income tax allowance provided by the legislator from January 2014 on the pension insurance savings of private individuals. The purpose of the central bank – reacting swiftly and proactively to the legislative change – is to achieve that the business pension insurance market, supported by tax incentives, is built up

through schemes that comply with the good practice specified by it. The content of the recommendation is fully in line with the supervisory strategy announced by the MNB, hence it demonstrates the central bank's active regulatory role, fosters the creation of a transparent service spectrum and supports the modern self-provision solutions that are more advantageous for the consumers. The positive impact of the recommendation is demonstrated by the favourable changes in the market, and its presentation is justified by the fact that it proved to be a good risk mitigating tool.¹

The expectation formulated in the recommendation is that – **as regards particularly the structure and costs of the schemes – the pension insurances** appearing in the market are **of simple structure and stable value, transparent and advantageous for the customers**. The recommendation highlighted the importance of the need that the insurers develop an incentive scheme that corresponds to the customer's needs thereby facilitating the maintenance of the contracts in the long run; in addition it is also expected that the consumers can benefit from professional mediation. The recommendation sets out as an expectation that the **tax advantage linked to the products should increase the consumers' pension saving and not acquired by the insurers**.

To this end the central banks regards the maximum acceptable total cost indicator (TCI) for pension insurance to be 4.25 per cent, 3.95 per cent and 3.5 per cent for pension insurances of 10, 15 and 20 years maturity, respectively. In the case of complex insurance exposures offering higher than average yield, guaranteed yield, principal protection or bearing special insurance risk, the TCI may be increased by maximum 2 per cent, subject to separate justification.

As a result of the pension insurance recommendation the TCI^{Ny} bands prevailing in the pension insurance market substantially shrank, and simultaneously with this **the expensive unit-linked products were ousted from the market**. The lower values of the TCI^{Ny} value fell consistently below the values stated in the recommendation, and none of the upper bounds exceeded that by more than 2 percentage points.

As a result of the recommendation the insurers modified more than 60 per cent of the available products: 13 pension insurance products were phased out, while the price of 27 products was reduced. A quarter of the pension insurance products are extremely favourable, even the upper bound of their TCI^{Ny} value is below the TCI^{Ny} value expected by the recommendation.

The institutions received feedback on the first-round backtesting of the impacts of the recommendation on individual basis, while the drawing of conclusions from the processing of the second-round backtesting is in progress.

2.1.5 Changing banks and fees related to payment accounts

Directive 2014/92/EU of the European Parliament and of the Council on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (Payment Accounts Directive – PAD) was promulgated on 28 August 2014, which contains provisions aimed at ensuring the comparability of the services and fees related to payment accounts, the simplification of switching payment accounts, as well as requirements the purpose of which is to make payment accounts with basic features available to broaden the range of consumers using the payment services market.

One of the priority objectives of PAD is to eliminate the difficulties related to **payment account switching**. The possibility of payment account switching must be made available and attractive for the consumers by ensuring that it does not result in excessive administrative and financial burdens. According to the PAD, the payment service providers must offer clear, fast and safe payment account switching procedure, which permits the consumers to switch from their existing payment account to another – presumably more suitable – payment account, whether or not this takes place within the same or between different payment service providers.

¹ The Ethical insurance concept – as a good risk management instrument – is dealt with in sub-section 6.5 of the Report.

The PAD prescribes specific administration deadlines both for the previous and the new account-keeping payment service providers. The time required for the full account switching procedure – without the time necessary for the data and information flow between the individual payment service providers – may be 12 working days at the most.

In order to ensure the predictability of the full account switching procedure, the MNB recommended – with regard to the implementation of the directive – to prescribe the forwarding and receiving of data in electronic form as a communication channel between the payment service providers, and proposed to the Ministry of National Economy, the institution responsible for the preparatory works to implement the provisions of PAD in the national legislation, to prescribe a regulation that provides the opportunity to forward payment orders from the former payment account to the new payment account for 13 months.

In connection with the payment account directive, consumer protection risks may be identified in relation to the introduction of the **basic payment account**. Although the “basic payment account” definition suggests that it is simple payment account offering significantly limited payment services and hence it is cheaper than the average, based on the directive the institutions are expected to provide **really wide range of services**. Therefore, based on the aforementioned conceptual **proposal** of the **MNB**, it can be avoided that the introduction of the basic payment account leads to a **rise in the price of other payment accounts** or to **distortion in competition**.

It is important to make the consumers understand the fees and provide them with the possibility to compare the offers of the individual payment service providers and make well-founded decision on the account that best fits their needs. The introduction of the **uniform terminology** (glossary) prescribed by the PAD across the EU may raise the risk that it **does not map the requirements of the member states’ consumers** or may shake up the product offering of the payment markets.

Another important mobility criterion of modern age is the possibility of changing banks, as well as the availability and nearness of financial institution in geographical terms. Due to the mergers the institutional structure undergoes a transformation, as a result of which the geographical distribution of the **financial infrastructures** also changes. The related “**white spots**”, and the increase in the number of those may have an adverse effect on mobility. The MNB regards it as a key task to explore the “white spots” where **neither a bank branch, nor an ATM** is available for the consumers.

Box 2

Updated Code of Conduct

The Code of Conduct on the fair conduct of financial institutions rendering retail loan, financial lease or factoring services to customers entered into force on 1 January 2010 to reinforce the trust between household borrowers and lenders. In 2014 the Parliament and the Government regulated several provisions of the Code of Conduct in laws, which necessitated the review of the document. The Hungarian Banking Association – with the agreement of the MNB – enacted the Updated Code of Conduct (Updated Code) from 1 February 2015, which contains the requirements not regulated by laws.

The financial institutions that have signed the former Code of Conduct – which included more than 250 service providers, i.e. a good 95 per cent of the household credit market – did not have to make a new declaration on the accession to the self-regulation document, as their prior commitment survived in unchanged form. As a result of the rules contained in the Updated Code the financial institutions voluntarily undertake to exhibit transparent and responsible conduct to their household customers before lending (lease or factoring), during the tenor and also in their procedures related to payment difficulties, if any.

In connection with the requirements of the Updated Code the financial institutions enforce the principles of transparency (clarity, transparency, availability of the necessary information), compliance (lending practice also

stipulated in regulations complying with the laws and the expectations that foster good practice) and symmetry (apart from the potential unilateral expense hikes, the impact of the conditions that may become more favourable should be also enforced to the benefit of the customers in the form of cost cutting) also in their internal business procedures.

The financial institutions that adopted the document agree that the central bank should verify compliance with the provisions of the Updated Code by the signatory institutions (and their respective subsidiaries and agents) and publish its findings and ratings on its website as well.

The institutions adopting the Updated Code undertake to announce to their customers during their commercial practice influencing the consumers' transaction decision and also indicate in their general contractual terms and business regulations that they submit themselves to the self-regulation requirements on a mandatory basis. In addition, they also prescribe the compliance with the provisions of the document in the contracts concluded with their agents and contributors participating in the provision of the services.

The scope of the Updated Code covers all signatory financial institutions engaged in retail lending and financial lease, thus the commercial banks, mortgage credit institutions, building societies, savings banks and credit unions, branches and financial enterprises (leasing and factoring companies), and even the insurers and pension funds offering loan products.

The Updated Code regulates, in connection with retail lending, the general norms of responsible lending, the general principles of pre-contracting lending behaviour, the procedure to be applied upon managing the customers' payment difficulties and the principles to be applied before and during the execution procedures.

2.1.6 Protection of investors

The package of legislative changes, elaborated with the MNB's contribution, aims at increasing the general security level of the capital market and strengthening the powers to audit and take measures, as a result of which the amendments of the Capital Markets Act entered into force on 1 January 2016. The amendments create the legal framework for the customers of the investment service providers to enquire on the data of their securities and customer account held with the institution for the last day of the previous month anonymously in the electronic interface provided by the MNB.

The enquiry opportunity, to be introduced by the amended act, facilitates the reconciliation of the account data sent to the customers and data forwarded to the supervisory authority. The customers' trust in the financial sector may strengthen due to the fact that, making use of the enquiry option, every customer will have the opportunity to check whether the data content in the account statement corresponds to the data supply. On the other hand, the anonymous data supply also provides the MNB with the opportunity to perform regular cross-checks in respect of the securities account balances transferred by the service provider.

The enquiry facility is one of those measures that the MNB has taken to prevent mass fraud committed by investment service providers to the detriment of their customers.

2.2 FINANCIAL CONSUMER PROTECTION COMMUNICATION

The **further strengthening of the financial consumer protection, the firm representation of consumer rights and the development of financial awareness and literacy** form important parts of the MNB's 2014-2016 Social Responsibility Strategy and its 2014-2019 Oversight Strategy.

The strategically coordinated financial consumer protection communication is essential for shaping the domestic financial approach and the implementation of a changed financial culture. To this end, one pillar of the MNB's activity is the comprehensive information system to be developed using all communication channels, which will be implemented in the framework of an integrated financial consumer protection communication plan.

The long-term objective of the communication strategy is to achieve a major decline in the financial vulnerability of the consumers, the broadest possible social coverage by applying online and offline tools and to help disadvantaged consumers.

The principle of the **complex information system** is to inform consumers in an easy-to-understand manner on financial topics. Accordingly the **Financial Navigator booklet series** – available at the customer service desks of the financial institutions, in the offices of the insurance companies, in certain Government Windows of the county seats and at the cooperating civil organisations – were created and are continuously expanded.

In accordance with the image and concept of the Navigator Booklets, an independent **consumer protection micro site** was launched within the MNB's website, during the development of which transparency, faster and easy navigation were in the focus.

Chart 1
Financial Navigator booklets



The micro site – in accordance with its concept – informs the consumers on the most popular financial consumer protection issues in the form of **easy-to-understand frequently asked questions (FAQ)**.

The things to know about financial consumer protection are also present in the social media to raise financial awareness. Accordingly, new posts are published on the **MNB's Facebook page** as well, on a daily basis.

In addition to the Booklets and micro site, within the framework of the Financial Navigator, one-minute **social advertisements** also help deliver information to the consumers, which in addition to the online publication (MNB YouTube channel, website, MNB Facebook) will be also broadcast in the television.

However, the transfer of more far-reaching financial consumer protection information requires more time than one-minute films, thus the MNB also plans to produce longer films of education purpose.

The central bank's press communication also supports the financial consumer protection activity. In the responses to the press, personal interviews and communications the MNB regularly calls the attention to the useful notices, available both in printed and electronic forms, and the importance of financial awareness.

2.3 PROFESSIONAL CUSTOMER SERVICE²

During the MNB's customer service activity **the support for the consumers' financial decisions and providing customised and easy-to-understand responses to questions of financial nature** are of key importance. Ongoing technical training, as well as updating and enhancing the skills are essential for professional customer management and improved efficiency, hence trainings and technical courses are organised regularly. The measuring of customer satisfaction and the analysis of customer communications are of outstanding importance. As regards the first, it may be stated based on the feedbacks that customers received satisfactory answers to their question in 98 per cent of the cases on average, and they are satisfied with the customer service quality in 99 per cent.

2.4 DEVELOPING FINANCIAL LITERACY

The development of financial literacy and awareness is a **long-term task**, which can be implemented the most efficiently in close cooperation with **civil partners**, hence the MNB also supports, by funding through tenders, the civil events where the colleagues of the cooperating organisations help consumers by advices addressing personal problems, in addition to the development of financial skills. At these events the civil organisations may also use the MNB's consumer protection publication, short films, information document and online tools.

2.5 FINANCIAL CONSUMER PROTECTION ACTIVITY OF CIVIL ORGANISATIONS COOPERATING WITH THE MNB

2.5.1 Functioning of the Civil Network

The MNB lays down both in its **Statute and in its Social Responsibility Strategy** that from 2014 it pays special attention to **increasing the financial awareness of consumers**. To this end, it wishes to implement – among others – in **cooperation with the civil organisations the development of financial literacy, the strengthening of the national financial consumer protection and the firm representation of the consumers' rights**. In 2014 the central bank established the **National Financial Consumer Protection Civil Network**, the members of which contributed, as **active participants** in 12 Civil Forums, 4 Civil Professional Consultations and several training courses during last year, **to the development of the financial consumer protection in Hungary**, and by organising over 550 events they also became the active representatives of financial consumers and information media.

Within the framework of the partnership with the civil organisation the MNB **supports the financial consumer protection activity through tenders**. To this end, in 2014 it granted **financial support of HUF 157.4 million to civil organisations** through two tenders, and in addition, **based on independent applications for supports**, it also disbursed **direct aid in the amount of HUF 121 million**. In 2015 it awarded **HUF 28.855 million** through tenders and **HUF 73.745 million** in the form of individual aid.

The tenders were announced for the **development of financial literacy, increasing financial awareness, information and enforcement of rights**. The individual aids supported the **financing of the functioning of the Financial Advisory Office Network (FAON)** present at 11 county seats.

² The customer service procedure includes all activities in the course of which the MNB's customer service staff member provides the customer with customised information, general advice, permits the technical inspection of documents, provides the opportunity to lodge verbal request, or to make complaints or notification of public interest.

2.5.2 Development of the Civil Network

Based on the experiences of the cooperation with the Civil Network, it can be stated that

- the civil organisations **reach a broad range of the consumers, hence they are able to forward the consumer protection information and messages, also formulated by the MNB efficiently;**
- the civil organisations inform the consumers in an **easy-to-understand language**, and are capable of **providing active, direct help;**
- **readiness for constructive cooperation and openness for professional cooperation and development** are the key features of civil organisations.

In possession of the positive experiences the MNB decided on continuing the cooperation, and – collaborating with the members of the Civil Network – it will elaborate the **financial consumer protection principles** in order to establish a national financial consumer protection scheme that operates along uniform principles.

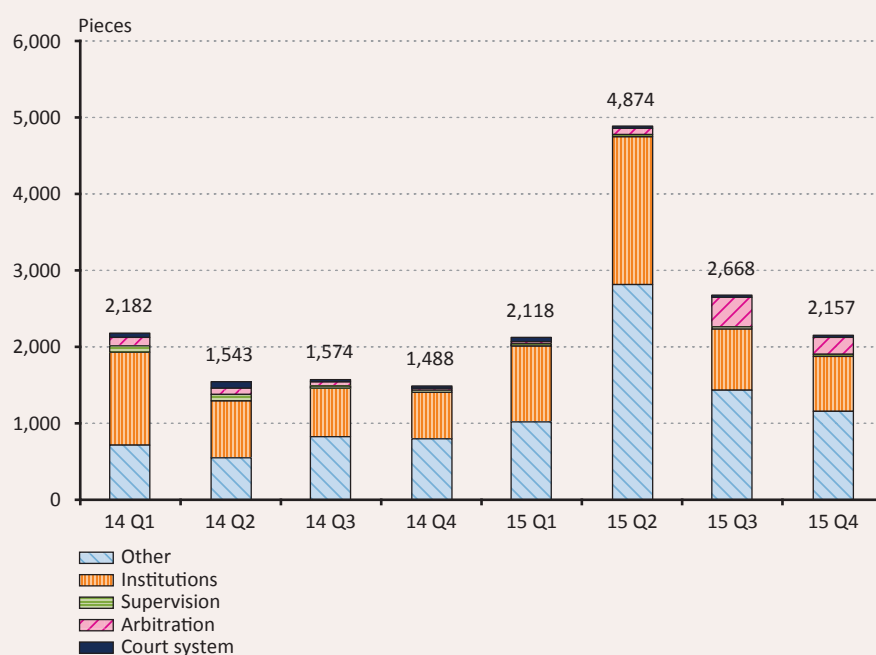
In order to ensure the professional quality of financial consumer protection, the MNB **organises trainings and ensures the enhancement of skills on a continuous basis**, and by providing **further financial and professional support** it fosters the development of a strong Financial Consumer Protection Civil Network, and the creation of a permanent and active national **financial consumer protection**.

2.5.3 Strengthening the role of the Financial Advisory Office Network and the Government Windows in the area of financial consumer protection

The Association for the Hungarian Consumers operates FAON since 2011 under various tender programmes, and the financial consumer protection activity is also supported by the MNB. The offices of the **civil organisation** operate in **11 county seats** of Hungary, where they provide financial consumers with independent, **unbiased and free assistance**. The FAON, as the member of the Civil Network, makes major contribution to the development

Chart 2
Cases forwarded by the Financial Advisory Office Network

(pcs)



Source: FAON

of financial literacy – being one of the priority strategic objectives of the MNB – and to the strengthening of the **national financial consumer protection**.

In 2014 H2 the number of customers contacting the office network decreased by 17% to 3,062 enquiries compared to the previous half-year; however, in 2015 the FAON undertook a **major role** also in the provision of **information related to priority cases** such as the settlement and conversion into forint, and information concerning capital market brokers. Due to this, the colleagues of the office network provided **assistance or information to 11,817 consumers** in total, which is an increase of 174 per cent. 65-70 per cent of the priority cases were related to the settlement process. 55 per cent of the customers who visited the office network received on-site assistance, while 38 per cent of them were directed to the financial service providers, 6 per cent to FAB, and the remaining 1 per cent to the MNB or a court.

Experiences confirm that the civil sector makes a great contribution to the strengthening of the financial consumer protection, hence the further development of the partner relations is justified in the future as well.

Based on the agreement between the government offices and the MNB, since mid-April 2014 the **integrated customer services of the government offices also accept the financial consumer protection submissions**, and forward them to the MNB; thus the consumers may also lodge their petitions related to financial complaints with the Government Windows of the county seats. The MNB organises trainings for the designated administrators, as necessary, thus they also provide professional assistance in the completion of the financial consumer protection forms if the customer so requests. **Almost 1 per cent of the complaints** received by the MNB **arrive via the Government Windows**, thus the maintenance and development of the cooperation is a basic objective.

2.5.4 Supporting informed financial decisions by consumers

In order to support consumers in making more informed decisions, the MNB decided on developing a product selector application available on the website; the **Financial Navigator product selector application** will be reworked in the coming years. The introduction of increasingly sophisticated products makes it necessary to ensure, in line with the consumers' requirements, the **comparability of the distributed products**. The essence of the concept is to create a user-friendly online application by 2017 that displays the entire money market product offering for a wide range of consumers free of charge, in a uniform and institution-independent interface. The application is a tool supporting consumers in making informed financial decisions, which is in line with the PAD requirements. By the end of 2015 the institutional data registration interface of the first module of the application was completed, which in the future will enable consumers to search geographical infrastructures (branch, ATM) based on maps. The data reported by the institutions in the framework of compulsory reporting contain – among others – the information with regard to **accessibility for the disabled**, in addition to the **ATM and branch** GPS coordinates for map-based search.

3 Cases of special importance

3.1 SETTLEMENT, CONVERSION INTO FORINT AND CONTRACT MODIFICATION

Starting from 2004 the foreign currency-denominated loans became popular with the households due to the difference in the interest rates applicable to forint and the foreign currencies, particularly the Swiss franc and the euro. The financial sector's excessive risk appetite, the absence of strict regulation and the shortcomings in the consumers' financial knowledge determined the build-up of risks inherent in foreign currency lending. The unfavourable macroeconomic changes resulted in steadily weakening forint exchange rate, thus the risks arising from exchange rate movements became real problems that were increasingly difficult to cope with. By December 2008 the pass-through of the financial crisis practically sealed the fate of the highly indebted households as well; the radical worsening of the repayment capacity became a systemic problem. The negative impact of the exchange rate shock was further exacerbated by the lender financial institutions' practice of increasing the interest rates and fees unilaterally. In 2011 the forint exchange rate weakened further, particularly against the Swiss franc, hence intervention by the state became unavoidable. However, the previous measures, such as the early repayment at preferential exchange rate, the exchange rate cap scheme and the set-up of the National Asset Management Agency (NET) offered only partial solutions; the swift symptomatic treatment **had to be accompanied by efficient, lasting and systemic solutions**. The complex problem required a complex solution; thus such a system had to be constructed that was able to eliminate the interest differential without generating exchange rate turbulences in the market, giving room for speculative transactions and without deteriorating Hungary's risk assessment and that was supported by proper legislative background. Accordingly, the system had to be placed and designed in terms of space and time in a way that **ensures macro-level financial stability during the entire horizon of the process**.

The settlement of the household loans and their conversion into forint by 2015 was facilitated by the firm determination to resolve the problem, the strengthening of the economic performance, the material decrease – due to the monetary policy – in the interest differential between the various currencies, the creation of the legislative background with the instrumentality of the central bank and by the significant improvement in the factors influencing the risk assessment of Hungary. In addition to the proper preparation and timing, the close and exemplary cooperation among the government, the central bank and the Hungarian Banking Association were also essential for the success.

The settlement of the unfair interest rate and fee increases affected about 2.1 million foreign currency-denominated (accounted for in foreign currency and paid in forint) contracts, while through the conversion of the mortgage-backed loan and lease contracts into forint this risk gap has closed by now, thus the households' exposure to the depreciation of the exchange rate has also significantly decreased. The legal and conversion conditions for the conversion of the remaining foreign currency-denominated car loans and personal loans into forint were also satisfied by October 2015. The central bank provided the market participants with foreign currency funding in this case as well, thus in the last months of 2015 and early 2016 this was also implemented. As a result of this, **the exchange rate exposure of the banking system and the consumers related to consumer credits became marginal**.

The settlement, the conversion into forint and the contract modification are complex processes affecting a wide range of the consumers, hence the **MNB has paid** and will pay special attention both to the **control** and the related **information tasks**. The performance of the extraordinary tasks necessitated the preparation of regulation by decrees, the development of the responses to be given to the potential statutory interpretation issues, the facilitation of the implementation of the duties burdening the financial institutions along uniform principles, the prevention of conducts detrimental for the consumers and in the event of infringement the

immediate termination thereof, as well as the continuous control of the financial institutions' fulfilment of their duties. **From 2015 Q1 until the completion of the settlement process the MNB launched thematic inspection at 321 financial institutions.** As part of this it audits the adoption of the calculation methodology, the content of the notice letters and the deadline of their dispatch, the compliance with the disclosure obligations in terms of form and content, and the adequacy of the related procedure. **With a view to identify and eliminate the risks as soon as possible, the supervisory authority is continuously monitoring the signals and requests from the consumers.** Until the end of 2015 the central bank imposed temporary measures on 104 occasions, applied consumer protection warning on 133 occasions, imposed **HUF 123.9 million consumer protection penalty and HUF 400,000 procedural penalty** in relation to the settlement.

With the settlement, the ratio of non-performing consumer loans gradually decreased during the summer; however, by September an increasing trend started to take shape once again. This indicative signal points to the fact that **further, alternative solutions** – covering an even broader spectrum than now – **are also necessary.** In addition to the expansion of NET, the legal institution of personal bankruptcy, providing an opportunity for the debt settlement of private individuals, may be an additional step, providing a long-term solution for a number of financially distressed families, supported by the market launch of dedicated programs **focusing on the improvement of the households' repayment capacity.** The objective of the MNB in this respect is to identify – by monitoring and analysing the market processes – the risks that are about to build up and to formulate proposals for the potential solutions. However, the usefulness of the alternative debt settlement solutions is rather limited if the consumers are not aware of or do not understand these procedures, hence the central bank also pays special attention to providing easy-to-understand and customer-friendly information.

Box 3

Conversion of the non-mortgage loan contracts into forint

While the settlement also covered the car purchase finance and personal loan contracts, as a result of which the burdens of the consumers with these loans also decreased, the first round of the conversion into forint involved only the mortgage-backed loans and the home lease contracts. With a view to eliminate the exchange rate risk, the central bank also urged the conversion of the car purchase finance and personal loans already then, since the elimination of the exchange rate risk may reduce the ratio of non-performing loans and also provide protection against the negative impacts of sudden exchange rate changes, thus the loan instalments may become more predictable in the case of these contracts as well. The residual maturity of the outstanding car purchase finance loans is typically 2-3 years; however, there is a high ratio of such schemes in the case of which the consumer pays pre-agreed fixed instalment rather than the actual, higher obligation resulting from the exchange rate increase. The risk of this scheme is that the higher, but not fully paid liability accumulates, which may generate a considerable increase in the instalment at the end of the tenor. In order to manage the risks arising from the exchange rate risk and from this type of loans, the **car purchase finance and personal loans were also converted into forint loans with annuity-type instalment in 2015 H2.** This measure provides more safety for consumers with **240,000 outstanding and 83,000 cancelled foreign currency-denominated car purchase finance loans or personal loans.**

3.1.1 Legislative regulations related to the settlement

The substantive law and procedural rules of the settlement are extremely complex. Bearing this in mind, based on the statutory powers vested in the Governor of the MNB, the **MNB facilitated the implementation of the settlement by framing the following decrees:**

- MNB Decree 58/2014 (XII. 17) on the Consumer protection regulations related to the settlement necessary in view of the invalid contractual provisions of the consumer loan contracts and to the modification of the consumer loan contracts;

- MNB Decree 55/2014. (XII. 10) on the Estimation procedure and the deadline for the cash settlement in view of the invalid contractual provisions of the financial institutions' consumer loan contracts;
- MNB Decree 54/2014 (XII. 10) on the Special rules pertaining to the methodology of the settlement necessary in view of the invalid contractual provisions of the financial institutions' consumer loan contracts;
- MNB Decree 42/2014 (XI. 7) on the General rules pertaining to the methodology of the settlement necessary in view of the invalid contractual provisions of the financial institutions' consumer loan contracts;

Three MNB decrees contain the detailed rules of the settlement methodology, while the fourth one, the so-called Information decree (MNB Decree 58/2014) contains the requirements related to the information to be provided in respect of the settlement.

In the **period of preparation** for the sending of the notices, the MNB, **focusing on the consumers' interest** and to foster the smooth implementation of the settlement, **assisted the financial institutions with official opinions, the elaboration of the responses to Frequently Asked Questions (FAQ), completion aid and the elaboration of text templates recommended for use in the settlement notices**. During the reporting period in the FAQ section of its website the MNB published 18 questions and answers with regard to the conversion of the car purchase finance and personal loans into forint, 48 in respect of the settlement, 13 for the workout companies, 27 in respect of the conversion into forint, 23 in respect of the foreign currency-denominated contracts, 19 in respect of the foreign currency contracts and 18 in respect of the forint contracts. During the reporting period the FAQ for the institutions contained 79 questions and related responses with regard to the implementation of the settlement.

The MNB organised number of **professional consultations** for the institutions affected by the settlement, the Hungarian Banking Association and the Hungarian Leasing Association, where consultations were conducted with regard to, among others, the preliminary inspections, the mandatory data content of the settlement notices and settlement. With a view to foster the lawful implementation of the settlement duties, several **official opinions** and **management circulars** were issued, two of these expressly for the **workout companies**. Cooperation with the Hungarian National Authority for Data Protection and Freedom of Information also developed in relation to the settlement to avoid data protection infringements.

3.1.2 Preliminary inspection

The MNB performed a preliminary inspection of the settlement calculation methodology at the financial institutions with the largest clientele to check whether the calculation principles necessary for the settlement and the calculation methods comply with the laws.

The MNB performed and performs a strict inspection already with regard to the process of preparing for the settlement in the case of Axa Bank Europe SA Hungarian Branch Office, Budapest Bank Zrt. and Budapest Autófinanszírozási Zrt., CIB Bank Zrt., CIB Ingatlanlízing Zrt. and CIB Lízing Zrt., Erste Bank Hungary Zrt. and Erste Lakáslízing Zrt., FHB Bank Zrt., K&H Bank Zrt., MKB Bank Zrt., OTP Bank Nyrt., OTP Jelzálogbank Zrt., Merkantil Bank Zrt. and Raiffeisen Bank Zrt., thus it inspected already before the implementation of the settlements whether the market participant designed the settlement principles and calculation algorithms in line with methodology laid down in the relevant MNB Decree.

It is important to note that the MNB's preliminary methodological inspection did not mean the authorisation or audit of the supervised institutions' settlement methodology. The preliminary inspection of the contract types of substantial share, covering the largest part of the affected transactions at the credit institutions with the largest customer base has already been completed, and in respect of this the MNB established that in the inspected cases the banks adopted the settlement formula correctly.

3.1.3 Thematic inspections related to the settlement

In order to inspect the settlement of the consumer loan contracts (credit and lease contracts) the **MNB launched thematic** inspections in mid-February 2015. The thematic inspection affects 42 banks, 110 co-operative credit institutions, 73 financial enterprises equivalent to credit institution and 96 workout financial enterprises.

Table 1

Consumer protection thematic inspection developments by institution type

(pcs)

Institution type	Thematic inspections launched (pcs)	Closed thematic inspections (pcs)	Pending thematic inspection on 31 December 2015 (pcs)
Bank	42	4	38
Cooperative credit institution	110	21	89
Financial enterprise equivalent to credit institution	73	3	70
Workout company	96	16	80
Total:	321	44	277

Source: MNB.

During the inspection the **MNB continuously monitors and verifies the lawful implementation of the duties prescribed** in the settlement and conversion acts, including whether the financial institutions performed the settlement necessary in view of the invalid contractual provisions of the consumer loan and lease contracts in accordance with the relevant legal provisions, and whether they implement the tasks related to the modification of the consumer loan and lease contracts according to the law. During the inspection the MNB verifies, among others, the method of calculating the consumer's claim.

The thematic inspection covers the entire settlement process, hence it is expected to last until the end of 2016 Q1. During the inspection the MNB continuously analyses and assesses the available information. If it identifies any shortcoming, it takes **immediate measures to stop the infringement (temporary measure, consumer protection warning)**, and if necessary, obliges the financial institution to repeat the calculations and send new notices to the consumers.

If the inspection identified continuous infringement, the MNB obliged the financial institutions to resolve the infringing situation by temporary measure. When shortcomings or other circumstances raising consumer protection concerns were identified, the elimination of which necessitated immediate measures to protect the consumers, but the temporary measure mentioned before was not justified, the MNB called upon the financial institutions in the form of **consumer protection warning** to immediately stop the conduct noticed and criticised by the MNB.

The aforementioned immediate measures, in the course of which the **MNB called upon the institutions to stop the practice representing consumer protection risk**, were necessitated by the shortcomings and false information in the customer notices published on the website of the supervised institution. The temporary measure was applied at a financial enterprise, because in its customer service premises it published the list of consumers affected by the settlement.

In the case of AEGON Magyarország Hitel Zrt., UCB Ingatlanhitel Zrt., MKB Bank Zrt., Pannoninvest Libra Zrt., and Banif Plus Zrt. the MNB established that they have failed to send the settlement statements related to the foreign currency-denominated consumer loan contracts by the statutory deadline. The MNB sanctioned the institutions by imposing penalty for omission and obliged them to satisfy the obligation immediately, and comply with the settlement-related deadlines at all times. Banif Plus Zrt. failed to comply with the obligation, hence in June additional penalties and obligations were imposed on it, as a result of which – according to its declaration sent to the MNB – it dispatched the settlement statement letters in respect of the foreign currency-denominated contracts by 28 August 2015.

The data related to the inspection performed by the MNB during the reporting period are presented in the table below.

Table 2
Measures taken within the framework of consumer protection thematic inspections

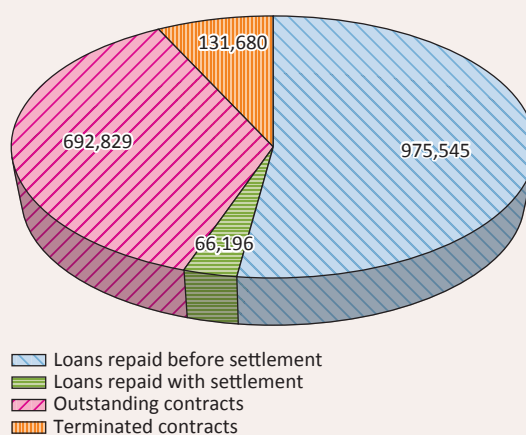
Institution type	Temporary measure based on Section 87 of the MNB Act (pcs)	Consumer protection warning (pcs)	Procedural penalty (HUF M)	Consumer protection penalty (HUF M)
Bank	5	10	0,1	116,3
Cooperative credit institution	16	13	0,3	0,7
Financial enterprise equivalent to credit institution	33	32	0	6,0
Workout company	50	78	0	0,9
Total	104	133	0,4	123,9

Source: MNB.

3.1.4 Impact of the settlement of foreign currency-denominated loan contracts

The MNB analysed the impact of the settlement on the foreign currency-denominated loan contracts based on the institutions' data supply. The **settlement affected almost 2.1 million loan and lease contracts** (1.9 million outstanding, ceased or cancelled receivables and 0.2 million receivables reversed from the lenders' books), of which the contracts that ceased before the settlement – typically personal loans and car purchase finance) – accounted for more than 50 per cent. **More than 66,000 contracts ceased as a result of the settlement**, before the actual maturity.

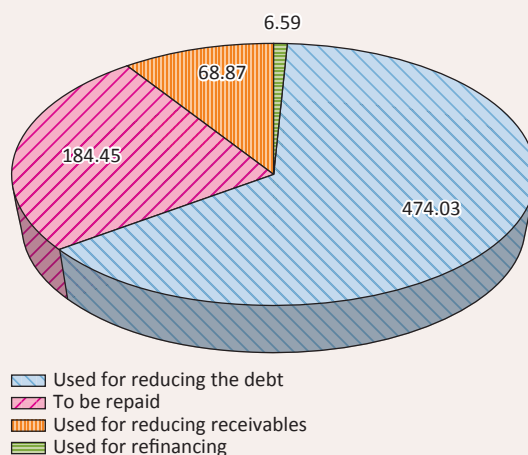
Chart 3
Number of loan contracts by settlement categories
(pcs)



Source: Data supplied by the institutions

The institutions **repaid HUF 734 billion in total, charged unfairly before, to the consumers**, which represents HUF 393,000 per contract on average. It is important to note that the unfairly charged amount was considerably influenced by the type and currency of the respective contracts, the degree to which the given institution raised the interest rate unfairly and whether the consumer was late with repayments.

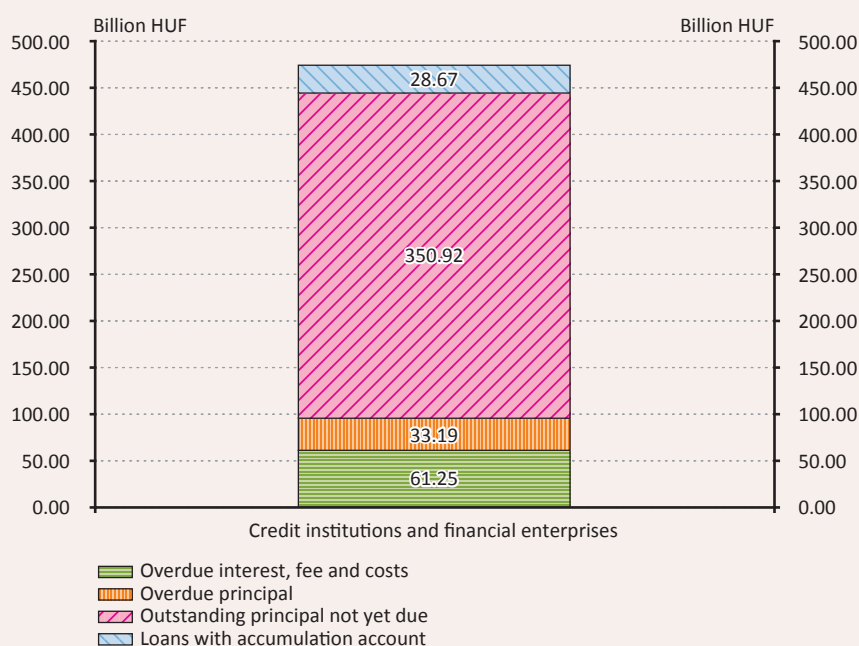
Chart 4
Distribution of the unfairly charged amount by type of settlement
 (HUF billion)



Source: Data supplied by the institutions

The institutions paid almost HUF **185 billion for the consumer loan contracts terminated** before or as a result of the settlement, which represents HUF 177,000/contract on average.

Chart 5
Details of the amounts used for the settlement of the debts
 (HUF billion)



Source: Data supplied by the institutions

In the case of the consumers that have outstanding loan contract following the settlement as well, the settlement reduced their debt by slightly more than HUF 474 billion. Of the reduction almost **HUF 95 billion was recognised against the overdue debts**, which helped customers with overdue instalments settle in part or in full their debts that typically accrued higher interest than the transaction interest. The consumer's **outstanding, not yet due debt decreased by almost HUF 351 billion**, which reduced the average principal of the CHF-denominated housing loans, formerly widely spread in the market, from HUF 8 million to HUF 6.5

million. The **amount of the receivables** from the affected consumers, **previously terminated, but still managed by the institutions decreased by almost further HUF 69 billion.**

The loans affected by the exchange rate cap scheme required a special settlement method. The consumers who concluded exchange rate cap contract were protected against the negative impacts of the exchange rate movements after joining the scheme for the duration of the contract. The scheme made the monthly instalment burdens of the consumers sustainable; however, the exchange rate difference accrued month by month on the accumulation account. During the settlement, the reimbursement of the unfairly charged amount was used – after settling the overdue debts – for settling the debts recorded on the accumulation account. As a result of this, the **debt of the consumers** who previously joined the exchange rate cap scheme, **accrued on the accumulation account, decreased** significantly, by **89.3 per cent** (almost HUF 29 billion), thus this debt will no longer increase, not even with the statutory minimum interest. There are only 12,745 accumulation account loans (merely 8.4 per cent of the outstanding loans) that still have outstanding debt.

Following the settlement, the foreign currency-denominated mortgage-backed consumer loan contracts were converted into forint at a fixed exchange rate stipulated in the law. In view of the fact that in the beginning of 2015 the exchange rates changed unfavourably for the foreign currency debtors, **the conversion of the debts outstanding in foreign currency at a fixed exchange rate protected the consumers from the negative impacts of the further exchange rate depreciation**, thus they were saved from a significant growth in their debt compared to a conversion at market rate. It was a further protection for the consumers that prior to the settlement, the instalments that were due in January were also paid at a fixed, statutory exchange rate.

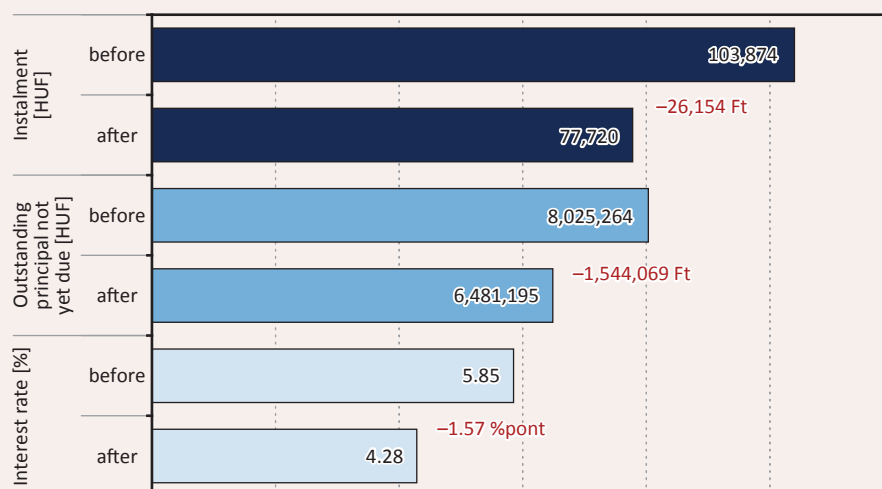
Based on the law, from 1 February 2015 the institutions defined new, fair interest rates for the consumer loan contracts. **The consumers experienced a major interest rate cut in the case of mortgage-backed loans; the interest rate on CHF- and EUR-denominated housing loans fell by 27 and 22 per cent**, respectively, on average, due to the fact that the unfair interest rate hikes impacted the most the contract type mentioned first. The interest rate cut at the car loans was of medium degree (about 8 per cent at an average CHF-denominated contract), which is due to the fact that the previous interest rate increases were only partially unfair, or because of the reference rate-linked schemes the increase was attributable to the change in the reference rate. In the case of the personal loans the degree of the interest rate cut was relatively low (a few per cents), in view of the fact that these contracts were typically characterised by fixed-interest schemes throughout the tenor.

It is important to note that the institutions may modify interest rate established after the settlement only at specific periods (3, 4 and 5 years), and such modifications are permitted only in accordance with the change indicators approved by the MNB, which may be monitored by the consumers as well on the MNB's website. With this the instalments to be made by the consumers will be predictable, under fixed interest rates. On the other hand, in the case of contracts tied to reference rates, the interest rates may change on the shorter horizon as well, but only to the same degree as the change in the reference rate.

After the settlement the majority of the consumers will have to pay lower instalments in view of the fact that as a result of the settlement the outstanding principal of the loan contracts decreased and the rate of the interest payable also became lower. The instalment did not change for 10 per cent of the consumers compared to that paid in November 2014, while in the case of 76 per cent of the still outstanding loan contracts the instalment decreased by 1-50 per cent, with a rather great variance. It may be stated generally that the instalment changed favourably for the consumer to the largest degree in the case of the CHF housing and general purpose loans, and the CHF-denominated car purchase finances.

Chart 6**Average change in the CHF-denominated housing loans as a result of the settlement**

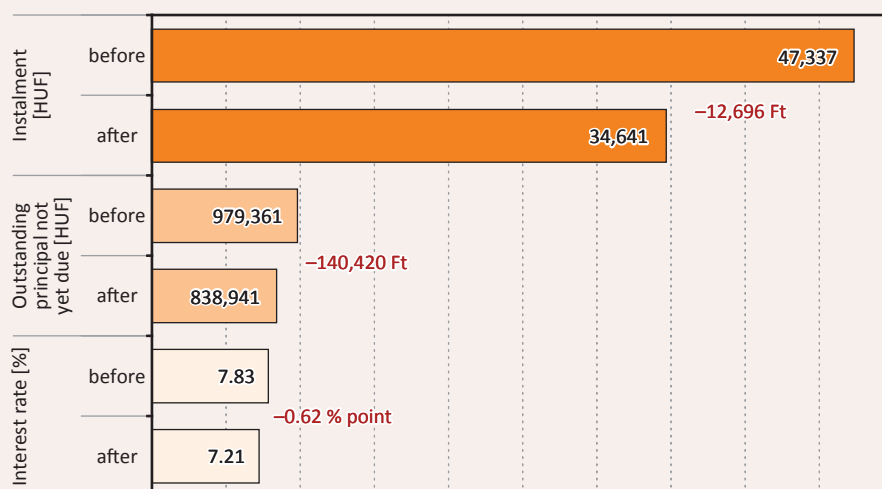
(HUF / percentage point)



Source: Data supplied by the institutions

Chart 7**Average change in the CHF-denominated car loans as a result of the settlement**

(HUF / percentage point)



Source: Data supplied by the institutions

The figures above do not reflect the impact of the settlements related to debts arising from terminated loan contracts, previously assigned to workout companies, in view of the fact that the effective settlement of the 230,348 debts belonging to this group is performed by the workout companies at the consumers' request.

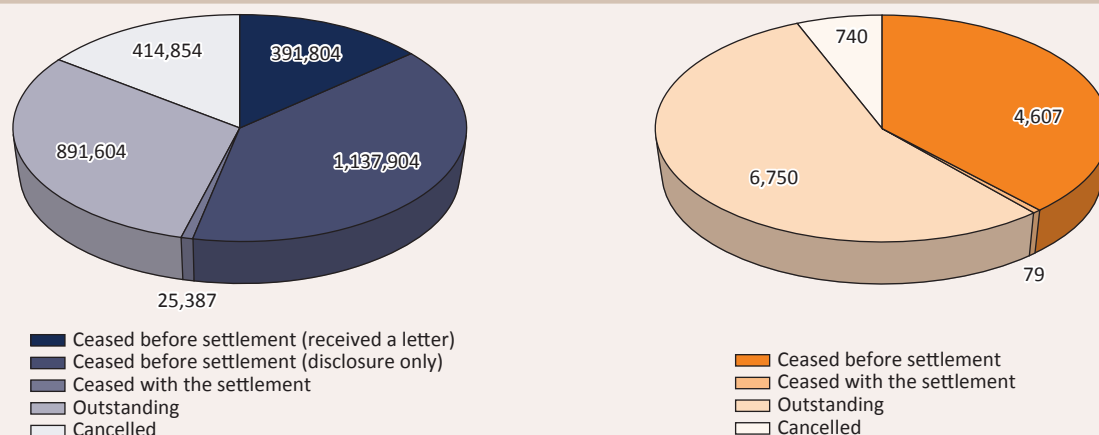
3.1.5 Impact of the settlement of forint-denominated and foreign currency loan contracts

The settlement impacted more than 3.2 million forint-denominated loan and lease contracts (2.8 million outstanding, ceased or terminated, and 0.4 million debts reversed from the lenders' books), and more than 12.3 thousand foreign currency loan and lease contracts.³

Chart 8

Number of the forint-denominated (left-hand chart) and foreign currency (right-hand chart) loan contracts by settlement categories

(pcs)



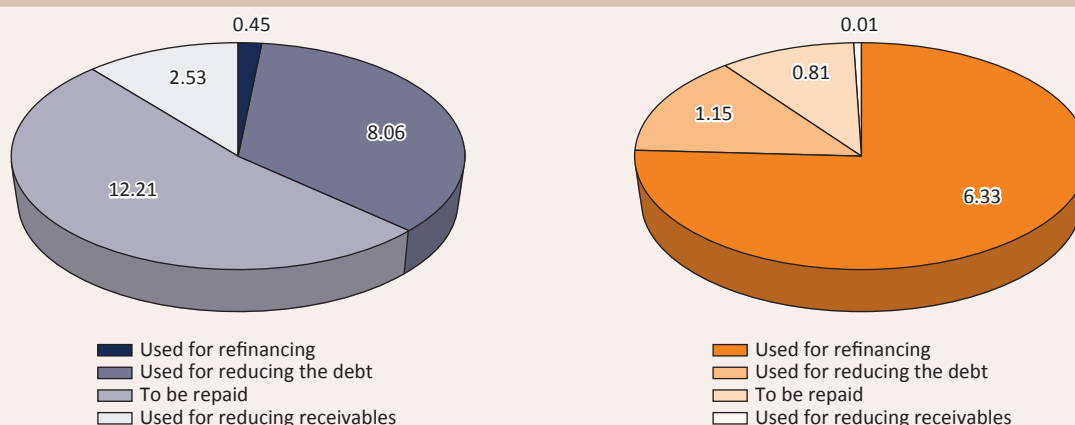
Source: Data supplied by the institutions

During the settlement of the forint-denominated and foreign currency loan contracts the institutions **repaid the formerly unfairly charged amount to the consumers in excess of HUF 31.5 billion**, which represented on average HUF 681,000 per foreign currency contract and HUF 13,000 per forint-denominated contract.⁴ It is important to note that the unfairly charged amount was considerably influenced by the type and currency of the respective contracts, the degree to which the given institution raised the interest rate unfairly and whether the consumer was late with repayments.

Chart 9

Distribution of the unfairly charged amount under the settlement in the case of the forint-denominated (left-hand chart) and foreign currency (right-hand chart) loan contracts and receivables

(HUF billion)



Source: Data supplied by the institutions

³ Chart 8 does not contain the portfolio managed by the workout companies.

⁴ For the purpose of averaging those settlements were not taken into account where the financial institution satisfied its settlement obligation in the form of disclosure. This impacts the forint contracts ceased before the settlement, where the interest, fee and cost were not increased unilaterally.

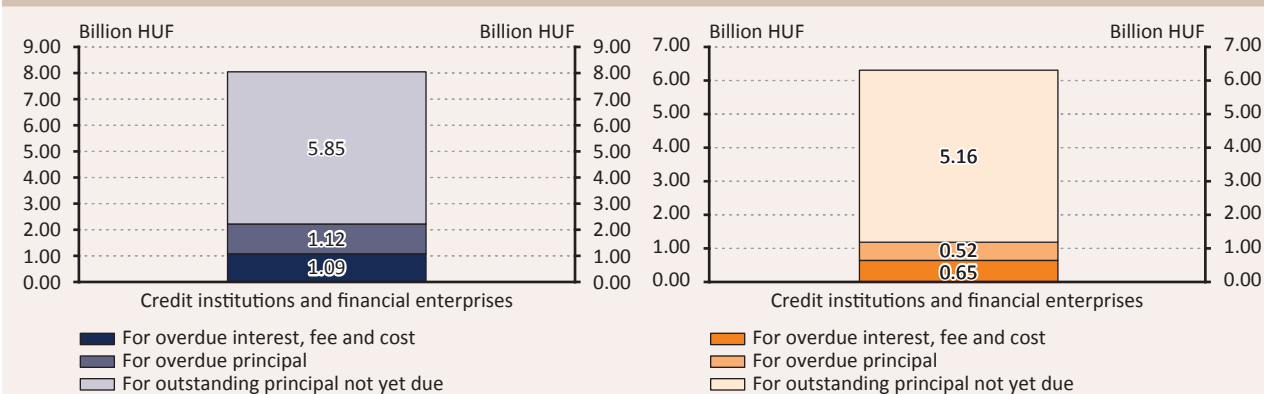
The institutions paid almost HUF **13.4 billion for the consumer loan contracts terminated** before or as a result of the settlement, which represents HUF 29,000/contract on average in the case of the HUF-denominated contracts and HUF 245,000 in the case of the foreign currency contracts.

In the case of the consumers that have outstanding loan contract following the settlement as well, the settlement reduced their debt by HUF 8.06 billion in the case of the forint-denominated contracts and by HUF 6.33 billion in the case of the foreign currency contracts. Of the reduction, in the case of the forint-denominated contracts HUF 2.22 billion, while in the case of the foreign currency contracts HUF 1.17 billion was used for overdue debts. **The outstanding, not yet due debt of the consumers decreased by HUF 5.85 billion and HUF 5.16 billion in the case of the forint and foreign currency loans, respectively.**

Chart 10

Details of the amounts used for settlement of the debts in the case of forint-denominated (left-hand chart) and foreign currency (right-hand chart) loan contracts

(HUF billion)



Source: Data supplied by the institutions

It is important to note that the impact of the forint-denominated loan and lease contracts' settlement in aggregate terms and also on average is smaller compared to the impact of the foreign currency-denominated settlement, due to the fact that a large part of the forint loans were tied to a reference rate, hence the former interest rate changes are attributable to the change in the reference rate. The impact of the foreign currency loan and lease contracts' settlement compared to the impact of the foreign currency-denominated settlement is lower only in aggregate terms in view of the low number of the foreign currency contracts. On the other hand, based on the above data it can be stated that the average unfairly charged amount in the case of the foreign currency contracts significantly exceeds the degree seen at the foreign currency-denominated contracts.

3.1.6 Settlement by workout companies

The MNB's settlement-related thematic inspection covered **96 workout companies**. The scope of the inspections conducted by the MNB also includes the **practice** of the workout companies to **provide information** related to the settlement on their websites, **the fulfilment of the prescribed disclosure obligation** at the customer service desks and the **review of the settlement method**.

During the thematic inspection the MNB verified in advance whether the workout companies apply the notification letter with the structure and content prescribed by the MNB, and the credit history statements to be attached to it. Following the preliminary review, the MNB reminded the respective institutions of the application of notifications complying with the law in the form of consumer protection warnings.

In addition, the thematic inspection also verifies in respect of several dates whether the workout companies cooperate with each other in the transfer of the settlement-related data.

3.1.7 Actions in the public interest

The **review of the General Contractual Terms and Conditions (GCTC)** applicable to the period after 26 November 2010 was another settlement-related duty of key importance. Based on the Settlement Act in March 2015 the MNB received data supply from 210 financial institutions with regard to the question whether they performed any contract modification between 26 November 2010 and 19 July 2014 that resulted in a unilateral interest, cost or fee increase (unilateral increase). Of them 138 financial institutions declared that they had not applied any unilateral increase, while 56 institutions – making use of the opportunity offered by the Settlement Act – made a submission declaration to the effect that they would make a voluntary settlement with the consumers with regard to the overpayment they had been made to pay as result of the unilateral increase. Until 30 June 2015 the MNB exercised its right to initiate an action in the interest of the public in respect of the remaining 16 financial institutions – 8 banks, 3 cooperative societies and 5 financial enterprises – that stated until 30 March 2015 that they had effected unilateral increase after 26 November 2010, and provided the MNB – as prescribed in the Settlement Act – with the excerpt of the GCTC containing the contractual terms providing for the possibility of unilateral increase.

Pursuant to the Curia Act, in respect of the general contractual terms and conditions and the contractual terms not negotiated individually (GCTC) – forming part of the forint-denominated consumer loan contracts and the foreign currency loan contracts not qualifying as foreign-currency denominated loan contracts (granted in foreign currency by the bank and paid back in foreign currency) – published after 26 November 2016 and modified after this date, containing terms that provide for the possibility of unilateral increase, it is not necessary to presume the unfairness of the contractual terms.

In this respect the Curia Act authorises the MNB to bring action in the public interest ex officio between 14 February 2015 and 30 April 2015.

The **MNB brought the actions in the interest of the public with the objective that the Metropolitan Court of Budapest should establish the unfairness of the terms permitting the unilateral contract modification unfavourable for the customers**, included in the GCTCs published or modified by the financial institutions involved in the action after 26 November 2010, and **hence the nullity thereof**.

16 of the 17 court cases initiated by an action in the interest of the public, as prescribed in the Curia Act, **were ultimately closed by the end of December**. Two financial enterprises affected by the actions committed to the settlement in a notarial deed already before receiving the statement of claim. The court cancelled the action against them. In the 5 actions closed by non-appealable judgement the MNB won the case in full or in part, as the court declared in a binding judgement those contractual terms – or most of them – unfair that in the MNB's opinion, stated in its actions in the interest of the public, were unfair. The action was closed with non-appealable judgement in six cases (including the action brought against Citibank Europe Plc.) at the court of first instance, while in eight cases at the appellate court. Seven financial institutions (OTP Bank Nyrt., OTP Jelzálogbank Zrt., CIB Bank Zrt., CIB Lízing Zrt., Magyar Cetelem Bank Zrt., UCB Ingatlanhitel Zrt., Sopron Bank Burgenland Zrt.) submitted a review request, but during the review procedures the judgements passed by the Curia essentially also resulted in the MNB's winning the cases. **As a result of the actions, the respective defendant financial institutions are obliged to settle accounts with the consumers also in respect of the period after 26 November 2010**, thus the MNB exercised its statutory right to initiate action in the interest of the public successfully, thereby ensuring the completeness of the settlement process.

If subsequently – in any proceeding launched by the MNB under the MNB Act until 31 December 2016 – the MNB obtains any information according to which a financial institution made a false statement that e.g. it had not performed any unilateral increase or its declaration was incomplete, the MNB will oblige the respective financial institution to submit the excerpt of the GCTCs that contain the provisions related to the unilateral increase, necessary for bringing an action. Thus the MNB may initiate actions in the interest of the public against these market participants as well, subsequently, even after 30 April 2015.

3.1.8 Settlement – consumer requests

In **2014 H2** almost 37 per cent of the money market-related requests, in total **658** requests for consumer protection procedure were connected with settlement-related issues. In Q3 twice as many requests (443) were received than in Q4 (215), which is most probably attributable to the fact that the laws related to the settlement were published since July 2014 and the procedure received increasing press coverage. It became clear for the consumers that in respect of a specific group of the consumer loans the settlement would take place in 2015, thus it cannot be precluded that the fall in the number of requests is attributable to this, i.e. the consumers took a kind of “wait-and-see” position. It also became clear that the **remedy possibilities would be governed by special rules**, as – depending on the response received with regard to the complaint submitted to the service provides – the route of remedy designated for the consumers in settlement case leads to the FAB. In spite of this, in 2015 23 per cent of the money market-related requests, 1,042 requests in total, were aimed at this subject. It is important to note that almost half of the requests related to the **foreign currency-denominated car loans**; however, in the case of all loan types the requests typically concerned first of all **eligibility and remedy issues**, as well as **deadlines and loan refinancing**.

Table 3
Distribution of settlement-related requests by loan type until 31 December 2015
(pcs)

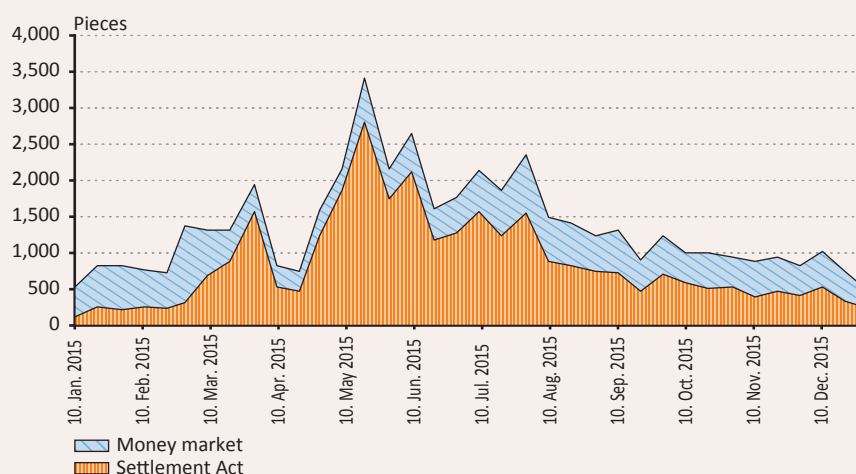
Loan type	FCY-denominated	Foreign currency	Forint	Total
Mortgage	418	12	11	441
Car	440	10	6	456
Other non-mortgage	132	2	11	145
Total	990	24	28	1042

Source: MNB

3.1.9 Settlement – experiences in the light of the customer service activity

As a result of the publication of the law in **2014 H2** already almost 9 per cent of the money market-related requests, i.e. **743 requests** concerned the issues of settlement, contract modification and conversion into forint. In the first half 2015 46 per cent, while in the second half 39 per cent of the questions related to the settlement. In the first and second half of 2015 altogether 17,780 and 12,043 questions – 70 per cent and 64 per cent – respectively, of the money market-related enquiries concerned this topic.

Chart 11
Development in the requests received by the MNB with regard to settlement issues, within the money market sector
(pcs)



Source: MNB.

The first half of 2015 was dominated by **general questions** and by enquiries related to **eligibility** and the **deadlines**, while during the second half of the year the most typical questions concerned the **notice letters**, the **conversion into forint** (mostly car purchase finance), the allowance deducted in the case of **preferential early repayment**, the **available remedies** and the **loan refinancing**.

3.1.11 Communication related to settlement

The MNB and the civil organisations cooperating with it provide intensive information and assistance through all communication channels to make consumers aware of the settlement-related issues, as well as of the available complaint and remedy opportunities. The central bank informs the customers through a knowledgeable customer service, detailed information on its website, video films and animated cartoons, thematic brochures and national civil information campaign.

With a view to inform a wide range of the consumers of the settlement process the MNB conducted a large-scale information campaign. The page views of the dedicated internet subpage exceeded **166,000** from January 2015 until the year-end. As part of the Navigator Booklet series a separate **“Things to know about the settlement and the conversion into forint”** booklet was also published on the MNB’s consumer protection page, while the central bank also issued the Financial Navigator Extra booklet entitled **“About the settlement in one minute”** in printed form in 500,000 copies. In its consumer communication the MNB strives to make the information easy-to-understand; the success of this effort is reflected by the fact that the information booklets issued on the settlement were elected as the most easy-to-understand publication in an internet survey on financial publications.

In addition to the above, focusing on providing easy-to-understand information, the MNB also helped consumers with video interviews and animated cartoons illustrating the settlement notice letters. Visitors viewed the **video interviews** and the **animated cartoons** published on the MNB’s website and on YouTube on **19,611** and **11,561** occasions, respectively.

The central bank also fostered the delivery of the main messages related to the settlement by two DTC (direct-to-consumer) advertisements and radio spots, broadcast from 23 March 2015 until end of April by 6 radio stations of national coverage and 17 regional radio stations, 4 public service and 18 commercial television channels.

As part of the supervisory press communication related to the settlement process, between 1 January and 31 December 2015 the MNB managed **328 press enquiries**, held **7 press conferences and background discussion with the press** and prepared **18 interviews with managers** and **25 press releases**.

Within the framework of the online and offline campaign a Facebook mini campaign was also launched, as a result of which **1,849,818 visitors** read the related comments on the MNB’s Facebook page in **2015**.

With a view to facilitate the provision of information to a wide range of consumers, as part of the Financial Consumer Protection Civil Network the MNB issued a tender in November 2014 for the civil organisations active in the area of financial consumer protection. Within the framework of the **tender** seventeen **non-profit organisations** were awarded aid in the amount of HUF 80 million. With this the MNB supported the set-up of a financial consumer protection **information network**, which – with a **nationwide coverage** – provides efficient assistance to the consumers also about the details of the Settlement and Conversion Acts. In order to ensure that the **information provided by the civil organisations** is of adequate professional quality, efficient and standardised, the MNB organised a **two-day training** in February 2015 for the cooperating civil organisations.

3.2 EXPERIENCES RELATED TO THE FUNCTIONING OF THE CAPITAL MARKET SECTOR; “BROKER AFFAIRS”

In 2015 Q1 the MNB revealed a chain of frauds committed by certain actors of the capital market sector for almost two decades and identified the process of these conducts, which most probably will also have criminal law consequences. The MNB revealed these illegal conducts at the respective institutions during the first comprehensive audit performed after taking over the sectoral oversight duties. The identification of these unprecedented cases was facilitated by the new supervisory and inspection methodology applied by the MNB. **By revealing these illegal conducts, the clear and immediate supervisory responses given to such conducts and the application of forward-looking measures, it became obvious that the assumption of the supervisory duties by the MNB have strengthened financial supervision and consumer protection in Hungary.** Due to the suspected abuses in spring 2015 the MNB launched a series of intensive targeted audits based on a new methodology at the capital market actors. The audits revealed no sector-level risks; however, in certain cases frauds with a magnitude of hundred billions were identified. As a result of this the MNB withdrew the activity license of three investment firms, pressed charges at the competent investigation authorities and initiated the winding-up procedure of the respective investment firms. The reports containing the findings of the series of audits, prepared in accordance with the relevant laws, were completed with the exception of one investment firm and two investment fund management companies, to which the MNB delegated supervisory commissioners as an immediate measure.

3.2.1 Buda-Cash Brókerház Zrt. and DRB banking group

During the audits conducted last year at **DRB banking group** the MNB found unusual securities transactions. In view of the **collective ownership** of the banking group and **Buda-Cash Brókerház** an immediate decision was made to bring forward the comprehensive audit of the brokerage firm by the supervisory authority due in mid-2015, thus it **performed a simultaneous, concerted audit at all impacted institutions**. This permitted the fast and simultaneous detection of the systemic and ad hoc institutional and transactional connections realised during the daily operation.

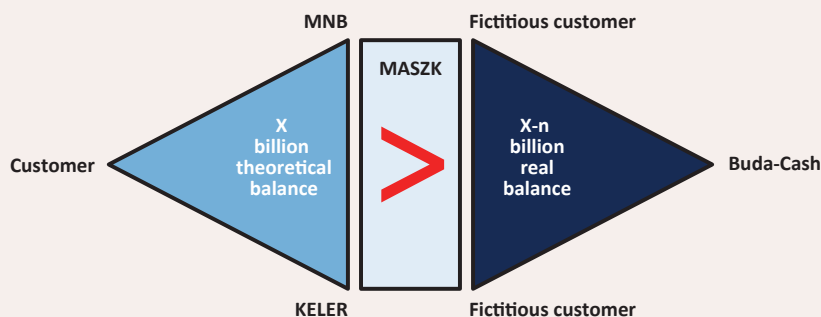
Based on the former targeted data requests and the data requested at the start of the on-site audit a **full backup was taken of the server files** of Brókerház and the hearing of two board members was held within the framework of the new supervisory methodology. After this, based on the facts, data and information deduced from the application of means of proof, the MNB pressed criminal charges as an immediate measure, suspended the activity licence of Brókerház and appointed an oversight commissioner. In the interest of protecting the investors, during the procedures the withdrawal of the activity license and the initiation of the liquidation also became justified.

In such and similar cases the **objective of the MNB, in addition to exploring the facts as thoroughly as possible, is to take the necessary and proportionate measures in due course for the protection of the investors, identify the risks jeopardising financial stability and ensure that the measures taken as a result of this point to maintaining the stability of the financial system.**

Based on the infringements revealed by the MNB during the inspection it was established that **Brókerház had since long reported false data in all of its reports and data supplies to the MNB, and had acted similarly also in respect of the confirmations and settlement statements sent to its customers.** The essence of this “masking technique” was that the settlement statements sent by Brókerház to its customers contained the data that the customers knew, thus in this respect the assets “theoretically” managed by Buda-Cash and the securities and cash portfolio indicated in the confirmations tallied. The MNB revealed that, contrary to this, Buda-Cash **falsified the accounting system by opening fictitious customer accounts, and performed transactions without customer orders** using the customers’ real cash and securities. The opposite leg of these transactions, concluded for own purposes, was booked to the fictitious customer accounts, hence the real customers were not, and could not be, aware of the fact that their securities and cash portfolio in fact no longer exists either

in part or in full. During the inspection Brókerház was unable to give account of the assets entrusted to its care in the amount of HUF 90-100 billion.

Chart 12
Simplified model of the method applied by Buda-Cash



Source: MNB

During the inspection the MNB also established that Brókerház had been applying the method outlined above for several years, taking care to ensure that all participants of the Supervisory Authority – KELER – Customer triangle have the same – theoretic – data.

The frauds revealed at Buda-Cash Brókerház Zrt. generated severe problems at the members of the DRB banking group, i.e. at DRB BUDA Regional Bank, DRB South Transdanubia Regional Bank, the South Transdanubia Savings Bank and the ÉRB North Hungary Regional Bank. The fundamental cause and source of the problem was that the **securities portfolio of DRB banking group was also managed by Buda-Cash Brókerház**. Brókerház issued false confirmation to the small banks as well, just like for the rest of its customers. Thus, according to the findings of the MNB, the customers' funds disappeared at Buda-Cash Zrt. **rather than at the banks**, since it disposed over the – mostly – securities portfolio entrusted to its care by the four small bank as its own, which **represented a portfolio deficit of roughly HUF 62 billion**. This was the fact that the MNB established during its inspection, based on which it had no other choice but to withdraw the banks' activity licence and initiate their liquidation, in view of the fact that **the magnitude of the one-off loss** to be written off by the banks was so large that their adjusted shareholders' equity became negative, and **the value of their assets was way short of covering the amount of the deposits and other liabilities**.

Following the launch of the connected inspections several ministries, the National Deposit Insurance Fund, the Investor Protection Fund and the Pénzügyi Stabilitási és Felszámoló Nonprofit Kft. conducted negotiations, at the MNB's initiative, to harmonise the measures to be taken in respect of the banking group and Brókerház, and to resolve the problems of the depositors and investors as soon as possible.

Based on the frauds revealed at Buda-Cash Zrt. the **MNB launched**, as an immediate measure, **targeted inspections at the institutions operating in the capital market sector** to verify if the investors' funds and securities do exist.

3.2.2 Hungária Értékpapír Zrt.

As part of the series of inspections an audit started also at the registered seat and the business site of **Hungária Értékpapír Zrt.** The **MNB identified circumstances suggesting suspicious cash withdrawals already on the first day**, the investigation of which confirmed the suspicion that **large amounts of customer funds were withdrawn and used by unknown persons based on unknown reasons without the knowledge and instructions of certain customers**. The procedure also revealed that certain customers of Hungária Értékpapír Zrt. transferred funds to **Biztonság-Trade Kft.**, a company with ownership interest, under the title of loan, but for the purpose of

investment, **which also raised the suspicion of performing unauthorised activity**. In view of this administrative finding the MNB initiated market surveillance proceeding against Biztonság-Trade Kft. The data from the proceeding confirmed that Biztonság-Trade Kft. was not always able to provide the funds necessary for the repayment of the loans and the unreasonably high yields (certain members of the group belonging to Hungária Értékpapír Zrt's ownership interest financed their activity through bond issue), and hence it was financed by Hungária Értékpapír Zrt., in a gravely illegal way, by the customers' funds and it acted likewise upon paying the consideration for the expired bonds. It was found in relation to the frauds that the **orders given by the customers were often not recorded** in the accounting system of Hungária Értékpapír Zrt., and **the financial assets that the customers wished to buy** from the amounts provided by them **were not purchased**. In order to conceal the frauds it developed a separate, paper-based manual record-keeping in parallel with the accounting system. The customers received the **balance reports** based on the paper-based records, which **contained false data**. The MNB immediately pressed criminal charges in this case as well, forthwith suspended the company's activity licence and appointed an oversight commissioner, and later on – in the knowledge of the results of the procedure – withdrew the activity licence and initiated the liquidation of Hungária Értékpapír Zrt.

3.2.3 Quaestor Group

As part of the series of inspections launched among the capital market institution, the MNB also initiated a targeted inspection at Quaestor Értékpapírkereskedelmi és Befektetési Zrt. In the case of Quaestor it is important to see it clearly that it operated for many years an authorised bond programme that was based on a prospectus and audited balance sheet profit, with a portfolio of roughly HUF 60 billion. **However, Quaestor raised funds roughly in the amount of HUF 160 billion – fully ignoring the relevant laws – independently of the lawful securities issue programme**. During its operation the investment service provider **gave the impression that it invested the funds paid by the customers as consideration for the bonds in the bonds issued by Quaestor Financial Hrvir Kft.**, however, in reality it only accepted the funds from the customers **without originating real securities**, i.e. it gave nothing in turn. The fraud materialised not within the framework of the lawful bond programme, but **by selling non-existent, bogus bonds in large volumes and issuing false confirmations**. Through Quaestor Pénzügyi Tanácsadó Zrt., as tied agent, the Quaestor group had a well-organised sales network and a customer base coming mostly from the country. The group's issuer member built a considerable debt portfolio through the bond programme, offering yields that exceeded the prevailing bank deposit rates. With the continuous quoting mechanism and sales model developed by Quaestor Értékpapír Zrt., it could make the impression of a liquid investment and a quasi "bank-like" operation. The investment service provider that performed the distribution relying on its experience of several decades could raise the misconception among the customers, even despite the warning of the higher than usual risk, that they invested in liquid financial instruments, and hence **they may have drawn the erroneous conclusion that the bond purchased by them – based on its risk characteristics – was closer to a bank deposit than to a capital market transaction**.

During the targeted inspection the MNB obtained information that raised the suspicion that Quaestor Pénzügyi Tanácsadó Zrt. performed activity that was subject to a licence or registration; the MNB inspects such activity with the framework of a market surveillance procedure. **Quaestor Értékpapírkereskedelmi és Befektetési Zrt. was unable to give account of customers assets – cash and securities – of about HUF 150 billion**. In view of the identified shortcomings and frauds, the MNB also immediately pressed criminal charges, suspended the company's activity licence and appointed an oversight commissioner. As it became obvious that the brokerage firm was unable to settle its debts as its assets did not cover the claims against it, the central bank withdrew the activity licence of the company and initiated its liquidation.

The **MNB created two separate subpages on its website related to the broker cases**, where the customers were assisted by regularly updated information, frequently asked questions and answers, press releases and media interviews. The **MNB customer service provided several thousand enquirers with information** and assistance in person, over the phone and e-mail.

3.2.4 Legislative changes

Based on the identified frauds the MNB made proposal for legislative changes that in the future help identify the operational risks faster and more efficiently. The changes also serve the strengthening and maintaining the trust.

In order to **reduce** both the customer and the prudential **risk it is an important new regulatory element** that pursuant to Act LXXXV of 2015, framed based on the MNB's proposal, with a view to modify Act CXX of 2001 on Capital Markets and to foster the development of the financial intermediary system, from 2016 the customers with securities account will have the opportunity to compare the data downloaded from the **internet-based balance enquiry interface operated by the MNB** – that relies on the compulsory data supply by the service providers, which is anonymous from the customers' point of view – with the statements sent by the service provider to them monthly, using a password and individual code. If there is any discrepancy it will be possible to send an immediate message to the MNB and to initiate reconciliation with the service provider based on the data file. It is an important element of the new data supply that the MNB can verify the correspondence of the data sent by the investment service providers and the portfolio data managed by KELER at service provider level.

At the MNB's proposal the act applicable to the sector also tightened the regulation in respect of the IT system of the investment firms; as a new requirement the compliance with the IT requirement must be attested by an external certification organisation, and such certificate is valid for one year after its issue. The service providers must operate a closed and **audited IT system** that is safer than before and provides the supervisory authority with immediate possibility of verification.

The MNB also formulated a proposal to apply stricter selection criteria and more efficient control system to the auditors authorised to work in the financial sector. As a result of this in the future only **auditors** fulfilling stricter requirements than before and **having the proper industry qualification** may operate at financial organisations. In the case of the issuers the introduction of the issuer auditor qualification was an additional tightening, accompanied by the rule that at any issuer a private individual may act as an auditor for maximum five years and thereafter he must not audit the same issuer for two financial years. In the future the auditors must forthwith report the facts revealed by them in several cases – e.g. upon suspected serious infringement or criminal offence – in writing to the MNB.

The **licensing requirements applicable to the executive officers** of the investment firms, fund managers and credit institutions were also tightened. Management positions at investment firm may only be filled by professionals of good business repute with minimum three years of financial-economic management experience.

The rules pertaining to the **segregation of responsibilities, the conflict of interest regulations and internal control points** also became much stricter. From 1 January 2016, due to a legislative change, the staff and employees of the investment firms must not dispose above the customers' securities accounts as the customers' proxies (with the exception of administrative cases).

It also **reinforces the internal lines of defence** that the investment firms and financial enterprises must appoint an internal auditor – registered with the MNB in advance – having proper professional qualifications and experience, and the credit institutions and investment firms with a balance sheet total exceeding HUF 500 billion, operating as private limited companies, must operate a **mandatory audit committee** for the decision-making.

In the future the rule that only those intermediaries may be registered by the MNB that have a principal institution will be valid in the capital market as well. The investment firm and commodity exchange providers – as principals – **must report to the MNB** if the contract with the given **intermediary is terminated**. In this case the MNB cancels the intermediary from the register.

It is a new regulation that all institutions of the financial sector must **publish** on their website (or in the absence thereof, at their registered seat) the operative part of the **central bank resolutions passed in respect of the institution**.

With a view to ensure the more efficient enforcement of the consumers' interests, just like in the case of other sectors, the **rules pertaining to complaint management over the phone have been tightened**, and institutions must **retain** the voice recordings of the complaints **for five years**, instead of one year and upon the customer's request they must issue the authentic, written minutes thereof within 15 days. The MNB Act permits the conduct of the consumer protection inspection upon request for 5 year retrospectively.

The security of the capital market is substantially strengthened by increasing the **indemnification obligation of the Investor Protection Fund (IPF) to EUR 100,000**. From 1 January 2016 the work organisation of IPF merges with the work organisation of the National Deposit Insurance Fund (NDIF), but the guarantee funds – due to their different nature – continue to operate separately. In cooperation with the legislator the MNB makes further efforts to make the investor protection rules more favourable for the customers.

With a view to ensure the safety of the financial markets and the customers the **MNB's powers to conduct inspection and take measures were reinforced**. The central bank may, if necessary – in accordance with the practice of a number of supervisory authorities in the EU – appoint on-site inspectors (conducting inspections, participating in the meetings of executive bodies) to the market participants for not more than 60 days.

In the future the **MNB**, in line with the legislative changes, will **conduct inspections** at the supervised market participants **more frequently** than before, e.g. in the case of the investment service providers every three years instead of every five years. As a new instrument, the Supervisory Authority may also launch **extraordinary targeted inspection**, if there is a suspected infringement impacting a high number of customers, carrying significant systemic risks or jeopardising market confidence. If it is so required for the fast and efficient inspection, the central bank may also invite **external experts** for its inspections. From now on, during the on-site inspections **immediate on-site audit** may be also applied at the supervised institutions, a measure that earlier was applied only at the unauthorised market participants.

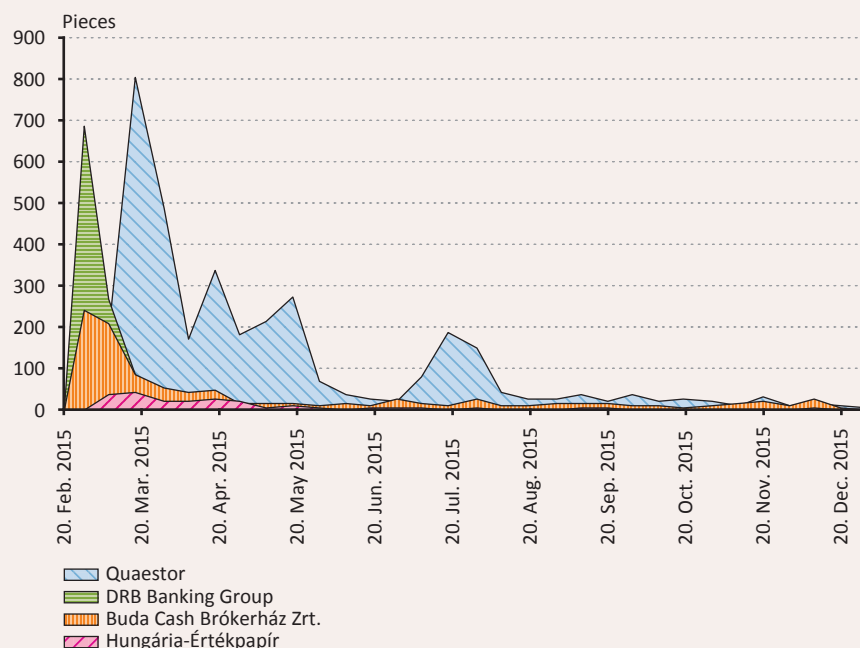
The inspections performed in accordance with the new supervisory methodology and the feedback from the consumers may significantly reduce the risks inherent in the future capital market account management and bond issue. As the legislative changes aimed at the improvement of the financial intermediary system enter into force, the domestic financial system – and particularly the investment services market – will become safer and more transparent.

3.2.5 Taking part in consumer protection

The **MNB informed the customers** about the capital market frauds **on a continuous basis, relying on several communication channels**. In 2015 it registered **more than 300 consumer protection requests**, and responded to over **6,000 customer enquiries received over the phone, in person or by e-mail**. On its consumer protection website it created a separate subpage, where it published a number of internet-based information materials, thereby informing the injured customers on the manner of claim settlement in an **easy-to-understand way with focus on the consumer**.

With a view to inform consumers and enhance financial skills, the MNB published a separate online brochure within the framework of the **Financial Navigator booklets series** entitled **"About bonds in one minute"**, which summarises the **characteristics and risks** of the various **bonds**.

Chart 13
Requests received by the MNB in relation to the broker affairs
(pcs)



Source: MNB

3.3 ASTRA INSURANCE BRANCH OFFICE IN HUNGARY

On 31 August 2015 the consolidated financial supervisory authority of Romania (ASF) declared Societatea Comerciala de Asigurare-Reasigurare **Astra S.A. Insurer insolvent in view of its distressed capital situation**, withdrew its activity licence and initiated the liquidation of the company. The Romanian insurer also operated a Hungarian branch office, thus it had Hungarian customers as well. The withdrawal of the activity licence in Romanian also had an impact on the operation of the branch office. In view of the fact that under the effective laws in the case of the Astra Branch Office the prudential (business reliability) supervision was performed by the financial supervisory authority of Romania, **the MNB represented the interests of the Hungarian consumers primarily at the negotiations with the Romanian supervisory authority and by making proposals for the Hungarian legislation.**

The Astra Branch Office was present in the Hungarian insurance market since 2010; in 2015 its **market share**, based on premium revenue, was **less than one per cent**. On 31 August 2015 its compulsory motor third party liability insurance portfolio comprised of 169,000 contracts, **thus the events that occurred at the insurer had no impact on the smooth operation of the domestic insurance market.**

3.3.1 Targeted inspection of the Astra Branch Office in connection with the withdrawal of the parent company's licence

In the case of the branch offices the prudential oversight related to the capital and financial position is the competence of the Romanian supervisory authority, but according to the European division of labour, **the MNB, as host supervisory authority**, oversees compliance with the consumer protection regulations based on the EU and national laws. Within these powers the MNB performed, among others, the inspection of the availability of customer service, the content of the information related to the insurance terms and conditions and the conditions of fair commercial practice to protect the consumers' interest. As a result of these inspections, **the branch office's communication-related conduct, unfavourable for the consumers, was remedied.** In addition to this, the MNB also inspected the procedures related to claim payments, as a result of which the claim payment procedure accelerated at the branch office.

With a view to protect interests of Hungarian consumers and the claimants affected by damages caused by customers having their compulsory motor third party liability insurance with the branch office, right before the implementation of the Romanian measure the MNB launched consumer protection targeted inspection at the Astra Hungarian Branch Office. **The inspection focused on ensuring that the Hungarian contractors and claimants receive adequate information on the emerged situation** and that the MNB has accurate information on the financial standing and liabilities of the branch office. Based on the temporary measure taken during the inspection the MNB **managed to achieve that the branch office was still able to satisfy the claims of about 300 claimants**. The MNB also took measures to **ensure the availability of all claim files** and data necessary for the indemnification activity in Hungary even if the branch office meanwhile terminates its activity.

The financial distress of the Romanian Astra Insurance also impacted the operation of the Hungarian branch office. The **MNB liaised with ASF as soon as** it obtained information on the contingency measures taken by the Romanian supervisory authority (ASF) responsible for the prudential oversight of the insurer's activity due to the insurer's poor capital and reserve position, and thereafter it all along **attached high priority to the interests of the Hungarian consumers and the customers of the branch office and to the maintenance of the stability and smooth operation of the Hungarian insurance market**. In the course of this it developed close cooperation with ASF, the success of which is reflected by the signing of the bilateral cooperation agreement (MoU) to ensure the efficient coordination of the oversight of the cross-border insurance activities. Since at present there is no uniform EU regulation with regard to the insurance indemnification funds, **during the negotiations with ASF the MNB regarded the discussion of the guarantee funds' indemnification obligation in a potential bankruptcy situation as a key issue**. The MNB continuously urged starting efficient consultations between the two country's guarantee funds, with the involvement of the competent European supervisory authority, EIOPA. Since ASF withdrew the activity licence of Astra Insurance with effect of 31 August 2015 and initiated its liquidation at the Romanian court, **the MNB pressed at ASF for ensuring the possibility** for the Hungarian customers to **use the Hungarian language** upon filing their claims with the Romanian guarantee fund (FGA). Pursuant to the relevant rules the Indemnity Account managed by the Association of the Hungarian Insurance Companies (MABISZ) provides coverage for the compulsory motor third party liability insurance (MTPL) contracts. In order to ensure continuous indemnification a change in the legislation was adopted **with the instrumentality of the MNB, pursuant to which the Indemnity Account managed by MABISZ advances the Hungarian MTPL claims**.

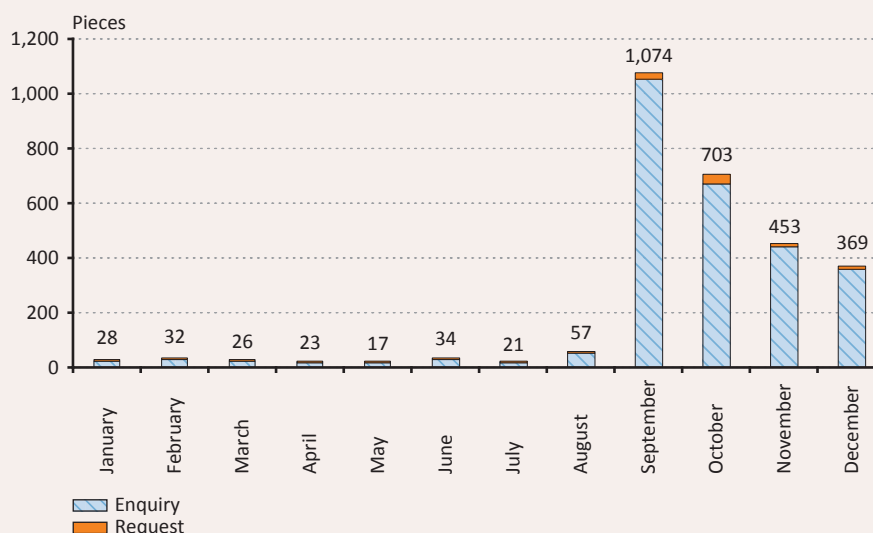
In mid-October the **MNB was informed by the insurance intermediaries and the customers that some of the insurers cancelled the MTPL contract** – concluded with the **new** insurer – of the registered keepers (drivers) that terminated their compulsory motor third party liability insurance at the Astra Branch Office by common consent until 30 September 2015, **with retrospective effect, if the Astra Insurer failed to register the termination of the former MTPL contract in the insurers' central claim history registration system (KKNYR)**. (In this case, upon enquiring on the claim history certificate the KKNYR indicates to the new insurer that the registered keeper of the given motor vehicle still has a valid insurance with another insurer for the first day of the new contract.)

In view of the fact that this practice is unfavourable for the consumers, the MNB published its position immediately, according to which – irrespective of the data included (or not included) in the policy register and in KKNYR in respect of the previous contract – **the insurers must accept the new contract as valid and record it in their internal register**. Pursuant to the **amendment of the Act regulating the compulsory motor third party liability insurance, adopted** by the Parliament **with urgency** and enacted on 8 October 2015, if the licence of an insurer operating a branch office in Hungary or rendering cross-border services is withdrawn by the parent country's supervisory authority (and the MNB is officially informed to this effect), **the Hungarian MTPL customers thereof may immediately take out a new insurance with another insurer**.

The MNB also warned that failure to change insurer carries significant risks for the respective customers, because from 1 December 2015 the Astra Branch Office was no longer able to provide the services related to the insurance activity (it could not issue premium payment confirmations and green cards, it failed to book the premiums and report data to the claim history register) and to reimburse the MTPL claims.

The **number of enquiries received by the customer service** in respect of the Branch Office was negligible until August, however it **soared** after the publication of the MNB's first notice on Astra. **The larger part of the enquiries concerned the MTPL contracts**, particularly the possibility of cancellation/concluding new insurance, claim settlement (claim report, claim inspection, payment) and the incorrect bonus-malus register.

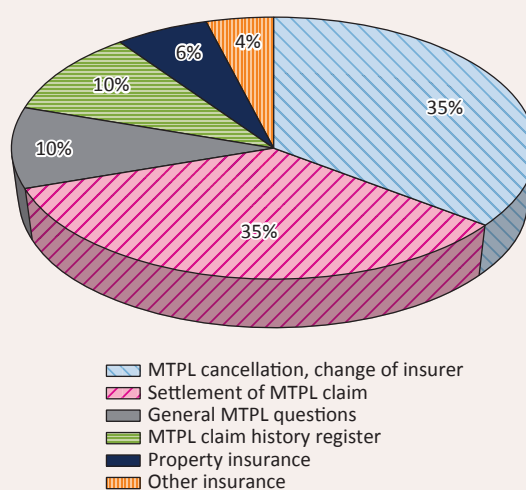
Chart 14
Enquiries and requests received in relation to the Astra Branch Office
(pcs)



Source: MNB

From September until the year-end the MNB registered **more than 100 consumer protection requests** related to the termination of Astra Insurance's services and the claims, and **responded to almost 2,800 customer enquiries received over the phone, in person or by e-mail**. On the **Astra subpage of its website** it published numerous important information and assisted the stakeholders with responses to frequently asked questions. **It informed the claimants about the measures they should take and the manner of claim settlement with this simple, easy-to-understand and customer-focused approach, also reflecting on individual problems.**

Chart 15
Distribution of enquiries by subject at the end of the year
(%)



Source: MNB

4 Consumer protection administrative activities

4.1 CONSUMER PROTECTION ADMINISTRATIVE PROCEDURES

In the reporting period the MNB's consumer protection activity was fundamentally determined by the framing of the regulation necessary for fulfilling the **extraordinary tasks related to the settlement**, the formulation of the responses to be given to the emerging construction issues and by ensuring that the tasks to be implemented by the financial institutions are fulfilled along uniform principles. The continuous control of the fulfilment of the financial institutions' settlement-related tasks and the prevention or termination of the conducts detrimental for the consumers also occurred as priority tasks and tied up a **substantial part of the resources**. **From 2015 Q1 until the closing of the process the MNB monitors the fulfilment of the settlement-related tasks within the framework of thematic inspections.** The report on the thematic inspection is included in Section 3.1 hereof.

The MNB continuously reviews and reforms its oversight methodology. The scheme of continuous consumer protection surveillance was introduced as part of the continuous consumer protection reform. The essence of this is that the MNB's designated consumer protection employees, being in charge of specific institutions, continuously monitor the consumer protection-related activity and commercial communication of, as well as the news and information published on the supervised financial institutions under their control. In addition, the designated employees will become familiar with the products of the institutions under their control, the special features and risk thereof, and the inspections launched at the given institution upon request will be also conducted by these employees. **The continuous surveillance is closely related to the inspection activity**, since based on the information obtained in the course thereof, substantiated decisions can be made on the ex officio inspections, thereby also making the oversight activity more efficient.

The MNB still gives priority to the ex officio inspections over the inspections launched upon request. In practice this means that it is likely or the experiences show that on a number of subjects mentioned in the consumers' submissions the MNB conducts ex officio inspection. **During the ex officio inspections the problems reported in the individual consumer's submissions are also inspected, judged and sanctioned.** According to the rules of procedure, in such cases the inspection launched on the basis of consumer request must be closed by a termination resolution. This may give the impression to the consumer that the MNB does not deal with his problem; however, it will be clear for the consumer from the resolution that the MNB inspects the problem reported by him in the framework of an ex officio procedure.

In the past period it was experienced on several occasions that as a result of the MNB's active consumer protection activity it was expected to show a firm conduct also on issues that the MNB has no or limited competence. On a number of occasions the MNB was expected to exercise its public authority powers in relation to the fulfilment of contracts, settlement disputes or direct enforcement of court rulings. The laws do not vest the MNB with direct supervisory powers on these subject, hence it is unable to live up to the – sometime excessive – expectations. In these cases the MNB diverts the conduct of the supervised institutions to the right direction by other, "soft law" means.

In addition to the settlement-related tasks the **MNB also placed great emphasis on the other consumer protection inspections.** In accordance with the statutory provisions, the MNB conducted the proceeding based on the consumers' requests in all cases, or on several occasions it launched ex officio procedures to inspect compliance with the key consumer protection measures impacting consumers the most. Below we present

the phenomena experienced in the reporting period, the inspection experiences and the other consumer protection administrative measures taken.

4.1.1 Inspection of compliance with consumer protection rules impacting all sectors and the results thereof

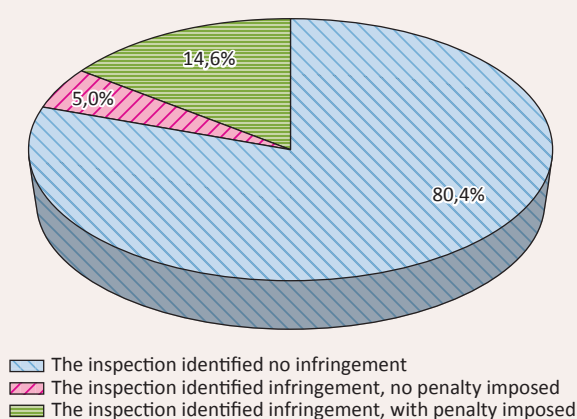
During 2014 H2 and 2015 the MNB conducted a **total of 1,172 consumer protection inspections, comprising of 1,146 consumer protection inspections and 26 comprehensive inspections.**

The largest part of the inspections affected the money market (63.5 per cent) and the insurance (34.1 per cent) sectors. 90.1 per cent of the consumer protection proceedings were launched upon request and 14.6 per cent of these inspections concluded with the identification of infringements. Based on this it may be stated that the inspections launched upon request still contribute to a lesser degree to the termination of the financial institutions' unlawful conduct than the ex officio inspections. **As regards the ex officio procedures infringement was identified in 65.5 per cent of the cases.** There are two types of ex officio procedures of the MNB. In the first case the ex officio procedure is connected with a procedure launched upon request. In these cases the consumer's complaint affects only one financial institution, however, it is possible that the transaction involves several financial institutions (e.g. change of insurers, contract concluded through a broker). In these cases, with a view to clarify the facts of the case in full, the MNB should launch an ex officio inspection also at the other financial institutions affected by the consumer's request. These ex officio inspections typically conclude without identifying any infringement.

Another type of the ex officio inspections include those launched by the MNB based on its own risk assessment. All of these ex officio inspections identified an infringement.

During the concluded 1,146 consumer protection inspections – considering all sectors – **infringements were identified in a total of 225 cases. At half of the ex officio inspections a penalty was also imposed in addition to the measure taken.** The distribution of the results of the consumer protection inspections concluded in the reporting period is illustrated by the chart below.

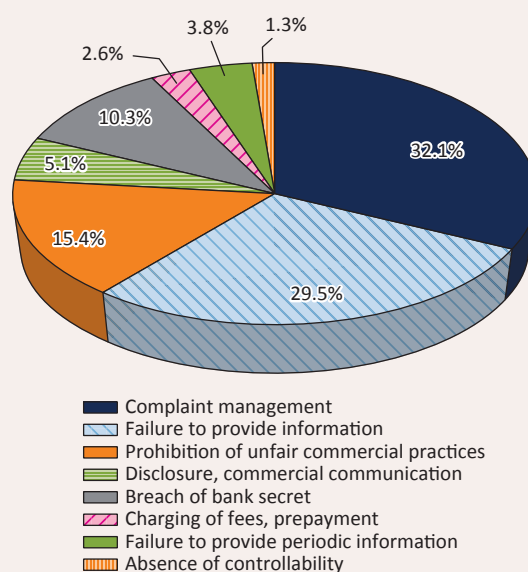
Chart 16
Distribution of the findings of the inspections concluded in 2014 H2 and 2015, in respect of all sectors
(per cent)



Source: MNB

In the reporting period the MNB revealed a total of 225 infringements during its consumer protection inspections. Most of the infringements related to **shortcomings in the complaint management procedures**, followed by the **failure to provide information** (repayment schedule, account statement, notice letter, CCIS, indemnification proposal) and **unfair commercial practices** (breaching the due diligence requirement and provision of misleading information). The most typical groups of infringements are illustrated by the chart below.

Chart 17
Major groups of infringements identified in 2014 H2 and 2015
 (per cent)



Source: MNB

During the inspections related to the **complaint management practice** the MNB most often revealed that the deadline prescribed for responding to the consumer's complaint was missed. It was a positive development that the degree of the delay in providing a response typically decreased compared to the experiences of the inspections performed in former years. In addition, the MNB identified shortcomings in the completeness of the information given in the responses and in the adequacy of the complaint management procedures; it also noticed on several occasions that the institutions failed to take minutes of the verbal complaint or they did not send it to the consumer as part of their response.

Complaint management was also a priority inspection area of the comprehensive and targeted inspections performed jointly by the consumer protection and the prudential areas. Complaint management infringements were identified and sanctioned in all comprehensive inspections.

During the reporting period trial transactions were made on a number of occasions; the employees of the MNB made 21 and 19 trial transactions in 2014 H2 and in 2015, respectively. As part of the continuous development of the inspection methodology, based on the experiences the MNB occasionally informed the managers of the respective financial institution during personal consultations shortly after the trial transaction about the finding, and instructed them by issuing temporary measures to terminate the criticised, infringing conduct immediately. Thereafter the MNB staff checked the specific measures taken by the respective institution to terminate the criticised conduct also during the on-site inspection and made repeated trial transactions to backtest the efficiency of the measures. **This method proved to be efficient, hence the MNB will continue to apply it in the future as well,** during the inspections.

Although it affects the conducting of the consumer protection procedures rather than directly the consumers, the **willingness** of the affected institutions **to cooperate** with the MNB should be noted here. During the inspections the MNB often found that the calls of the MNB were not responded or the response did not address the question asked or addressed it only partially. The response was received with delay on several occasions. With a view to restrict such conduct the **MNB resorts to the option of imposing procedural penalty for hindering the procedure.**

4.1.2 Money market sector

During 2014 the MNB launched a large number of inspections aimed at the topics that affect consumers the most. These inspections covered the **obligation to provide information** on the data forwarding to the Central Credit Information System (CCIS), the **information to be provided before concluding the contract**, the sending of the **repayment schedules**, the **charging of prepayment fees**, the compliance with the obligation to provide periodic information, the APR maximum, the **charging of fees and costs in foreign currency**, the compliance with the provisions of Section IV and V of the Code of Conduct, the compliance with the obligation to provide information in respect of the **accumulation account loans** and the **commercial communication**.

The MNB – in addition to its priority activity related to the settlement, conversion into forint and contract modification – placed great emphasis on the inspections providing a comprehensive picture of the consumer protection-related activity of the supervised institutions in 2015 as well, with a view to achieve the correction of the revealed systemic errors as soon as possible.

In the case of the concluded consumer protection inspections the findings were rather varying by institutions. It can be stated generally that the comprehensive inspections started in 2014 **revealed shortcomings in respect of the obligation to provide information related to CCIS, the commercial communication and the complaint management practice at several institutions**. The MNB attached special importance to the inspection of the compliance with the statutory provisions ensuring the protection of the consumers' financial interests and their right to proper information, and it identified the **non-compliance with the statutory deadlines related to the obligation of preliminary and subsequent notification of data forwarding to CCIS as a typical shortcoming**. As regards the complaint management, the MNB typically found omissions related to the content of the Complaint Management regulation and the deadline for responses at certain institutions.

In view of the type of the infringement and the continued existence or the elimination thereof, the MNB applied the measures of prohibiting the continued infringement, calling upon the institution to comply with the statutory provisions at all times, ordering the elimination of the identified shortcomings or the termination of the infringing situation, consumer protection penalty sanction and **reimbursement to the consumers**.

Box 4

Requirements pertaining to commercial communication

Within the topic of information provided to the consumers, the advertisements aimed at replacing product enquiries (advertisement, leaflets, posters, etc.) bear special importance. In this respect the MNB expects the financial organisations to ensure that its advertising is easy-to-understand, unambiguous and clear, and to give accurate and easy-to-understand information on any campaign (marketing, etc.) applied with a view to make the products recognisable and to sell them.

The MNB expects the financial organisations to do their best to provide the consumers with the most accurate information, hence during the inspections the MNB always monitors the notification of customers via advertisements and examines it upon the assessment of the financial organisations' activity.

In view of the outstanding lending-related business activity pursued by the financial organisations and their intermediaries during the Christmas period, affecting a wide range of consumers, and the frequent occurrence of the advertisements of the financial organisations and their intermediaries, **in November 2014 the MNB launched consumer protection thematic inspections at several financial service providers and intermediaries to establish whether they comply in their consumer advertising with the statutory provisions related to the definition, calculation and publication of APR**. According to the experiences of previous years a large number of consumers cover the year-end holiday expenses from consumer loans, thus enquiries on this loan type soar in November-December, and in parallel with the increasing demand the financial organisations commence

intensive advertising. In the thematic inspection the MNB reviewed the commercial communication of the market participants related to consumer lending in November 2014, in respect of the personal loans, hire purchase loans and credit cards. The APR communication and APR calculation of the respective financial institutions and intermediaries contained no serious irregularities with unfavourable impact on consumers. The MNB revealed infringement on one occasion, however – having regard to its weight and impact on consumers – it did not deem necessary to impose MNB penalty in addition to the other measures. In the inspected case the bank calculated the APR value with an incorrect cost amount; however, had the bank not indicated the APR value with an accuracy of two decimals – not expected by the relevant Government Decree – only a minor, 0.1 percentage point discrepancy would have been established among the inspected APR values. The Bank corrected the error without delay during the inspection, and thereby it eliminated the infringement.

Box 5

Supporting informed consumer decision

During the sale of typically low-amount, short-term unsecured household loans for consumption purposes it is extremely important that the financial institutions should provide the consumers with detailed and clear information before concluding the contract. The central bank continuously monitors the activity of the financial organisations and their loan broker, as well as their practice related to providing information to the consumers. **However, the intensive inspection by the MNB alone does not protect the consumers from signing loan contracts that in the future may represent for them unaffordable financial burdens or getting into a debt trap.** The chances of this may be reduced if the consumer apply for loans and the service providers grant them in a responsible way, the consumers thoroughly read the loan contracts and the related documents in advance, and the service providers cater for the undisturbed conditions of this. **It is important for the consumers to obtain information on the characteristics and the conditions of the financial services applied for, to think over the consequences of borrowing and whether any other additional financial product is attached to it** (e.g. credit card). It is even more important that the service provider should inform the consumers of the foregoing in a fair manner. **The making of informed decisions by consumers and the fair conduct of the service providers are supported by the central bank's consumer protection publications, and its "Loan and lease product selector" programme on its supervisory website.**

The MNB took successful actions against the service providers' conduct, particularly detrimental to the consumers, notice during the extension of pawn loans. The MNB noticed through external signals and its experiences gained during its continuous oversight and licensing activity that **certain pawnbroker market participants determined extremely short maturity for the loans – i.e. 1-3 days, instead of the general 30-180 days – and thereafter they apply grace periods of several months and various default charges.** The APR applicable to the loan maturities is maximised by law; in the case of pawn loans it must not exceed the central bank base rate plus 39 per cent. However, the default charges and costs payable during the grace period are not considered for the purpose of APR calculation, thus if under such schemes the repayment is not performed within the maturity of few days, the costs may considerably increase due to the non-contractual (late) performance. **The MNB informed the respective financial institutions about its consumer protection expectations related to the duration of the maturity,** and in the course of this, with a view to eliminate the criticised practice, it sent consumer protection warnings to 75 pawnbroker market participants in June 2015, in which it called upon the financial institutions to submit the business terms and conditions modified in line with the stipulated criteria and – upon relying on the services of intermediaries – the agency contract concluded with the intermediary, as well as the modified rules of procedures within 30 days for authorisation.

As a result of the consumer protection warning 20 pawnbroker institutions declared that they distributed products with maturity shorter than 30 days, and the majority of them – i.e. 17 pawnbroker institutions – phased out or committed to phasing out the products deemed by the MNB undesirable from their product offering. Based on the received responses the MNB conducts thematic inspection on lending at four pawnbroker institutions.

During the licensing the MNB pays special attention to preventing the issue of pawn tickets with maturity less than 30 days and in the future it will also monitor the trends in the pawn loan schemes applied by the market participant with special care and take immediate measures, as necessary.

Box 6

Importance of press monitoring

Consumer protection is a matter of common interest, hence the MNB can fulfil this function much more efficiently if it receives external signals about the problems. This case also highlighted the special importance of press monitoring in consumer protection. On the one hand, because in this way the MNB's staff can directly perceive the undesirable conduct by analysing the website and advertisements of the supervised institutions. On the other hand, press monitoring is important, because the articles published in various media may also raise the attention of the MNB's staff and encourage the consumer protection area to take further actions. The monitoring of the current consumer protection topics is also facilitated by the enquiries received by the MNB's press relations function. In this specific case the continuous oversight and the external signal jointly highlighted the problem. The consumer protection staff of the MNB have already analysed the problem based on internal signals, when the press made enquiries about the phenomenon.

The MNB imposed a total of HUF 6 million consumer protection penalty or adopted other measures after a thematic inspection affecting four workout companies – Díjbeszedő Faktorház Zrt., Dunacorp Faktorház Zrt., EOS Faktor Magyarország Zrt., IntrumJustitia Követeléskezelő Zrt. – due to violating the regulations related to the disclosure of bank secrets, and obliged the respective market actors to comply with the laws.

During the inspection the **central bank's staff** examined, **among others**, almost 1,000 **telephone conversations** per institution **between the workout company and the consumers**. At part of these the workout companies issued the information related to the respective consumer, representing bank secret, to their relatives or acquaintances, initiating the call. Part of the latter did have the verbal authorisation of the customers to learn about the bank secret; however, this could have not substituted the written authorisation and in the absence of a proper code the client identification was not performed either.

The **central bank also examined** whether the **workout companies comply with the supervisory authority's recommendation**. On the basis of this the MNB called upon the respective workout companies to adjust their practice conducted contrary to the HFSA Recommendation No. 14/2012 on the consumer protection principles expected to be observed during their activity.

Several workout companies notified the customer of the transaction, contrary to the provisions of the recommendation, not 15 days after **purchasing the receivable, but much later or not all**. Contrary to the supervisory regulation, they failed to issue the **confirmation** on the settlement of the debt within 30 days thereafter to the debtor, and – also contrary to the recommendation – after the completion of the workout procedure they **failed to repay the balance**, if any, **within 5 days** to the customer. Two workout companies provided **false, misleading information** to the debtors when liaised (telephone conversation) with the consumers, or even exerted **psychological pressure** on them.

The workout activity is a function directly affecting the distressed consumers, hence the MNB deems the control of compliance with the existing rules and the further tightening of the regulations extremely important. To this end the central bank will take further actions in the near future.

At the **financial enterprises** engaged in lending the typical infringements included, in the case of the loan contracts with integrated Casco, **the charging of the Casco premium in foreign currency**, the violation of the **complaint management rules** and the **breach of information**. In the case of the financial enterprises pursuing workout the MNB established non-compliance with the complaint management rules and the violation of **data management rules** as typical infringements.

Box 7**Importance of the responsible lending practices' element related to information**

In consumer protection terms the application and spread of responsible lending bears utmost importance, hence the **information provided to consumers** on money market products deserve special attention.

It is important to ensure that the financial institution continuously controls the practice of its employees engaged in lending and monitor the resolution of customer complaints. It is a fundamental objective to ensure that the financial service providers develop and use control systems that guarantee the proper quality of the products and information referred by them. **The consumer approach that gives priority to momentary short-term advantage upon selecting the product, even if he was warned about the dangers thereof, carries a special risk.**

Accordingly, the MNB expects the financial organisations to provide more thorough and detailed information to the consumers. The MNB expects the financial organisation to pay special attention, upon informing the consumers, to the elderly people, the products typically sold in large volumes, the financial products that are special due to their complexity or other features, and to the circumstances of the distribution of products delivered to the consumers via the internet.

4.1.3 Capital market sector

During the inspections conducted in respect of the capital market sector, the MNB typically established the violation of rules related to the obligation to **identify the customers**. This infringement is attributable to the fact that the agent and the consumer typically have a long-standing relation and they communication in the manner and through the channels defined by them in advance. However, the laws related to the customer identification must be observed in this case as well.

In the capital market sector a new, previously almost unnoticed, topic have come to the fore after the National Bank of Switzerland abandoned its previous practice of pegging the Swiss franc against the euro and at the same time reduced the key interest rate to – 0.75 per cent on 15 January 2015/ Thereafter the Swiss franc exchange rate showed an extreme appreciation within a short time, which had a major impact both on the national and the international foreign exchange markets and market participants. The **impacts** of this measure **highlighted the problems related to the Stop-loss orders**, as in the reporting period the MNB received a **large number of complaints** as to the fact that the customer's **Stop loss order** was executed not at the (activation) limit price specified in the order, but at a much lower price and this often generated extra losses in excess of the margin provided by the customers. Based on the complaints it became clear that part of the customers assumed that with the *Stop-loss* order the potential loss on their investment can be significantly limited or even precluded, i.e. **the customers were not aware of the essence of the Stop-loss order**; the risks of the order are described in Section 6.4.

In the case of these complaints the MNB's consumer protection inspection options are limited as the execution of or the failure to execute the Stop-loss order qualifies as a contractual dispute, hence during these inspections the MNB primarily focused on the inspection of the information provided in respect of the Stop-loss product. Based on the experiences gained to date, no information shortcoming occurred; the contractual documents included exhaustive information on Stop-loss.

The risk of the **leveraged transactions** is also related to the complaints. During the reporting period the MNB, within its prudential supervision powers, performed thematic analysis and inspection among the investment firms with regard to online trading platforms, due to their high risk. In the prudential inspection the central bank prescribed extraordinary reporting obligation for 22 investment firms, and conducted on-site inspection at 4 investment firms.

As it was established by the central bank's thematic inspection, there are 4 foreign providers (Saxo Bank A/S, InteractiveBrokers LLC., Gain Capital Ltd., Forex Capital Markets Ltd. [FXCM]), with whom the domestic investment firms typically concluded contracts. In the case of several domestic investment firms the transaction concluded on the **online trading platforms** – also due to the high leverage – account for the dominant part (70-80 per cent) of their turnover. It follows from the nature of the business model that there are also a few providers where this ratio is close to or even reaches 100 per cent.

Due to this the volume of principals' funds and margins deposited with foreign providers, as third party custodians, has significantly increased in the past years; according to the latest data it exceeded HUF 41 billion. On the other hand, the number of customers trading on the various online platforms and concluding high leverage transactions with investment firm rendering such services is relatively low. Taken together, about 6 per cent of their customers used this service.

According to the MNB's experiences the records were not always complete and up-to-date, and the investment service providers did not provide comprehensive information to the investors on the incentives. In connection with this topic the MNB intends to continue the enhanced inspection of the proper, prudent and legitimate use of the online trading platforms.

In respect of the capital market sector the non-resident enterprises the services of which are also available in Hungary in the form of **cross-border activity** deserve special attention. **The MNB has no supervisory powers** in respect of these enterprises, **nor a direct possibility to enforce consumer rights**.

Box 8

Risks inherent in cross-border services

IronFX, the Cyprus-based investment firm that renders cross-border service in Hungary, can be mentioned as an example. In the reporting period the MNB received a number of signals from the consumers, according to which problems arose in respect of the payments and they expected effective intervention by the MNB. However, in view of the fact that the said company is headquartered in Cyprus and, based on the EU regulation, the prudential and consumer protection supervision also belongs to the competence of the Cyprian supervisory authority, the MNB had no other opportunity but to notify the Cyprian supervisory authority of the consumers' complaints and reminded the consumers of the risks inherent in the investment firms pursuing cross-border services.

4.1.4 Insurance sector

The typical infringements identified at the **insurers and the independent insurance intermediaries** included the **breach of the obligation to provide** preliminary – or during the existence of the contract, periodic and after the termination of the contract, subsequent – **information, the provision of misleading information**, as well as the **breach of the rules prohibiting unfair commercial practice**, arising from the absence of due diligence, and the **violation of the data management rules**, where the majority of the infringements arose from the breach of the provision to provide information related to the claim settlement procedures (claim payment) and to the next insurance period.

In 2014 H2 and in 2015 ex officio inspections were conducted at several independent insurance intermediaries, as during the **trial transactions the MNB experienced the provision of misleading information not complying with the law or offering products not satisfying the customer's needs, on several occasions**. These intermediary practices solely related to life insurance products. It happened on several occasions that the independent insurance intermediary offered an investment vehicle rather than an insurance product to the MNB's employees, despite the fact that he confirmed the legitimacy of his activity with an MNB pass giving the right to pursue insurance intermediary activity. The failure to assess the requirements or to perform it in full was a general problem, and the intermediary often recommended a product that did not correspond to the

requirements. During the trial transactions the MNB experienced on several occasions that the information provided with regard to the activity pursued by the intermediary or to the recommended product was vague or contradictory.

The MNB closed the inspection launched at Netrisk.hu Első Online Biztosítási Alkusz Zrt. independent insurance broker in 2014 H2, where the MNB inspected the cancellation of the contracts of customers represented by the broker and the practice of forwarding the customers' proposals. The MNB imposed a penalty of HUF 7 million for the infringement – **absence of due diligence and misleading, unfair market practice** – identified during the said inspection. The essence of the sanctioned practice was that the independent insurance brokers, acting on behalf of the contractor, specify in their cooperation agreements with the insurers a so-called grace period for the cancellations and the forwarding of the proposals, of which they do not inform the customers they represent, thus the customers commission the broker to fulfil their cancellation and the new proposal assuming that it is fulfilled immediately, simultaneously with their instruction. However, the brokers forward those orders only within the grace period specified in the agreements concluded with the insurer. The MNB deemed the practice misleading and contrary to the rules of due diligence, which occasionally may also generate severe financial losses to the customer. Based on the inspection experiences the MNB launched a thematic inspection covering several independent brokers with a view to identify and terminate the unlawful practice.

During the inspections mentioned, the MNB also reviewed the websites operated by the insurance brokers. The MNB found in several cases that the website did not contain full information, particularly with regard to the presentation of the nature of the pursued activity. Due to this fact, **the MNB obliged the respective intermediaries to redesign their websites to clearly segregate the various money market, investment and insurance intermediary activities performed by the intermediaries.** During the inspection of the independent intermediaries the MNB paid special attention to the inspection of the compliance with the data management rules at the intermediaries that pursue several types of intermediary activities (money market, investment, insurance).

During the consumer protection inspection conducted at **KÖBE Közép-európai Kölcsönös Biztosító Egyesület** the MNB found that in the reporting period the insurer sent the notice containing the **information** on the insurance renewal and the premium expected in the next insured period **with delay** – later than the fiftieth day preceding the last day of the insured period – **in 5,757 cases** to the consumers. In addition, it provided this information in the form of **notifications qualifying as commercial advertising** in the case of **80,611 contracts where the renewal corresponds to the calendar year** and **29,428 contracts with non-calendar year renewal.** With its conduct affecting a wide range of consumers the insurer restricted the consumers' ability to make an informed decision with regard to exercising their right to cancel the insurance to the insurance renewal date, or to cancel their contract on a timely basis, i.e. at least 30 days before the insurance renewal date. In its resolution concluding the inspection the MNB imposed a consumer protection penalty on the insurer in the amount of HUF 3,000,000.

In order to inspect the contracting practice of NN Biztosító Zrt. in the context of consumer protection the MNB concluded trial transactions at the insurer. Based on the experiences of the trial transactions it could be **established** at the institution **that prior to making the pension insurance and unit-linked life insurance contracts, the analysis of the needs and the filling of the proposal took place in electronic form.** The needs analysis form and the proposal were completed in all cases by the insurer's sales staff. Despite the fact that the content of the needs analysis and the proposal was not known to the MNB's employees after making the proposal, they were not provided with the opportunity to look at data recorded in the computer either in electronic or in printed form. In the document entitled "Declarations to the life insurance proposal captured by NN Biztosító Zrt. in electronic form" the "contracting parties" performing the trial transactions had to sign the following declaration:

– *"The filling and closing (clicking on the "close" option) of the electronic proposal took place with my approval and in my presence after having checked and approved the data and responses recorded/provided therein;*

- *I am aware of the fact that after the closing the content of the needs analysis and the electronic proposal cannot be modified;*
- *I am aware of the fact that the insurer will deliver the electronic proposal in printed form, as a confirmation of the content thereof, simultaneously with the policy documentation, at the latest.”*

Accordingly, in the document entitled “Declarations to the life insurance proposal captured by NN Biztosító Zrt. in electronic form” the insurer made the consumers acknowledge that they verified the specified data and responses, the filling and closing of the electronic proposal was made with their approval, despite the fact that this was not the case.

By not providing the consumers with the opportunity prior to the finalisation of the proposal to familiarise themselves with the content of the needs analysis and the proposal, the insurer did not allow the consumers to verify the content of these documents and decide on the basis thereof whether the proposal recorded in the insurer’s system related to an insurance contract that satisfies their real needs. Based on the experiences of the trial transactions the MNB established that the insurer pursued **misleading commercial practice**.

By sending the documents related to the given insurance product in electronic form to the consumers before making the proposal and capturing the consumers’ proposal without their prior familiarisation with it, the insurer deprived the consumers of the possibility to make a declaration – after opening the link included in the e-mail, downloading and reading the documents – that they are familiar with the content of the documents provided to them and to make the insurance proposal on the basis of that. Furthermore, according to the MNB’s finding, the insurer’s practice that it regards the opening of the e-mail by the consumer as the familiarisation with the content of the documents, does not comply with the statutory requirements. **The opening of the e-mail does not guarantee that the consumers can download the documents from the link and learn the content thereof,** i.e. the insurer was unable to confirm in a provable and identifiable manner that it provided the consumers with easy-to-understand, clear and detailed written information on the main data of the insurer and the characteristics of the insurance contract.

In addition, during the trial transaction the insurer provided the MNB’s employees with a document entitled “Declarations to the life insurance proposal captured by NN Biztosító Zrt. in electronic form”, which applied to the acceptance of provisions related to a completely different insurance product than the one selected by the MNB’s employees. The MNB established that this practice of the insurer, i.e. that it made the consumers accept provisions that were irrelevant to their contract, was suitable for misleading the consumers in respect of their rights or the risk of the potentially detrimental legal consequences arising from the transaction.

After weighing the legal nature of the identified facts, **the MNB applied immediate temporary measures to protect the consumers’ legal and economic interests, thereby preventing the occurrence of further breach of the consumers’ interest. As part of the temporary measure,** the MNB obliged the Insurer to

- **provide the consumers, prior to making the proposal, with the opportunity to read the needs analysis and to accept the content thereof;**
- **provide the consumers with the opportunity, prior to making the proposal to read the proposal, and accept it in a provable manner;**
- **integrate an in-process control in the contracting with the consumers that provably ensures that the documents – related to the given insurance product and made available to the consumers in electronic form – are read by the consumers before making the proposal in accordance with the statutory provisions.**
- **Furthermore, it prohibited the insurer to continue its unlawful conduct, according to which in the document entitled “Declarations to the life insurance proposal captured by NN Biztosító Zrt. in electronic form” it makes the consumers accept a provision that is irrelevant to their contract.**

The MNB monitors the fulfilment of the provisions included in the temporary measure.

As a conclusion of the inspection the MNB imposed a significant consumer protection penalty on the insurer in the amount of HUF 12,000,000. On the other hand, in part of the trial transactions the MNB revealed no infringement, and during the inspection the central bank also **identified a number of positive, forward looking consumer protection measures at the insurer.**

In 2015 the MNB conducted a targeted consumer protection inspection at **NOVIS Poist'ovňaa.s.** (pursuing cross-border activity) insurer, in the course of which it established that

- in the period under review **the information provided** by the insurer **in respect of the suspended asset funds was not in full compliance** with the statutory provisions **in terms of content and time**, and
- in respect of several hundreds of contracts it provided the **information related to consumers' rights to cancel the contract** not simultaneously with the provision of the information on the creation of the contract;
- in several cases it informed the consumers within 30 days from the creation of the contract on their **right to cancel the contract**;
- in connection with the information provided on the purchase price of the investment units related to the unit-linked life insurances and the net asset value of the assets funds – when providing the information on its website – the insurer **failed to meet** its obligation to **provide regular public information on the purchase price of the investments units related to the unit-linked life insurances and the net asset value of the asset funds**, on each working day with daily update.

The MNB informed the Slovakian supervisory authority on the result of the inspection.

In the 13 **comprehensive inspections** performed jointly by the consumer protection and prudential areas and closed in the reporting period, the priority inspection areas included the **complaint management by the insurers**, all statutory provisions prescribing the obligation to provide information in respect of the compulsory motor third party liability insurance (MTPL), and the obligation to provide information in advance upon concluding the life insurance contract on a mandatory basis, continuously during the existence of the contract and after the cancellation of the contract. In 2014 H2 and in 2015 infringements of the laws prescribing the information obligation were identified and sanctioned in all comprehensive inspections; the MNB in all cases verifies the fulfilment of obligations to remedy the infringements. **In view of the shortcomings identified during the comprehensive inspection, on 13 November 2015 the MNB ordered the suspension of the distribution of KÖBE Biztosító's compulsory motor third party liability insurance product as a temporary measure.** According to the measure, KÖBE Biztosító must fulfil its obligations arising from the already concluded compulsory motor third party liability insurance contracts, however, it must not accept the proposals submitted after the receipt of the temporary measure, including also the insurance of additional motor vehicles belonging to vehicle fleets. In the temporary measure the MNB also obliged the insurer to forthwith notify about this circumstance the registered keepers of the cars the proposals for which cannot be accepted.

The MNB inspects the insurers' **MTPL tariff announcements** as part of its continuous surveillance. In 2014 H2 the insurers announces new tariffs on 46 occasions, in 2015 H1 on 35 occasions and in 2015 H2 on 48 occasions. In 2014 H2 the MNB applied administrative measure on one occasion with regard to the 2015 **MTPL** campaign related to calendar year-based renewals; no infringement was identified in respect of the 2015 H1 tariff announcements. In the reporting period the MNB examined in further two cases – at Generali Biztosító Zrt. and Union Biztosító Zrt. – in an ex officio inspection whether the insurers always calculated the insurance premiums based on the announced premium tariffs. The inspections were closed without identifying any infringement.

4.1.5 Funds sector

In respect of the funds only a few consumer requests were received both in 2014 H2 and in 2015, i.e. 23 and 35 in total, respectively, of which only 3-4 submissions per year are inspected, in view of the fact that most of the complaints are related to the settlement or to issues falling outside the scope of the MNB's supervisory authority competence. Experiences show that the consumers' complaints mostly concern the yield calculation or the enforcement of irregular payments.

In the reporting period, during the inspection of the **funds** the MNB found the infringements related to **data management** as the most typical infringements, for example in those cases when upon the contacts over the phone the fund did not observe the requirements related to the identification of the customer.

4.2 MEASURES TAKEN DURING THE CONSUMER PROTECTION INSPECTIONS AND AS A RESULT OF THOSE

It should be noted that the magnitude of the penalties imposed in 2015 was fundamentally determined by the fact that the activity of the consumer protection authority focused on the comprehensive inspection of the settlement process, as described in Section 3. In view of the fact that all information related to the subject is provided in Section 3, in this section only the measures taken in the other consumer protection inspection are presented.

During the consumer protection inspection it is a priority objective to eliminate the identified infringements as soon as possible, hence it forms part of the inspection methodology that during the inspection the MNB obliges the inspected institutions to terminate the infringements by issuing temporary measures. It was a **positive experience** that in a number of cases it was not necessary to issue the temporary measure, as the inspected financial institutions terminated the infringing situation immediately – during the inspection – after the detection thereof.

In order to prevent the future occurrence of the identified infringements the MNB may apply the measures stipulated in Section 88(1) of the MNB Act. In the case of certain infringements, the measures applied by the MNB depend on a number of circumstances; in each case – in the absence of statutory provisions to the contrary – the measures are determined considering the individual circumstances. Upon the application of the measures the MNB bears in mind primarily the following **considerations**:

- the degree to which the infringement or omission jeopardises the enforcement of the consumers' rights;
- the impact of the act on the consumers (e.g. impact on the consumer's decision, negative impact on the consumers);
- the fact of financial damage caused by the infringement or omission and the magnitude and degree thereof, if it can be established, the fact of the non-financial damage, willingness to mitigate the damages;
- the cooperation of the representatives of the responsible organisation with the MNB;
- the good or bad faith of the organisation impacted by the measure; the financial advantage realised by it through the infringement or omission;
- concealing or intention to conceal the data, facts or information underlying the measure; and
- recurrence and frequency of the infringements.

In the case of infringements the MNB in all cases applies, in addition to imposing a consumer protection penalty or – more rarely – waiving it, other measures as well. Of those the following measures are applied regularly:

- calls upon the institution to comply with the necessary measures and laws, and to eliminate the identified shortcomings;
- orders the termination of the infringing situation;
- prohibits the continued infringement.

Depending on the nature of the infringement, **the MNB obliges, by setting a deadline, the offender to eliminate the identified errors and shortcomings**, prescribing the notification of the MNB about the measures taken to this end. When defining the penalty amount the objective of the MNB is to impose a penalty the **magnitude of which is sufficiently dissuasive for the future**.

During the consumer protection proceedings launched ex officio or upon request and closed until the end of 2015, **penalties were imposed on 89 institutions, including the penalties levied as a result of the inspections performed jointly with the prudential area, but not including those applied during the thematic inspection related to the settlement. The total amount of the penalties was HUF 202,850,00⁵** and it exceeded HUF 1,000,000 in the case of 41 institutions. The highest penalties were imposed, in addition to the actors of the insurance sector, on the financial enterprises participating in car finance and the workout companies, which highlights the fact that these institutions committed infringements that are more serious or affect more consumers, compared to their market share, than the actors of the other market segments.

⁵ The statistics on the imposed penalties is included in the appendix.

5 Consumer protection customer service activities

5.1 CONSUMER PROTECTION CLAIMS⁶

The MNB receives and manages the consumer claims through several channels, i.e. by post, in person, via the Government Window and the e-government portal, in e-mail and via the Office of the Commissioner for Fundamental Rights. However, in view of the weight of the SME sector and its special role in the context of national economy, the MNB also **pays special attention to the signals received from the micro, small and medium-sized enterprises**. It is the duty of the submission management function to **provide assistance and information**, always bearing the consumers' interest in mind, **in high professional quality and in accordance with the laws** in respect of both the general and the individual issues and problems. In addition to providing information to the customers, with a view to **support microprudential supervision**, address new risks as soon as possible and detect the deviations in the market in a timely manner, it **continuously monitors the information received from the consumers**, thus it operates the system of ad hoc signals fostering swift supervisory intervention.

In 2014 H2 there was a significant, about 49 per cent **fall** in the consumer claims, compared to the previous half year. This is primarily attributable to the fact that the number of requests contesting the validity of the foreign currency-denominated loan contracts concluded via the car dealers – as intermediaries – peaked in 2014 H1, i.e. there was a major increase in the number of requests received in the first half-year – compared to the previous periods – rather than a substantial decrease in the number of requests received in the second half-year.

In 2015 there was once again a significant change: in the first half-year **the number of requests increased by almost 1.5 times**, while in the second half-year a **year-on-year growth of 13 per cent was measured**. The striking change is clearly attributable to the settlement of the consumer loan and lease contracts and their conversion into forint, as well as to the problems revealed with regard to the capital market intermediaries. The significant rise in the number of requests during the spring period was caused by the withdrawal of the activity licence of the DRB Banking Group, Hungária Értékpapír Zrt., Buda-Cash Brókerház Zrt. and the Quaestor group.

5.1.1 Distribution of consumer protection requests by the channel of submission

In 2014 H2 the average number of requests received per month was **384**, which rose to **556** in 2015 H1 and decreased to **435** in 2015 H2. 91 per cent of the requests were submitted by post, 3 per cent via the e-government portal, almost 0.6 per cent via the Government Window, 0.3 per cent via the Office of the Commissioner for Fundamental Rights, 0.4 per cent in e-mail and 4.7 per cent of them were submitted by the customers in person at the customer service.

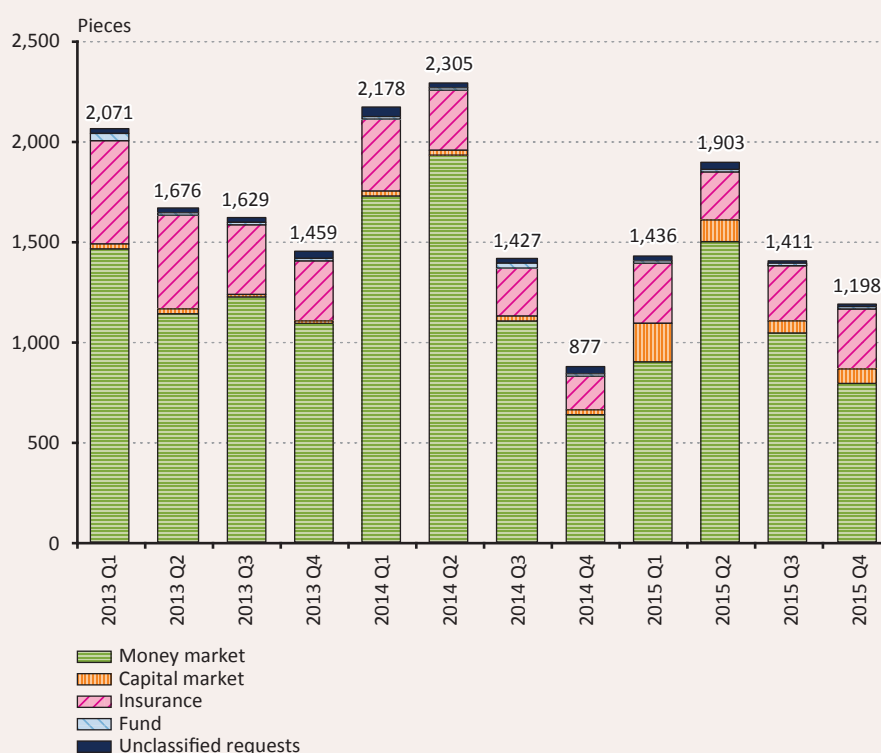
5.1.2 Distribution by sector⁷

In 2014 H2 the MNB received **2,304 requests in total**, which is almost a 50 per cent fall compared to 2014 H1, due to the aforementioned reasons. Compared to this, **2015** yet again brought a significant change; the submission management functional area received **3,339** and **2,609** consumer requests in the **first and second half-year**, respectively.

⁶ **Consumer claims** are claims meeting the substantive and formal requirements defined in legislation and examined by the MNB in the context of administrative consumer protection proceedings, to assess whether the operations of the financial organisation under review comply with the consumer protection provisions set out in the relevant legislation.

⁷ For a more detailed analysis of the most typical types of the request and their breakdown by sectors see the annex.

Chart 18
Developments in the number of requests received by the MNB, by sectors
 (pcs)



Source: MNB

During the period under review, the **requests were still dominated by those related to the money market sector**. It applies to the requests as well that **those related to the settlement had a major share within the money market data**. In 2015 a total of **4,262** requests were received in respect of the money market sector, which on average exceeds the 1,758 requests registered in 2014 H2 by 21 per cent. The majority of the questions related to lending, and particularly to the **foreign currency-denominated consumers loans** (977) and to the clarification of the legal status of the **agents** in respect of the foreign currency-denominated **car loans** concluded by the intermediaries (301).

The other major change can be identified in respect of the **capital market sector**. In the previous periods, in half-yearly terms, requests were received in negligible volume, only some fifty of them. However, in spring 2015 the problems revealed by the MNB in respect of the operation of the brokerage firms fundamentally changed the situation, and enquiries related to the capital market intermediaries soared. While in **2014 H2** only **41** requests were submitted, the number of requests received in **2015 H1** increased almost 6.5 times to **305**, followed by **131** requests received in the **second half of the year**. 81 per cent of the requests related to the service providers holding a license for rendering investment services. The requests related to the **institutions in liquidation** accounted for **67 per cent of all capital market requests**; of those 18 requests related to Hungária Értékpapír Zrt., 113 to Buda Cash Zrt. and 162 to the Quaestor case.

In the case of the requests related to the **insurance sector**, the **420** requests received in **2014 H2** represents a fall of roughly 36 per cent in 2014 H2 compared to 2014 H1. In **2015 H1** a growth of 29 per cent was observed compared to the last six months of the previous year, with the number of enquiries increasing from 420 to **541**; this is mostly attributable to the increase in the number of requests related to **compulsory motor third party liability insurances** (197), **other property damages** (71) and **unit-linked life insurances** (68). In 2015 H2 **572** requests related to the insurance sector; **46 per cent of these related to the MTPL contracts** (263), almost 20

per cent to life insurances (113), 16 per cent to home insurance (93), 10 per cent to other property damages (54) and the remaining part to other insurances. The number of requests related to the Astra Branch Office (88) and KÖBE (15) in the second half-year accounted for 35 per cent of all requests related to the insurance sector.

The number of requests concerning the **funds sector** is still marginal; in **2014 H2 and 2015 H1 merely 23-23 requests** were received, followed by only **12 requests in 2015 H2**.

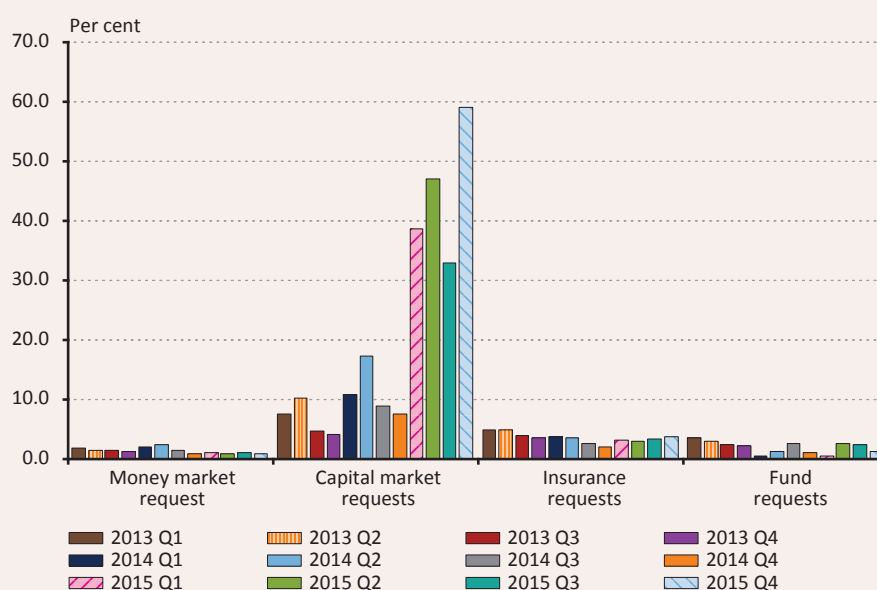
5.1.3 Claims filed in proportion to institutional complaints⁸

The quality of the complaints management in respect of the complaints received by the institutions is an important elements of financial consumer protection. The following chart illustrates the proportion of requests filed with the MNB's supervisory area as a percentage of total complaints filed with institutions. The "Requests filed with the MNB as a proportion of institutional complaints" indicator **expresses the effectiveness of the institution's complaint management procedure**. If the indicator is low, it may be assumed that a major part of the consumers' complaints is resolved during the complaint management by the institution, hence the **management of complaints on the merits forms part of the institutional culture**.

Chart 19

Claims submitted to the MNB as a per cent of institutional complaints, in a sectoral breakdown

(per cent)



Source: Data supplied by the institutions and MNB.

The largest **change** in the reporting period clearly occurred in the **capital market sector**, where the number of complaints received by the MNB reached half of the complaints received by the institutions in 2015 Q4. The increased activity is related to certain actors of the sector failing to act prudently and to the events raising the interest of consumers to a great degree (broker affairs), discussed in more details in Section 3.2 hereof. Even ignoring the capital market anomalies in the first two quarter of 2015, the ratio applicable to the sector is still outstanding, which highlights the fact that the consumers using the investment and **capital market services face proportionately a much larger number of problems than the users of the services provided by other market sectors**. The MNB will pay special attention in the future as well to the supervisory and information activity related to the ca] sector, and to the development of the small investors' financial skills and the financial literacy.

⁸ The indicator was calculated on the basis of the institutions' mandatory data supply of 29 January 2016 with regard to the money market, capital market and funds sector and of 1 February 2016 with regard to the insurance sector.

The ratio identified in the **money market sector did not change materially**, despite the implementation of the statutory measures related to the settlement, conversion into forint and ethical banking, which brought major changes in respect of the loan and lease contracts. However, it should be noted that for the calculation of the indicator we used not only the number of the consumer lease and loan contracts, but also all other money market consumer contracts, including the retail payment account contracts.

The indicator related to the insurance sector is significantly higher than that applicable to the money market sector; accordingly, the consumer protection areas also pay special attention to the insurance sector, in addition to the capital market sector.

The **number of complaints related to the funds sector is extremely low**, hence no substantial conclusion can be made.

5.1.4 Institutions with the highest number of claims compared to their market share⁹

The tables below show the ranking of the credit institutions, insurers and financial enterprises by their **market share based on the consumer contracts in the reporting period and the ratio of customer complaints received per 1,000 contracts, reported by the institutions**. The tables include those credit institution and insurers that in 2015 Q4 had at least 10,000 consumer contracts, and the financial enterprises that had at least 5,000 consumer contracts in 2015 Q4.

In the case of the capital market and funds market participants this data range cannot be interpreted, primarily due to the market concentration and the low number of complaints. Based on the institutions' data supply, in the case of the investment service providers merely four providers had a customer base of more than five thousand consumers, i.e. the market is extremely concentrated. Based on the data supplied by the institutions, the number of complaints in the period under review did not exceed four hundred on a quarterly basis, while the number of requests submitted to the MNB did not reach two hundred even at the time of the broker scandals. In the case of the funds, according to the data supplied by the institutions in the last six quarters merely 165 complaints were registered for 1.2 million pension fund contracts, while only a few tens of requests were received by the MNB on quarterly basis.

Table 4

Credit institutions ranked 1 to 5 in terms of complaints based on the 2015 Q4 data

	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4
Name of institutions	Number of complaints per 1,000 consumer contracts					
Porsche Bank	14,9	13,0	32,1	176,2	40,6	25,0
Banif Plus Bank	7,8	5,6	6,1	180,0	147,6	17,4
Citibank	21,4	20,1	20,1	11,3	12,3	12,1
ERSTE Bank	6,8	6,7	6,4	17,9	7,5	8,0
Raiffeisen Bank	4,7	5,7	6,0	10,6	10,9	6,9
Name of institution	Ranking					
Porsche Bank	2	2	1	2	2	1
Banif Plus Bank	3	5	4	1	1	2
Citibank	1	1	2	7	3	3
ERSTE Bank	4	3	3	5	6	4
Raiffeisen Bank	7	4	5	8	4	5

Source: Data supplied by the institutions

⁹ The rankings were calculated on the basis of the institutions' mandatory data supply of 29 January 2016 with regard to the money market, capital market and funds sector and of 1 February 2016 with regard to the insurance sector.

In 2015 Q2 the **credit institutions** received a **higher number of consumer complaints** compared to the former ratio of a few thousandths, which is attributable to the management of the changes connected to the **settlement** adjusting the past lending practice of the market participants, declared unfair by the Curia and the enactment of the laws introducing ethical **banking**. The consumer complaints submitted in the second quarterly caused a major change in the sequence of the list compared to the relatively stable situation in the previous three quarters. The larger changes in the sequence can be explained by the increase in the number of complaints received in 2015 Q2 with regard to the foreign currency-denominated car loan contracts.

Table 5**Insurers ranked 1 to 5 in terms of complaints based on the 2015 Q4 data**

	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4
Name of institution	Number of complaints per 1,000 consumer contracts					
CIG Pannónia Életbiztosító	2,5	3,4	3,4	3,6	3,4	4,3
Generali Biztosító	3,9	2,8	2,6	2,6	2,9	2,7
Magyar Posta Biztosító	0,9	1,0	1,3	0,8	1,1	1,4
GENERTEL Biztosító	0,9	1,4	1,4	1,0	1,1	1,1
KÖBE	0,7	0,7	0,6	0,6	0,6	0,9
Name of institution	Ranking					
CIG Pannónia Életbiztosító	3	2	2	1	1	1
Generali Biztosító	2	3	3	2	2	2
Magyar Posta Biztosító	6	6	7	6	4	3
GENERTEL Biztosító	5	5	6	5	5	4
KÖBE	9	11	11	9	9	5

Source: Data supplied by the institutions

In the case of the **insurance sector** the ratio may be steadily measured in thousandth, which is much more favourable compared to the money market sector. The number of complaints per one thousand contracts has slightly increased at CIG Pannónia Életbiztosító at the end of the reporting period. The vast majority of the complaints related to the unit-linked life insurance products; the consumers typically reported problems to the provider with regard to information shortcomings and other administration matters.

Table 6**Financial enterprises ranked 1 to 5 in terms of complaints based on the 2015 Q4 data**

	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4
Name of institution	Number of complaints per 1,000 consumer contracts					
Lombard Pénzügyi és Lízing	78,7	62,4	66,0	305,8	288,9	134,6
AEGON Magyarország Hitel	6,7	5,7	7,9	157,5	40,4	25,9
Budapest Autó	10,4	8,4	13,9	49,3	99,5	20,1
MKB-Euroleasing Autóhitel	22,2	12,7	13,4	211,1	31,2	16,2
FINALP (korábban: SUMMIT)	4,0	4,2	5,1	8,1	11,3	12,5
Name of institution	Ranking					
Lombard Pénzügyi és Lízing	1	1	1	1	1	1
AEGON Magyarország Hitel	7	8	7	4	3	2
Budapest Autó	6	7	2	7	2	3
MKB-Euroleasing Autóhitel	2	3	3	3	4	4
FINALP (korábban: SUMMIT)	9	9	9	9	9	5

Source: Data supplied by the institutions

The **number of complaints** received by the **financial enterprises** (mostly car loan and car lease companies) **increased**, similarly to the credit institution sector – or, if weighted by the contract portfolio, even exceeded it – while there was no significant change in the sequence quarter on quarter. This suggests that the problems related to the management of the settlement cases appeared in higher numbers at those service providers where the general complaint ratio was higher than the average also before the settlement period.

5.2 CONSUMER PROTECTION – CUSTOMER SERVICE ENQUIRIES¹⁰

The MNB's customer service receives the signals of the consumers through **three channels**, i.e. by e-mail, over the phone and in person. The key mission of the customer service is – always bearing in mind the consumers' interests – to provide **assistance** and **information** in high professional quality, in a **fast** and **easy-to-understand** manner in respect of both the general and the individual questions and problems.

In 2014 H2 there was a negligible **decrease** in the number customer service enquiries compared to the previous period; however, there was a major change in 2015 – the **number of enquiries in annual terms increased by 2.3 times to 71,918 enquiries** compared to the 31,226 enquiries registered in the previous year. One of the **reasons** of the striking change is clearly the **settlement** of the consumer loan and lease contracts, and the **conversion** of the foreign currency-denominated contracts into forint.

In spring of 2015 the withdrawal of the activity license of DRB Banking Group, Hungária Értékpapír Zrt., Buda-Cash Brókerház Zrt. and Quaestor group increased the number of enquiries, while in autumn the emphasis shifted to the problems related to the Astra Branch Office and KÖBE. The customer service activity played a major role in the management of the situations, as the consumers requested both general and specific information on the situation, the things to do and on the indemnification process in large numbers¹¹.

¹⁰ **Enquiries** are questions and signals received by the MNB's customer service in e-mail, over the phone or in person that cannot be examined in the context of administrative procedure and the purpose of which is to obtain general information.

¹¹ For a more detailed analysis of the customer service enquiries, see the annex.

6 Risks of consumer protection nature

This chapter presents the **risks** identified by the MNB that **may have major impact in consumer protection terms**.

The risks identified earlier and presented in the previous publication, along with the backtesting of the related measures will be presented; in addition, it will deal with the disappearing, recurring and newly identified critical risk elements that the MNB deems worth mentioning based on the current market trends. The MNB compiled the newly identified risk factors based on the present market trends, the received public authority petitions, the experiences from the inspections and the enquiries received by the customer service desk.

The MNB also considers the perceived exposures and their change when compiling the administrative inspection plans, thus the critical subjects enjoy priority during the designation of the priority target inspection areas.

Similarly to the previous report, each identified risk can be allocated to an action matrix based on 4 categories according to the relative effect and the size of affected consumer groups.

Table 7
Action matrix according to the relative effect of risks and the size of the affected consumer group

Relative effect ↑ Severe Minor	Needs assessment, action to be taken, if necessary <i>Field „C”</i>	Comprehensive official action <i>Field „A”</i>
	To be assessed and monitored <i>Field „D”</i>	Calling attention to it, action to be taken, if necessary <i>Field „B”</i>
	Minor	Severe
	Size of the effected group →	

In the case of the risks affecting a broad group of consumers, with potentially larger impact (category “A”) more substantial measures may be necessary, while in keeping with the principle of necessity and proportionality and depending on the potential consumer damage relatively more moderate measures may be necessary in the other categories(sequentially, categories “B”, “C”, and “D”).

6.1 BACKTESTING OF THE RISKS IDENTIFIED IN THE PREVIOUS PERIOD AND PRESENTATION OF THE RELATED MEASURES

With a view to prevent, mitigate and eliminate the risks identified in the previous period the MNB has taken a number of measures. Part of the measures were implemented with the use of the new instruments applied in the oversight activity, a partial element of which is the efficient and easy-to-understand communication applied in parallel with the continuous inspections.

Risk title / Category	Measures taken
Inappropriate management of the payment difficulties by the consumers A	 During the last one year the MNB issued a number of publications to inform the consumers. The Financial Navigator booklets were published both in online and printed form. The publications related to payment difficulties include the following: “Information on the danger of indebtedness” “What to do in the case of payment difficulties” “What to do to avoid the cancellation of the loan contract” “What to do upon the cancellation of the loan contract” The listed booklets contain useful information, and the publications are supplemented by TCR films and Facebook comments.
Litigations related to the foreign currency-denominated loans, large volume of consumer protection problems A	The settlement process interrupted the foreign currency litigations in progress. The MNB has no competence in the litigations, but it continuously monitors the news related to them and the results thereof, and assesses the consumer protection impacts.
Risk of insufficient principal instalment in the case of combined credits A	In June 2015 the MNB expressed its position in a management circular to the insurers and credit institutions with regard to its expectations related to mortgage products combined with life insurance (combined products), with special regard to the institutions’ conduct to be shown during the conversion of the foreign currency-denominated mortgage loans into forint loans, also bearing in mind the customers’ interests. The outlined expectations call upon the institutions to give maximum consideration to the customers’ interests, and in particular for the insurers and the lending banks to cooperate on continuous basis, including the sharing of data and important information. The institutions must assess the difference between the amount that is likely to accrue during the term of the insurance contract and the payment obligation outstanding on the basis of the mortgage loan contract, and for the management of such difference they must recommend customised solutions considering the customers’ interests and not generating unaffordable extra burden for them. As a good practice to manage the difference, the management letter primarily recommended solutions that maintain the existing insurance contract, emphasising that in the case of a material negative difference the institutions that originally elaborated and sold the product should apply mutually allowable discounts. The MNB performs the backtesting of the management circular in 2016 Q1.
Unilateral fee increase and account termination A	In 2014 the inspection covering the entire credit institution sector was completed, which focused on examining whether the institutions had performed the unilateral modification of the bank account and bankcard fees, commissions or charges in the past period in accordance with the laws. In the course of this, in four inspection phases the MNB imposed a total penalty amount of HUF 1.86 billion and applied some sort of administrative measure in respect of 142 institutions. At the same time, the MNB obliged the respective institutions to reimburse the respective institutions for the unlawfully charged fees. As a result of this several thousands of financial consumers were reimbursed for the unlawfully charged fees and costs. In the second half of the reporting period the number of consumer requests related to unilateral contract modification, the introduction of new fees or changed fee calculation method was negligible. During the examination of the consumers’ submission the MNB identified no infringement.

Risk title / Category	Measures taken
Misselling A	In 2015 H1 ex officio inspections were conducted at several independent insurance intermediaries. The test transactions were often characterised by misleading information not complying with the laws and the offering of products not satisfying the consumer's needs. It happened on several occasions that the independent insurance intermediary offered an investment vehicle rather than an insurance product to the MNB's employees, and provided vague and contradictory information with regard to the activity performed by him. With a view to identify sales practices detrimental to the consumers, the MNB concluded trial transactions, described in Section 4.1.4, also at NN Biztosító, which entailed the imposition of a substantial penalty due to the identified infringements. During the inspections mentioned, the MNB also reviewed the websites operated by the insurance brokers. The MNB found that the website did not contain full information, particularly with regard to the presentation of the nature of the pursued activity. Due to the infringements the MNB took measures in all cases. Experiences show that it is still justified to treat misselling as an priority, existing risks. The problems cannot be solved solely by inspection tools; those should be eliminated through the incentive schemes of the financial institutions.
Knowledge of the renewal date necessary for terminating the MTPL contract B	The consumer information letters bear utmost importance in respect of the compulsory motor third party liability insurance (MTPL). The insurers must provide information to the consumers upon concluding the contract, during the term thereof and upon termination, by the statutory deadlines. The MTPL or the cancellation thereof may have consequences impacting all traffic participants, hence it is the fundamental obligation of the insurers to comply with their information obligation in all cases by the statutory deadline, and in certain cases in a provable manner. The MNB pays special attention during the ex officio inspection proceedings to the inspection of compliance with the information obligation related to the compulsory motor third party liability insurance products. The experiences of the inspections show that there are shortcomings in relation to the MTPL contracts with non-calendar year renewal date, since in the case of these individual contracts each information obligation has individual deadline. A lesser and lesser part of the contract portfolio has calendar year renewal date, hence there are heightened risks in this area.
Risks inherent in the increasing use of cash B	With a view to mitigate the risks inherent in the use of cash, the MNB equipped the new banknotes with several security features to protect it from counterfeiting. These include elements visible to the naked eye and others that can be identified only with special devices. The banknotes contain security features of similar appearance found on all denominations, while some of them are applied only on certain denominations. The central bank's website contains detailed information on the banknotes.

Risk title / Category	Measures taken
Setting and raising credit facilities without request, dispatch of credit card without request B	On the whole, the MNB does not have a wide range of consumer protection tools in this area, as these behaviours represent contractual disputes. In this area the MNB may only influence the supervised institutions by “soft law “ instruments.
Other risks inherent in the use of credit cards B	The MNB calls the consumers’ attention to the use of credit cards and the inherent potential risks also in the Financial Navigator booklet series, and formulates recommendations with regard to the reasonable use of the product.
Irregular MiFID testing B	During the inspections conducted in the reporting period the MNB paid special attention to the inspection of customer information in transactions subject to MiFID testing; however, it was unable to prove such actions based on which, considering the severity and the impact thereof on the consumers, an infringement to be regarded as a conduct gravely damaging the consumers could be established. The MNB will consistently inspect all consumer and public authority enquiries in the future as well, and if necessary – e.g. the consumers submit an increasing number of complaints against a given institution with regard to MiFID testing – the MNB will forthwith launch consumer protection inspection at the service provider affected by the complaints.
High cost level of pension insurances C	Previously a large number of signals were received in respect of the pension insurances objecting to the high costs; due to this on 26 May 2014 the MNB issued a recommendation with regard to pension insurances, which entered into force on 1 July 2014. As a result of the recommendation the TCI^{Ny} bands prevailing in the pension insurance market substantially shrank, and the expensive unit-linked products were ousted from the market. The lower values of the TCI^{Ny} value fell consistently below the values stated in the recommendation, and none of the upper bounds exceeded that by more than 2 percentage points. For more information on the ethical life insurance concept see Section 6.5.
Online platforms, high leverage transactions, trading robots C	In connection with the online trading platforms the MNB has already inspected the domestic investment firms this year (see Section 4.1.3) and it plans to inspect the proper, prudent and lawful use of these platforms in the future as well. The MNB audits the operation of the already functioning models – if there is a suspected infringement – within the framework of market surveillance procedure. An official position was prepared in respect of the topic, which was also published. Detailed and continuously updated information on the topic is available on the MNB’s website.
Risks related to CCIS list C	During the consumer protection targeted inspections carried out at a number of financial institutions as part of the comprehensive settlement of the unfair lending practices – with reference to Section 4.1.2 – the MNB also inspected whether prior to contracting the financial institutions provide proper information with regard to CCIS, and whether they inform the consumers prior to submitting the default-related data to CCIS and thereafter in accordance with the effective statutory regulations. For the summary of the experiences gained during the targeted inspections with regard to the data forwarding to CCIS see Section 4.1.2 hereof.

Risk title / Category	Measures taken
Financial risks inherent in product road shows C	During the trial transaction the MNB did not identify – in part as a result of the MNB's firm actions in 2014 – any infringement with regard to the information provided prior to concluding the loan contract, however it still found the loan brokerage activity conducted at the product road shows disquieting, in view of the fact that the consumers do not have sufficient time to make a responsible decision on the borrowing. In December the Parliament adopted an Act, also impacting the Credit Institution Act, according to which it is forbidden to refer financial services, i.e. consumer loans, to the consumers during the product road shows. Thus the buyers are allowed a few days for deliberation before borrowing, as a result of which the risks inherent in the product road shows, mostly jeopardising elderly people, will also cease.
Fiduciary asset management C	The new Civil Code (Section 6:310) permits the pursuing of fiduciary asset management activity. The asset manager manages the assets transferred to its possession by the asset owner in its own name to the benefit of the beneficiary; the disposal – management – rights related to the asset management and the owner position are separated. Due to the foregoing the regulation of the asset managers' activity bears utmost importance. This activity has two types, i.e. fiduciary asset management for business and for non-business purposes. Fiduciary asset management for business purposes is subject to supervisory licensing, while it is sufficient to register the fiduciary asset management for non-business purposes. According to the MNB's records the number of the received licence applications is negligible; to date 4 applications of both types have been registered. The MNB withdrew the activity license on one occasion, As regards the future, it is not precluded that further risks, impacting the consumers, may arise, since at present there is no data supply or oversight obligation in this respect. The MNB only has powers to inspect the availability of the operational conditions of fiduciary asset management for business purposes.
Investments in physical gold C	Gold as an investment includes bullions or gold coin of prescribed purity and defined minimum weight. The MNB website contains continuously updated information on the product. The investment in physical gold – despite its name – does not belong to the investment products overseen by the MNB, it is not covered by the NDIF or IPF guarantee, and the related sales activity also falls outside the scope of investment or financial services.
Unauthorised provision of services C	The MNB reminded the consumers that before concluding a contract they should obtain information on the product they intend to use and whether the selected provider is duly licensed for the activity. The consumers have the opportunity to verify on the MNB's website the license of the enterprises rendering investment services and their registration with the "Search for market participants" application. It is also important to ascertain whether the license of the given enterprise is for the activity that the consumer wishes to use.

Risk title / Category	Measures taken
Car purchase financing activity of financial enterprises before 2010 C	In 2014 H2 enquiries related to the foreign currency-denominated car loan contracts contracted through the car dealers, as intermediaries, soared. The vast majority of the questions disputed the validity of the contract and the legal status of the dealer. The number of the enquiries significantly decreased in 2010 H2 and also in 2015. The MNB continues to inform the consumers of the legal status of the given dealer based on its database at the time when the individual contracts were concluded (“A”, agent, “B” agent or “not registered”). However, it is still important fact that if the dealer is not included in the MNB’s database as “A” agent, it does not necessarily mean that it was not authorised for the representation. In such cases it cannot be precluded that in fact the dealer had right of representation based on an authorisation made out in an individual instrument; the consumers should contact the financial service provider to clarify this.
Waiting time in case of a health insurance D	In the reporting period the MNB made preparations for an inspection with regard to the information provided to the consumers on the length of the waiting time and the exclusions.
Customer information related to portfolio management activity D	As a result of the legislative changes initiated by the MNB due to problems revealed during the reporting period, starting from 2016 – for the first time in February in respect of the January data – the customers of the investment service providers may enquire anonymously on the balance of their securities and customer account held with their respective institution, through the electronic interface provided by the MNB. The enquiry opportunity, to be introduced by the amended act, facilitates the reconciliation of the account data sent to the customers and data forward to the supervisory authority. This may help strengthen the customers’ trust in the financial sector due to the fact that, making use of the enquiry option, all customers may check whether the data content in the account statement corresponds to the data supply. On the other hand, the anonymous data supply also provides the MNB with the opportunity to perform regular checks in respect of the securities account balances transferred by the service provider. As a result of the legislation the risk is expected to decrease considerably in the future.
Consultation by the civil consumer protection organisations D	In 2014 the MNB established the National Financial Consumer Protection Civil Network, thereby laying the foundation of financial consumer protection network with national coverage rendering services of controlled quality. During the last one year the civil member organisations were informed of the most important current topics of financial consumer protection at 12 Civil Forums; consultations were performed within the framework of the Civil Professional Consultation on four occasions related to legislation, and the members had the opportunity to enhance their skills as active participants in various trainings. The MNB regularly controls the advisory activity of the organisations and provides continuous help for their professional development.

Risk title / Category	Measures taken
Bitcoin D	The MNB warned consumers in a press release about the risks inherent in the pyramid schemes capitalising on the popularity of the virtual payment instruments and the consumers' lack of information. The issuers of such instruments collect consumer deposit relying on the possible exchange rate movements similar to Bitcoin and the commission-based incentive system generally used in the MLM networks, while – contrary to the widespread virtual payment instruments – the trading with these instruments and the issuing of new units takes place in the closed systems of the issuer companies or private individuals. The MNB reminded the consumers wishing to invest that they should only select service providers properly licensed in Hungary or registered by the supervisory authority, also included in the supervisory authority's internet search engine. In addition, the MNB also reminds consumers of the risk that the Bitcoin transaction are irreversible. When the transaction is completed the merchant immediately gets its fund and no chargeback applies, contrary to the other payment systems where if the cardholder buyer later on alleges that he did not make the purchase with the card the merchant does not receive the cash equivalent of the purchase until it is proven that it is right or if it already received the cash, it must reimburse it.

6.2 EXITING AND NEWLY IDENTIFIED RISKS

The list of the risks identified during the period under review is led by the **risks related to the implementation of the laws** remedying the unfair conduct of lenders, including the statutory compliance related to the settlement processes and the settlement practice of the workout companies. On the institutions' side the risk of misselling, while on the **consumers** side – similarly to the previous period – the **inappropriate management** of the risk of debt overhang are still typical phenomena. The leverage transactions are ranked higher on this year's list, and the **absence of proper information** is still a problem.

Risk	Category	Planned and ongoing measures
Settlement, contract modification and conversion into forint New	A	Comprehensive consumer protection review of the implementation of the task in the form of thematic inspection. The inspections are in progress and expected to be closed in 2015 Q1.
Changeover to the "fair bank" rules New	A	Conducting inspections, as necessary, based on consumer submissions and other information, focusing on the enforcement of the "fair bank" rules.
Risks inherent in e-communication upon providing information to the consumers New	A	Issuing an MNB recommendation on the best practices to be followed.
Inappropriate management of the payment difficulties by the consumers Existing	A	Development of financial literacy and financial awareness in cooperation with the civil organisations. In-depth inspection of the compliance with the regulations aimed at preventing debt overhang (PTI, LTV).
Misselling Existing	A	Development of financial literacy and financial awareness in cooperation with the civil organisations; targeted information provided to consumers. Special attention to misselling during the inspection authority activity; termination of the causes instead of "symptomatic" treatment. The financial institution must be encouraged to revise and modify, if necessary, their incentive system to ensure that product sales are determined by the consumers' needs rather than by the incentive system.

Risk	Category	Planned and ongoing measures
Lending activity of pawnshops, pawn loans New	B	Providing consumers with wide-scale and easy-to-understand information on the risks; conducting additional inspections, if necessary, based on consumer submissions and other information.
Activity of workout companies New	B	The workout activity is one of the least regulated areas. The MNB deems it necessary to standardise and regulate, at statutory level, the activity pursued by financial and other organisation engaged in the purchase of receivables and workout by virtue of commission and it treats the initiation of the legislation and active participation in the elaboration of the act as a priority.
Risks inherent in online platforms, high leverage transactions, trading robots Existing	B	Providing easy-to-understand information to a wide range of the consumers on the risks.
Failure to comply with the obligation to provide information with regard to MTPL contracts Existing	B	Elaboration of a recommendation related to the fulfilment of the written notification obligation.
Irregular MiFID testing Existing	B	Conducting inspections and elaborating recommendations based on consumer submissions and other information. Preparing educational materials on the various risks inherent in investments.
Risks inherent in the use of credit cards and bankcards Existing	B	Preparing information materials about the potential risks
Financial risks of product road shows Existing	C	Providing easy-to-understand information to a wide range of the consumers on the risks and the legislative changes. Special attention should be paid to enforcing the changed law and verifying it.
Investments in physical gold Existing	C	Providing information to the consumers on the risks of non-supervised products.
Misinterpretation of stop-loss orders New	D	Providing easy-to-understand information on the risks of stop-loss orders to a wide range of consumer; inspecting whether the information with regard to stop-loss orders is duly given during the procedures.
Branches, cross-border services New	D	Informing consumers on the special rules applicable to the enforcement of rights in the case of branch offices and financial enterprises rendering cross-border service, on the relevant supervisory competence rules and the risks arising from the MNB's limited oversight opportunities. Fostering the use of the enquiry interface available on the MNB's website.
Advisory services rendered by consumer protection civil organisations Existing	D	Enhancement of the Civil Network, providing continuous professional assistance, organising financial consumer protection professional trainings.
Combined products Existing	D	Informing the consumers about the characteristics and special features of the combined products, and monitoring the financial institutions' information practice. Continuous monitoring of the combined products; inspecting, in particular, the way financial institutions manage the combined products.

6.3 DESCRIPTION OF THE EXISTING RISKS

Inappropriate management of the payment difficulties by the consumers

The shaping of the domestic financial approach and the implementation of the financial paradigm shift is conditional upon the processing and integration of domestic and international best practices and the **concerted financial consumer protection communication**. One pillar of this is the comprehensive information system developed with the use of all communication channels. Within the complex information system the protection of vulnerable groups of the society is a priority task. With a view to implement the long-term objectives, the MNB pursues integrated and target group-specific communication. One subcomponent of this, among other, is the Financial Navigator booklets series processing various financial topics, the micro site focusing on different situations of life and financial topics, the educational short films available for a wide range of the society, as well as the online and offline communication, for which the MNB also relies on the social media tools.

Box 9

Thoughts about personal bankruptcy

The legal institution serving the settlement of the debts of significantly indebted private individuals struggling with severe financial difficulties exists in a number of countries globally. In Europe the appearance of the special legislation related to the insolvency of private individuals typically dates back to the 1980s; by now in the majority of the EU Member States the regulated settlement of debt is already an available option. The rules of procedures were always developed considering the local features and were modified over time, based on the practical experiences. It can be generally stated that in the first year of the implementation the number of the submitted petitions is low and the number of debt settlement agreements reached is negligible; however, typically from the second year there is usually a substantial increase both in the number of the petitions and the compromises. According to the statistics the number of private individuals resorting to the procedure significantly increased in the years of the crisis.

In Hungary Act CV of 2015 on the Debt Settlement Procedure Applicable to Natural Persons (Personal Bankruptcy Act) entered into force on 1 September 2015. The need for this legislation appeared several years ago; among others the Magyar Nemzeti Bank also urged the introduction of the procedure in its Financial Stability Report published in November 2011.

The debt settlement possibility provided to natural persons is yet another rescue for distressed families that often accumulated major debts not only to the mortgage lender, but also to the public utility companies, condominiums, tax authority or other creditors. The procedure conducted in an orderly legal framework – with the cooperation of an independent expert in the court phase – represents a kind of security for the debtor, as the cash claims related to the assets drawn into the debt settlement and the related collaterals may only be enforced within the framework of the debt settlement procedure. On the other hand, it is also favourable for the creditors in the sense that compared to the execution and collection procedures the costs are expected to be lower, even if the out-of-court debt settlement imposes more significant administrative burdens on the main creditor, and based on the adopted compromise the rate of recovery is more predictable.

In terms of financial stability it may foster the cleaning of the non-performing household loan portfolio already in the medium run, in terms of taxation it may improve tax payment ethics and whiten the economy, and it is also an important aspect that it may increase the willingness to take a job.

The procedure provides the debtor with significantly more equitable conditions compared to a court foreclosure, as in the latter case if the proceeds from the sale of the seized assets does not provide sufficient cover for the payment of all debts and the debtor is unable to fulfil the remaining debt service by monthly instalments, he loses not only his property – typically the residential property – but his arrear once again starts to increase thereby falling yet again into

a new, deepening debt spiral. In the case of the creditors the initiation of the execution significantly improves the creditor's position, however everybody else's position worsens and as such lose money.

Key input criteria of persona criteria	– Resident private individual (Section 3(2) of the Personal Income Tax Act), sole trader or primary producer
	– Has steady income and that is sufficient for the minimum instalment
	– Has some other assets that may be involved in the debt settlement
	Payment of the debts in accordance with the compromise Definitive exemption from the payment of the remaining part of the debt
Execution, absence of the debt settlement conditions	– No restriction with regard to the person
	– No steady income or it is not sufficient for the minimum instalment
	– No other marketable assets
	The proceeds from the sale of the assets subjected to execution do not cover the total debt Continued indebtedness

It is a positive feature of the Hungarian debt settlement procedure that, subject to strict conditions, the emphasis is on preserving the residential properties, contrary to the international practice, which usually prefers the sales of all assets. On the other hand, the possibility of recovering the solvency and thereby the success of the procedure is considerably influenced by the degree and coverage of the debt(s), the market value of the marketable assets, the debtor's income and willingness to pay and all stakeholders' willingness to cooperate. The debt settlement may succeed if the participants are capable of exercising due self-control and cooperating during the entire procedure. As a result of this, upon settling the agreed part of the debt, with the conclusion of the procedure the debtor is exempted from the payment of a material part of his former debt.

The question may arise what is the need for the extremely detailed, sometimes even appearing to be excessive, regulation in the Personal Bankruptcy Act. All humans are genetically encoded to look for solutions with the best outcome for them and, if possible, use them – this also applies to the debtor and the creditors. For this very reason the practice often does not reflect the legislator's intention. Divergences experienced during the application of the law must be stopped to ensure that all participants' appreciable interest can be duly considered. It is also obvious that the due to the turbulent environmental changes characterising our days response time bears utmost importance and this also applies to the legislative activity.

Summary

Based on the international experiences it can be stated that the present moderate interest in the legal institution can be deemed usual. The procedure represents significant administrative burdens, but prevents abuses. It can be more advantageous for all participants than the execution, but it requires sacrifices. It may foster the cleaning of the household loan portfolio already in the medium term, may improve tax payment morale, contribute to the whitening of the economy and improve the economic activity. It requires financial discipline, thus in the long run it may have a favourable impact on the households' attitude to financial matters. It may be regarded as a good practice that – based on the feedbacks and experiences to date – the legislator responded extremely quickly to practices deviating from the original intention and submitted the proposals for the modification of the law to consultation. The Magyar Nemzeti Bank has consultative and general information role in the procedure.

Misselling

It is a **typical** sales attitude that the financial institutions' sales people and agents **recommend and sell the product that is more favourable in business terms for the financial institution or the salesperson** rather than the financial product required by and favourable for the consumer. Experience shows that the consumer realises only later that the product sold to him is not suitable or only partially suitable for achieving his goals. The underlying cause of misselling is typically the sales target determined by the financial institutions for the salesperson, tied to the salespersons' incentive and remuneration scheme. The inspection activity is only able to apply "symptomatic" treatment for the problem; this undesirable attitude may be stopped by reforming the incentive and remuneration scheme, and by the in-process detection and sanctioning of the misselling by the financial institutions.

Practical experiences showed that the persons participating in the sales process – who were interested in bypassing the completion of the needs analysis form – often provided misleading information on the purpose or significance of the needs analysis. With a view to foster the enforcement of consumers' rights the MNB will continue using the trial transaction tool; in addition, from 1 March 2016 it expects the insurance agents – in accordance with MNB Decree 56/2015 (XII.22) on the Content elements of the life insurance needs analysis form – to fill in the needs analysis with the prospective customers prior to concluding each life insurance contract to avoid the provision of misleading information.

Risks inherent in online platforms, high leverage transactions, trading robots

In recent years the domestic investment firms (complying with the market demands) more and more often refer the services of foreign companies operating online trading platforms to their own customers, typically under separate brand name corresponding to their corporate image. With the spread of the online platforms the Hungarian small investors can easily reach the high risk and high leverage products either via the domestic service providers, as mentioned above or directly, after opening an account with the foreign provider. The service providers present plenty of positive examples in their advertisements, thus it is important to warn consumers that they should be cautious with such advertisements, as the promise of large profits may **hide significant risks for interested persons with no trading experience**. The largest risk of leverage is that it magnifies the impact of even the small movements in market prices, **thus the invested capital can be easily lost**. Although instruments that limit the losses (e.g. stop-loss orders) do exist, in extreme market situations they do not necessarily achieve their intended purpose. This may result **not only in losing the invested capital, but also in accumulating additional debts**. The most suitable way to manage this problem is to **provide information to the wide range of consumers, making them aware of the potential favourable and unfavourable outcomes of the transaction type in an objective way**. As part of the Financial Navigator booklet series the preparatory works of a new booklet covering this topic is in progress.

Failure to comply with the obligation to provide information with regard to MTPL contracts

In the context of the **compulsory motor third party liability insurance product, the consumer information letters** bear utmost importance in view of the fact that the insurers must provide information to the consumers upon the conclusion of the contract, during the term thereof and also upon its termination in accordance with strict, statutory deadlines in the cases stipulated by the law (next year's premium, policy issuance with difference compared to the proposal, differences in the data specified in the proposal, e.g. bonus category, differences related to the status of the previous contracts, premium deficit, cancellation, claim payment). In view of the fact that the existence or the potential cancellation of the compulsory motor third party liability insurance product may have consequences impacting all traffic participants, it is the fundamental obligation of the insurers to comply with their information obligation in respect of all customers by the statutory deadline.

In view of the foregoing the MNB pays special attention during the individual ex officio inspection proceedings to the inspection of compliance with the information obligation related to the compulsory motor third party liability insurance products.

Irregular MiFID testing

According to the MNB, consumers often place orders for transactions the risks of which are unclear to them. Due to this it bears utmost importance **that investment firms provide unambiguous and clear information to consumers to the effect that the purpose of the assessment of the eligibility and/or compliance tests is to make sure that the service provider acts to the benefit of the consumer to the greatest possible extent.**

For investment firms, it is essential to obtain comprehensive information about their potential customers, since they can only assure the proper selection of the best service for them based on such information. Therefore, it is mostly in the interest of consumers that they provide the service provider with complete and up-to-date information. In addition, consumers should inform the service provider of any changes in their status without delay. Investment firms are required to keep such information confidential.

In the form of so-called compliance and/or eligibility tests, consumers are asked various questions before contracting. These questions generally cover the consumers' investment objectives and their financial status, as well as knowledge and experience, and the investment firm builds its service offer based on the answers given.

Investment firms, however, are **expected** to offer prospective customers or consumers only such **financial instruments the qualities of which are fully known to the customers.** It must be made clear that an assessment of client-risk relations (risk profile) underlies the purpose of this test, so that appropriate financial instruments, groups of instruments (products) and their related risks can be precisely identified.

The MNB continues to monitor irregular MiFID testing in the thematic inspections launched upon requests or ex officio.

Risks inherent in the use of credit cards and bankcards

Consumers often still do not understand fully the major difference between credit cards and bankcards, , hence the responsible use of credit cards either. Accordingly, the dispatch of credit cards without request and the application of aggressive sales methods related to the product – which is still rather common – represents special risk. It is extremely important for the consumers to understand the fundamental difference between the two card types, hence the **MNB prepared, as part of the Financial Navigator booklet series, the booklets entitled “Use of bankcards and the risk involved” and the “Use of credit cards and the risk involved”.** The booklet helps the consumers obtain information about the fundamental differences and the most important risks in a simple way.

Financial risks inherent in product road shows

According to the provisions of the Act on Credit Institutions and Financial Enterprises, **effective since 12 December 2015, it is forbidden to refer financial services, i.e. consumer loans, to the consumers during the product road shows.** The modification of the Act eliminates the risk, identified by the MNB earlier, related to the loans referred during the product road shoes, according to which such loan products were offered, typically to elderly consumers, that in fact they did not need at all, and experiences showed that they made the borrowing decision not being aware of it and typically realised only later that they signed a loan contract. The realisation of the legislator's intention and the compliance with the statutory provisions must be monitored with special care, through the close supervision of the respective financial institutions. The MNB plans to act in respect of this issue according to the principle of zero tolerance.

Investments in physical gold

Based on the investors' enquiries the MNB regularly issues warnings to consumers about the investments that are not supervised by the MNB, typically promising high yield, but being risky and giving room for misunderstanding. Investment in physical gold is a **product not supervised by the MNB**, and it is not covered by the guarantee of the National Deposit Insurance Fund and the Investor Protection Fund either. In order to mitigate the risks the MNB operates a page on its website related to non-supervised products, where the stakeholder can obtain the most important information about the products.

Advisory services rendered by consumer protection civil organisations

With a view to ensure the high professional quality of financial consumer protection, the MNB provides the cooperating civil organisations pursuing financial consumer protection activity with continuous consultation possibilities and thereby ongoing development. With its continued **financial and professional support** it fosters the development of a strong Financial Consumer Protection Civil Network and a steady and active national financial consumer protection service, the enhancement of financial literacy and the improvement of financial awareness.

Combined products

It should be noted in respect of the risk that in connection with the steadily low central bank base rate the interest rate level of the traditional term deposit schemes also follows this trend and this channels the households' saving to new directions. The consumers' attention turned **to the leveraged and structured savings products involving higher risk**. An important consumer protection task of the coming period is for the MNB to provide the consumers with appropriate and easy-to-understand information on these products, and – with other supervisory instruments – to remind the institutions of the practice they are expected to follow in terms of managing new products that may appear, as well as the existing contract portfolio.

6.4 DESCRIPTION OF THE NEWLY IDENTIFIED RISKS

Settlement

The **settlement, contract modification and conversion into forint** are unprecedented, extremely complex tasks, the implementation of which requires substantial resources and special attention from all participants. The risk is represented by the fact that the institutions are required to adjust several millions of contracts retrospectively to several years with regard to the settlement data. This may involve several thousand data per contract. In addition, new interest rate rules and contractual conditions also appear, which must be implemented in practice. It is a separate consumer risk that the verifiability of the settlements by the consumers is limited, essentially covering the data quality only. In this case the consumer risk is represented by the fact that part of the consumers also wish to verify the correctness of the calculations; however, due to the extremely large number of data and the complexity of the calculation, the result thus obtained typically differs from that stated in the settlement statement, which then results in the submission of complaints first to the financial institution and then to FAB. It is a separate risk that based on the Curia's decision the surplus obligation arising from the exchange rate movements does not form part of the settlement, which – despite the MNB's wide-scale information activity – is not known to part of the consumers.

Changeover to the “fair bank” rules

In respect of the development of the conditions of fair lending it should be noted that from 1 February 2015 **important consumer protection changes** were introduced in Act CLXII of 2009 on the Consumer Credits. Pursuant to the amendment of the Act, **the interest rate, interest surcharge, cost and fee specified in the loan agreement can only be modified unilaterally to the disadvantage of the consumer, if the law allows this**

and the parties agreed on this in the agreement. The rules serving the improved customer information were also extended and the level of fees was limited.

As an additional measure protecting the consumers' right, the Act provides the consumer with the right of termination in the event of unilateral modification, prescribing the obligation to repay the loan. It should be emphasised that the Act introduced **a cap on the default interest and the disbursements fee**, and following the ninetieth day after the termination of the housing loan the lender must not charge any fee to the consumer.

The risk is represented by the question whether the financial institutions developed their new products or modified the conditions of the existing products in accordance with the legislator's intentions and the laws. **The MNB monitors with special care and eliminates the conducts aimed at circumventing the statutory provisions.**

Risks inherent in e-communication upon providing information to the consumers

Due to possibilities offered by the internet, the electronic communication eases the daily life of consumers; however, in certain cases this may have unfavourable consequences. An increasing number of consumers opt for the so-called electronic communication channel, thereby providing e.g. the insurers with the possibility to deliver the information letters and the compulsory notification in a faster and simpler manner. The dangers of e-communication include, among others, that **the electronic mail systems often perceive the information letters as spam**, and therefore they land in the bin without the consumer's knowledge. The **inaccurate, improper recording of the e-mail addresses** carries the risk of **delivering the mail to the mailbox of a third party**, which may as well result in the breach of insurance secret. The MNB regards it as best practice for the financial service providers to create in **their own electronic interface a separate mailbox for the consumers with individual ID and password**, which is suitable for forwarding and monitoring the information letters.

Lending activity of pawnshops, pawnbroking

In connection with the preparation of the consumer protection inspection of financial enterprises pursuing pawnbroking, determined for 2015 as a priority, the MNB reviewed the market trends related to the pawn loan products during the reporting period. For the result of this and the measures taken see Section 4.1.2. The MNB will pay special attention to this risk and to pawnbroking in general.

Activity of workout companies

The workout activity is one of the least regulated activity, hence it deserves special attention during the oversight activity. **The MNB deems it necessary** to standardise and regulate, **at statutory level**, the activity pursued by financial and other organisations engaged in the purchase of receivables and workout by virtue of commission.

In terms of consumer protection it is disquieting that the rules for the workout companies' procedures vis-à-vis the debtors qualifying as consumers, enforceable by administrative means, are scarce and were framed only indirectly (Credit Institution Act, CCIS Act, Info Act, Unfair Commercial Practices Act, MNB Complaint Management Decree).

In its Recommendation No. 14/2012 the Hungarian Financial Supervisory Authority – at present being reviewed by the MNB based on the conducted inspections and the consultations with the peer authorities – laid down the expectations and rules to be observed by the workout companies.

The purpose of the recommendation as well was to make up for the missing regulation that could be verified by the authorities. The recommendation remained in force even after the dissolution of HFSA; however, the enforceability of the provisions of the recommendation is still not solved, as the MNB has no sanctioning right upon non-compliance with the provisions thereof.

The MNB treats the initiation of the statutory regulation it deems necessary and the active participation in the framing of the act as a priority.

Stop-loss

The stop-loss service and the risks inherent in the related information came to the fore as a result of the exchange rate fluctuation impact of the measure taken by the Swiss central bank on 15 January 2015. The condition of the activation of the *stop-loss* order is that the market price of the given financial instrument should reach the pre-defined *stop-loss* order activation value. In that case the **order enters into force as a spot market order**. The market orders, as it follows from their nature, are executed at **the first price realisable** under the current market circumstances, which price may significantly differ, depending on the market circumstances, from the activation prices specified in the *stop-loss* order.

It is also important to mention the *stop-limit* order. In the case of stop-limit orders, when the market price reaches the activation price the bid is recorded as a limit bid in the bid book, i.e. we talk about the timing of the bid. In the case of buy bid the bid is recorded in the bid book upon reaching the market price specified by the customer, while in the case of a sell bid the stop-limit order should be applied, if the customer wishes to receive a buy bid over the market price.

Branches, cross-border services

Non-resident institutions are present in the Hungarian financial market – in two forms – in a large number. One form of this is when the non-resident financial institution appears in Hungary as a branch office, while the other one is when it renders cross-border services. **It is valid for both types that the MNB does not perform the prudential supervision of the financial institution**, as according to the EU regulation it is the supervisory authority based on the registered seat that has competence to proceed vis-à-vis the financial organisation.

It represents a consumer protection **risk** that upon concluding a contract with the financial organisation rendering cross-border services **the official language stipulated for the communication between the parties is usually not the Hungarian language** and the potential disputes between the parties are **not governed by Hungarian law**. It may also represent a problem that the financial organisations rendering cross-border services have no premises in Hungary open for receiving customers, thus the **customer** cannot meet the representative of the financial organisation in person and **cannot lodge complaints in Hungary**. It may represent additional problems for the consumers that the guarantees (e.g. deposit insurance, indemnification) are also governed by the law of the country where the financial institution is seated.

It should be also regarded as a risk that a large part of the consumers contracting with them are not aware of the **special rules, which may as well be unfavourable for the consumers**, applicable to branch offices or financial enterprises pursuing cross-border activity, and they do not know the characteristics of the financial (or look alike) products sold by them.

It can be identified as a risk that in certain segments of the insurance sector the establishment of Hungarian branch offices could be observed. Initially, the insurer operating as branch offices engaged in selling corporate insurances; however, these days they also offer insurances to household customers, particularly in the travel insurance, compulsory motor third party liability insurance and Casco segments. Due to the increase in the number of branch office and in their business volume, it became necessary – with a view to review the insurance sector in depth and perform efficient consumer protection activity – to scrutinise the activity of the insurance branch offices. In view of this, **in the future the MNB – with the statutory tools provided to it – wishes to reinforce the supervision of the Hungarian branch offices of insurers seated in a different Member State**.

In certain cases the inspections by the MNB may also extend to non-financial (so-called general good rules) supervision. **The non-financial supervision in Hungary means the supervision of the compliance with rules**

applicable to consumer protection, the compulsory motor third party liability insurance and prevention of money laundering.

As part of the general good supervision the MNB is entitled to perform on-site inspection at the branch office, and request documents, data and information to oversee whether the insurer complies with the general good requirements effective in Hungary.

In addition to the above, the MNB may participate in the foreign inspections conducted as part of the financial supervision. The inspections on those subject are initiated and performed by the competent supervisory authority of the country of the branch office's parent company (home supervisory authority), notifying the respective supervisory authority of given branch office's country (host supervisory authority). The financial supervision of the home supervisory authority includes the confirmation of the insurer's solvency, the accumulation of the insurance technical reserves including actuarial reserves and the assts covering those.

6.5 A RISK MITIGATING TOOL – ETHICAL INSURANCE CONCEPT, 2015.

In line with the announced objectives of the oversight strategy, in the knowledge of the **positive impacts of the pension insurance recommendation**, the MNB announced the ethical life insurance concept in 2015, the key objective of which is to achieve the harmony between the declared and real costs of the unit-linked (UL) life insurances. The **information** underlying the decisions of the insurers' customers and the **greatest possible transparency of the costs related to the products** are issues of key importance. The **MNB expects that all charged costs should be clearly identifiable and interpretable**, thereby ensuring that the customers possess all relevant information when they make the decision.

The objectives of the concept include the termination of unfairly charged costs, the reduction of high commissions, the creation of a comparable product offering and the fostering of a transparent cost structure. The MNB formulated proposals for the reduction and rationalisation of the cost types and the TCI limits.

Pension insurance recommendation

The **Pension insurance recommendation** issued in May 2014 may be regarded as the preliminaries of the concept, **as a result of which the TCI^{Ny} bands prevailing in the pension insurance market shrank and the expensive unit-linked products were ousted from the market**. The MNB welcomed the strong competition in the area of pension insurances and that the insurers did not stick to the TCI limits included in the MNB's 2014 recommendation with the cost level of their products. **The fulfilment of the recommendation was also backtested in 2015**. The focus of the 2015 survey was on the cost structure of the products and the asset funds lined to the pension insurances. In 2015 H2 the insurers sold 59 unit-linked product, offering 362 asset funds with it. The data provided in the questionnaire were used during the elaboration of several element of the ethical concept.

Autumn legislative package

Based on the MNB's early autumn codification proposals, from 2 January 2016 all insurers employ a custodian on a mandatory basis, who must perform daily asset valuation; in the case of own asset management the professional criteria are stipulated by Act LXXXVIII of 2014 on Insurance . In addition, with effective date of 1 January 2017 the law also includes a provision aimed at ousting the "top-heavy" insurance products, as result of which the use of initial unit will be forbidden.

Decrees

After extensive consultations with the market participants and within the MNB, in December 2015 the MNB published the following decrees.

MNB Decree 54/2015 on the maximum technical interest rate

The setting of the maximum technical interest rate is ordered by Directive 2002/83/EC of the European Parliament and the Council concerning life insurance¹²: “when contracts contain an interest rate guarantee, the competent authority in the home Member State shall set a single maximum rate of interest, [...] which] is not more than 60 per cent of the rate on bond issues by the State in whose currency the contract is denominated. The above-mentioned directive is abrogated by Directive 2009/138/EC from 1 January 2016; however, the MNB regards the method of setting the maximum technical interest rate, as specified in Directive 2002/83/EC as a good practice to be followed in prudential terms, as this limit helps insurers promise feasible guarantees to their customers.

MNB Decree 55/2015 (XII. 22) on the Calculation and publication of the total cost indicator

The Insurance Act effective since 1 January 2016 authorises the MNB to establish the detailed rules applicable to the calculation and publication of the total cost indicator (TCI) in a decree. Hence, as part of the concept, the MNB also regulated the TCI calculation methodology in the decree. Before the publication of the MNB Decree the TCI methodology was determined by the insurer’s self-regulation.

The TCI helps compare the individual unit-linked products and the traditional life insurances, as – with the use of predetermined parameters – it shows the approximate yield loss suffered by the customer compared to a theoretical risk-free yield, due to realising the yield on the given unit-linked product or the traditional pension insurance product.

Until 31 December 2016 the TCI calculation must be performed in accordance with the methodology included in the present TCI Charta. It is an important modification compared to the previous practice that from 1 January 2016, the TCI values must be calculated and published not only for the unit-linked and pension insurance products, but also for the non-unit linked (traditional) life insurance of savings nature. However, since at present no standard market practice exists for the calculation of the **traditional products’ cost indicator**, in order to allow sufficient time for the preparation, **the relevant provisions of the Decree will enter into force on 1 July 2016**. The significant change in the present TCI methodology based on self-regulation will enter into force on 1 January 2017. The differences between the two methodologies are illustrated by the table below.

Table 8 Characteristics of the differences between the TCI calculation methods			
Attributes	TCI until 31 Dec 2016	TCI from 1 Jan 2017	Comment
Premium payment frequency	Annual	Monthly	The monthly cash flows increase the TCI value
Premium payment method	Direct debit	Transfer	
Yield rate	= TCI	based on the EIOPA risk-free yield curve	Uniform yield assumption
Insurance premium – Recurring – Single	HUF 210,000 per year HUF 2,200,000	HUF 25,000 per month HUF 4,500,000	based on PRIIPS, slightly improves TCI
Insurance service	Mandatory insurance risk to be selected	Mandatory insurance risk to be selected	
Insured	One person, 35 years (pensionj: 65 year at the most)	One person, 35 years (pensionj: 65 year at the most)	The risk premium qualifies as cost (the MNB disagrees with this, it is not yet decided in PRIIPS)
Source: MNB			

¹² Article 20 (1) subsection B/a)

In view of the European regulation (PRIIPS process) to be closed next year, during 2016 it will be possible to make further modifications in the methodology effective since 1 January 2017 and integrate proposals arising meanwhile.

MNB Decree 56/2015 (XII. 22) on the Content elements of the life insurance needs analysis form

In accordance with the provision of **MNB Decree 56/2015 (XII. 22)** – issued in connection with the contracts, as part of the life insurance concept based on the statutory authorisation – on the content elements of the life insurance needs analysis form, **from 1 March 2016 the MNB expects the insurance intermediary to fill in a needs analysis form with his prospective customer prior to concluding each life insurance contract.**

The customer should make a declaration, among others, the following issues.

- Decide whether the purpose of the insurance is protection or saving.
- If the purpose of the insurance is saving (as well), he must decide to what degree he wishes to participate in making the investment decisions (i.e. conclude a unit-linked or combined insurance), the degree of risk he is ready to take, and the degree to which he wishes to minimise the supplementary risk riders' costs, which may deteriorate the value of the savings.
- Whether to pay single or recurring premium on the life insurance.
- The premium he is able to pay until the maturity, or the insurance amount he wished to realise.
- The duration of the insurance.

The Decree puts the emphasis on the customer information, to be included on the first page of the needs analysis, informing the client why the needs analysis is necessary.

Accordingly, the MNB Decree defines the range of the most important question necessary for proposing a product, still allowing sufficient flexibility to manage the special features of the individual products.

The purpose of the ethical life insurance concept is to build – by increasing consumer confidence through a more transparent product offering – a portfolio that is stable in the long run and earns sustainable profit, . The decrees regulating the total cost indicator, the technical interest rate and the life insurance needs analysis form guarantee transparency, reliability and the focus on consumers' needs in the future.

Tasks carried forward to 2016

In 2016 Q1, after external consultation, the MNB's new unit-linked recommendation was published, and in the context of the active communication with the legislators and the market participants additional proposal for legislative amendments may follow. In addition the MNB also plans to backtesting the compliance with the provision of the published decrees.

Annexes

Annex 1: Consumer protection penalties

Annex 2: Consumer requests received by the MNB

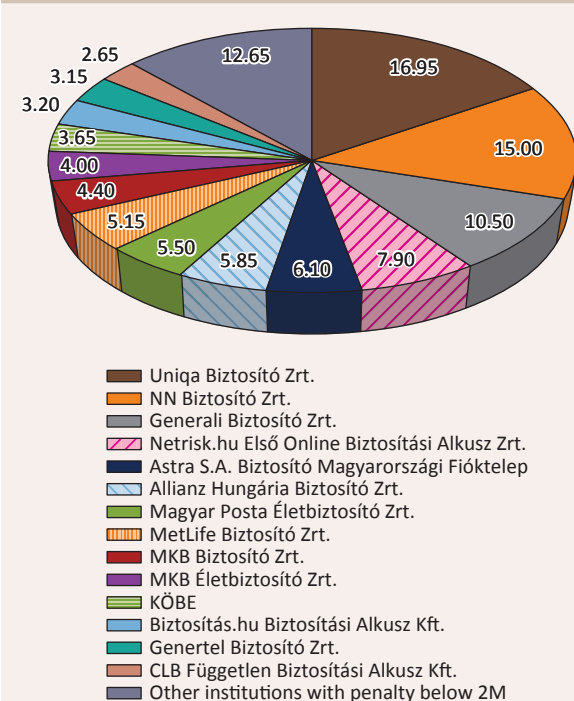
Annex 3: Customer service enquiries

ANNEX 1: CONSUMER PROTECTION PENALTIES

Insurers

As a result of the inspections conducted in the **insurance sector**, the MNB imposed **consumer protection penalty** on 29 institutions in the total amount of **HUF 106,650,000**, of which HUF 66.5 million was imposed in the context of inspection performed as part of a comprehensive audit.

Chart 20
Consumer protection penalty amount imposed on the insurance market participants
(HUF million)



Source: MNB.

Credit institutions and cooperative savings banks

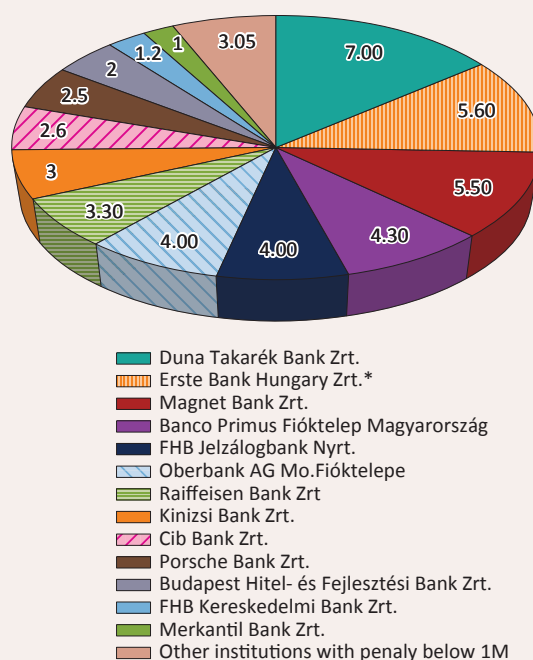
In the money market sector, which **includes credit institutions and cooperative savings banks**, in the reporting period the MNB imposed – in consumer protection inspections launched upon request and ex officio – on 22 institutions **consumer protection penalty in the total amount of HUF 49,050,000**.

Financial enterprises

In the reporting period, in the case of financial enterprises not engaged in workout or pawnbroking,

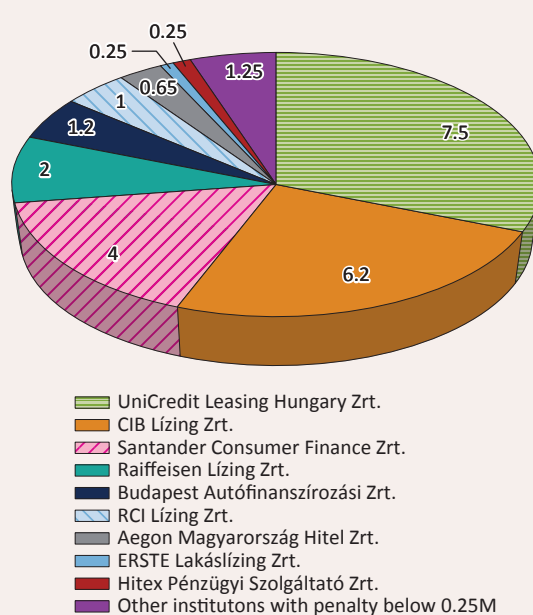
the MNB imposed **penalty** on 18 **financial enterprises** in the total amount of **HUF 24,300,000** due to infringements identified during the consumer protection inspections.

Chart 21
Consumer protection penalty amount imposed on credit institutions and cooperative savings banks
(HUF million)



Source: MNB.

Chart 22
Consumer protection penalty amount imposed on financial enterprises
(HUF million)

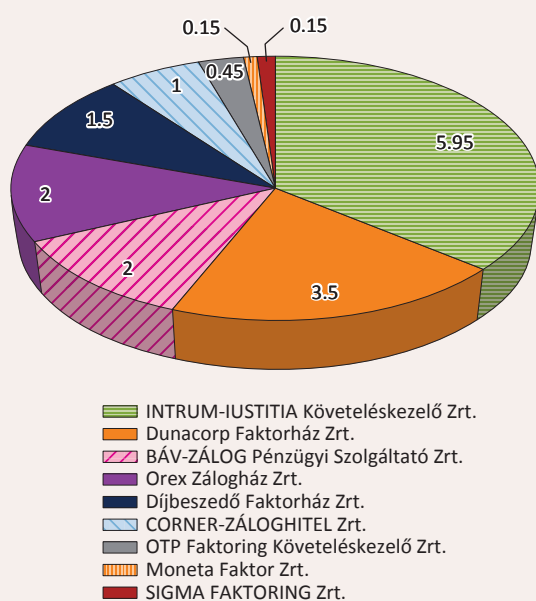


Source: MNB.

Workout companies and pawnshops

In 2015 the MNB paid special attention to the activity of the workout companies, and it successfully intervened to stop the service providers' practice, detrimental for the consumers, upon pawnbroking. As part of the consumer protection inspection penalty of HUF 11,700,000 was imposed on 6 **workout companies**, and HUF 5,000,000 on 3 **pawnshops**.

Chart 23
Consumer protection penalty amount imposed on workout companies and pawnshops
(HUF million)



Source: MNB.

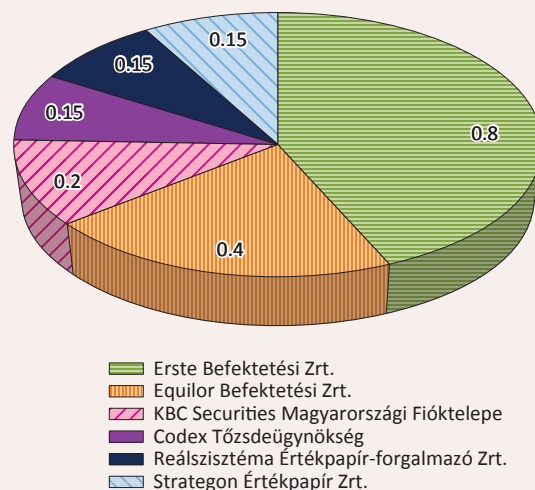
Credit intermediaries

In the course of the ex officio inspections conducted the **credit intermediaries** during the reporting period, the **MNB** imposed a penalty of **HUF 3,500,000** on MPK Hitelközvetítő Zrt. and **HUF 150,000** on Credithill Hitelközvetítő és Tanácsadó Kft.

Capital market institutions

During the inspections conducted at the **capital market** participants, launched upon request, **consumer protection penalty** in the total amount of **HUF 1,850,000** was imposed primarily due to breaching the statutory provisions related to complaint management and the rule applicable to the identification of customers.

Chart 24
Consumer protection penalty amount imposed on the capital market participants
(HUF million)

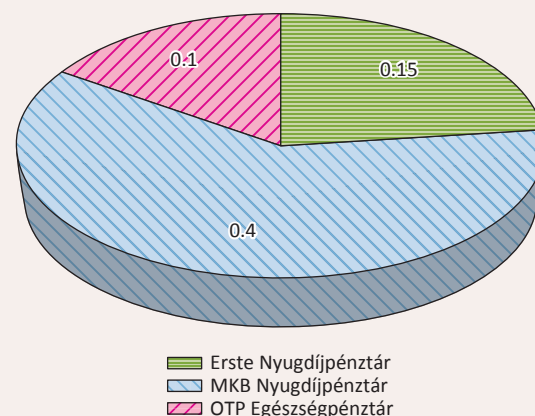


Source: MNB.

Funds

In the reporting period the MNB imposed **penalties** in respect of the **funds** in the total amount of **HUF 650,000**.

Chart 25
Consumer protection penalty amount imposed on the funds market participants
(HUF million)



Source: MNB.

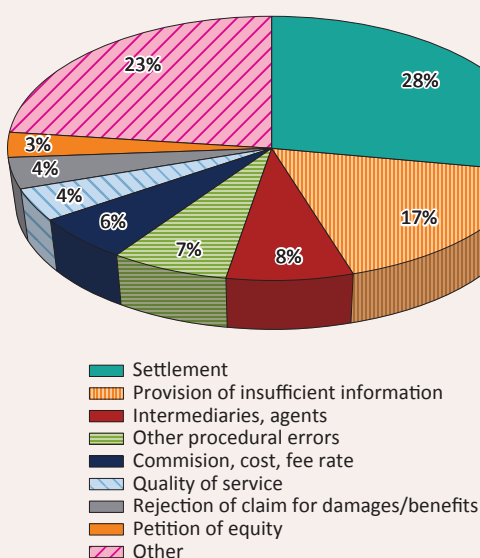
ANNEX 2: CONSUMER REQUESTS RECEIVED BY THE MNB

Most typical request types

The consumer request types reflect the **nature of the problems identified by the consumers independently of the sector**. The following two charts illustrate typical request types accounting for more than 3 per cent of all requests.

In 2014 H2 there was no major change in the sequence of the most frequent request types compared to the previous half-year. As regards the frequency, almost one third of the requests related to specific, **financial or insurance settlement problems** between the provider and the consumer, but the ratio of requests related to **insufficient information** was also high. Among the other request types, the requests related to **fee calculation, unilateral contract modification, interest rate or indemnification amount, lengthy claim settlement, CCIS and suspected financial fraud**, represented less than 3 per cent by type.

Chart 26
Main request types in 2014 H2

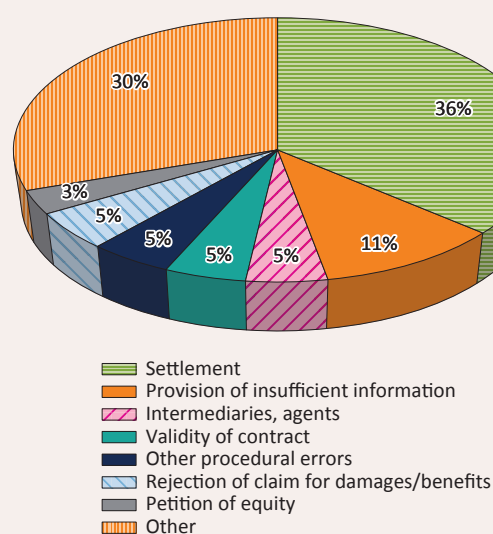


Source: MNB.

In 2015 there was no significant change in the sequence compared to the previous half-year, but the ratio of requests related primarily to the **financial settlement** considerably increased. A positive change occurred in the area of **insufficient information**, as the number and ratio of requests related to this complaint type **decreased** by 6 per cent. Experiences show that the positive impact of the “Fair bank” Act

became perceivable within a few months. The robust increase in the complaints related to the **agents’ activity**, generated by the problems related to car loan brokers, stopped in 2014 H2, and it even slightly **decreased** in 2015. It is also a favourable change that the requests related to commission, cost and fee rates and the quality of services no longer form part of the group exceeding 3 per cent. Compared to the previous experiences the submission of requests with regard to the **validity of the contract** is a new phenomenon. No significant change occurred in respect of the other problems, representing a share over 3 per cent by transaction type. The typical cases allocated to the “other” category – but representing a share below 3 per cent by case type – increased both in number and ratio; the requests complaining about the **premium calculation, commission, cost and fee rates, reimbursement amount, lengthy claim settlement and the service quality** should be mentioned here.

Chart 27
Main request types in 2015



Source: MNB.

Money market requests

In 2014 H2 the money market requests accounted for **76 per cent** of all requests, and for **72 per cent** of them in 2015. Compared to 2014 H1 the ratios fell by 10 per cent.

In 2014 H2 almost three-quarter of the money market requests – 1243 in total – related to **lending**; of this 34 per cent of the requests related to car loans, 14 per cent to housing loans and 10-10 per cent to mortgage equity withdrawal and personal loans. In respect of

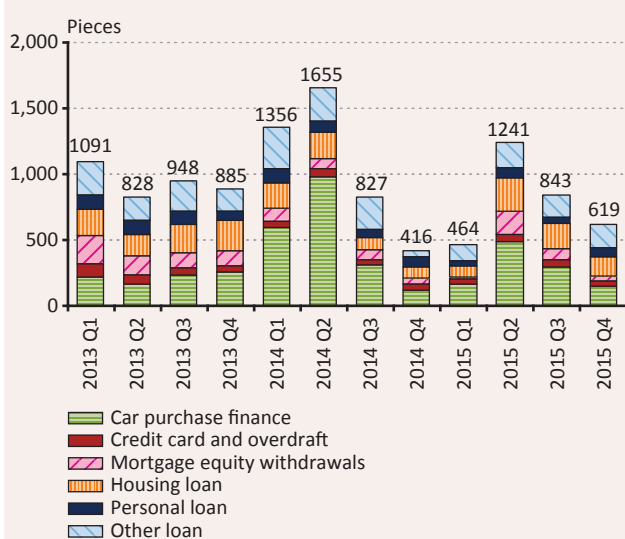
current account management 147 requests were received, which represents a share of 8 per cent within the money market sector; however, compared to the previous half-year a **fall of roughly 40 per cent** could be observed, which was mainly **attributable to the settling of the rules related to free cash withdrawals**. In the case of the other service types – lease, deposit, bankcard, payments – the requests accounted for only 5.5. per cent.

In **2015 H1** the requests related to lending increased by more than one-third, to **1,705** in total, while in the **second half-year 1,462** requests related to this area. Within this the car loans accounted for 35 per cent, housing loans for 21 per cent and the mortgage equity withdrawal for 10 per cent. **The increase is primarily attributable to the settlement**; for more details on that see Section 3.1.4/ 7 per cent of the requests related to personal loans, which a decrease of 28 per cent year on year. It should be noted that the **vast majority** – 64 per cent – of the **requests** related to lending concerned the **foreign currency-denominated contracts**.

62 per cent of the requests concerned banks, 19 per cent of them financial enterprises, 3 per cent cooperative savings banks and the remaining 16 per cent the other organisations operating in the money market.

Chart 28
Number of claims by main type of credit

(pcs)



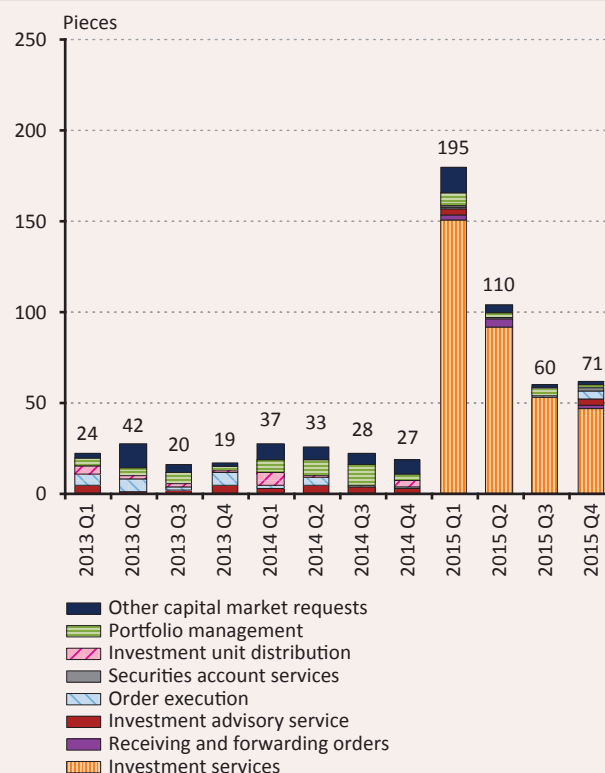
Source: MNB.

Capital market requests

In **2014 H2** the capital market request account for hardly **2 per cent** of all requests, and there was no change compared to the previous half-year. In **2015 H1** this ratio increased to **9 per cent**, and then fell to 7.3 per cent in annual terms. The significant increase was primarily attributable to the problems related to the activity of the capital market brokers, revealed by the MNB. The majority of the requests related to the **investment services** activity, representing 79 per cent of all capital market requests. 4 per cent of the requests concerned the **portfolio management** activity, 3 per cent of them the other investment services activity and 2 per cent of them related to the **acceptance and execution** of orders. The rest of the requests related, with negligible weight, to the other supplementary activities, **underwriting**, investment advisory services, **extension of investment loan and safe custody services**. 62 per cent of the requests related to the sector concerned the investment firms.

Chart 29
Distribution of the most typical requests related to the capital market sector, by service type

(pcs)



Source: MNB.

Requests related to insurers

In **2014 H2** the requests related to the insurance market **fell by one-third** to 420 compared to 2014 H1. In **2015** the number of requests related to the insurance market **increased** by 3 per cent in total year on year; then 19 per cent of all requests related to the insurance sector.

The **most typical service types** involved in the requests in **2014 H2** related to the non-life insurance branch. The weight of **car insurances** is still significant, with a share of **40 per cent**; the **home insurance** service type should be also highlighted, as it accounted for roughly one-quarter of all requests. The ratio of **unit-linked** insurances **slightly increased**, while the share of the **traditional life insurances decreased** by almost **two-thirds** compared to the previous half-year. The other non-life category includes the **property, liability, warranty and travel insurances**. The other life insurance services include the **accident and health insurances**, and the various life insurance products combined with loans.

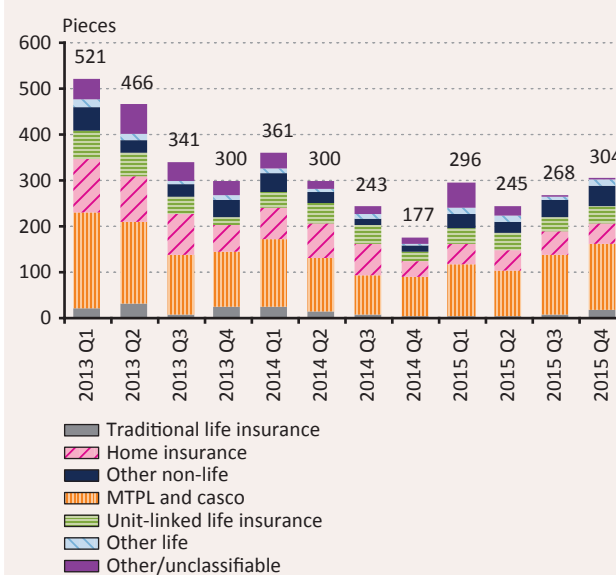
In **2015** the ratio of **car insurances** was still **dominant**, the number of the related requests increased by almost 13 per cent year on year. There was favourable change in **home insurance**, where the number of requests **fell by almost one-third** year on year. The number of requests related to **unit-linked** life insurances did not change, while that related to the **traditional life insurances** fell by 35 per cent compared to 2014. The other non-life category includes the **property damages, liability insurance, fire and elementary losses**, and the non-life insurance combined with lending. The other life insurance services included the requests related to **accident and health insurance, composite life insurance** and the individual and group **pension insurance** products.

65 per cent of the requests related to insurance limited companies, 12 per cent to the branch offices (primarily the Astra Insurance Hungarian Branch Office), 3 per cent to the insurance association and the remaining 21 per cent to other undertakings active in the insurance sector.

Requests related to the funds market

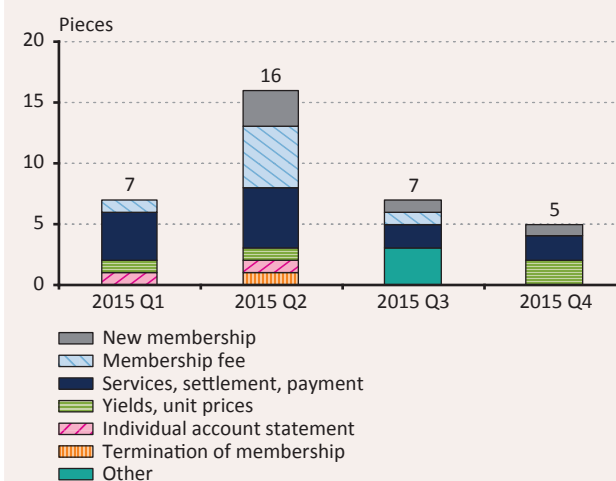
The ratio of the funds market requests has been marginal for several years; no material change occurred **either in 2014 H2 or in 2015**, and it accounted **for less than 1 per cent** of all requests.

Chart 30
Distribution of requests related to the insurance sector, by service type
(pcs)



Source: MNB.

Chart 31
Distribution of requests related to the funds sector, by service type
(pcs)



Source: MNB.

In 2014 40, while in 2015 35 requests were received in total, which mainly related to the **settlement, payments, membership fee accounting**, yields and settlement unit price and to the **establishment of membership relation**.

The “larger part” of these few requests related to the pension funds, and the “lesser part” of them to the health funds.

ANNEX 3: CUSTOMER SERVICE ENQUIRIES

Distribution of customer service enquiries by the channel of submission

In 2014 on average 2,600 customer enquiries were received monthly, which increased almost 2.5 times by 2015 H1 close to 6,500 on average per month and to 5,500 on average by 2015 H2. The 32,226 requests in 2014 increased to **71,918 in 2015**.

The number of **telephone enquiries** increased from **10,306** registered in **2014 H2** to **28,275** by **2015 H1**, which was a 2.7-fold increase, followed by 22,493 calls in the second half-year – representing a 2.3-fold increase in annual terms – resulting in **50,768** telephone calls in total.

The **personal** customer service in **2014 H2** was visited by **1,830** customers, while in **2015 H1 and H2** by **3,673** and **4,627** customers, respectively, i.e. the number of customers doubled year on year.

The number of **e-mail** enquiries also increased significantly, almost **two-fold**, representing **3,478** e-mails in 2014 Q3 and Q4 and **12,805** e-mail enquiries in January-December **2015**.

Despite the higher customer traffic, in 2015 the **average waiting time decreased** both at the personal customer service and in the call centre, as a result of the process optimisation. As a result of the reorganisation of the work procedures the **response time** in the case of questions and signals received by **e-mail** decreased by 25 per cent to **9 days** compared to 2014 H2. The significantly increased customer traffic was primarily attributable to the settlement and conversion, the broker affairs and the liquidation of the Astra Insurance branch office. As regards the question, it can be stated in general that the **customers were often unable to express their specific question or problem in an accurate manner**; these could be clarified during the conversation with targeted questions.

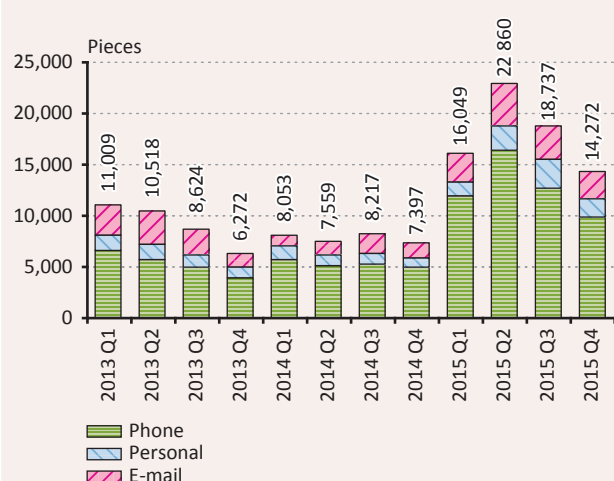
Distribution of customer service enquiries by sector

In 2014 H2 the MNB received 15,614 customer enquiries in total, which corresponds to the previous half-year. Compared to this there was a **significant change already in 2015 H1**; the **customer service** registered **38,909** enquiries in total, meaning that it **provided information to more enquirers in a half-year than previously during an entire year**.

In the period under review the dominance of the **money market**-related enquiries did not change compared to the previous period, but there is a major change in the degree thereof. This is attributable to the fact that the requests related to the settlement had a major share within the money market data. In **2015 a total of 45,603** customer enquiries were received in respect of the money market sector, which is higher by 2.7 times than the **16,796 enquiries registered in 2014**. The majority of the questions related to lending, and particularly the **foreign currency and foreign currency-denominated consumer loans**.

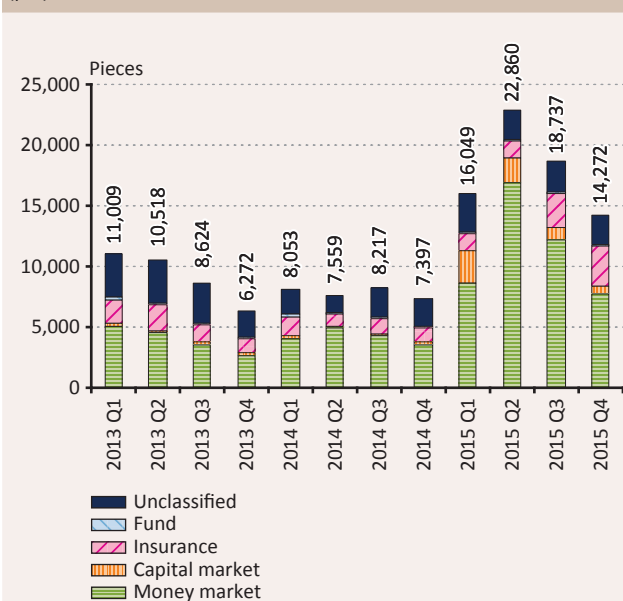
The other major change applies to the **capital market sector**. In the previous periods, in half-yearly terms, customer enquiries were received in negligible volume, only a few hundreds. However, in spring 2015 the **problems revealed by the MNB** in respect of the operation of the brokerage firms fundamentally changed the situation, and enquiries related to the capital market intermediaries soared. While in **2014**

Chart 32
Distribution of customer service enquiries by the channel of submission
(pcs)



Source: MNB.

Chart 33
Customer service enquiries, by sector
(pcs)



Source: MNB.

H2 only 416 customer enquiries were received, this number increased by 11.2 times to **4,660** in 2015 H1, while in the second half of the year the customer service received **further 1,527** enquiries. The largest part of the enquiries related to the **indemnification**

process, the **securities accounts**, the **stock exchange products** and the **foreign exchange transactions**.

The number of enquiries related to the **insurance sector** was relatively balanced, no swings similar to the previous two sectors were seen. In **2014 H2** a minor, around 9 per cent decrease can be identified compared to 2014 H1, representing **2,390** enquiries; however, in **2015 H1** the number of enquiries increased by 18 per cent to **2,823** compared to the last six months of the previous year, which was mainly attributable to the **compulsory motor third party liability insurance** and to the increase in the number of enquiries related to **property insurances**. In the **second half-year** the number of enquiries rose to **6,085**, which was primarily attributable to the liquidation of Astra Insurance. More than half of the enquiries related to **compulsory motor third party liability insurances**, and particularly the topics of contract cancellation, change of insurer, claim settlement and claim history records.

The number of enquiries related to the **funds sector** is still marginal; in **2014 H2** merely **190** enquiries were received, which falls short of the previous half-year by 41 per cent. In **2015** only **371** enquiries were received, which is a decrease of 27 per cent in year-on-year terms. The majority of the enquiries related to the voluntary pension funds.

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Ferenc Rákóczi II

(27 March 1676 – 8 April 1735)

Hungarian aristocrat, Prince of Transylvania. His name is closely associated with the war of independence he launched in 1703, the purpose of which was to regain complete national independence from the Habsburg Empire. This is why he was elected Prince of both Transylvania and Hungary. His father, Ferenc Rákóczi I died when his son was only an infant. His grandfather, great grandfather and great-great grandfather were all Princes of Transylvania. His mother was Ilona Zrínyi, daughter of Governor of Croatia Péter Zrínyi and Katalin Frangepán, and niece of the poet Miklós Zrínyi. After he completed his university studies, Rákóczi married Princess Charlotte Amalie von Hessen-Rheinfels-Wanfried in 1694 without permission from the royal court. His wife's aunt was the Princess of Orleans, which made Rákóczi a relative of King Louis XIV of France.

Once he reached legal age, Rákóczi moved to Vienna, then in 1693 he toured Italy, and upon his return he was appointed count for life of Sáros County. In 1700 he gave in to Miklós Bercsényi's agitation and began to organise an anti-Habsburg rebellion. After his letter requesting assistance from King Louis XIV of France was intercepted, Rákóczi was imprisoned, but he was eventually able to escape from captivity and flee to Poland with his wife's help. There he was contacted by the leaders of the 1703 peasant revolt of the Tiszahát region who asked him to head the uprising. Rákóczi was the leader of the war of independence against the Habsburgs in 1703–1711, which was eventually named after him. Even though the uprising failed, the eight years of struggle secured a favourable position for Hungary that guaranteed a special status within the Habsburg Empire for two centuries to come.

Considering the circumstances, the Peace Treaty of Szatmár offered favourable terms to Rákóczi himself. In exchange for an oath of loyalty to the Emperor, he would have received full pardon and even if he did not want to stay in the country, he was free to leave for Poland. Rákóczi, however, did not accept the peace terms. He chose to go into exile instead, first for a short period of time in Poland and then in France, but he eventually settled down in Rodosto, Turkey, where he lived out his life.

Hungarians still cherish him as an ingenious and honourable leader because he rejected the general pardon offered after the Peace Treaty of Szatmár was signed and because he remained faithful to the cause of Hungarian independence until his death.

His body of correspondence in Hungarian, Latin and French was of international significance. His most powerful works were written in the long years of his exile. His Memoirs detailed the events of the war for independence in chronological order. Confessions was the product of many years spanning from the early years of his exile in France until late years in Turkey. The works by Rákóczi were mostly preserved in the form of manuscripts: Supplications (cca. 1720), Contemplations reflecting on the five books of Moses (1721–1731) and Treatise on Power (1722), Rákóczi's political and ethical testament written to his sons.

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