



FINANCIAL CONSUMER PROTECTION REPORT



2016

*'... 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

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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 in particular the protection of the interests of consumers using the services rendered by 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 over the long run without satisfied consumers, which would also render the existence of a stable financial sector which duly supports national economy goals impossible. Consumer confidence and stability are two inseparable concepts. Accordingly, since the supervisory duties have been integrated in the central bank, the Magyar Nemzeti Bank pursues its duty with reinforced consumer protection and a market surveillance approach.

The publication entitled ‘Financial Consumer Protection Report’ aims to inform the public and the institutions of the financial system in respect of current financial consumer protection issues, thereby enhancing the risk awareness of stakeholders and maintaining and strengthening confidence in the financial system. According to the intention of the Magyar Nemzeti Bank, its official activities to identify and reduce risks, its information and educational activities, and its efforts to enhance financial literacy all contribute to making the information necessary for decisions concerning financial institutions and products available to stakeholders, and thus strengthen the stability of the financial system as a whole.

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.

The editorial deadline was 21 March 2017.

Contents

1 Greeting by the Deputy Governor	7
2 Summary	9
3 Background of financial consumer protection activity	11
3.1 Macroeconomic outlook	11
3.2 Directions of supervision and consumer protection	13
4 Consumer protection risks	19
4.1 Risks identified in the money market sector	19
4.2 Risks identified in the insurance sector	33
4.3 Risks identified in the capital market sector	40
5 Financial consumer protection communications	47
5.1 Thematic, recurring campaigns based on life situations	48
5.2 Cooperation with the Financial Advisory Office Network, the Bureaus of Civil Affairs and civil organisations	49
List of Boxes	51
List of Charts and Tables	52
Annexes	53
1. Annex: The MNB's consumer protection administrative activity	54
2. Annex: Data of the settlement thematic inspection.	58
3. Annex: Complaint statistical data	59

1 Greeting by the Deputy Governor

DEAR READER,

The Financial Consumer Protection Report, which you are holding in your hands, is one of the important publications of the Magyar Nemzeti Bank (hereinafter: MNB). In line with the previous practice, the experiences, data and knowledge of the previous year are summarised in its pages. Its unchanged objective is to inform consumers and the institutions operating in the financial sector about current consumer protection issues. Keeping in mind the central bank's consumer protection communication principles, the Report intends to inform the public about the events of the past period in an understandable and transparent manner.

In this publication, we discuss the financial consumer protection risks of typical financial products, services and life situations. In addition, we evaluate current events of interest that are significant in terms of consumer protection. In order to protect consumers, the Magyar Nemzeti Bank examines domestic and international market developments, and as part of its supervisory functions it monitors and checks the lawfulness of the operation of institutions, their communication channels and the content of the latter, evaluates the news about financial institutions and service providers within the framework of general press monitoring, and analyses the information received pursuant to statutory data reporting. In addition, it pays special attention to summarising the requests and indications received from customers and to identifying trends and drawing conclusions from such. Careful analysis of the information received also allows the MNB to call attention to the expected risks in due course, to react to them efficiently or to prevent their evolution. The latter objective is served by the central bank's proactive consumer protection communication strategy as well. With its means, it facilitates conscious, well-founded decisions of buyers, thorough gathering of information and the development of domestic financial literacy as a whole.

According to our intentions, complementing the central bank information system, the Financial Consumer Protection Report will also help you to obtain a more complete picture of current financial trends. I am convinced that you will be able to utilise the knowledge obtained from learning about the developments and analysing the expected risks when you have to make decisions and that we can take another step together towards developing the financial awareness of consumers.

Dr László Windisch
Deputy Governor,
Financial Institutions Supervision
and Consumer Protection

2 Summary

The Magyar Nemzeti Bank pays utmost attention to the prevention and reduction of consumer risks as well as to minimising any possible damages. In order to facilitate conscious and responsible decision-making, in the central bank's activity there is an emphasis on the expansion of consumer protection that focuses on preventing problems and raising the level of financial literacy. Firstly, the MNB monitors the financial institutions falling within its scope of competence from a consumer protection perspective and secondly, it continuously informs consumers in respect of the most important issues concerning the financial markets. Its objective is to recognise relevant risks in timely manner and minimise their negative consequences through its activity as an authority and by providing information to consumers. For this reason, it cooperates with international institutions and organisations, and carefully monitors domestic and international financial trends. Fundamentally, the MNB performs its consumer protection activity on the basis of macroeconomic developments, taking account of the identified risks, in line with its supervisory strategy.

During the past year, the housing market continued to pick up and a shift took place in lending. In the first half of last year, newly disbursed loans to households exceeded the amount observed in the same period of the previous year by more than one third.

In 2016, consumer protection questions related to lending and debt management accounted for half of the complaints received by the MNB, reflecting the importance and timeliness of this topic. In connection with these types of products, the characteristics of the services, customer management by financial institutions and improper management of payment difficulties constituted the main risk factors.

Interest rate levels are at an all-time low, and accordingly the rates on borrowing from banks are also low. Consequently, a possible increase in interest rates represents a real risk. Banks may raise interest rates in line with consumers' contracts, i.e. in every interest rate period. Over the longer run, the ensuing uncertainty may be reduced by choosing fixed-rate loan products. With an upswing in consumption and thus in credit demand, as a result of ill-advised consumer decisions, the hazard of long-term excessive indebtedness and the risk of improper management of payment difficulties may grow again. With small, short-term unsecured loans, the costs not included in the annual percentage rate may already result in serious financial uncertainty from a consumer's point of view in a short time, and the debt spiral which can develop as a result is a real problem that requires action.

Creating transparency in fees and costs related to financial products and services is a key consumer protection issue, not only in Hungary but also in Europe as a whole. Transposing the single international regulatory background formulated for this reason into domestic legislation contributes to the strong enforcement of consumers' interests in Hungary as well. The MNB identified the transparency of fees and costs and the related deficiencies in the provision of information as an existing risk group; in this regard, in 2016 it examined and focused particularly on the obligation to provide information regarding capital market products.

A separate risk group is formed by the risks related to insurance products, particularly practice of mis-selling,¹ which was already identified as an existing risk in 2015, as well as failure to comply with the obligation to provide information in connection with compulsory motor third-party liability insurance contracts.

¹ Mis-selling means selling one of the offered products that matches the customer's needs to a lesser extent. Misleading information can be incidental or deliberate, can stem from professional deficiency or the service provider's interest.

In the low yield environment small investors may turn to riskier, less comprehensible products. Therefore, providing and gathering information are essential. In connection with combined products and ones which involve operations that are difficult to comprehend, the most objectionable aspect is service providers' practice of providing information on the products being sold, as in the case of these products there is an increased risk that consumers do not know or do not understand the details or the product as a whole.

From a consumer protection aspect, the activities of a growing number of institutions that are present in the Hungarian financial market and provide cross-border services continue to represent a risk. The source of the hazard is that the MNB's opportunities to protect consumers from foreign service providers are limited.

The electronic technologies identified on the basis of cooperation with international institutions are also gaining more and more ground in the financial sector. Accelerated data flows and data utilisation, online platforms and the possibilities inherent in new technologies generate a steady stream of new risks, mainly in relation to the handling and protection of customers' personal data.

By analysing the dynamic changes in the financial environment, the MNB continuously develops its surveillance methodology, which guarantees the efficient identification and management of newly arising problems and the effectiveness of the activity of the MNB as an authority. Based on the experiences to date, the results of the continuous consumer protection surveillance proved the efficiency of this method, and continuing this practice is justified for the future as well, in order to keep the risks to consumers at the lowest possible level. The activities of the MNB and the tightening of consumer protection rules in recent years have played an important role in mitigating the risks that directly affect consumers. With its consumer-oriented communications on financial consumer protection, the MNB provides easy-to-understand information that can be utilised in everyday life and also maintains interactive, two-way communication channels, to reach a wide range of the members of the financial consumer society. Consumers' lack of information can be reduced by easy-to-understand communication, allowing their financial awareness to grow, which may result in a decline in their exposure to financial institutions.

This publication contains a detailed presentation of effect of macroeconomic trends on current and potential future financial consumer protection risks, on the focal points and achievements of the MNB's activities and a presentation of the importance of the customer service activity and communications related to financial consumer protection.

3 Background of financial consumer protection activity

3.1 MACROECONOMIC OUTLOOK

Moderate growth continued in Europe in 2016, but financial stability risks increased due to the high amount of non-performing loans and subdued bank profitability. Global economic growth continues to be restrained. Inflation rates rose globally in recent months, mainly as a result of increasing commodity prices and base effects, although core inflation indicators were stable. The macroeconomic outlook indicates that the interest rate environment will remain steadily low in the monetary policy of most developed countries. The European economy has been characterised by moderate economic growth as well as low inflation and interest rate environment for several years. In addition to the unfavourable condition of the macroeconomy, the legacy of the financial crisis, the persistently high ratio of non-performing loans and the steadily low interest rate environment have a negative impact on the euro-area banking sector. Despite the low interest rate environment, lending growth has been sluggish in many EU countries for several years, and the European banking sector is struggling with serious profitability challenges, which may pose a risk for the future.

Hungarian economic growth is balanced, with significant contribution from the improvement in domestic demand. The pick-up in the growth rate of the domestic economy is mainly attributable to a major expansion in household consumption. The rise in the propensity to consume is supported by positive labour market prospects, favourable income developments and the indirect effects of the programmes that facilitate access to housing. The employment rate of the working-age population is more favourable than the average of EU, and there has been a significant decline in unemployment in recent years. In 2017, both the minimum wage and the guaranteed wage minimum will rise substantially, in parallel with a decline in the employer's contribution. These developments point to a substantial increase in real wages. Lower household indebtedness also indicates an expansion in consumption. As a result of real economy developments and the pick-up in demand generated by the economic policy, balanced growth is expected to continue in 2017.

- **Due to the persistently low interest rate environment, the ratio of consumer borrowing may increase considerably.** The economic upswing, the low interest rate environment, the improving labour market conditions and the rise in real wages all significantly encourage borrowing. There is a risk of widespread consumer borrowing which may result in excessive burdens for families. Therefore, it is essential that persons applying for consumer loans consider the objectives to be achieved with the loans in a conscious and careful manner.

The increase in consumer prices, which is mainly attributable to base effects, continued in Hungary. At the same time, inflation will reach the 3 per cent value corresponding to price stability in the first half of 2018. Government securities yields and interbank rates declined considerably, which – in addition to the developments in inflation – was also significantly attributable to the transformation of the MNB's instruments announced in July 2016. Forward rate agreements reflect market participants' expectations that **interest rates will remain low over the long run.**

- **The low interest rate environment may encourage 'yield hunting' by savers.** The persistently low interest rate environment may move customers towards taking high risks. There is an increasing risk that market participants accept savings with unfounded, unsustainable yield promises. Moreover, there may even be a significant increase in the number of institutions which do not have a licence to provide services. The low interest rate environment may also incite service providers to take excessive risks, and even customers for

whom it would not be advisable may invest in high-risk products. The hazards of taking higher risks are expected to be increasingly serious.

The pick-up in the housing market continued in 2016. Housing prices and the number of housing sales transactions continued to rise in 2016. The level and dynamics of housing market price appreciation varied from region to region. Significant price appreciation was observed in Budapest, while increases were much more restrained in other parts of the country. The supply side is also recovering in the housing market. Compared to the same period of the previous year, the number of building permits issued for new homes was two and a half times higher during the first three quarters of the year. Moreover, between July 2015 and November 2016, more than 30,000 home purchase subsidy (HPS) applications were approved with a total value of HUF 73 billion, and the appropriation for home creation purposes amounts to HUF 211 billion in next year's budget.

- **In addition to the pick-up in housing market developments and a change in households' willingness to borrow, the risk of excessive indebtedness continues to be of utmost importance.** For the time being, housing market developments carry modest risks. However, should the housing market become overheated, households will be able to purchase real properties only with the help of higher borrowing, which may entail increasing indebtedness. Therefore, both the risks of excessive indebtedness and the importance of careful purchase of real estate should remain in focus.

In 2016, a turnaround in lending took place in both the corporate and household segments. In 2016, corporate lending expanded by more than 4 per cent on a transactional basis, i.e. disbursements exceeded repayments by HUF 240 billion during the last year. The annual average increase in the total volume of new housing and consumer loans for households amounted to 50 per cent compared to 2015. Last year, within the total volume, new housing loans and personal loans rose by 42 per cent and 61 per cent, respectively. The value of new disbursements exceeds that of repayments; as a result, household loans outstanding started to increase from mid-2016. Within the portfolio of newly disbursed household loans, the transactions with an interest period exceeding one year amount to some 60 per cent. However, as a result of previous practices, variable rate loans with interest rate fixation up to one year constitute the majority of the portfolio.

- **Against the background of the generally low interest rate environment, the advantages of loans with longer interest rate periods are becoming increasingly proven.** The current low interest rate level is expected to rise over the longer run. Starting from a low base, interest rate increases will result in a considerable rise in instalments in the case of variable-rate loans. Consumers who are in a more modest income position may find themselves in a difficult situation as a result of interest rate increases, as a larger portion of their income will be needed to meet their debt servicing obligations. Due to the expected interest rate movements, it is important for borrowers to realise that transactions with longer interest rate periods are more predictable, and the probability that they will result in unforeseeable payment difficulties is lower. In the debt cap rules introduced by the MNB – prior to the pick-up in lending activity – from 1 January 2015 to stimulate the spreading of fixed-rate loans, starting from 2016 the instalments of mortgage loans with an at least five-year interest rate period can be taken into account in the payment-to-income ratio in a preferential manner, with a weighting of 85 per cent. The MNB intended to support the spreading of mortgage loans with lower interest rate risk and longer interest rate periods with this modification.

Despite the cleaning process that has been started, the amount of non-performing mortgage loans remains high. In 2016, the value of credit institutions' non-performing mortgage loans declined considerably, but the amount of HUF 750 billion outstanding at the end of the year can still be considered high. While previously banks had tended to sell their unsecured receivables, as a result of the upswing in the real estate market and the lifting of the execution and eviction moratorium, demand for mortgage-backed receivables also picked up. The programme of the National Asset Management Agency (NAMA) played an important role in the portfolio cleaning through the enforcement of collateral.

- **Behaving in a manner that also takes into account debtors' reasonable interests deserves increased attention when selling the collateral of mortgage loans.** The high amount of non-performing mortgage loans

in the banking sector requires further cleaning of banks' balance sheets. The MNB issued a recommendation² concerning the forms of conduct and good practices it expects – in addition to complying with the requirements set forth in the relevant provisions of law – of financial institutions during the restoration of the solvency of defaulting mortgage loan debtors and debtors of foreclosed mortgage-backed loans covered by real estate. With its means the MNB attempts to achieve that upon the restoration of a problematic mortgage loan portfolio the financial institution should attempt in a constructive manner to find a sustainable solution for the customer, as well for example through restructuring, selling of real estate and renting it back with a right of repurchase.

Changes in the market environment fundamentally determine the directions of market surveillance and consumer protection. Continuous revision and fine-tuning of the supervisory methodology are essential for achieving the MNB's objectives. These directions are detailed below.

3.2 DIRECTIONS OF SUPERVISION AND CONSUMER PROTECTION

In line with its supervisory strategy, the MNB pays special attention to the consistent and robust protection of consumers' interests, but in itself it is not sufficient for protecting them. Using regulation, continuous surveillance and control, the characteristics of the various products present in the financial market and the activities of institutions can be channelled in a direction that is in line with the relevant legislation. These instruments also ensure the availability of all necessary information for consumers for their decision-making.

However, consumers must be aware of the fact that they have to make the decision and they are responsible for it. If this is not done in a prudent manner, even a financial product that complies with the relevant legislation and consumer protection principles and is sold using lawful methods may not be appropriate, the original financial plans may not be achieved, and there may be material disadvantage for the consumer. Nevertheless, in the course of its administrative, communication and information activities, the MNB puts special emphasis on supplying consumers with information on the risks that arise and the measures taken by the MNB. As a result, practically there is no life situation or type of financial product supervised by the MNB which are not covered by the MNB's publications and communication activity.

The MNB's consumer protection task is to identify the real risks and their probability in due time and to apply solutions focusing on the prevention, reduction or termination of such risks, reacting to market events as quickly as possible in order to be capable of providing efficient assistance to consumers, if necessary. During the year under review, the MNB launched 302 consumer protection inspections at the supervised institutions and established violations of law in the case of 273 inspections. As a result of the inspections, the MNB imposed consumer protection penalties amounting to HUF 258.325 million. The most important inspections of the past period aimed at the compliance with the 'Fair Bank' Act (fair lending conduct) and also included the targeted inspections covering the subjects of settlement and conversion of FX loans into HUF. Group insurance as well as the checking of insurance agents' professional diligence, and within that the forwarding of insurance applications and customers' declarations concerning the termination of contracts to insurance companies, were the subjects of further priority inspections. Checking the information provision obligation of investment firms and insurance undertakings were also the subjects of special inspections. It can be established in general that the identified violations of law were attributable to individual administrative mistakes and misinterpreting legal rules. The MNB identified unlawful conduct that can be considered intentional in a smaller number of cases. It can clearly be stated that financial institutions will have to pay special attention to even more complete compliance with the relevant legislation and consumer protection principles in the future.

² Recommendation 1/2016 (III.11.) of the MNB on stimulating the permanent restoration of the solvency of defaulting household mortgage loan debtors.

The MNB also represents Hungarian consumers' interests in cooperation with international organisations (EBA,³ EIOPA,⁴ ESMA,⁵ IOSCO⁶) and actively participates in the work of these organisations. This activity is especially important in order to identify, map out and manage the risks arising in the future and to formulate a single regulatory framework. In the EU-level regulations, increased attention has been paid to consumer protection, including in particular the importance of informing the consumers and the prevention of mis-selling. New rules have been created (e.g. POG, IDD)⁷ that are expected to significantly reduce mis-selling, which is also present in the markets of other Member States in connection with certain products.

Box 1

Product development recommendation

In December 2016, the Financial Stability Board of the MNB adopted Recommendation 13/2016 (XII. 19.) of the MNB on product oversight and governance arrangements related to retail financial market products, which formulates principles to be applied by financial institutions (and intermediaries) which develop and distribute retail financial market (bank) products. The MNB's basic expectation in connection with the recommendation is that during the development and selling of a new (or significantly modified) product – in addition to complying with the relevant legislation – financial institutions should ensure the preservation of consumer interests and objectives in a way that always provides access for retail customers to financial products that meet their needs. It is also crucially important that product developers choose distributors with the proper knowledge, expertise and ability necessary for selling the products and providing adequate information to customers. A distributor is allowed to offer the product to consumers outside of the pre-determined target market only in justified cases (corroborated by specific data). In addition, it is a specific expectation that – prior to the consumer's decision-making – the distributor should make clear to the public the main features and risks as well as the total price to be paid for the product (including all fees, levies and costs).

Based on the decision competence set forth in EU guidelines and referred to the discretion of certain authorities with relevant competence, it should be noted that the range of personal addressees of the recommendation has been extended beyond mortgage loan intermediaries to all other financial market intermediaries and also to financial enterprises, in addition to credit institutions.

3.2.1 Directions of the consumer protection authority's activity

The MNB's consumer protection authority approach is based, *inter alia*, on the feature of the 21st century that the legislator cannot always keep abreast of the continuous acceleration of social, technological and market development. Since even in optimal cases the legislator is only able to react to new trends with a shorter or longer delay, in the course of its activity as a consumer protection authority the MNB puts special emphasis on the prompt and efficient management of emerging risks, in line with consumer protection principles. In practice, it requires a point of view that is beyond the approach that follows the developments with a delay and applies mainly punitive sanctions in the case of unlawful conduct. At the same time, the authority's preventive activity with a proactive approach entails tight control of developments and prompt intervention as well as the strengthening of the attitude that prefers sanctions which contain restoration type orders.

Another fundamental aspect of the MNB's consumer protection authority approach is that compliance of the supervised institutions must be continuously monitored, and if justified, such compliance must be

³ EBA: European Banking Authority.

⁴ EIOPA: European Insurance and Occupational Pensions Authority.

⁵ ESMA: European Securities and Markets Authority.

⁶ International Organization of Securities Commissions.

⁷ Product Oversight and Governance (POG) Preparatory Guidelines on product oversight and governance arrangements by insurance undertakings and insurance distributors, Insurance Distribution Directive (IDD). For transposition of the directive into Hungarian legislation, see the Box 'Product development recommendation'.

confirmed within the framework of official inspections. Inspections are launched in a targeted manner based on information collected from a wide range of sources and are closed in the shortest possible time.

The Annex to the Report contains various tables and statements presenting the results of the authority's activity in detail.

3.2.1.1 Continuous consumer protection surveillance

Continuous consumer protection surveillance is implemented via a consumer protection system with employees in charge of specific institutions. The task of the person in charge is the thorough knowledge of the product structure of the institution under his/her supervision, the up-to-date monitoring of the changes in the choice of products and the immediate evaluation of information appearing in connection with the institution.

The information relevant in terms of consumer protection surveillance reaches the person in charge of the institution through various channels. For example, the MNB follows the changes in the websites of the supervised institutions, the content of the advertisements, and within the framework of general press monitoring it evaluates the information appearing in relation to individual institutions. Continuous surveillance is facilitated by a system-level analysis of institutions' statutory data reporting and if necessary, assessment of data on certain subjects ordered by the MNB as an authority. Summarisation and analysis of the information contained in consumer submissions received by the MNB's Financial Consumer Protection Centre are of the utmost importance, as customers' experiences and observations often allow the MNB to identify developments and risks that otherwise cannot be learnt about in due time.

The basis for efficient and continuous surveillance is the acquisition of a large amount of information, based upon which the MNB obtains a credible picture of market trends, especially focusing on newly emerging risks and the changes in the degree of previously identified risks. The 'traditional' method of managing identified risks is to conduct consumer protection procedures. However, the measure of success of financial consumer protection is not necessarily quantified by an increase in the number of official procedures conducted in a given year, but rather by keeping the risks threatening consumers at the lowest possible level. Therefore, in addition to being able to identify risks, the system of continuous surveillance must also have the means to ensure, if necessary, the early limitation of risks without conducting an official procedure.

Consumers regularly send questions and submit various notifications and indications to the Financial Consumer Protection Centre. Cases that are disquieting from a consumer protection point of view are examined by the MNB staff within the framework of continuous consumer protection surveillance, and they request information from the institutions, if necessary. In 2016, based on indications from consumers, market activities that were investigated to various depths were identified on 259 occasions.

The mildest but immediate tool of consumer protection surveillance is the consumer protection warning, which is issued in a targeted manner by the MNB for the given institution when undesirable practices and newly emerging risks are identified. The objective of the consumer protection warning is to present the identified risk to the management of the institution, and to request prompt and detailed information from the institution concerning – if applicable – any measures taken to eliminate the risk in question. A total of 42 consumer protection warnings were issued in 2016. This tool allows the institution to remedy the problem – with the MNB's involvement – quickly and completely. Naturally, the issuance of a consumer protection warning does not mean that subsequently, within the framework of an official procedure, the institution will not be held accountable for its earlier unlawful practices or ones that are disquieting from a consumer protection aspect.

For example, in the case of credit institutions a consumer protection warning was issued because of failure to cooperate (appear and make a statement) in the procedure of the Financial Arbitration Board (FAB), or when the service provider's customer service or its website or the link given by it was not available. In the insurance sector, the MNB issued consumer protection warnings because of insurers' MTPL tariff announcements or

information related to such (e.g. to AEGON Magyarország Általános Biztosító Zrt.). Concerning the provision of information by phone, it was justified to apply consumer protection warnings due to lack of completeness and the suspicion of misleading information (e.g. Signal Biztosító Zrt.). In the capital market sector, the MNB typically applied consumer protection warnings because of information deficiencies on its website (e.g. publication of amended list of fees) and errors in the information related to the name and opening hours of the financial institution. Erste Befektetési Zrt., Concorde Értékpapír Zrt. and Alapforgalmazó Zrt. as well as Bankmonitor Kft. complied with warnings in cases like these. Deficiencies in complaint management also gave rise to the application of warnings, for example when wrong contact details of the FAB and the MNB were indicated and a customer not qualifying as consumer did not receive a reply to his/her complaint, and answering by phone within 5 minutes was not ensured.

An important means in the MNB's consumer protection surveillance is the conduct of trial transactions, as this tool is more suitable than any other methods for the authority to obtain real information on characteristics of selling procedures applied in the various sectors. One advantage of trial transactions is that by examining sales process directly, the MNB's experts can reach conclusions concerning defects or risks for the consumer in the process even from signs that seem to be unimportant for the average consumer, and this would not be possible in any other way. Trial transactions take time, but represent an expressly efficient supervisory tool. In 2016, 26 trial transactions were conducted. The MNB carried out trial transactions in a number of consumer protection procedures; the relevant experiences are described in the discussion of the individual risks.

Experience shows that the introduction of continuous consumer protection surveillance greatly contributed to the efficiency of the consumer protection activity, as it allows the MNB to learn about changes earlier as well as to explore *ex officio* the emerging problems within a short time and to take measures in order to terminate such problems.

3.2.1.2 Consumer protection inspection

Pursuant to the MNB Act,⁸ within the framework of consumer protection control procedures, the MNB conducts targeted inspections or simultaneous thematic inspections at several organisations and persons in connection with the same topic, inspections launched on the basis of consumers' requests and post-inspections (consumer protection inspections). In addition to the above *ex officio* procedures, the consumer protection staff of the MNB also participate in comprehensive inspections conducted periodically as defined by the prudential area in the MNB Act. In this regard, it is emphasised that within the framework of the comprehensive inspections concerning the insurance sector, all insurance companies were checked in the past three years.

The administrative consumer protection activity of 2016 was fundamentally determined by the thematic inspection launched in the previous year concerning the settlement and conversion into forints of FX loans. In addition to this series of inspections, the MNB paid special attention to the identification and management of current problems as well as to possible prevention of future problems. Accordingly, in 2016 in addition to monitoring the settlement and conversion into forints, during its continuous consumer protection surveillance and consumer protection inspections the MNB paid special attention to dealing with the topic of the compulsory motor third-party liability insurance, the fulfilment of investment firms' obligation to provide and gather information, the compliance with the so-called Fair Banking System Act, the information providing practice of institutions conducting intermediary activity as well as the control of financial institutions that conduct mortgage lending activity. In addition, the MNB also paid special attention to the consumer protection risks related to financial institutions engaged in cross-border activities.

In 2016, the MNB launched a total 302 consumer protection inspections. During these procedures in 2016 the MNB adopted a total 2,567 orders, and as a result of procedures it adopted 457 orders and 422 decisions.

⁸ Act CXXXIX of 2013 on the Magyar Nemzeti Bank.

The MNB found violations of law in 273 cases, as a result of which it imposed consumer protection penalties amounting to a total of HUF 258.325 million in 2016.

More detailed information on the administrative measures concerning the individual subjects are included in the presentation of the given risk in the Report. The statistical data of the inspections conducted in 2016 are shown in Annex 1.

3.2.1.2.1 Ex officio targeted consumer protection inspections

Targeted inspections were typically initiated based on the experiences of continuous consumer protection surveillance and investigations of individual consumer requests. In 2016, the MNB launched 41 *ex officio* targeted inspections. In the matters that required immediate steps, the MNB took the opportunity of conducting a so-called expedite targeted inspection⁹ provided by the legislator and conducted expedite targeted inspections in 9 cases in 2016. They typically aimed at the examination of commercial communications and complaint management activities. On this subject, the MNB conducted expedite targeted inspections at Téli Takarékszövetkezet, the Hungarian branch of Citibank Europe plc, the Hungarian branch of BNP Paribas, Budapest Bank Zrt., Random Capital Broker Zrt., Codex Tőzsdeügynökség és Értéktár Zrt. as well as Mentor Biztosítási Alkusz Kft. All inspections were closed with the imposition of a penalty on the institutions that violated the law and obliging them to terminate the identified deficiencies. The MNB imposed a significant penalty amounting to HUF 4.5 million on the Hungarian branch of Citibank Europe plc because of the infringements found in connection with commercial communications concerning loans and deposits provided to consumers. In addition, the MNB imposed a penalty of HUF 2 million on the Hungarian branch of BNP Paribas because in its commercial communications regarding deposits it violated the statutory provisions concerning information on including the detailed rules regarding deposit contracts in the general terms and business conditions. In addition to the above, the MNB conducted expedite inspections at Gáboros és Vidéke Takarékszövetkezet and OTP Bank Nyrt. In these inspections, it called the institutions' attention to compliance with the law and at the same time imposed a penalty of HUF 850,000 on Gáboros és Vidéke Takarékszövetkezet.

3.2.1.2.2 Ex officio thematic consumer protection inspections

Ensuring fair market conduct is a fundamental supervisory duty, within which there is a great emphasis on consumer protection. This includes the monitoring and examination of financial markets from a consumer protection perspective. The MNB can conduct consumer protection thematic inspections at various persons and organisations for the purpose of coordinated and comparative verification of compliance with consumer protection regulations of the same or similar type. Two thematic inspections were launched in 2016. With these, the MNB conducted inspections at 14 supervised institutions in the banking sector and at 4 institutions in the case of enterprises engaged in pawn-broking. In addition to the above, concerning the insurance sector there are two ongoing thematic inspections that started in the previous period (2015), affecting 27 institutions. These inspections will be completed in 2017.

3.2.1.2.3 Consumer protection inspections launched upon request

If consumers' requests are in line with the conditions laid down in the MNB Act, the MNB is obliged to conduct a consumer protection inspection. The information in the requests describing individual consumer's experiences and the inspections launched on the basis of these requests often reveal inappropriate practices by institutions. In 2016, the MNB initiated 222 consumer protection inspections upon consumers' requests. Based on the findings of the inspections, it can be established that the infringements already typically observed in the previous years were found in 2016 as well.

⁹ From 1 July 2015, in extreme cases the Supervisory Authority may launch expedite targeted inspections, if, for example, there is a suspected infringement by a market participant impacting a large number of customers, entailing significant systemic risks or jeopardising market confidence.

3.2.1.2.4 Inspection findings

During *ex officio* consumer protection inspections in all sectors in connection with almost all of the inspected market participants it was established that they had breached statutory provisions related to complaint management. Similarly to previous years, responses to the complaints after the deadline, incomplete investigation of and response to the complaints as well as failure to meet the obligation of providing information on legal remedy are still typical findings during the investigations of complaints. At the same time, even classifying customer enquiries was a problem for several institutions, as it was not clear for them whether the given customer enquiry should be qualified as a complaint or only as an information request. Therefore, if the institution was able to quickly remedy the customer's notification, it would have been typically – and wrongly – not handled as a complaint.

From the service providers' side, the MNB also experienced conduct that violated the provisions of the Act on the Prohibition of Unfair Commercial Practices against Consumers concerning the financial market and insurance sectors. This conduct was reflected in active or passive deception or even in violating the requirement of professional care. During the inspections conducted in 2016, the MNB applied temporary measures in 69 cases in total, as in its opinion the information provided to consumers by the financial entities concerned was suitable for distorting consumers' transaction-related decisions and violated consumers' legal and economic interests.

The supervisory press communication summarised the findings of the most important consumer protection (and comprehensive) inspections, their orders and the penalties in a press release and informed consumers about the related risks that might arise and the possible tasks.

4 Consumer protection risks

Domestic practice and international experiences help in identifying consumer protection risks. The risks that evolve as a result of changes in the macro environment form well identifiable groups. The characteristics of the groups determine the nature, weight and expected impact of risks, and these factors directly influence the quality and depth of the necessary measures. The following chapters describe these risks and the measures taken.

The experiences gained during the inspections conducted by the MNB and customer service activity serve as primary sources for the identification of evolving and already existing problems. Signals from other authorities, professional organisations and NGOs as well as from the various professional areas of the MNB actively help the work of supervisory areas, quick reactions and the identification of potential future sources of risks. The exploration and management of risks is always a dynamic process, adapting to changes in the environment. Therefore, the factors that require greater attention change from time to time. The following is a presentation by sector of the risks shown in the previous publication and previously identified as well as the measures taken by the MNB; newly identified risk elements that deserve special attention on the basis of domestic and international market trends are also mentioned.

4.1 RISKS IDENTIFIED IN THE MONEY MARKET SECTOR

The products and services of the financial market sector concern most consumers. Nearly 70 per cent (2,515) of the consumer protection requests received by the MNB's Customer Service and almost half (17,647) of the enquiries were related to the products and services of the financial market sector. Accordingly, the MNB also identified a number of consumer protection risks in this area. The high number of notifications and questions received from customers also confirms that the handling of issues related to lending and debt settlement as well as the danger of indebtedness generally constitute a key issue. Experiences suggest that consumers typically fail to adequately and sufficiently carefully assess the consequences of payment difficulties. The reduction of these risks requires special attention in 2017. The protection of consumers' interests and the enforcement of their right to gathering information are also priorities among the consumer protection activities. A financial decision that is advantageous for the consumer can only be taken in possession of adequate information, a precondition of which from the service provider's side is compliance with the fair banking rules as well as the provision of proper information and ensuring of the transparency of costs.

4.1.1 Fair lending, debt management and compliance with the fair banking rules

In 2016, 83 per cent of consumer complaints¹⁰ concerning lending and debt management were related to the above subjects (2,094). Nearly one fifth of the information-type enquiries¹¹ and questions concerned loan and leasing products (3,439). This means that financial consumer protection still focuses on lending and debt management, which is confirmed by macro market developments as well.

Experience shows that during lending it is a specific risk if sales clerks or agents of financial institutions offer and sell products to consumers that are more advantageous from the seller's point of view and not ones that meet the customers' needs and are advantageous for the latter.

¹⁰ Consumer applications that comply with statutory content and form requirements and are examined by the MNB within the framework of administrative consumer protection procedures.

¹¹ 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.

In order to reduce such risks, in connection with loans the MNB informs consumers about the most important risks and the latest developments in a separate menu point on its Consumer Protection site. Under the menu point 'Loans, leasing', information related to borrowing and loan refinancing help the orientation. The Financial Navigator Booklet entitled 'Plan your borrowing!' also contains basic information related to lending. The booklet 'What to do in case of payment difficulties?' discusses problems directly related to debt management. Nevertheless, in the case of a question or doubt it is expedient to turn to an independent specialist, for example to the Financial Advisory Office Network operating in county seats¹² or the Customer Service of the MNB. Unbiased consumer decisions may be facilitated by the MNB's loan and leasing product selection programme as well as its loan and household budget calculator.

In the course of lending and debt management, one risk of key importance is the danger of households' excessive indebtedness. To avoid this, the MNB enacted a decree¹³ regulating the payment-to-income ratio and the loan-to-value ratio. The main objective of the debt cap rule is that after borrowing, at least 40–50 per cent of consumers' income should remain for covering the costs of living, thus contributing to families' more stable livelihood. The regulation serving both the consumers' interest and the safety of lending consists of two main pillars. They are the payment-to-income (PTI) ratio and the loan-to-value (LTV) ratio. The PTI limits the repayment burdens that can be assumed with new loans to a certain ratio of the regular legal incomes of private persons, and thus the risk of indebtedness can be reduced. In the case of secured loans (e.g. mortgage loans), the LTV ratio limits the amounts that can be borrowed as a ratio of the collateral. The danger of excessive indebtedness has declined significantly with the introduction of the regulation, mitigating the risk that the consumer will face payment difficulties in the future. Nevertheless, inadequate management of payment difficulties by customers continues to be an existing risk.

Box 2

Thematic inspection of the settlement and conversion into forints

The MNB was committed to verifying compliance with the obligations stemming from the Act on Settlement and the Act on Contract Amendment and acted firmly, applying the means provided for by legislation to the necessary extent. Considering the importance of the settlement of the FX-denominated, foreign currency and forint loans extended to consumers, starting from February 2015 the MNB conducted thematic inspections covering the entire process at 226 financial institutions obliged to carry out the settlement and at 96 debt purchasers that were obliged to carry out the settlement on the basis of customers' requests. During this activity, the MNB continuously monitored the lawful performance of the tasks stemming from the Act on Settlement and the Act on Conversion into Forints, including, inter alia, the method of calculating the consumer's claim, as well as analysed and evaluated the available information. In addition to the thematic inspection, the MNB also participated in the preparation of the settlement, in elaborating the methodological rules and in providing information to consumers. It also supported the smooth conduct of the settlement with guidance and guidelines designed for the institutions, with consultations and especially by providing information to consumers. The primary objective of the thematic inspection was the prevention of infringements, if possible and not their subsequent exploration and sanctioning.

During the thematic inspection, the MNB issued 135 consumer protection warnings, inter alia, because of incomplete references of websites, violations of the provisions of the information regulation and deficiencies in complaint management information. In the case of debt purchasing financial enterprises, warnings were needed because of the inappropriate information content and credit history statement of settlement letters as well as the failure to update the references published on their websites. In addition, the central bank also issued 158 temporary measures to immediately terminate identified illegal conduct, because of, inter alia, the lack of legal remedy forms and announcements as well as a failure to provide complaint-related information on the website. Within the framework of temporary measures, the MNB obliged the financial institutions concerned in those cases, as well when following contract amendment pursuant to the settlement methodology and the Act on Conversion into Forints the new

¹² <http://www.mnb.hu/fogyasztovedelem/civil-halo/civil-halo-a-fogyasztokert>

¹³ MNB Decree 32/2014 (IX. 10.) on regulating the payment-to-income and loan-to-value ratios.

prevailing interest rate of the transaction proved to be faulty or when the interest – required by law – on the amount to be refunded to the consumer was not paid.

The infringements typically did not last long, as the MNB continuously monitored places of announcements, indicated deficiencies to the institutions concerned and obliged them to remedy these deficiencies. The service providers usually corrected their erroneous practices immediately and thus upon closing the inspections the infringements were no longer typical. The MNB evaluated this fact to the benefit of the institution concerned when considering the measures and the amounts of penalties.

For infringements related to the settlement, in its decisions the MNB imposed penalties amounting to a total HUF 155 million, of which Banif Plus Bank Zrt. accounted for HUF 112.3 million for repeated violation of the deadlines of sending out the notification letters. In addition to the above, consumer protection penalties amounting to a total HUF 6.1 million were imposed on 32 institutions, because they had not provided the ordered extraordinary data report on time. The MNB also imposed penalties for the delayed sending of settlement notification letters, the incorrect definition of the amount of the consumer's claim using the wrong methodology, improperly determined new prevailing transaction interest rate following the contract amendment pursuant to the Act on Conversion into Forints and for the failure to pay the interest – as required by law – on the amount to be refunded to the consumer. The institutions affected by the measures met the obligations pursuant to the supervisory resolutions continuously. The amounts originating from the faulty interest and interest calculations were refunded, and the consumers were informed. In addition to imposing consumer protection penalties, in the case of 18 financial institutions procedural penalties amounting to a total HUF 2.3 million were imposed because during the thematic inspection the requested data and information was not provided by the given deadline. Following the imposition of the procedural penalty, the institutions concerned usually remedied the shortcomings.

On the subject of settlement and conversion into forints, the MNB issued 21 official positions, and answered 612 e-mails containing enquiries from financial institutions.

The data related to the settlement are contained in the tables in Annex 2.

The MNB verified compliance with Act CXLV of 2015 on Resolving Issues Concerning the HUF Conversion of Receivables from Certain Consumer Loan Agreements also within the framework of a thematic inspection. During the measure, the conversion into forint of vehicle and general purpose loans was verified in the case of 29 institutions. The inspection did not reveal any serious violations of law that would have caused material disadvantage to consumers.

Complaints related to deficiencies in the provision of information prior to concluding the loan contracts accounted for a significant ratio (around 6 per cent or 235 cases) of all the complaints received by the MNB.

With regard to fair lending, the MNB carried out thematic inspections involving 23 institutions and also conducted mystery shopping. The thematic inspections primarily focused on the examination of compliance with the rules of information provision prior to concluding the contracts. During the mystery shopping the MNB's staff did not find deficiencies of a degree that would have justified immediate measures.

The MNB describes what to do before borrowing in a separate submenu point on its website to make consumers aware of their rights, enable them to enforce these rights and let them know which information they are entitled to. For example, the articles entitled 'Useful advice before borrowing' or 'What should the loan clerk inform you about' describe what to do and what to pay attention to during the arranging of borrowing in an easy-to-understand manner, similarly to a check-list. In addition, the Financial Navigator Booklets entitled 'Plan your borrowing!', 'What you have to know about borrowing and leasing' and '9+1 bits of information on consumer loans' also help consumers in orientation. Concerning the subject of lending, consumers were able to obtain information from press releases as well. In its announcement of 21 March 2016, the MNB called consumers' attention to being prudent in their borrowing during the upturn in lending for housing. On

7 December 2016, it informed the general public about the experiences related to the implementation of the MNB recommendation issued to restore the solvency of defaulting household mortgage loan debtors.

Considering the upturn in mortgage lending, the provisions of the General Contract Terms and Conditions (GCTC) related to these loan products deserve special central bank attention. Accordingly, in order to strengthen the fair financial system and public trust in it, the general contract terms and conditions that become part of consumers' mortgage loan contracts of eleven banks (Budapest Hitel és Fejlesztési Bank Zrt., Magyar Takarékszövetkezeti Bank Zrt., Kereskedelmi és Hitelbank Zrt., FHB Kereskedelmi Bank Zrt., FHB Jelzálogbank Nyrt., CIB Bank Zrt., MKB Bank Zrt., OTP Jelzálogbank Zrt., UniCredit Bank Hungary Zrt., Raiffeisen Bank Zrt., Erste Bank Hungary Zrt.) have been analysed since the second half of 2016. In this inspection, which will be completed in 2017, the MNB is reviewing the rules of procedures and contract terms, and if it identifies conditions that it considers risky, the MNB will indicate this to the financial institution concerned, expecting at the same time a revision and amendment of that condition. Establishing the unfairness of contract terms is not the MNB's competence, but rather the court's competence. Therefore, if an institution does not amend the contract term considered to be worrisome, the MNB initiates an action in the public interest.

In connection with unsecured quick loans, it is important to mention that nearly 4 per cent (129) of all the complaints received by the MNB's Customer Service and half per cent (195) of the questions concerned personal loans. Consumers find a separate article on the characteristics of personal loans and the importance of conscious choice on the MNB's consumer protection website, under the menu point 'Loans, leasing'. The period before Christmas received special attention in the consumer protection communication as well. The press releases regarding the Christmas campaign – 'Significant differences in Christmas lending fees of financial institutions' and 'Pay attention to Christmas loans: rescission, product insurance, convenience service' – called attention not only to many pieces of useful information related to borrowing, but also to the features of complementary services that are linked to the loan, can be chosen by the customers, which are not included in the APR calculation and result in significant additional costs. In relation to this, the Financial Navigator Extra Booklet entitled 'What you need to know about quick loans', which was published in a printed version and can also be downloaded from the website, provides information related to convenience services.

Recommendation 10/2016 (X. 24.) on the application of consumer protection principles was issued for financial institutions during the autumn. It contains the MNB's consumer protection expectations concerning a wide range of consumer protection issues. It formulates criteria for increasing transparency, reducing the imbalance between consumers and financial institutions originating from the difference in financial professional knowledge, applying fair contract terms, transparent cost calculation and fees, as well as the management of payment difficulties. In addition, the recommendation sets the MNB's expectations vis-à-vis institutions with regard to financial consumer protection.

4.1.1.1 Interest rate risks in housing loans

Last year, nearly 15 per cent (510) of the consumer protection requests received by the MNB and 2 per cent (705) of the questions received by the Customer Service were related to mortgage lending. Within this, approximately 1 per cent (125) of the written enquiries concerned questions related to borrowing rates. The legislation concerning housing loans became much stricter in 2016. Among other things, the draft contracts must be handed over without request to the consumer at least three days prior to signing the contract, and the service provider may not amend its offer for 15 days. Tie-up became forbidden except for the condition regarding account management and a possible obligation concerning the purchase of insurance products. The regulation concerning prepayment became more standardised, and the requirements regarding appraisal also became stricter. In addition, it is compulsory to give a personalised offer during the provision of credit advice. In addition to the APR,¹⁴ advertisements and marketing materials must indicate the term, other fees

¹⁴ Government Decree 83/2010 (III. 25.) on the determination, calculation and publication of the annual percentage rate. The purpose of the APR is to allow a comparison of the prices of loan and leasing products. The Decree determines what fees and costs can be taken into account when calculating the indicator.

and the manner of interest payment as well. An expert article¹⁵ processing the changes was also published on this subject and is recommended to consumers as well. One of the main features of housing loans is that they entail a significant, long-term payment obligation, and thus it is especially important for consumers to carefully consider the consequences of borrowing prior to signing the contract. In many cases, it may be expedient to evaluate the offers with the help of an independent expert.

Box 3**Consumer-friendly home loan concept**

Both in terms of financial stability and consumer protection it is important to provide for the comparability of household loan products, in particular the pricing of mortgage loans for housing, which can be achieved through the stimulation of market competition. One of the steps to encourage competition between service providers is the development of the consumer-friendly loan product rating scheme. Creation of the evaluation system is justified by the involvement of a wide range of retail customers, the consumer surplus, which can be increased significantly, as well as the current developments in lending.

The essence of the concept is the creation of easy-to-understand products that are available for a wide range of consumers, offer a clear framework of conditions and can be borrowed through a simple and fast administrative procedure. The rated products may not contain hidden costs and unjustified tie-ups. Key aspects include lowering interest rate spreads, promoting the longer-term predictability of instalments, ensuring of the comparability of the offers concerning consumer-friendly housing loan products, flexible adjustment to the consumer's changed circumstances and the stimulation of loan refinancing.

Supporting families' home creation efforts was also a key aspect in developing the concept. Therefore, the certified housing loan products should also be available for families that use family home creation allowance.

The products should be introduced in 2017, following wide-ranging discussions with professionals and consumers.

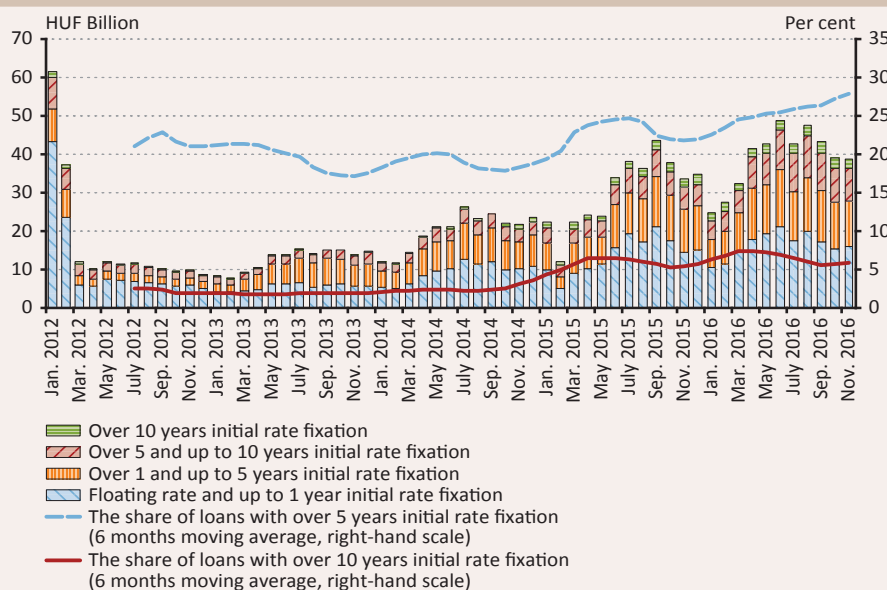
Based on the experiences of the Financial Advisory Office Network, interest in fixed-rate loans – housing loans in particular – has increased considerably. At the same time, it is more difficult for consumers to interpret the concept of fixed-rate loans, and sometimes they have incorrect assumptions in connection with the transaction they intend to conclude. As for the loans with maturities over 3 years, they encounter the notion of fixed rate in the case of various interest calculation methods, as well but they usually do not comprehend the significant differences between them. With fixed rates, consumers would like to avoid increases in instalments during the term, even at the price of becoming indebted at a higher APR compared to variable-rate loans.

The question arises: What is more advantageous for the consumer: a variable rate tied to a reference interest rate or a fixed rate? As there are individual needs, opportunities and preferences behind each credit agreement, it is worth considering the conditions of the various loan products accordingly. In the case of variable-rate loans tied to a reference interest rate, the interest rate spread can be changed to the extent published on the MNB's website, while the reference interest rate can change in line with the period determined in the credit agreement, usually at shorter intervals. In the case of fixed-rate loans, the lender is allowed to change the interest rate at most on the basis of the interest rate change indicator published on the MNB's website, and only at intervals conforming to the interest rate period laid down in the contract. In this case, the interest rate is typically higher, but – as opposed to variable-rate loans – the instalment may not rise and may not decline during the interest rate period.

¹⁵ www.mnb.hu/letoltes/szh3-dr-fulop-szilvia-mcd-iranyelv-final2mnbhonlapra.pdf

Chart 1
Changes in ratios and volumes of fixed-rate and variable-rate loans

(HUF billion; %)



Source: MNB.

In the case of variable-rate loan contracts, it can be attractive that financial institutions price the products at significantly lower levels. However, it is a risk that the interest rate spread and the reference interest rate may change in an unfavourable direction, thus raising the lending rate. Another risk is that it is more difficult to plan the interest payment of products with a reference rate and thus the instalments, as well.

One argument for fixed-rate loan contracts is better plannability, which means that the interest rate to be paid and thus the amount of the instalment are known in advance over the longer term. A further advantage is that developments which might have a negative impact on the borrowing rate do not affect the consumer within the interest rate period. At the same time, the borrower also cannot enjoy the benefits that may arise in the given period.

Box 4

The BUBOR

The BUBOR (Budapest Interbank Offered Rate) is a reference rate considered by interbank market participants prevailing among themselves for a given period. It changes every day; there are daily, weekly, monthly, three-monthly rates and ones for longer periods as well. It is calculated on the basis of the daily quotes of a group of market participants.

Many products are priced in the market on the basis of the BUBOR. At present, in Hungary the price level of financial products corresponding in magnitude to nearly the annual domestic GDP is related to it. Therefore, its regulated and precise determination is especially important. Pursuant to the Fair Bank Act, which is a measure that reduces consumers' indebtedness and interest rate risks at system level, the interest rate on consumer loans with a maturity of over 3 years (or the interest rate spread in the case of variable-rate loans) must be fixed for at least 3 years. The measure determines the methods of calculating the interest rate spread with the BUBOR, among other things. Accordingly, the indicator also has a direct, continuous impact on the repayment of consumer loans.

In order to ensure the reliability of reference rates, the European Parliament and the Council adopted a regulation that strictly governed the conditions of composing the indicators as a response to the manipulation of the foreign LIBOR and EURIBOR interest rate indicators. Until September 2016, the Hungarian Forex Association (MFT) performed the tasks related to determining the indicator. In order to comply with the stricter European requirements, on the basis of the agreement concluded by the MNB, the MFT and the Hungarian Banking Association, the MNB took over the setting of the reference rates as of 1 November 2016.

Lawful changing of lending rates on the basis of interest change indicators and interest rate spread change indicators as well as compliance with the obligation to provide information involve consumer protection risks that can be controlled by the MNB. Therefore, the MNB regularly examines the manner of providing information (and the content) by credit institutions prior to signing the credit agreement, thus encouraging service providers to inform consumers carefully.

4.1.1.2 Risks related to credit cards

The aggressive selling of credit card products conceals a risk that has existed for years. The MNB's experience is that the significant difference between using credit cards and bank cards as well as the hazards and financial risks of using credit cards are still not clear to consumers. In 2016, 4 per cent (142) of all consumer protection requests and more than half per cent (223) of information-type enquiries were related to credit cards. One of the most important risks concerning consumers is the problem stemming from the deficiencies of rational use. Firstly, this is the consequence of the provision of inadequate information by service providers and secondly, how much emphasis the consumer puts prior to signing the credit card contract on becoming familiar with the characteristics of the product as well as on the considering and rational judgement of his own solvency. In many cases, the product is not used consciously even in spite of adequate information, and exhausting the credit limit may mean a significant financial burden as well, which may eventually also result in long-term financial exposure.

During selling in supermarkets, shopping centres, airports or busy petrol stations, a product is usually presented directly and verbally. In many cases, this verbal information is misleading, exaggerating the advantageous features of the product and making no mention of its disadvantages. Stemming from its nature, the sales situation is especially suitable for influencing the transaction decision in an unfair manner, and if there is a problem, the content of the information cannot be reconstructed. The experts of the Financial Advisory Office Network often encounter tie-in sales, when credit card contracts are concluded for various loyalty programmes or during purchasing goods, although the consumer's actual intention was to obtain the related benefit or product and not to conclude the credit card contract.

The safe use of credit cards requires high-level financial awareness, and a separate section on this subject is available on the consumer protection microsite. Relevant information is also provided by the Financial Navigator Booklet entitled 'The use and risks of credit cards' as well as the 1-minute public service ad 'Use your credit card consciously'. In connection with the spring 2016 amendment to the Act on Consumer Credit, a press release entitled 'New rules for more transparent lending: three days for reviewing the contract, disadvantageous tie-up excluded' was published, concerning, *inter alia*, the subjects of informing clients prior to borrowing and the prohibition of tied selling. As usual, at the beginning of the Christmas period, the MNB called attention to the risks of indebtedness and credit card use as well as to responsible borrowing in announcements – entitled 'Pay attention to Christmas loans: rescission, product insurance, convenience service' and 'Significant differences in Christmas lending fees of financial institutions' – and in a number of press materials.

4.1.1.3 Disquieting provisions of vehicle loan and leasing contracts

A considerable portion – nearly 10 per cent (353) – of the consumer protection requests and nearly 1 per cent (308) of the information-type enquiries received in 2016 were related to vehicle loan and leasing contracts. Most of the complaints concerned the activity of intermediaries as well as the accounting of instalments, fees and charges.

Since the beginning of 2016, the MNB has been authorised by the MNB Act to initiate an action in the public interest for the establishment of the unfairness of the general contract terms and conditions that become part of consumer contracts. Within the framework of this authorisation, the MNB carried out a detailed review of the relevant rules of nine financial institutions – Lombard Lízing Zrt., Budapest Autófinanszírozási Zrt., Toyota Pénzügyi Zrt., MKB-Euroleasing Autólízing Zrt., CIB Lízing Zrt., Merkantil Bank Zrt., Porsche Bank Zrt., Unicredit Leasing Zrt., Banif Plus Bank Zrt. – that concluded new consumer vehicle loan or leasing contracts in the autumn of 2015. The inspection covered the occurrence of conditions already found unfair by court or

of terms similar in content to such conditions as well as the compliance of other contract terms applied by certain service providers within the range of the contracts under review.

The MNB conducted the inspection paying attention to whether the general contract terms and conditions applied by service providers in the consumer contracts complied with the civil law requirements of good faith and honesty. In the case of the contract terms considered disquieting, the MNB elaborated on its concerns in notices sent to the financial institutions concerned. For example, it objected to the provisions authorising the arbitrary seizing of the motor vehicle that is the subject of the leasing as well as the conditions that did not ensure the transparency and openness of selling the returned vehicles, limited the rights of consumers to prepayment or made it more burdensome, did not clearly arrange fees and costs or contained disadvantageous provisions for the consumer in the subject of insurance contracts.

Most often, the inspectors faced a lack of conciseness; typical problems in the general contract terms and conditions were the incomprehensible wording, which contradicted one another, could be interpreted in various ways or allowed unilateral interpretation by the lender. It was found that the wording of the provisions concerning the costs and fees, the settlement, the reasons for termination or prepayment were not understandable for the consumer in the contract terms. As the general contract terms and conditions may be unfair due to lack of unambiguousness itself, the MNB repeatedly emphasised that clear, easy-to-understand wording and a transparent system of terms and conditions was an objective.

Accepting the arguments raised in the inspection, the financial institutions amended their contract terms and conditions by eliminating the concerns, and thus no action in the public interest was initiated. As a result of the MNB's request, they introduced the changes not only in the rules that serve as a basis for new contracts to be concluded, but also for their entire existing portfolio. Consequently, conditions that meant unjustified or disproportionate disadvantages for consumers or were not clear were eliminated from 150,000 contracts.

At the initiative of the Hungarian Competition Authority – in the special issue of the trade paper 'Versenytükö' – the experts of the MNB and the competition authority jointly reviewed the most important issues affecting the financial sector, including unfair contract terms, and discussed the supervisory and competition law aspects as well. The publication presents the competent authorities' achievements and the challenges they face.

4.1.1.4 Management of payment difficulties

Approximately 5 per cent (200) of all the complaints received by the MNB and a half a per cent (183) of the information requests were related to the reasonableness applications rejected by financial institutions, which shows the key importance of consumers' awareness of their own responsibility upon borrowing.

The problem of non-performing household mortgage loans is one of the most serious financial stability and social risks. Therefore, the MNB pays special attention to permanently restoring the solvency of non-performing household mortgage loan debtors without mass enforcement of collateral, bearing in mind the need to ensure a place to live. For this purpose, Recommendation 1/2016 (III.11.) of the MNB on the restoration of the solvency of defaulting household mortgage loans was issued in early 2016. The objective of the recommendation is to encourage sustainable debt settlement in the case of defaulting household mortgage loan contracts, to facilitate cooperation between the contracting parties and the joint search for a solution, to make the establishment of contacts and communication between defaulting debtors and financial institutions more efficient as well as to provide guidance regarding the minimum content of agreements. The forms of conduct and good practices that the MNB expects during the restoration of the solvency of defaulting mortgage loan debtors and of debtors of already called mortgage-backed loans covered by real estate have been determined. For the success of the solution seeking process, the MNB considers the parties' constructive and bona fide cooperation a key element. Therefore, it is especially important to allow the assessment of the conduct of both the financial institution and the debtor according to objective, clear criteria. The MNB monitors the implementation of the Recommendation and if justified it applies the supervisory instruments available for the enforcement of the recommendations.

In order to prevent payment difficulties, in the future the MNB will continue to monitor compliance with MNB Decree 32/2014 (IX. 10.) on regulating the payment-to-income and loan-to-value ratios, which aims at the prevention of excessive indebtedness. It is to be noted that according to experiences so far, infringements occurred due to statutory interpretation and IT problems.

All of these measures and efforts can only be effective with consumers' cooperation. The prevention of excessive indebtedness is the primary interest of consumers. Therefore, it is justified for consumers who intend to borrow to become familiar with the rules and make sure that no excessive lending takes place when they borrow. Based on the experiences of the Financial Advisory Office Network, the number one problem in the case of payment difficulties is the lack of consumers' willingness to cooperate. In many cases, they are only open to the dialogue following the recording of the negative CCIS status, or even then they are not ready for it. Lack of communication is observed not only in the direction of the financial institution, but also towards organisations that are able to help with advice or in other ways. Consumers who get into trouble typically do not believe that financial institutions' payment easing programmes may be of significant help, or in many cases they do not even know about these options. Those struggling with financial difficulties often do not realise that it would have been necessary to cooperate with various organisations and authorities to manage the problem, and thus the consumer's ability to pay could be restored with expert advice or perhaps mentoring.

If default on payment exceeds ninety days, it may occur that the financial service provider terminates the loan agreement and sells its claim. 2 per cent (88) of the complaints received regarding the activity of workout companies and a significant portion, nearly 10 per cent (367), of customer enquiries were related to the management of claims originating from terminated loan agreements. Most of the complaints were related to the deficiencies of information and the deficiencies regarding the settlement of debt. In this regard, in connection with the workout activities, the MNB identified multiple assignments as risks, as a result of which clients are often not aware of who they owe to and which institution benefits from the current payment. This is also the situation when the purchasers of receivables entrust debt collector firms and subcontractors with enforcing the claim that do not inform or inadequately inform customers about the assignment, the withdrawal of the assignment and the changed addressee of the financial performance.

The practice that purchasers of receivables often collect information on the debtor from other persons not concerned with the claim who live in the customer's environment (neighbours, colleagues) is disquieting. This kind of data collection makes customers defenceless, and thus they are not fully aware of what information the purchaser of receivables may have about them. The experts of the Financial Advisory Office Network less frequently encounter infringements in the case of workout procedures by virtue of commission, but the situation is different in connection with the receivables sold. A frequent problem is that in addition to the interest for default the debt collector firm charges very high costs. The consequence is that the debtor's payment obligation increases to a degree when his/her payments do not even cover the annual costs and interests, and thus the principal rises year by year, and a debt spiral emerges. Another problem is that consumers usually cannot make a distinction between the notions of collection and foreclosure, and workout companies often take an unfair advantage of this situation. With regard to foreclosures, it should be known that it is not an activity supervised by the MNB. Accordingly, except for basic information – for lack of competence – the MNB is unable to provide any other help.

In the banking sector, the MNB identified the sale of receivables to private persons and companies that do not have a licence for purchasing receivables as a risk. Based on experiences, an inspection was launched at Raiffeisen Bank Zrt. to check the bank's receivables selling practice, with special attention to individual receivables assignments and purchasers of receivables that did not have a licence. The procedure established that the conduct of the bank was unlawful. Therefore, the supervisory authority obliged the bank to always act in line with the requirement of due care when selling receivables originating from financial services. For this purpose, it should formulate its procedures in a way to always provide for the verification of the necessary licence of receivables purchasing companies that perform this activity on a business-like basis. During the measure, it was also an important aspect that companies and private persons which do not have a licence to purchase receivables should not conduct business-like purchasing of receivables, which is therefore subject

to licensing. In its decision concluding the inspection, the MNB imposed a penalty on the institution in the amount of HUF 1,000,000 in addition to the obligation.

Taking account of the priority nature of the risk, using all of its consumer protection communication tools, the MNB strives to call attention to the potential hazards and to present what to do in order to solve possible payment difficulties. Several articles in the ‘Loans, leasing’ menu point on the MNB’s consumer protection website deal with the importance of the earliest possible contacting, with bridging solutions and payment easing possibilities granted by the state. One of the Financial Navigator Booklets, entitled ‘What to do in case of payment difficulties?’ helps in the orientation, and with the same title there is also a one-minute social purpose and educational film available, which calls consumers’ attention to the possible solutions. In addition, for independent advice and help it is expedient to contact the Financial Advisory Office Network operating in county seats or to ask for information from the MNB’s Customer Service.

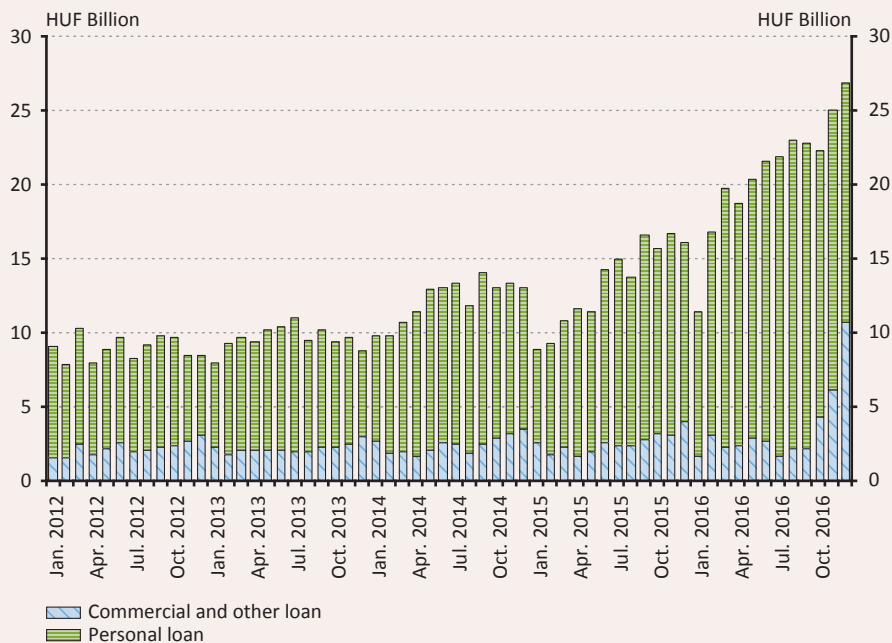
Box 5

Debt under the christmas tree

Based on the consumer credit data received by the MNB, it appears that the public once again purchased a considerable portion of the Christmas presents using consumer loans. Consumer loans include hire purchase, personal loans, general purpose mortgage loans and vehicle loans. In December 2016, credit institutions granted new consumer loans amounting to a total HUF 33.9 billion, representing a 57 per cent increase in year-on-year terms. In relation to buying Christmas presents, the general purpose mortgage and vehicle loans are perhaps less important; therefore, we focus only on hire purchase and personal loans.

Willingness to borrow was much more restrained in the previous years. After the 2008, crisis the last two months of 2012 represented the ‘bottom’, when credit institutions disbursed hire purchase and personal loans of HUF 17 billion. At that time, the average interest rate level was around 18 per cent, although rates were the highest in the winter months of 2008, when the variable rate or average interest rate fixed for up to 1 year was still close to 26 per cent.

Chart 2
New hire purchase and personal loans in the credit institutions sector
 (HUF billion)



Source: MNB.

Based on the 2016 data, it can be established that compared to September the volume of disbursements already surged by 12.5 per cent in November and borrowing by the public increased by 50 per cent year on year. December was also similar: the amount of lending increased by 67 per cent, i.e. HUF 10.8 billion, compared to the same period of the previous year. In the last two months of 2016, private persons' new debt – originating from personal loans and hire purchase loans – reached HUF 52 billion, i.e. more than one and a half times more than in November and December 2015. In the last month of the year, the variable rate or the average rate fixed for up to 1 year was around 14 per cent.

Hire purchase loans were more popular: new loans granted amounted to HUF 22.3 billion in October, HUF 25.1 billion in November and HUF 26.9 billion in December. Overall, compared to October, in the last two months of the year outstanding loans in the case of the two types of loans under review increased by approximately HUF 4.5 billion, i.e. families most probably spent this amount on buying Christmas presents and preparing for the holidays.

4.1.1.5 Lending activity of pawnshops, pawn loans

Concerning the activity of pawnshops, only 4 complaints and 25 questions were received by the MNB's Customer Service. The issues were typically related to the amount of interest rates and fees to be paid. Although this number represents an insignificant portion of the enquiries, it deserves special attention because this financial product is typically and most frequently used by underprivileged consumers who are in difficulties. Quick and easy-to-understand replies to the questions were given by the MNB's Customer Service.

Following the MNB's successful action in 2015, 17 pawnbroker institutions eliminated from their offerings products with a maturity shorter than 30 days, which were deemed undesirable by the MNB. The risks arising during pawn lending in connection with extremely short maturities were addressed by the 2016 amendment to Government Decree 83/2010 (III. 25.) on the determination, calculation and publication of the annual percentage rate. The Government Decree stipulates that in the case of pawn loans with a maturity of less than 30 days the APR must be calculated with the assumption that the whole debt is repaid on the 30th day, and all of the costs incurred until the 30th day must be included in the value of the APR. The MNB's opinion is that the lending behaviour that obviously fixes a significantly shorter maturity in the contracts than consumers' typical financing requirement was not in conformity with the objective of the APR regulation, and thus in connection with the pawn loan schemes with a maturity of less than 30 days it could not be ruled out that the lender's intention was to circumvent the law. In the pawn loans market, compliance with the legislation concerning the calculation of the annual percentage rate and the maximum amount of the APR as well as the adequate indication of the APR in commercial communications were deemed to be key risks by the MNB.

In 2016, the MNB conducted thematic and targeted inspections in the subject of pawn loans at 9 institutions. It verified how in the case of this type of loan the participants in the pawn loans market complied with the regulations on the calculation of the annual percentage rate (APR) and maximum APR, and whether they observed the statutory provisions regarding commercial communications related to pawn loans and regarding complaint management. By the end of December 2016, the inspections resulted consumer protection penalties amounting to a total of HUF 29 million on five institutions: Mecsek Takarékszövetkezet, Borsod Takarékszövetkezet, Lombard Zala Zrt., Magyar Záloghitel Zrt. and Zálog és Hitel Zrt. In addition, the MNB called upon the institutions to comply with the prevailing statutory provisions regarding the calculation of the APR.

The MNB established that Mecsek Tksz. violated the regulations concerning the calculation of the APR in the case of all the consumer pawn loans it granted in the one-year period under review. Namely, upon redeeming the article in pawn it did not take into account the 'cash supply commission', and thus it concluded contracts with consumers charging an APR that actually exceeded the upper limit fixed in the APR legislation, while indicating a lower APR suitable for the deception of consumers.

In the reviewed 32-month period in determining the APR, Zálog és Hitel Zrt. did not take into account the 'pawning' and 'depreciation' fees it charged. In the case of the measure related to Zálog és Hitel Zrt., the MNB

took into account as an aggravating circumstance that the institution's illegal practice resulted in the maximum APR being significantly exceeded for a considerable portion of the transactions concerned.

In terms APR calculation, as a typical mistake the MNB found that the institutions did not take account of certain fees and thus indicated lower values than the actual ones. As a result, the APRs exceeded the statutory maximum. As for complaint management, during the thematic inspection the MNB obliged Lombard Zala Zrt. within the framework of a temporary measure to prepare complaint management rules that are in line with the prevailing legislation.

According to the findings of the inspection, the commercial communications of a number of institutions were also unlawful. Therefore, the MNB extended the range of the thematic inspection concerning the APR to the verification of compliance with the provisions amended as of 1 July 2016 of Government Decree 83/2010 (III. 25.) on the determination, calculation and publication of the annual percentage rate. Expressz Zálog Zrt. changed its practice in a way acceptable for the MNB, following the establishment of deficiencies – which were disquieting from a consumer protection aspect – concerning the provision of information prior to concluding the contract.

In the course of its surveillance activity, as a further risk the MNB found that following the forced sales the financial institutions made settlements concerning the part due to the pawner from the sale of the pawned articles only with an insignificant number of consumers. The low settlement ratio is partly attributable to the fact that consumers are not aware of their rights and partly to the fact that the majority of pawn tickets are issued in an anonymous manner, which prevents the direct notification of consumers. In order to improve the settlement ratio, in 2017 the MNB is paying increased attention so that a wide range of consumers can learn about the settlement obligation of financial institutions and pawners' right to settlement.

4.1.1.6 Selling loans at product road shows

As of 12 December 2015, the Act on Credit Institutions and Financial Enterprises forbids the intermediation of consumer loans during product sales at product road shows. Even following the amendment to the law, customers indicated to the MNB on several occasions that at certain shows it was possible to buy the products through borrowing.

It has been the MNB's primary objective for years to protect consumers who can easily be influenced by offers and advertisements because of their age or health condition. Therefore, in cooperation with other authorities (National Consumer Protection Authority, Hungarian Competition Authority) the MNB puts special emphasis on the enforcement of the tightened legislation related to product road shows. In 2016, on its website the MNB called the attention of consumers to the risks of this forbidden activity on several occasions. As consumers typically receive personal invitations to the shows by the organisers, these events are often exclusive; therefore, indications from the people are of utmost importance. As part of the communications, the Financial Navigator Booklet entitled 'The risks of product road shows' was updated and various Facebook posts also appeared regarding the subject.

Considering the above, in 2016 the MNB launched 6 consumer protection inspections mainly on the basis of notifications from customers and other authorities in order to check whether during their activities the institutions comply with their statutory obligation and actually refrain from providing financial services during product sales at product road shows. The inspections are still underway. It is typical of these inspections that the consumers concerned have to be involved in them in order to learn about the nature and content of the information provided during the product road show; therefore, these inspections require more time than usual.

4.1.2 Changing payment accounts – competition in the banking sector

Of the consumer requests received by the MNB, 3 per cent (113) were related to problems concerning account management. Information-type enquiries accounted for 2 per cent (641) of all questions.

Due partly to the changed legislative environment and partly to their own business considerations, payment service providers terminated some of the preferential account packages, and also initiated the phase-out

of preferential account packages in the case of already concluded agreements for the provision of payment services (framework agreement). The MNB indicated its expectations through the professional association to domestic market participants regarding the possible lawful and prudential ways of phasing out the various bank account packages in a manner that is acceptable from a consumer protection aspect.

The current legislative environment provides limited opportunities for unilateral amendments; in addition to that, various solutions of restructuring the product portfolio are observed. Firstly, the service provider may encourage the customer to choose a new account package. If the customer accepts it, the amendment of the contract is based on the parties' mutual agreement. Secondly, the payment service provider may initiate the termination of the framework agreement and instead of the latter may offer a new product to the customer. Experience suggests that service providers avoid termination of the framework agreement if possible, because it carries a negative message and strongly motivates customers to look for another service provider. Terminating the framework contract may also entail inconvenience for the consumers, because the payment account ceases to exist following the expiry of the notice period and payment transactions (e.g. receipt of transfers, direct debit orders) can no longer be performed. For the mitigation of consumer protection risks, previous and detailed – even repeated – notices to customers about the process of termination as well as consumers' conscious and responsible behaviour are of utmost importance.

In recent years, one mounting problem has been that – prior to opening a bank account or switching banks – the average consumer does not inquire sufficiently about the bank account and bank account package services offered by financial service providers. One part of this is that consumers do not adequately consider their own bank account use habits, which often results in choosing a type of account that is not suitable for them. The MNB deems it important to reduce this risk in the coming years by supporting NGO's consumer protection programmes. For this purpose, in January 2017 it announced a brainstorming competition for higher education students, and the relevant subjects include the popularisation of the conscious changing of banks and choosing bank accounts.

On the MNB's consumer protection website, a separate menu point is devoted to bank accounts and bank cards, where consumers can learn about the related risks. There is a separate print-version Financial Navigator Booklet on the risks of bank cards and particulars related to bank accounts ('The use and risks of bank cards' and 'Choose according to your own needs – bank selector'). The bank account selector application, which is based on data reporting by institutions and is being updated in 2017, on the MNB's consumer protection website provides help in the more conscious choice that is in line with consumer habits. It is important for consumers to be aware of their options and to avoid paying more for their bank account than what is necessary compared to their needs. Relevant help was provided by the press release issued in November 2016 and entitled 'Tens of thousands of forints can be saved by consciously choosing your bank account', which supplied readers with a wealth of useful advice.

In order to encourage account opening and ease the switching of 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 (PAD) was promulgated on 28 August 2014. The directive was transposed into national practice during 2016. Financial service providers are obliged to apply the relevant provisions from October 2016.

One of the objectives of the regulation was to alleviate the difficulties of switching payment accounts and to reduce customers' administrative and financial burdens. The new regulation allows consumers to switch from their existing payment account to another payment account – which is presumably more advantageous for them – by giving an authorisation to the new service provider. The MNB controls compliance with the consumer protection regulations related to the switching of accounts and the basic account within the framework of its continuous supervisory activity.

In its supervisory communications, the MNB frequently called attention to advantages of using the product selection programmes and household cost calculation applications available on the microsite of the Financial Consumer Protection Centre. The central bank's ATM and branch search application was rolled out in 2016;

starting from 2017 the new convenience service will also be completed to include information regarding the opening hours of bank branches. As opposed to market applications, one great advantage of the programmes run by the MNB is that they are independent: no advertisement is linked to them and they are based on institutions' mandatory data reporting. As a result, all financial products of all market participants can be learnt about and compared, which may serve as a basis for responsible decision-making.

4.1.3 Future full compliance with the laws on the national home creation communities

Property purchases based on social lending are appearing as a new option. The fundamental risk of this is that this form of financing is not familiar to a broad range of consumers. One important element of the scheme is that the organiser creates communities by recruiting members, and the members obtain new residential property through selection, mostly at a random time. The properties are financed from the community members' contributions.

One of the prominent elements of the oversight activity is the future verification of the manner in which the organiser manages the members' contributions during the operation of the newly established communities and the information provided to the clients prior to concluding the contract, how it complies with the reserve requirements to protect the members of the community and the way it manages the residential properties, purchased from the members' contributions, serving as a security for the contribution by the members. The fact that the guarantee of NDIF¹⁶ or other organisation does not cover the members' contributions, represents substantial risk for consumers.

On its consumer protection website, the MNB describes the scheme and the related risks in a detailed, easy-to-understand notice and in answers to frequently asked questions.

4.1.4 Shortcomings in the information provided by intermediaries during their activity

In view of the unequal position of clients and institutions, all industry laws pay special attention to the question of information. The obligation to provide information applies not only to the service providers, but also to intermediaries acting on behalf of the providers or by order of the clients. In most of the cases this requirement must be complied with in a provable and identifiable (written) manner. As the information related to the institution, the intermediary and the product contains important details in terms of making the decision on the transaction, the information must be – irrespective of the industry – easy-to-understand, clear and sufficiently detailed. The ratio of consumer protection petitions and requests for information in relation to the activity of the businesses referring financial and insurance products was roughly one half per cent within all enquiries. Insufficient information is one of the most typical problems. Learning about and correct interpreting the contractual conditions is the most important interest and responsibility of consumers, and thus not only the provision of information, but the conscious obtaining of information by the consumer is also of key importance.

In 2016, the MNB identified as a risk that businesses pursuing intermediary activity did not always provide consumers with accurate information. In the course of mystery shopping at MBA Advise Kft. and Autocentrum AAA AUTO Kft., the MNB found – amongst other things – that the information provided on their capacity as an intermediary and on the nature and features of the products in question were insufficient. Inadequate and insufficient information involves a number of risks that may prejudice the consumers' economic interests. In a resolution, the MNB obliged Autocentrum AAA Auto Kft. to comply, within the framework of its obligation to be fulfilled prior to the referral of financial services, with its needs analysis obligation in all cases in a provable, documented manner, and to satisfy its obligation to analyse and deliver proposals during its practice, as well in whole. The MNB imposed a consumer protection penalty of HUF 1,600,000 in total on the company during the inspection. In the case of MBA Advise Kft., in the course of mystery shopping the MNB found that the written needs analysis was performed not prior to the conclusion of the contract, and that the written information related to the contract was only delivered after the completion and signing of the proposal documentation. The

¹⁶ National Deposit Insurance Fund of Hungary.

MNB obliged the multiple agent to comply with its information duty related to the conclusion of life insurance contracts in all cases in accordance with the relevant statutory provisions.

For the clients, not only the absence of information is detrimental, but also when the company includes the information in the details provided to the consumers, but hides it, and thus in fact it does not become part of the message delivered to the consumer. It is a typical problem that businesses pursuing financial market intermediary and insurance broker activity do not provide clear information to their clients on their capacity of acting.

The MNB imposed consumer protection penalty in the total amount of HUF 8 million due to client information, complaint management and many other irregularities revealed at Consequit Pénzügyi Tanácsadó és Biztosításközvetítő Zrt. and Consequit Alkusz Kft. The inspection found that, in the course of its financial market intermediary activity, Consequit Zrt. did not always comply with its obligation to provide information to clients, assess their needs and analyse the proposal in a documented manner prior to concluding the contract. The client information documents and intermediary registers used in relation to the company's multiple insurance broker activity did not contain certain essential information. For example, the written information did not specify on behalf of which insurer the broker acted and whether it was authorised to conclude the contract instead of it. The complaint management regulation and complaint regulation of Consequit Zrt. was incomplete, it failed to record the complaints communicated over the phone properly and in its responses to written complaints it did not always provide its clients with comprehensive information on the results of the complaint investigation.

The inspection conducted by the MNB at Consequit Alkusz Kft. revealed that the company's agreements concluded with the insurers contradicted the statutory regulations applicable to brokerage activity in several respects, the information provided prior to contract conclusion was misleading (e.g. it failed to separate its insurance brokerage and financial market multiple agent activity clearly, and did not make reference to its insurance broker capacity) and also failed to assess the clients' needs properly.

The broker company also relied on the services of insurance intermediary natural persons not included in the register of the supervisory authority, who had no detailed knowledge on the products and failed to provide proper proof of their professional qualifications. The procedure also revealed that the company – in addition to the shortcomings of its complaint management regulations and register – did not provide for the completeness of written responses in terms of content, nor did it provide the clients with the opportunity to use all methods of complaint reporting determined by the law.

Due to the infringements, the MNB imposed consumer protection penalty on Consequit Zrt. in the total amount of HUF 4 million and on Consequit Alkusz Kft. also in the amount of HUF 4 million, and required the companies to eliminate the shortcomings and operate in accordance with the law.

In its inspections, the MNB has found that occasionally the intermediaries had an intermediary licence in several sectors (e.g. simultaneously insurance broker, financial market multiple agent and capital market tied agent) and they often failed to provide proper information to the consumers as to their capacity they acted in during the provision of the services to them. They fail to inform the clients about their relevant rights (whether they may accept cash, conclude contracts, etc.), the entity on behalf of which they act or the entity responsible for their activity.

4.2 RISKS IDENTIFIED IN THE INSURANCE SECTOR

As a result of the legislative work and the MNB's regulatory and supervisory activity performed in recent years, the risks inherent in insurance products have decreased, although it is still justified to pay special attention to the manner of sales and information. Almost one quarter (888) of the consumer protection petitions and 23 per cent (8,544) of the enquiries received in 2016 by the MNB's Customer Service Desk related to the products and services of the insurance market.

In recent years, the insurance sector has undergone major developments. Due to cross-border activities, insurance products and related services became broader both in terms of volume and complexity. The upturn in this market was also reflected by the increase in premium income. In the insurance sector, the focus of consumer protection activity has been on motor third-party liability (MTPL) insurance and unit-linked insurance for several years. This is attributable to the high number of MTPL contracts, and in the latter case to the complexity of the product. In the case of these products, the consumers – as the subjects of the risk pooling – require special attention and protection in view of the special features of the insurance contracts, and the unequal position of the insurer and the client. Accordingly, based on the statutory regulations, the insurers are obliged to provide detailed information. The information must be delivered in written, documented form to consumers, i.e. typically sent in certified form.

4.2.1 Protection of client data

On the one hand, one feature of insurance confidentiality is that an institution is obliged to retain data qualifying as insurance secrets for unlimited time, while on the other hand, all data must be deleted in respect of the management of which the purpose of data management no longer exists or it does not have the authorisation of the respective party. It should be noted that the transfer of the clients' data to unauthorised third parties involves a number of risks, prejudicing the consumers' interest, since direct or indirect business advantages can be obtained or damages to the clients may be caused with these data.

During the consumer protection targeted inspection – combined with mystery shopping – conducted at MBI Nemzetközi Marketing Tanácsadó és Biztosításközvetítő Kft., it was found that the company illegally managed the clients' data qualifying as insurance secrets, as the purpose of data management had ceased in the meantime. It was also found that the respective insurance multiple agent managed the data related to the contracts concluded with its instrumentality – including data qualifying as insurance secrets – illegally until the termination of the insurance contract referred by it. It explained its illegal practice by saying that the clients consented to the management of the data qualifying as insurance secrets. It also argued that during the existence of the contracts it was entitled to submit claims for commission. On the other hand, during the procedure the institution attached no such document that would have confirmed that – even after the termination of its intermediary relation with the insurer – it was entitled to manage the data (qualifying as insurance secrets), of the respective consumers. Due to this, the MNB obliged the infringing institution to pay a penalty of HUF 600,000.

In order to protect clients' data, it is important to ensure, with the use of supervisory tools, that the data qualifying as insurance secrets cannot be managed and used illegally. Accordingly, the MNB will pay special attention in 2017 as well to data management in the course of *ex officio* inspections, which will be implemented by managing consumers' submissions on this subject and by conducting *ex officio* inspections.

4.2.2 Group insurance

Consumers encounter group insurance products in all insurance business lines, both life and property insurances. The risk of joining a group insurance as an insured party primarily appears in the fact that in the present legislative environment the protection provided to clients joining a group insurance and to those concluding contracts directly with the insurer is not identical. The essence of group insurance is that the insurance contract is concluded with the insurer by a business (e.g. merchant, bank) company, which is joined by the client as the insured party through his/her written declaration and typically by paying the premium to the contracting party. In this case the client's contractual relationship is not with the insurer, but with the business that concluded the group insurance contract. Had the client concluded the contract directly with the insurer, he/she would qualify as a consumer, but in this case he/she does not. Amongst other things, different information rules apply to the insured parties of group insurance policies, which is a disadvantage for them.

Group insurance, as a fast and easy manner of acquiring insurance protection, is clearly useful both for clients and insurers; hence, it is expected to spread further in the future. Within the framework of a pending thematic inspection conducted at 11 institutors – Allianz Hungária Biztosító Zrt., Groupama Biztosító Zrt., K&H Biztosító

Zrt., Signal Biztosító Zrt., Uniqa Biztosító Zrt., Cardif Életbiztosító Zrt., CARDIF Biztosító Magyarország Biztosító Zrt., Erste Biztosító Zrt., Generali Biztosító Zrt., NN Biztosító Zrt., Union Biztosító Zrt. – the MNB is analysing the market practices that have developed in respect of group insurances. It is surveying the areas in the case of which an amendment of the law is justified, in order to ensure that clients are entitled to the same protection, irrespective of whether they joined a group insurance or concluded the contract directly with the insurer. According to the prevailing statutory regulations, all information, be it before the contract conclusion, periodic or due upon the termination of contract, must be provided to the contracting party. Accordingly, if the insured and the contracting party are different persons, it depends on the contracting party whether it forwards this information to the insured party joining the group insurance.

4.2.3 Recovery of client confidence and reduction of mis-selling relying on the ethical life insurance concept

The significant investment losses suffered in relation to the crisis highlighted the risks of unit-linked products. In addition to the burden of high costs, compared to the present low yield environment, in certain cases the information provided during the sale of the products was misleading or biased, and the risks of the product were highlighted to a lesser degree than the possibility of high yield expectations. Mis-selling is a situation when during the product offering a product or contractual parameter that matches the client's needs to a lesser degree will be sold.

With a view to restoring client confidence and reducing mis-selling, the MNB – in close cooperation with the legislator and after lengthy consultations with market participants – elaborated the elements of the ethical concept, which serves as a basis for the insurers, similarly to the law on fair banking, for adjusting their products and conduct to common norms that serve the interest of clients and may also result in long-term sustainability for the insurer.

In order to achieve this goal, the MNB wished to increase the transparency of the products and it fosters the development of a product offering that is able to provide clients with real value in the present low yield environment. In addition, further requirements were also defined to protect clients' investments, in respect of proper information and to reduce mis-selling, for which the insurers are also encouraged by the framework.

After the announcement of the concept, at the MNB's recommendation, from 1 January 2016 the Act on Insurance Activity¹⁷ (Insurance Act) prescribes that the insurers apply a custodian on a mandatory basis. In addition, an MNB Decree related to the calculation and publication of the Annual Cost Rate (ACR) and the content elements of the life insurance needs analysis have been also published.

In 2016, the legislator and the MNB laid down further requirements, in active cooperation with the market participants, with a view to achieving the objectives of the concept. The most important expectations were codified, and thus the Insurance Act defines the minimum surrender value or the minimum investment ratio, expects that the title and the underlying content of the identified costs be in harmony and that the investment decisions serve the clients' interests in all cases. Moreover, the MNB laid down the criteria of fair conduct and the recommended level of ACR applicable to unit-linked life insurance products in a recommendation comprising 120 points. Insurers must comply with the majority of the requirements in respect of the products sold after 1 January 2017.

The MNB also assessed the impacts that follow the concept's entry into force, based on which the lower cost burden will result in lower income for the insurers in the short run. However, in addition, the expenses of the insurers are also expected to fall due to the lower level of commission and beyond this the market participants must give priority to economies of scale and more cost efficient operation. The MNB expects that the spread of pension insurance and the higher confidence will entail a rise in the present average retention period of 6.4 years. If the insurers manage to reduce the cancellation rate, then at a given point in time the insurers

¹⁷ Act LXXXVIII of 2014 on Insurance Activity.

will have more contracts, which may result in a more stable portfolio. According to the MNB's estimate, if the average retention period rises to 9.7 years, in the long run a neutral profit impact and one and a half time higher premium income may be achieved.

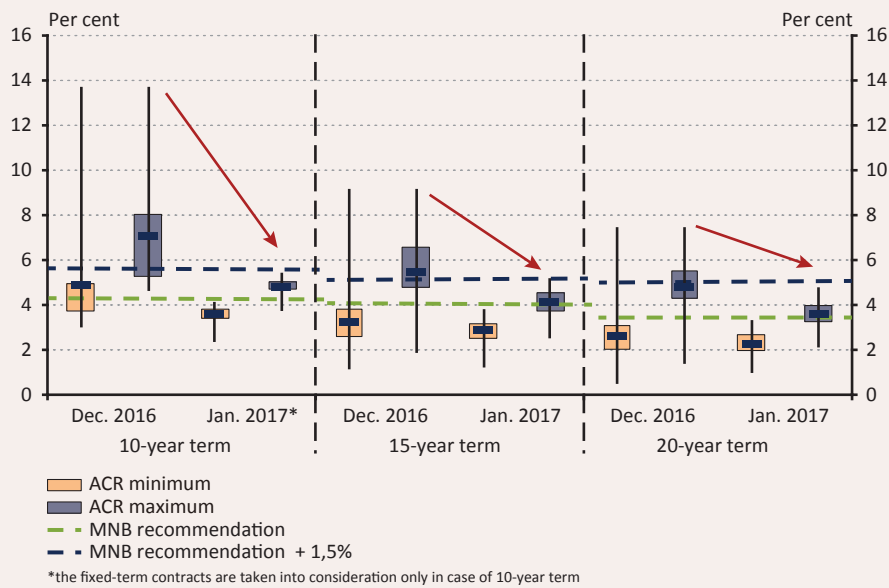
Box 6

Recommended level of the annual cost rate (ACR) – Premium decrease

Based on the ACR data reporting submitted by the insurers in January 2017, the MNB's expectations seem to prove correct, reflecting major market consolidation and cost reduction impacts. Of the 324 savings-type contracts sold before the announcement of the concept, in early 2017 the service providers offered only 156 products. The largest impact is reflected by unit-linked life insurance contracts not concluded for pension insurance purposes, where 64 per cent of the products were phased out.

In the case of recurring premium unit-linked contracts, the MNB recommends ACR values of 4.25, 3.95 and 3.5 per cent for the 10-year, 15-year¹⁸ and 20-year maturities, respectively, which the insurer may exceed subject to satisfying certain conditions. Based on the submitted data reporting all insurers offer their products below the maximum acceptable ACR limit.

Chart 3
Changes in the ACR values of recurring premium contracts
 (per cent)



Source: MNB.

In the case of single premium contracts, the MNB prescribes an ACR value of 3.5 per cent for the insurers from the 5th year (in the case of shorter maturity, by the maturity). As a result of this, the number of offered products fell by 55 per cent, and all products currently on sale comply with the recommended limit. The average ACR of these contracts calculated for the 5th year decreased from 3.9 per cent to 2.7 per cent.¹⁹

Based on the incoming data, the supply became more homogenous, and the ACR decreased. Nevertheless, the product offering is still sufficiently broad to enable the clients to select the product that best fits their requirements. The MNB will backtest the impacts of other elements of the concept in 2017 and reviews compliance with the individual components on a continuous basis.

¹⁸ In respect of lifetime insurance policies, the MNB prescribes compliance only from the 15th year.

¹⁹ Average of the ACR values of non-pension insurance unit-linked asset funds prevailing on 15 September 2016 compared to the data reporting of 19 January 2017.

As regards intermediaries, they should expect a decline in commissions, but presumably this will not generate a significant decrease in the sales network. The MNB rather expects a market consolidation impact, where less efficient actors or those functioning not too well, may be ousted from the market. The concept is expected to improve client confidence, and thus easier sales may support the conclusion of contracts in higher number and an increase in average premiums, which can offset the impact of the anticipated decrease in commissions.

For more information on the background of the ethical concept, the international examples, its components and expected impacts, see the December 2016 issue of Insurance and Risk. The measures elaborated as part of the concept may bring about the most comprehensive change of the past decades in the life insurance market and a new generation of products may appear. The MNB will backtest the impact of the concept on the products in the first half of 2017 and will also pay special attention to compliance with the requirements during its inspections.

4.2.4 Failure to comply with the obligation to provide information with regard to compulsory motor third-party liability insurance (MTPL) contracts

The compulsory motor third-party liability insurance (MTPL) is an insurance product that affects the largest number of clients. Almost 10 per cent (349) of all consumer protection petitions and 5 per cent (1,950) of the client enquiries received by the MNB's Customer Service Desk related to MTPL contracts, and within that about one half of a per cent of the submissions (86 petitions and 124 enquiries) were about the insufficiency of information. Due to the compulsory nature of the insurance, the absence of a contract is particularly infringing, which entails sanctions (premium for non-coverage, withdrawal of the vehicle registration). The continuous inspection of the disputable practice of announcing the tariffs, the obligation to provide information on the insufficiency of premium, on the change in the bonus category, on the termination for premium non-payment and on the anticipated premium applicable to the next insurance period, and taking of the necessary measures have been audit priorities for many years. Accordingly, the MNB treated the obligation to provide information related to MTPL contracts as an outstanding risk in 2016 and in 2017 this continues to be one priority audit topic in all comprehensive audits.

During the comprehensive audits in 2016, the MNB identified numerous infringements related to compulsory motor third-party liability insurance contracts, thus also in the case of KÖBE Közép-európai Kölcsönös Biztosító Egyesület, AEGON Magyarország Általános Biztosító Zrt., K&H Biztosító Zrt., Wáberer Biztosító Zrt., Union Biztosító Zrt., Groupama Biztosító Zrt. and CIG Pannónia Első Magyar Általános Biztosító Zrt. The conduct prejudicing consumers' interest in information was identified and sanctioned as a typical infringement, and the insurers were obliged to comply with the law. Thus, for example, failure to send or late mailing of the premium payment reminders, the cancellation notices and the notice on the anticipated insurance premium in the next insurance period, was revealed. According to the MNB's audit findings, premium payment reminders and cancellation notices were typically sent to the clients not in a certified manner – which does have significance in the case of disputes – and the insurers did not always comply with their obligation to provide information on the bonus-malus category.

As a typical infringement, the MNB found that for many consumer contracts the notification letter on the modified premium, differing from the proposal, was not sent or was sent with delay to clients. KÖBE Közép-európai Kölcsönös Biztosító Egyesület, AEGON Magyarország Általános Biztosító Zrt., K&H Biztosító Zrt., Wáberer Biztosító Zrt. and CIG Pannónia Első Magyar Általános Biztosító Zrt. issued policies for the contracts which were not in accordance with the proposal.

The verification of the obligation to provide information related to MTPL contracts, typically the fulfilment or omission of the obligation to send premium payment reminders, cancellation notices or indexation notices, formed the subject of the consumer protection procedures conducted by the MNB based on petitions. In addition to the aforementioned insurers, the MNB conducts thematic inspection in respect of the compulsory motor third-party liability insurance at 16 insurance brokers (2M Biztosítási Alkusz Kft., BAG Kaposvár Biztosítási Alkusz Kft., Biztosítás.hu Biztosítási Alkusz Kft., Biztosítók.hu Alkusz Kft., CLB Független Biztosítási Alkusz Kft., Euró-Quattro Biztosítási Brókerház, Biztosítási Alkusz Kft., Eurorisk Biztosítási Alkusz Kft., Famillio Befektetési és Tanácsadó Kft., Gyémánt-Ház Biztosítási Bróker Kft., Kőrös-Blank Biztosítási Alkusz Kft., Mentor Biztosítási Alkusz Kft., NBA Független Biztosítási Alkusz és Pénzügyi Szolgáltató Kft., Pannon-Safe Biztosítási Alkusz Kft.,

Paragon-Alkusz Biztosításközvetítő Zrt., PBA Praeventio Biztosításközvetítő és Pénzügyi Tanácsadó Zrt., RAAB Risk Biztosítási Alkusz és Tanácsadó Kft.). The purpose of the inspection is to verify whether these brokers comply with the requirements of due professional care during the forwarding of the insurance proposals and the clients' declaration related to the termination of the contracts to the insurers.

In relation to the autumn announcement of the MTPL premium tariffs, the MNB called upon the affected parties in a press release entitled 'Existence of compulsory motor third-party liability insurance must be certified', to monitor the changes in the premiums and to comply with the deadlines, and reminded them of the change in the regulation according to which the premium offered to the registered holders of the vehicles new for the insurance corporation cannot be more favourable than that offered to loyal clients. This press release also addressed the methods of confirming the existence of MTPL insurance and the fulfilment of the premium payment obligation.

4.2.5 Management of the risks related to branch offices and cross-border services in the insurance sector

More than three per cent (1,480) of the petitions and enquiries received by the MNB related to the Hungarian branch office of the Romanian Astra Insurer, which offered cross-border insurance services and was in liquidation. With a view to taking more efficient measures and due to the legislative changes in the insurance sector, in 2016 the MNB updated and expanded the range of the general good rules. The MNB can verify these rules within its own competence at the Hungarian branch offices of insurers and insurance intermediaries, or at the market participants with registered office in the EU, rendering insurance services in the form of cross-border services.

In 2015-2016, the MNB provided information in a number of notices on the bankruptcy of the Hungarian branch office of the Romanian company Astra Insurer, on the liquidation of the insurer and on the submission of the claim settlement requests to the guarantee fund. A separate thematic micro-site was also set up for the communication of information related to Astra Insurer. The site contains the contact details of the institutions that the consumers may contact with their claims, the standard forms necessary for administration, as well as the current information related to matter, including all press releases issued on the subject.

The MNB treated monitoring of the activity – and particularly the method of providing information to the clients – of institutions rendering cross-border services as a priority in 2016 again. During the year, there were several proceedings in progress, in the course of which infringing conduct and practice detrimental to clients was found. As a result of the proceedings, a binding resolution and a penalty of HUF 1.5 million was imposed on 4Life Direct Kft. In the case of NOVIS Poist'ovňa a.s. the MNB obliged the offender to eliminate the identified errors and shortcomings.

4.2.6 Transparency of premiums and costs

Almost 3 per cent (114) and one half per cent (210) of all consumer protection petitions and enquiries, respectively, received by the MNB related to the premiums and fees related to the insurance products and services. Based on the experiences of the Financial Advisory Office Network, consumers often do not receive simple, transparent information from the service providers on the premiums and de facto costs burdening them.

One typical modern consumer trend, i.e. the comparative applications which are gaining ground in the rapidly developing IT environment, is also mentioned as one of the identified risks in the study published by EIOPA in 2012. With this goal in mind, it is particularly important to ensure the provision of consistent and transparent wording and information by financial organisations in respect of fees and costs.

The fundamental objective of the MNB is to ensure that financial service providers sell competitive products which satisfy clients' needs and best fit their situation and financial possibilities. This is the only way to establish profitable, long-term relations between consumers and service providers. Clients' confidence is also strengthened by the transparency of the market products – the related rights and obligations, including the (rate of the) fees and costs burdening them – which helps consumers make well-founded decisions (before concluding or during the existence of the contract).

The exact, clear designation of the costs, as well as the clarity and straightforwardness of the manner and frequency of charging the costs for the client also serve transparency. It is important that institutions clearly indicate all costs and deductions related to the product among the contractual terms and conditions and in the statements sent to the clients. In its consumer protection procedures, the MNB identified a notification practice which was disadvantageous for clients in respect of the statements, settlement and related contractual conditions at NN Biztosító Zrt. and NOVIS Poist'ovňa a.s. These documents did not satisfy the requirements of transparency, as specified above and thus disadvantaged the clients. It should be noted that part of the effective statutory provisions only determine the mandatory content elements of the information documents (e.g. in the case of unit-linked life insurance policies in respect of the annual settlement), without prescribing the requirement of clarity or transparency. However, in the MNB's opinion this can be deduced from the general consumer protection principles.

With a view to protecting and ensuring the consumers' right to information and economic interest, the MNB continuously takes the necessary measures and forces the financial organisations to comply with the laws.

Part of the petitions received by the MNB included client complaints citing that the content of documents provided by the financial institutions (typically insurance companies), containing information on the settlement, interim or upon the expiry of the contract, is not obvious.

The MNB provided information on the changes of the Insurance Act in its notice "Consumer-friendly amendments in the new Insurance Act" and on the life insurance annual cost rate in the notice "New central bank regulation for the life insurance annual cost rate". Within the framework of the ethical life insurance concept, the MNB issued its recommendation – cited before – on the unit-linked life insurance policies in June 2016; it held a press conference on the topic jointly with the Association of Hungarian Insurance Companies and issued a press release "Transparency, proper value for money and client information for ethical life insurance".

Box 7

Developments in voluntary pension fund fee charges in the last fifteen years

The fees paid by the voluntary pension fund members are of outstanding importance when selecting a fund or making a decision on a potential change of the fund; accordingly, the Magyar Nemzeti Bank annually reviews the fees charged by the voluntary pension funds.

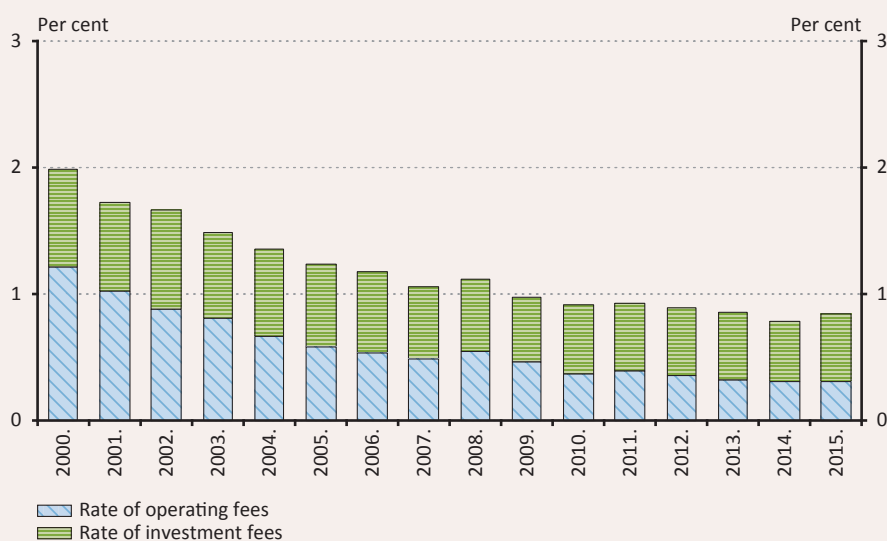
It is rather difficult to assess the fees burdening the savings: the ratio of the paid membership fees allocable to the operating and liquidity reserves, and the fee charged for the investment of savings (primarily asset management and custodian fee) can be both regarded as fees. The purpose of the annual cost rate is to apply a standard, easily comparable value that can be used for presenting the fees deducted from the members' payments and investments, burdening the members at an annual level, and can be compared among the individual funds.

The voluntary pension funds cover their operating expenses from the fee deducted for operation from the payments of the fund members and the employer members, while the expenditures related to asset management activities are financed from the fee burdening the savings of the fund members. The statutory provisions related to voluntary pension funds prescribe limits for the fee deductions. From the payments made by the fund member or the employer member up to the annual amount of HUF 10,000 the fund may deduct maximum 10 per cent for operation, and 6 per cent from the part over HUF 10,000. According to the law, within the costs related to investment activity, the costs deducted for asset management must not exceed 0.8 per cent of the annual average assets invested. The fees related to the costs of the investment activity reduce the yield on the members' savings. The annual cost rate is the average annual value of the amount deducted for these two purposes, calculated for the total assets.

During the last fifteen years, the annual cost rate calculated for the entirety of the voluntary pension fund sector declined substantially. While in 2000 the annual cost rate of the voluntary pension funds at sector level was 1.97 per cent, in 2015 this was below 1 per cent at the majority of funds. In practice, the funds typically do not make use of the maximum value permitted by the law, but apply lower fees.

Chart 4
Changes in the weighted average annual cost rate in the period of 2000–2015

(per cent)



Source: MNB.

It should be noted that in respect of the fees related to investments, the ratio considers only the costs appearing directly at the funds. The yield of the investment portfolio may be reduced by the indirect investment costs, such as the asset management fees of the mutual funds, which do not appear in the annual cost rate. Upon assessing the degree of the annual cost rate, it should be also considered that the custodian fees usually have higher weight in the annual cost rate of funds with a smaller volume of assets.

The cost-efficient operation of the funds is the interest of the fund members; however, it is the investment performance, i.e. the actual yield, that determines the growth in the members' savings, thus upon selecting a fund these two factors should be considered together.

On the one hand, it is the objective of the MNB to foster the cost-efficient operation of funds; on the other hand, it is an essential expectation in the interest of the members that the fund should earn the highest possible yield on the savings.

4.3 RISKS IDENTIFIED IN THE CAPITAL MARKET SECTOR

Based on the experience of recent years, the MNB pays outstanding attention to revealing potential capital market risks and the quick management thereof. In 2016, 191 consumer protection petitions and 2,319 client enquiries were received, which is still negligible, representing only a six per cent share within all petitions and enquiries. However, based on the experiences of the Customer Service Desk, it can be stated in general that despite the lessons learnt from last year's broker cases, consumers should continue to make more efforts to obtain proper information before investing. The most typical questions related to the settlement, shortcomings in information and the activity of IPF.²⁰ Financial decisions which are also advantageous for the investors can only be made based on proper information, hence the provision of adequate information to the clients and obtaining proper information by investors also bears the utmost importance in the area of the capital market.

²⁰ Investor Protection Fund of Hungary.

4.3.1 Protection of client funds

In this sector, investors typically encounter products and notions pointing beyond the general financial knowledge. Proper understanding of these is essential for the assessment of risks; moreover, consumers should also pay attention to verifying the balance of their own securities account.

In order to strengthen the supervision of investment firms and improve the efficiency of the control, the legislator prescribed for the investment firms from February 2016 to send the data included in the monthly statements sent to the clients also to the MNB, in anonymous form. The Securities account balance enquiry online application (ÉSZLA) has been available on the MNB's website since February 2016, which ensures the enquiry and checking of data by the clients. Relying on the application, the investors can regularly check whether the balance of their monetary assets and financial instruments (securities) held on the securities account corresponds to that reported by the investment firm to the supervisory authority. The double control implemented by comparing the data reported to the supervisory authority and made available to the clients permits the close monitoring of the actual changes in the clients' funds and the securities portfolios, the early identification of illegal conduct and an improvement in the quality of supervisory data.

The application, serving control purposes, fosters responsible investor conduct in addition to strengthening the protection of client receivables. The MNB inspected the due sending of the user ID and password necessary for login to the ÉSZLA system to the clients and the protection of securities secret at four institutions managing securities accounts within the framework of thematic inspections. In respect of the application, the MNB called upon 42 investment firms to place the link pointing to the application on their websites in a manner that is suitable for attracting clients' attention. After back-testing compliance with the request, the MNB repeated the request in the case of the non-compliant institutions. This online application can also be regarded as the second line protection for investors; due to its outstanding importance, the MNB also announced the launch of the application at a press conference. Four press releases were published in relation to the utilisation and operation of the application, and the inspection of the claims received. The application is necessary and expedient for the reduction of future risks, and hence the promotion of ÉSZLA was also the topic of several press interviews. The booklet "A brief overview of the online enquiry of securities account" and a short financial consumer protection film containing the most important things to know in a brief and easy-to-understand form. The purpose of the MNB's communications is to ensure that as many as possible clients regularly use this risk-mitigating tool.

4.3.1.1 Suitability and eligibility test, client information

Investment firms typically place documents and information presenting individual investment vehicles and the features thereof on their websites. In most cases, the contents of this information is adequate. However, the provision of information to clients is a necessary, but not sufficient condition of providing proper services, as the complexity of the investment vehicles also require that the service providers be aware of their clients' financial knowledge. The preliminary information obtained by the investment firms in an adequate form and with due care is essential, as the investment firms can find out their clients' investment objectives, their capacity to bear financial burdens and their financial knowledge primarily from the suitability and eligibility, i.e. MiFID tests performed during the preliminary assessment. However, they do not always adhere to the provisions included in the recommendation²¹ related to preliminary information.

Even though only 1 per cent (38) of all consumer protection petitions and 0.25 per cent (68) of the requests for information received by the MNB due to inadequate practice of the investment firms to provide information related to information shortcomings concerning capital market products, which cannot be deemed significant, international experiences signal increasing risk.

²¹ Recommendation 3/2013 (II.7) of the Chairman of the Hungarian Financial Supervisory Authority on the prudent fulfilment of obligations to obtain information prior to contract conclusion during the rendering of investment services.

The MNB specified as a priority target area to inspect whether the investment firms provide proper information to their clients when they provide them with services that are not in line with the result of the suitability test.

Within the framework of the comprehensive inspections of investment firms, the MNB inspected the fulfilment of the obligations related to complaint management and the provision of information to clients. In the latter area, beyond the testing and management of suitability and eligibility, the communication materials (product descriptions, marketing materials, investment proposals, etc.) available to the clients via various channels (e.g. website, newsletter, flyers) were also reviewed to find out whether the principle of balanced information is enforced and the risks of the individual products are properly presented in them. In addition to the above, compliance with the obligation to provide information after the execution of the order was also inspected.

During the period under review, in respect of the products of two inspected investment firms (Erste Befektetési Zrt., SPB Befektetési Zrt.) the MNB found that the brochures and marketing materials of the institutions did not provide adequate information on the product or service. In some cases, the font size of the information related to the risks of the product was significantly smaller than that the text describing the advantages of product. It was also typical that the information on the risks of a given product was not given in the product description, but in a different part or on the back of the publication.

At the aforementioned companies, the MNB also found that the suitability and eligibility test was in a single document, but the service provider failed to remind the client of the different purposes of the two tests. The MNB expects the service providers to call the clients' attention to the risks, and to separate the questions of the suitability and eligibility tests.

The targeted inspection conducted at the Hungarian branch office of KBC Securities revealed that consumers continue to submit orders for transactions, the risks of which they are not in fact aware of. Due to this, it is crucial 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 for the benefit of the consumer to the greatest possible extent.

The law defines what the companies are supposed to assess with the compliance and eligibility tests. However, it should be noted that the exact test questions, the evaluation of the responses and the results, or the risk categories are not specified by law. Typically, the procedure to be followed during the preliminary enquiry and the evaluation of the suitability and eligibility tests are specified in internal regulations. It is important to ensure that the investment firms follow their internal regulations, evaluate clients' tests properly and record the results thereof adequately.

During the MNB's tasks, which follow the current regulation related to the MiFID II EU Directive, the currently effective supervisory recommendations were also reviewed in addition to the legislative changes. The related tasks constitute one of the focal points in 2017.

4.3.1.2 Mis-selling – interpretation of liquidity in the case of real estate funds

Roughly 0.1 per cent of the enquiries and complaints (4 petitions and 41 client enquiries) received by the MNB's Customer Service Desk related to investment fund managers, and of these two related specifically to the sales of mutual fund shares. In the future, a major risk may build up from the fact that liquidity is interpreted completely differently by the consumer and the investment fund. Real estate funds plan their investment strategies primarily for the long term, and accordingly investments in such funds are also recommended for the long run. As regards the consumer protection risks related to the funds, it is important whether the distributor of the mutual fund shares complies with the requirements pertaining to the preliminary briefing of the investors during sales.

The impact of the low interest environment can be felt the most in the market of real estate funds and bond-type investment funds. In the past period, bond-type investment funds were characterised by capital outflows; by contrast, the market of real estate funds registered a substantial growth in assets.

The persistently low interest environment and the major improvement in the households' labour market and income position had a positive impact on demand in the property market, which was reflected by the pick-up of the sector and the rise in prices in the past period. In the speculative segment of property market demand, the demand for funds containing property exposure increased, as an alternative to property purchases, which is well illustrated by the increase in the assets managed by real estate funds. This was accompanied by the fact that investment fund managers also saw great opportunities in launching new real estate funds. This raises the question to what degree the aggressive marketing methods experienced in relation to the recent upswing in real estate funds is ethical.

It is also an important consideration whether the sale is made to the appropriate group of investors. As regards the buyers of real estate investment fund shares, this risk appears in the fact that they are often not aware of the time horizon of their investment. A real estate investment fund is a medium-term or rather long-term investment, which is able to provide an adequate return at a horizon of several years. Augmentation of the volume and quality of the properties included in the portfolio (as well as the purchase and sale process) yields the desired result in the longer run. However, during this period the value of the properties may fall, which also reduces the value of the investments.

Additional problems may arise from the fact that investors do not consider and assess their own situation before making the investment. Investment service providers do not always ask clients about their intentions, or give sufficient details to them regarding the investment risks and potential losses.

The risk for investors is represented by the composition of the real estate funds' liabilities and assets. In the case of open-end real estate funds, clients may redeem the investments units at any time, thereby withdrawing their funds from the fund, while the assets side contains properties, albeit in a different proportion, which do not always provide solid underlying cover with the passing of time.

In summary, for consumers liquidity typically means that they can access their invested funds any time in a matter of days. By contrast, for investment funds the ability to realise the properties is also a liquidity issue. It is obvious that the sale of a property takes time, and thus an instrument that is liquid for the fund is not liquid for the consumer. An executive director of the MNB gave an interview on the subject to MTI²² on 7 November 2016.

4.3.2 Cross-border services, online platforms, high leverage transactions, trading robots

Based on the experiences of the MNB's Customer Service Desk, the information for clients on foreign online platforms is particularly limited, both in terms of the services and the legal environment, while in relation to the methods of enforcing their claims they typically have no information at all. In relation to cross-border capital market services, the MNB received more than 400 client enquiries. 381 of these concerned the default by the Cyprian company IronFX, which was engaged mostly in high leverage forex transactions administered on online platforms. In relation to the cross-border activity of the service provider, the MNB also informed the consumers about the measures taken by the home supervisory authority in a press release "Claims for damages against IronFX Ltd. should be reported to the Financial Ombudsman of Cyprus". In addition, the MNB regularly warns consumers that – prior to concluding a contract with a non-resident investment service provider – they should give due consideration to their decision. The risk is significantly higher than the level that an average consumer is able to manage. It is important to bear in mind that the outcome of high leverage transactions is uncertain even when it involves a reliable, reputable service provider and an investor with in-depth financial knowledge. Leveraged transactions permit the taking of trading position higher than the capital invested. As a result of this the realisable profit or – depending on the circumstances – loss may exceed the invested amount by several times. With a relatively low initial margin, the change in the price of high-value positions may be many times higher than the margin or even the client's total assets.

²² MTI is a Hungarian news agency.

Box 8**Aggressive sales strategies and major losses in the forex market**

According to the experiences of the international supervisory authorities,²³ in recent years the supply of products with speculative features increased. The CFD,²⁴ the forex and binary options also belong to this group. The number of complaints due to the financial losses suffered increased in parallel with the supply at a fast rate. Due to their complexity, these products carry high risk from the outset, which is only exacerbated by the mass and aggressive online advertising activity. The use of the services is made particularly dangerous by the fact that the service providers often offer deregulated products as non-supervised institutions. The conditions of the products also vary to a high degree, and may differ by service provider. Due to the substantial losses suffered by the investors, in its warning issued in July 2016, the European Securities and Markets Authority (ESMA) highlighted the potential risks affecting the investors and the business conduct expected from the supervised service providers. National supervisory authorities also monitor the market on a continuous basis. Based on the surveys, in the case of forex products, roughly 70-90 per cent of the investments result in a loss. In France²⁵ the ratio and amount of the losses suffered by small investors was examined over a period of four years. According to the survey, during this period 89 per cent of actively trading clients suffered a loss; the average loss was EUR 10,887, which amounts to almost HUF 3.4 million per small investor, calculated at the exchange rate of 310. During the four years under review, the total loss exceeded EUR 161 million. According to the data of the US NFA, in the United States of America 70 per cent of client accounts failed to earn profit on a quarterly basis; based on the survey performed by the Spanish CNMV, in the case of the most active service provider 75-85 per cent of the clients posted a loss on annual basis, while according to the annual market survey of the Polish KNF, 80 per cent of the active clients suffered a loss.

The service provider and the sub-standard operation of the trading platform may represent further risks. A service provider with an offshore registered office may block client accounts or terminate its operation without any severe consequences. Consumers may reduce the risk by selecting an internationally acknowledged service provider, preferably one supervised in Hungary.

In summary, upon using such services, the MNB recommends to give due consideration to the following criteria.

1. Registered office and supervisory authority of the service provider. If this information is not available, the consumer should choose another service provider.
2. Since these service providers allow high leverage, the position can be taken with a low margin. The size of the position taken should never exceed or be the multiple of the core capital.

The largest risk of leverage is that it magnifies the impact of even the small movements in market prices, and thus the invested capital can be easily lost. Although instruments that minimise the losses (e.g. stop-loss orders²⁶) do exist, in extreme market situations they do not achieve their intended purpose. This may result in not only losing the amount invested, as well but also generating additional debts for the clients, i.e. the investor's value at risk will exceed the amount invested several times. The most expedient way, also applied by the MNB, to manage this problem is to provide information to a wide range of consumers, making them aware of the potential favourable and unfavourable outcomes of the transaction type in an objective way.

In the case of cross-border activities, most consumers are also not aware of the special rules. It is a significant problem that the official language agreed for communication between the parties is usually not Hungarian,

²³ Sources: https://www.esma.europa.eu/sites/default/files/library/2016-1166_warning_on_cfds_binary_options_and_other_speculative_products.pdf; <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD550.pdf>

²⁴ Contract for Difference (in simple terms, it means trading with the difference between the opening and closing value of a financial instrument)

²⁵ Study of investment performance of individuals trading in CFDs and forex in France

²⁶ For more information see: Section 4.1.3 of the 2015 Consumer protection report

and Hungarian jurisdiction is not the venue for resolving legal disputes of parties and the client cannot file complaints in person in Hungary. There are a large number of financial service providers in the Hungarian financial market – as branch offices or institutions rendering cross-border services – with registered offices abroad, licensed by other EU Member States, and an increasing number of online trading platforms offer high-risk investment products. The domestic investor protection guarantee scheme provides no protection for these transactions. The MNB's inspection and sanctioning rights within its consumer protection competence are different and limited in the individual financial sectors. Accordingly, for consumers concluding contracts with such institutions the enforcement of their rights, e.g. complaint management or indemnification right, may be rather complicated, lengthy and costly. It should be also noted that the prudential supervision is performed not by the MNB, as according to the EU regulation, only the home supervisory authority has the right to proceed.

In recent years, domestic investment firms (complying with market demands) more and more often refer the services of foreign online trading platforms to their own customers, typically under a separate brand name corresponding to their corporate image. With the spread of online platforms, Hungarian retail investors can easily reach the high risk and high leverage products either via the domestic service providers or directly, after opening an account with the foreign provider. The service providers are lavish with positive examples, and therefore consumers should be warned to be extremely cautious with these types of advertisements. The promise of large profits may hide significant risks for interested persons with no trading experience.

The trading robot is an application meant to automate trading. It executes trading transactions faster than human traders, based on a coded model. These applications can be run on various trading platforms and can be purchased practically without limitation through the internet. The inherent risk of these is that the investor does not know the algorithms coded in the application, and thus the application may carry out transactions without any possibility for the investor to intervene. This may result in a higher-than-anticipated loss during undesirable market turbulences. In addition, an incorrectly coded programme may also generate a loss, instead of a profit. Since clients can download the trading robots from the internet and deploy them on their own, neither the investment service provider, nor the supervisory authority has control over it.

In relation to its market surveillance activity, in 2016 the MNB issued 19 notices in total, due to its measures taken in respect of the unauthorised activity of the non-resident and resident service providers. Due to the high number of consumers' reports linked to the phenomenon, the MNB issued special warnings with regard to the risks represented by the activity of the unlicensed service providers appearing in the financial markets. These companies try to raise the investors' interest typically by offering high yields over a short period. On its consumer protection site, the MNB calls consumers' attention to the most basic risks in a one-minute public service advertisement.

4.3.3 Binary options

The binary option is a new risk category. This form of trading is similar to an "all or nothing" option, where basically the direction of the change in the financial instrument's price must be guessed within a defined time. If the price is above a certain level after the expiry of the time, the client realises the yield provided by the service provider. If the price is not in the guessed direction upon the expiry of the time, the client loses the amount invested. It is not possible to pull out of the transaction before the expiry of the option, and it applies to predetermined time horizons. These periods are typically short, often not more than 5-15 minutes. Due to its features, the product can be regarded as gambling rather than as a financial investment. In a trading model, where the realisation of a yield is conditional upon correctly guessing the direction of the price within a time band of a few minutes, it is extremely rare that the investor realises a profit on the deal. On the other hand, upon making the wrong guess on the aforementioned direction, the capital invested can be lost in a matter of seconds.

Trading with binary options is not yet widely spread in Hungary. The institutions supervised by the MNB typically do not offer such services; this product might usually offered by cross-border – often unlicensed – service providers.

In the low yield environment, special attention should be paid to the unusual and complex products, which are incomprehensible for average consumers. If consumers do not understand the functioning of a product, and hence fail to see the risks, they should by no means select these investment vehicles. For the time being, no supervisory measure by the MNB is warranted, but it monitors the market processes and will intervene when necessary.

4.3.4 “Ownerless” capital market intermediaries

From 1 January 2016, the regulation applicable to intermediaries was tightened by prescribing the submission of the agency contract as a precondition for registering tied agents, referring capital market services. This no longer permits the existence of such tied agents in the MNB’s register that refer investment services without a principal. Already registered tied agents referring capital market services without a principal had six months to submit their agency contract to the MNB. The data of those agents who failed to comply with this requirement were cancelled.

The problem with registered tied agents referring capital market services without a principal was that some agents referred the services of an investment service provider that they were not entitled to due to the lack of an agency contract. These agents were not authorised to pursue independent activity. They performed their activity citing that they had been registered by the MNB. With this they misled their clients, as in the absence of a principal they were not authorised to perform such activity due to their tied agent status. The offering of the products of other financial sectors by some tied agents, which were also not authorised to do so, was another potential form of deception.

The previous regulation permitted that the mere fact of being included in the MNB’s register helped the agents gain the consumers’ confidence in respect of the service they wished to refer and their status of authorised intermediary. The less informed consumers and those who did not receive proper information from the agents on the nature of the services referred by them, were not in the position to clarify – even if they tried to obtain information in respect of the given transaction or agent – whether the given, registered agent was authorised to pursue the activity referred to them on behalf of the given service provider. As a result of the tightening, the MNB cancelled five-hundred capital market tied agents without a principal, and more than 1,300 additional, lower level intermediaries from its register. Beforehand, the MNB took severe measures in several cases, because it was proven about certain “ownerless” capital market intermediaries that they pursued unauthorised intermediary activity, often for non-resident principals. A press release entitled “The central bank cancelled from its register almost two thousand capital market intermediaries with no principal” was also published on this topic, and an article,²⁷ analysing the risks, also appeared in the press, which the MNB highly recommended to those interested.

On the MNB’s website, the licensed or registered intermediaries can be checked using the “Search for market participants” application, while prohibited or unauthorised market participants are listed under the Warnings menu item. In the future, the MNB will treat the inspection of the intermediary activities as a priority.

²⁷ www.mnb.hu/letoltes/16-05-21-deak-ferenc-kozvetitok.pdf

5 Financial consumer protection communications

The purpose of the financial consumer protection communications is – also bearing in mind the MNB’s corporate social responsibility strategy – to reduce the misunderstandings and damages resulting from incorrect consumer decisions, to enhance the consumers’ financial awareness and to develop domestic financial literacy.

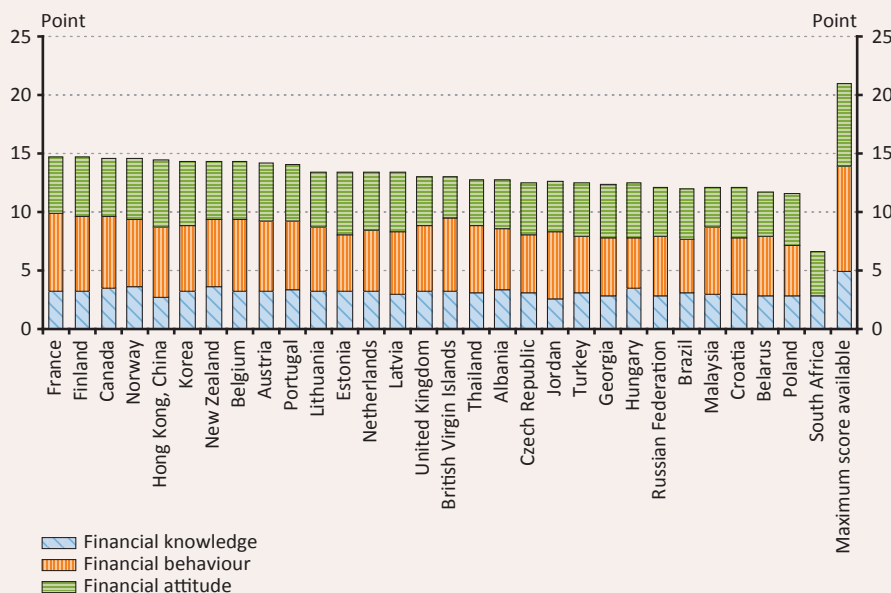
Box 9

OECD²⁸ Financial literacy survey²⁹ – Hungarian results by international standards

The development of financial consumer protection, financial literacy and awareness, as well as the related skills and capacities represents a priority both in Hungary and globally. These factors substantially influence both the trust in financial systems and stability, and the quality of individual – and through that – the social welfare. The survey launched by the OECD in 2010, which now covers 30 countries,³⁰ is an excellent way to achieve the comparability of the factors influencing the financial decisions of the adult population living in different geographic, social and economic circumstances. The research published in October 2016 is built on the measuring of three large topics; i.e. it examines the financial knowledge, the features of financial behaviour and the attitude to financial matters. The summarised results evidence that financial literacy is in need of development in all of the reviewed countries.

Chart 5
OECD financial literacy competences ranking 2016

(score)



Source: MNB edit, based on OECD/INFE International Survey of Adult Financial Literacy Competencies.³¹

²⁸ Organisation for Economic Co-operation and Development.

²⁹ Source: OECD/INFE International Survey of Adult Financial Literacy Competencies, <http://www.gltfoundation.com/wp-content/uploads/2016/10/OECD-INFE-International-Survey-of-Adult-Financial-Literacy-Competencies.pdf>.

³⁰ Source: <http://www.oecd.org/finance/oecd-financial-literacy-study-finds-many-adults-struggle-with-money-matters.htm>.

³¹ The Republic of South-Africa provided no data with regard to the features of financial behaviour, thus this data is also missing from the chart.

As regards the aggregated result, Hungary was ranked 22-23. The results related to level of financial knowledge and the longer-term attitude to financial matters are relatively acceptable, but the result related to the features of financial behaviour (ranked 29) is very worrying.

The indicators related to the questions assessing general financial knowledge were acceptable in respect of the time value of money, the meaning of inflation and the interpretation of interest rates on loans. Another positive factor is that, contrary to the international trends, there is no major difference between the genders. However, it should be noted that there are major shortcomings in the practical application of the existing knowledge and that interest calculations requiring the application of slightly more complex mathematical operations cause problems. According to the survey, at the international level almost two thirds of the respondents prepare a household budget, while in Hungary only one fourth of the respondents do so, which is the lowest ratio in the countries under review. 44 per cent of the respondents believe that they are not in control of their finances; in addition, the inability to save is also a severe problem. Almost one fourth of the respondents were occasionally unable to pay their bills on time; however, this does not differ significantly from the international trend. Significant shortcomings were also identified in relation to the prudent selection of financial products; it is not common to decide based on comparing a variety of products offered by several service providers, and the population hardly relies on the services of independent advisors. As regards the future, it should be noted that Hungary has a major lag in the area of pension savings compared to the international trends. Only 43 per cent of the respondents have long-term financial objectives, and the ratio of those with insurance products is also below the average. On the whole, Hungary's results show a deteriorating trend compared to 2010. For example, the ratio of insurance policy holders fell from 56 per cent to 43 per cent, and it is also a striking fact that the ratio of those preparing a household budget dropped from 32 to 25 per cent. Now only 22 per cent of the respondents give due consideration to the options before making a decision on financial products, while this ratio was 33 per cent in the previous survey.

All of the identified shortcomings are important risk factors, as they increase the risk of over-indebtedness, the probability of payment difficulties, the chances of an unsound financial decision and the development of long-term financial imbalances. On the whole, based on the survey it can be established that at the level of individuals neither the complex, nor the long-term financial thinking belong to the strengths of Hungarian consumers, and therefore the teaching of comprehensive – life situation-based – financial skills bears the utmost importance.

5.1 THEMATIC, RECURRING CAMPAIGNS BASED ON LIFE SITUATIONS

The consumer protection communications of the Financial Consumer Protection Centre designates for each year in advance the financial consumer protection priority topics that will be dominant in respect of the next year. In addition, every year there are a few risk-based current topics, which become the subject of a separate campaign. During the campaigns thematic micro-sites, articles and responses to frequently asked questions are published, and a number Facebook posts also serve the comprehensive information of consumers. In 2016 the focus was on the following topics.

- The conversion of the non-mortgage loans into forint – which focused primarily on the particulars related to the conversion of the former foreign currency-denominated car loans into forint.
- Promotion of the securities account online enquiry application.
- Nationwide branch and ATM search application – which facilitates easy and fast search for bank branches, post offices and automatic teller machines.
- Prudent home creation campaign – which touched upon prudent loan planning, the risks of indebtedness, the building societies and the Family Home Purchase Allowance.
- One of the priority topics of the spring was the importance of insurance, and particularly home insurance, which was also supported by a 1-minute short film.
- Plan your holiday! – in the framework of which we reminded consumers of the importance of cost planning and travel insurance, as well as the risks of consumer loans.

- First bank account – in July, in the period of announcing the scores for entering higher education, the emphasis was on responsible financial decisions and the considerations related to the selection of the first bank account, which was also supported by a 1-minute short film.
- Start of the school term – as autumn approached, the focus was on the planning of the household budget and savings.
- The number of compulsory motor third-party liability insurance with anniversary date in December is still high, thus this was the key topic of November.
- Calculated holidays – Christmas campaign. As every year before the holiday season in 2016, as well the key topics included the promotion of cost planning before Christmas, warning about the risks of indebtedness and the consumer loans known as “quick loans”. In addition to two press releases, the MNB also called the consumer’ attention to these topics through thematic information on the website, the Financial Navigator Booklets and short films.

Box 10**Consumer protection short films**

With a view to providing comprehensive financial consumer protection information, the MNB produces consumer protection short films and educational films.

The length of short films, in accordance with the criteria of public service advertisements, is one minute. They deliver a brief, concise message to the audience, calling their attention to potential risks. The 1-minute short films are suitable for television broadcasting; at present they are available on the MNB’s consumer protection site and on the YouTube channel.

The length of the educational films are 3-5 minutes, and thus they are capable of delivering more complex, deeper messages. The purpose of the films is to add colour to the financial consumer protection trainings and presentations. To ensure as wide distribution as possible, the consumer protection short films are also available to civil organisations, secondary schools and financial institutions at the MNB’s consumer protection sub-site, YouTube channel or, upon request, also delivered on physical data carrier.

5.2 COOPERATION WITH THE FINANCIAL ADVISORY OFFICE NETWORK, THE BUREAUS OF CIVIL AFFAIRS AND CIVIL ORGANISATIONS

The Financial Advisory Office Network has operated since 2011 within the framework of various tender programmes. To date, they have provided assistance to more than 40,000 consumers to resolve their financial problems. The MNB’s purpose with the network, which was reformed in 2016, is to make the independent, professional and free financial consumer protection consultancy available at all county seats. The offices, at present operating at 9 county seats, expanded their scope of activity with new services. The most important change is that at least twice a month they also provide off-site advisory services at smaller settlements. These off-site occasions considerably broaden the range of consumers reached. The MNB’s objective is to make this service available at all county seats by the end of 2017.

In April 2014, the MNB concluded a cooperation agreement with the Government Offices, according to which the financial consumer protection complaints may be also submitted to one Bureau of Civil Affairs in each county seat. The Bureaus of Civil Affairs forward the completed forms free of charge to the MNB. From 2016 the range of submissions, specified by the law as ones that may be also submitted to the Bureaus of Civil Affairs includes the “Financial consumer protection complaints, notifications of public interest, and petitions for the proceedings of the Financial Arbitration Board”.

In accordance with the objectives outlined in its corporate social responsibility strategy, the MNB also paid special attention in 2016 to the enhancement of the consumers’ financial literacy and awareness within the

framework of the previously established Civil Network. In the past period the civil organisations had access to financial funds through tenders and individual support applications. In possession of the experiences, the MNB looked for new opportunities that make the tenders to be announced for civil organisations more efficient and successful. With this goal in mind, from January 2017 it also provides students – with the involvement of higher education institutions participating in the training of economists – with the opportunity to submit applications for new ideas. The purpose of the innovation is to formulate the novel initiatives of young people. Thus during the implementation of the prize works of the applications the curriculum of the financial consumer protection programmes comes closer to some of the life situation-based financial consumer protection current issues. The programmes can be implemented by civil organisations with support from the MNB. Another goal of the cooperation with higher education institutions is to turn the attention of the young generation as well to responsible financial decisions and make them aware of the importance of financial consumer protection.

The MNB still deems it important to listen to the opinion of civil organisations and provide opportunity for professional consultations. At the Civil Forums, convened for these organisations, the participants could obtain information on the available support opportunities, the focus of the current consumer protection communication and consultations were conducted on the cooperation possibilities. Another goal of the forums is for the MNB to summarise the current problems of consumers and the trends with the help of the civil organisations, and to formulate efficient answers to the issues raised during its financial consumer protection activity. The MNB provided information on the results of the cooperation with the Civil Network and the Financial Advisory Office Network in several communications.

Box 11

Cooperation with the Money Compass Foundation – European Money Week and Compass for financial matters textbook

The Money Compass Foundation and the MNB make joint efforts to enhance the financial literacy of the Hungarian population, thereby providing all age groups with information and learning opportunities. The two organisations strengthen each other's communication and campaigns in several topics and forms. The short films produced by the MNB are also used by the Money Compass Foundation on its website publications and to add colour to its presentations.

In 2016, the MNB joined two priority projects of the Foundation. One of them was the Money Week event, organised simultaneously in 23 European countries, the primary objective of which is to arouse the interest of the youngest and the secondary school generation regarding financial matters. The series of events was joined by 29 central bank employees as volunteers to deliver basic financial skills to several thousand students nationwide within the framework of a casual financial class. 788 schools participated in the one-week series of events, and thus in total almost 102,000 young people had the opportunity to learn about the importance of financial planning in a casual form. After the event a large volume of positive feedback was received both from the teachers and the children. And what was the opinion of the children about the Money Week classes? See some thoughts below.

- “It is important to learn all this stuff”.
- “We learnt that money can also be dangerous.”
- “At last I understood why my parents are upset when they talk about money.”

A milestone in the financial education of students below the age of 18 is the other important project of the Foundation, i.e. the compilation and publication of the textbook entitled Compass for financial matters (for students of classes 9 and 10). The textbook was prepared under the editorship of the Money Compass Foundation and reviewed by the MNB's employees. Students can familiarise themselves with life situation-based financial issues and the possible solutions through the daily life of a family. Upon processing the topics, children learn the most important financial terms, duties and the management of certain risks in a casual form. The publication is a stop-gap material in the domestic education of financial and economic skills; from autumn 2016 almost 300 educational institutions started to use the accredited textbook, which the Foundation distributed in 40,000 copies among the schools involved.

List of Boxes

Box 1: Product development recommendation	14
Box 2: Thematic inspection of the settlement and conversion into forints	20
Box 3: Consumer-friendly home loan concept	23
Box 4: The BUBOR	24
Box 5: Debt under the christmas tree	28
Box 6: Recommended level of the annual cost rate (ACR) – Premium decrease	36
Box 7: Developments in voluntary pension fund fee charges in the last fifteen years	39
Box 8: Aggressive sales strategies and major losses in the forex market	44
Box 9: OECD ²⁸ Financial literacy survey ²⁹ – Hungarian results by international standards	47
Box 10: Consumer protection short films	49
Box 11: Cooperation with the Money Compass Foundation – European Money Week and Compass for financial matters textbook	50

List of Charts and Tables

Chart 1: Changes in ratios and volumes of fixed-rate and variable-rate loans	24
Chart 2: New hire purchase and personal loans in the credit institutions sector	28
Chart 3: Changes in the ACR values of recurring premium contracts	36
Chart 4: Changes in the weighted average annual cost rate in the period of 2000–2015	40
Chart 5: OECD financial literacy competences ranking 2016	47
Chart 6: Amount of major consumer protection penalties imposed on the participants of the insurance market	56
Chart 7: Amount of consumer protection penalties imposed on the participants of the capital market	56
Chart 8: Amount of major consumer protection penalties imposed on the participants of the financial market	57
Chart 9: Distribution of petitions and customer service enquiries by the channel of submission	60
Chart 10: Developments in the number of requests received by the MNB, by sectors	61
Chart 11: Main petition types in 2016	61
Chart 12: Number of petitions by main type of credit	62
Chart 13: Distribution of petitions related to the insurance sector, by service type	63
Chart 14: Distribution of the most typical petitions related to the capital market sector, by service type	64
Chart 15: Distribution of the most typical petitions related to the funds sector, by service type	65
Chart 16: Customer service enquiries, by sector	66
Table 1: Number of proceedings initiated in 2016	54
Table 2: Number of proceedings carried over from 2015 and initiated in 2016	55
Table 3: Result of proceedings by sector	55
Table 4: Penalties imposed in the settlement and HUF conversion thematic inspection	58
Table 5: Measures taken in the settlement and HUF conversion thematic inspections	58

Annexes

1. Annex: The MNB's consumer protection administrative activity
2. Annex: Data of the settlement thematic inspection
3. Annex: Complaint statistical data

1. ANNEX: THE MNB'S CONSUMER PROTECTION ADMINISTRATIVE ACTIVITY

Table 1
Number of proceedings initiated in 2016
(pcs)

Institution type	Ex officio targeted inspections	Ex officio consumer protection thematic inspections	Number of institutions audited within the framework of ex officio consumer protection thematic inspections	Consumer protection inspections conducted jointly with the prudential area	Consumer protection inspections launched based on consumer petition
Bank	19	1	14	1	114
Cooperative credit institution	9	0	0	1	0
Financial enterprise equivalent to credit institution	2	0	0	1	4
Independent money market advisors	4	0	0	0	1
Pawnshops	3	1	4	1	0
Workout companies	1	0	0	0	3
Insurance market	1	0	0	10	89
Capital market	2	0	0	6	5
Funds market	0	0	0	1	6
Total:	41	2	18	21	222

Source: MNB.

Table 2
Number of proceedings carried over from 2015 and initiated in 2016

(pcs)

Institution type	Ex officio targeted inspections	Ex officio consumer protection thematic inspections	Number of institutions audited within the framework of ex officio consumer protection thematic inspections	Consumer protection inspections conducted jointly with the prudential area	Consumer protection inspections launched based on consumer petition
Bank	35	4	65	1	160
Cooperative credit institution	11	0	1	1	0
Financial enterprise equivalent to credit institution	5	0	3	1	15
Independent money market advisors	4	0	0	1	1
Pawnshops	3	1	4	1	0
Workout companies	8	0	0	0	10
Insurance market	9	2	27	11	137
Capital market	3	0	0	6	9
Funds market	0	0	0	1	6
Total:	78	7	100	23	338

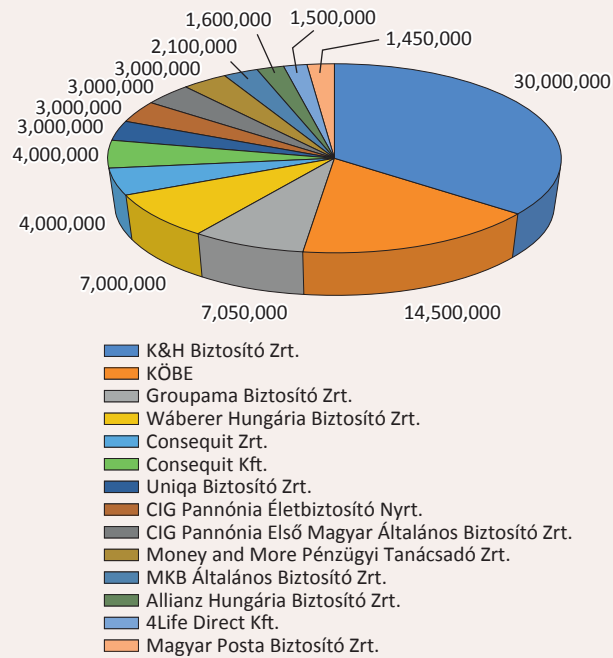
Source: MNB.

Table 3
Result of proceedings by sector

Measure type	Money market	Insurance market	Capital market	Funds market	Total
Total number of orders (pcs)	2520	473	19	12	3024
of these: substantive (pcs)	333	118	5	1	457
non-substantive (pcs)	2187	355	14	11	2567
Total number of resolutions (pcs)	330	84	6	2	422
of these: no infringement (pcs)	107	39	3	0	149
involves infringement (pcs)	223	45	3	2	273
Consumer protection penalty imposed (HUF)	158 575 000 Ft	89 500 000 Ft	9 850 000 Ft	400 000 Ft	258 325 000 Ft

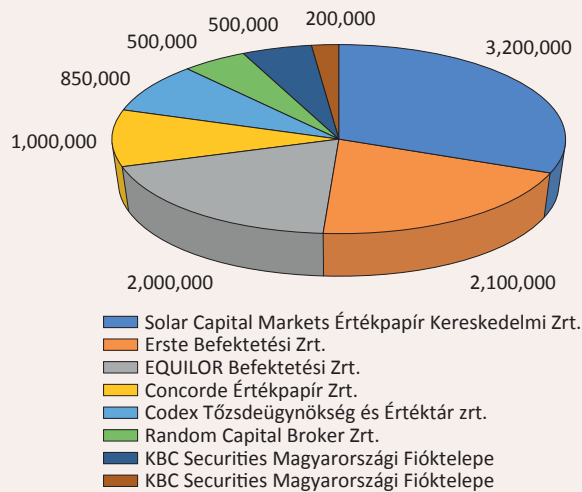
Source: MNB.

Chart 6
Amount of major consumer protection penalties imposed on the participants of the insurance market
 (HUF)



Source: MNB.

Chart 7
Amount of consumer protection penalties imposed on the participants of the capital market
 (HUF)

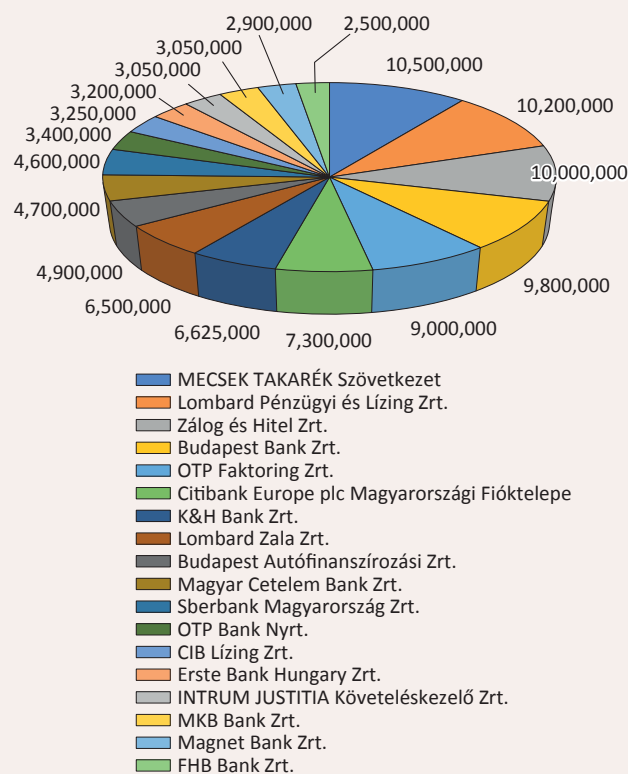


Source: MNB.

Source: MNB.

Chart 8**Amount of major consumer protection penalties imposed on the participants of the financial market**

(HUF)



Source: MNB.

In the funds sector, a consumer protection penalty in the amount of HUF 400,000 was imposed on the Horizont Private Pension Fund.

2. ANNEX: DATA OF THE SETTLEMENT THEMATIC INSPECTION.³²

Table 4
Penalties imposed in the settlement and HUF conversion thematic inspection
(HUF million)

Institution type	Procedural penalty (HUF million)	Consumer protection penalty related to extraordinary data supply (HUF million)	Consumer protection penalty imposed due to infringements identified during thematic inspections (HUF million)
Bank	0,25	0	125,95
Cooperative credit institution	0,85	1,1	12,9
Financial enterprise equivalent to credit institution	1,2	5	14,25
Workout companies	0	0	1,9
Total	2,3	6,1	155

Source: MNB.

Table 5
Measures taken in the settlement and HUF conversion thematic inspections

Institution type	Bank and Cooperative credit institution	Workout companies	Total
Total number of orders (pcs)	3446	856	4302
of these: substantive (pcs)	150	115	265
non-substantive (pcs)	3296	741	4037
Total number of resolutions (pcs)	138	54	192
of these: no infringement (pcs)	13	35	48
involves infringement (pcs)	125	19	144

Source: MNB.

³² Aggregate data for 2015-2016.

3. ANNEX: COMPLAINT STATISTICAL DATA

Features of the consumer complaints identified based on the institutions' reports on complaints³³

At the end of 2016 Q4, in the financial market, insurance and capital market sectors the institutions registered 187,900 complaints for a retail portfolio of 43.2 million contracts. This means that on average service providers registered 4.35 complaints per one-thousand retail contracts. It should be noted that the number of the complaints reported by the consumers and registered by the institutions does not mean that all complaints were well-founded; it only implies that the consumers disagreed with the service provider due to some reason from their own perspective (e.g. absence of information, failure to obtain the necessary information, suspected fraud, miscalculation).

Credit institutions

Based on the complaint statistics of the credit institutions, two thirds of the complaints relate to lending and bankcard operations. Within loan products, mortgage loans and credit card products have the highest ratio. The most typical problems arose from the settlement, the rate of the commissions, the costs and fees, the service quality, the fulfilment of orders, the record-keeping and information shortcomings, as well as administrative errors (76 per cent). The number of complaints per one-thousand contracts is 3.35, which is below the aggregate average.

Financial enterprises

The complaint statistics of the financial enterprises shows that the workout activity represents a major share, i.e. 59 per cent within the reported data, while one third of the complaints related to lending. The most typical problems related to administrative issues, settlement, service quality, CCIS data and the rate of commissions, costs and fees (78 per cent). The number of complaints per one-thousand contracts is 8.31, which is well above the aggregate average.

Insurers

The insurers' complaint statistics show that 84 per cent of the complaints related to the non-life business. Within this, almost three-quarters of the complaints concerned household property insurances and the compulsory motor third-party liability insurances. The remaining 16 per cent of the complaints related to the life insurance business, and within that roughly half of the reported problems concerned index-linked or unit-linked life insurances. The notifications related to traditional life insurance accounted for one-third of the life business complaints. Almost half of all complaints related to insurance products concerned administrative issues and errors, but quite a few complaints were registered also in relation to the rejection of claims, the degree of the compensation, the lengthy claim settlement and information shortcomings (40 per cent). The number of complaints per one-thousand contracts is 3.13, which is below the aggregate average.

Investment firms

The complaint statistics of investment firms show that half of the registered complaints related to the management of client accounts and securities accounts, while one-third of the complaints concerned investment services and in particular the acceptance, finalisation and execution of orders. The most typical problems arose from the rate of the commissions, costs and fees, administrative errors, order execution, settlement and information shortcomings (67 per cent). The number of complaints per one-thousand contracts is 6.68, which exceeds the aggregate average.

³³ The review was prepared based on the data reported by the institutions up to 1 March 2017.

Mutual funds

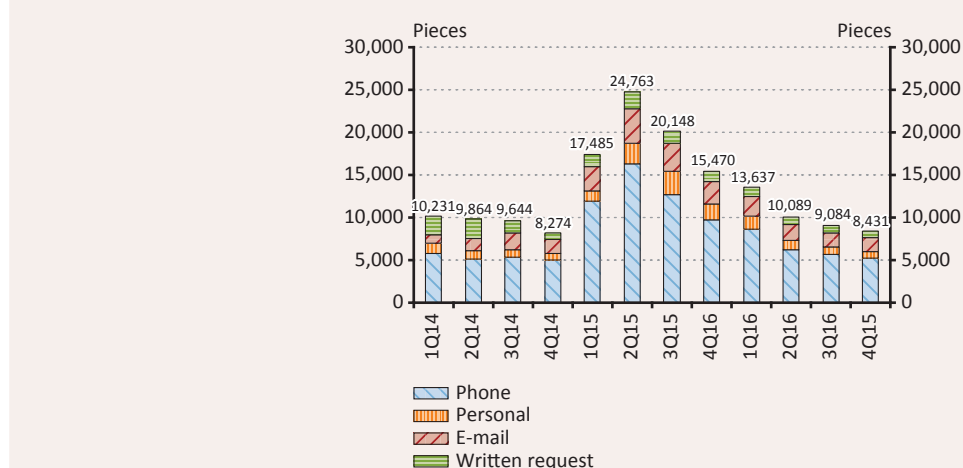
The mutual funds' retail contract portfolio is insignificant compared to the contract portfolios mentioned above, and thus this data group is suitable for data analysis only to a limited degree. Nevertheless, it can be established that one half of the registered complaints related to the management of investments, while almost one quarter of the complaints concerned the administrative part of the collective portfolio management and the distribution of collective investment securities. The most typical problems originated from the rate of interests and yields, the use of electronic services and information shortcomings (68 per cent). The number of complaints per one-thousand contracts is 19.93, which is well above the aggregate average.

Developments in the consumer petitions and customer service enquiries received by the MNB

Based on the petitions and enquiries received by the MNB, it can be generally stated that the clients do not contact the Financial Advisory Office Network, the MNB's Customer Service Desk or any other independent expert to seek preliminary information. They typically select the products and financial institutions on an emotional basis, or on a recommendation by acquaintances, friends or relatives. The enquiries and complaints typically focus on problems that already occurred and the consumers ask for information, assistance or initiate consumer protection inspection only thereafter.

Chart 9
Distribution of petitions and customer service enquiries by the channel of submission

(pcs)



Source: MNB.

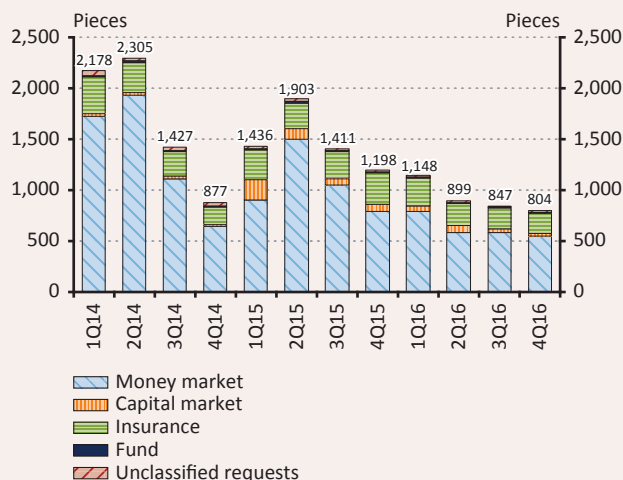
The ratio of written and oral enquiries showed a stable one third / two thirds distribution (11,091 and 30,150, respectively). The ratio of telephone enquiries continued to be dominant, but compared to last year it slightly fell. The ratio of consumers visiting the Customer Service Desk in person also did not change compared to previous years. The frequency of e-mail enquiries is increasing annually by 1 per cent, and the ratio of e-mail petitions also slightly increased compared to previous years.

Most typical request types

In 2016, the MNB received 3,698 consumer protection petitions, representing a 38 per cent decrease compared to the previous year. However, it should be noted that 2015 was an exceptional year, as the settlement of the foreign currency and foreign currency-denominated mortgage loans and their conversion into forint was a unique event, even by international standards. The distribution of the petitions by sectors has slightly changed. The ratio of financial market petitions fell by 4 per cent to 68 per cent, in the insurance sector it increased from 19 per cent to 24 per cent, in the capital market sector it decreased from 7 per cent to 5 per cent, while in the funds sector it remained 2 per cent as in the previous year.

Chart 10
Developments in the number of requests received by the MNB, by sectors

(pcs)

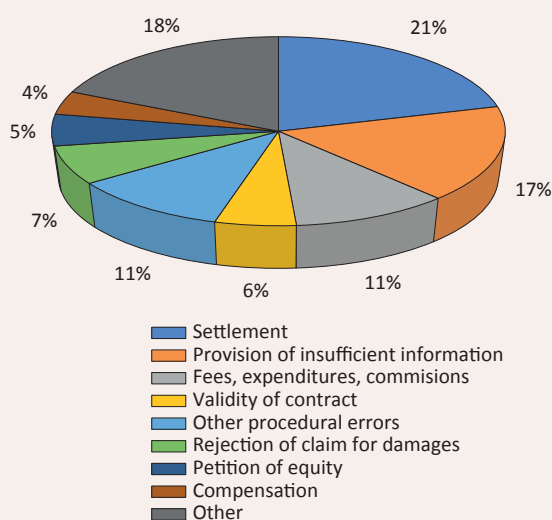


Source: MNB.³⁴

The consumer request types reflect the nature of the problems identified by the consumers independently of the sector. Similarly to previous years, the majority of complaints related to financial settlement linked to various contracts (769) and to information shortcomings (620). The fees, costs and commissions (413) cover all problems that related to insurance, account management, annual bankcard and other fees and costs charged, and the degree of the commissions paid. The other category includes a number of real or presumed shortcomings, among others, the lengthy claim settlement, the execution of orders, shortcomings in record-keeping, the interest rate or the instalment amount, unauthorised activity, and suspected financial fraud. The chart below shows the most typical problems indicated by the consumers as a proportion of all petitions.

Chart 11
Main petition types in 2016

(per cent)



Source: MNB.

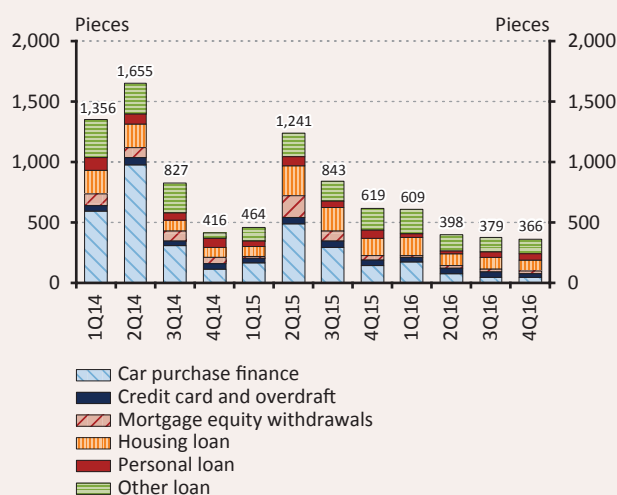
³⁴ In the first half of 2014, the outliers were caused by the problems related to intermediaries referring car loans; the solid increase, related to agents' activity, halted in the second half of 2014.

Financial market petitions

Financial market petitions accounted for 68 per cent of all petitions (2,515) in 2016, representing a decrease of 4 per cent year on year. These include, amongst other things, credits, loans and leases, deposit savings, payment accounts, payment services, e-banking, as well as bankcards and credit cards. Similarly to previous years, one seventh (1,752) of the financial market petitions related to some kind of loan product. Of these, one quarter of the problems concerned housing loans and one fifth of them affected the car loan schemes. Credit card transactions and personal loans also tended to raise problems – these accounted for 11 per cent of all financial market complaints, but the situation has improved compared to former years. Surprisingly, few complaints were received in respect of mortgage equity loans, while no complaints were received on deposit products, perhaps due to the very low yield levels. When examining the petition types, the settlement disputes between the consumers and the service providers took the lead (28 per cent), followed by information shortcomings (15 per cent) and administrative errors (14 per cent); in terms of frequency, a new type i.e. the petitions of equity (8 per cent) appeared.

Chart 12
Number of petitions by main type of credit

(pcs)



Source: MNB.

The experiences of the MNB's Customer Service Desk show that the majority of the complaints derived from defaulting on the payment obligations arising from the loans contracts and the related problems. Very often the clients are not familiar with the content of the contract (they do not read it carefully) and they face their obligations (default interest, costs, contract termination) only when the matter is already in the collection or foreclosure phase. Another typical problem relates to the closing of bank accounts. Consumers often fail to close their bank account that they no longer use, which results in the accumulation of huge debts over the years. Typically, this problem is also due to the fact that they fail to read the contract carefully or obtain information on their obligations to the necessary extent.

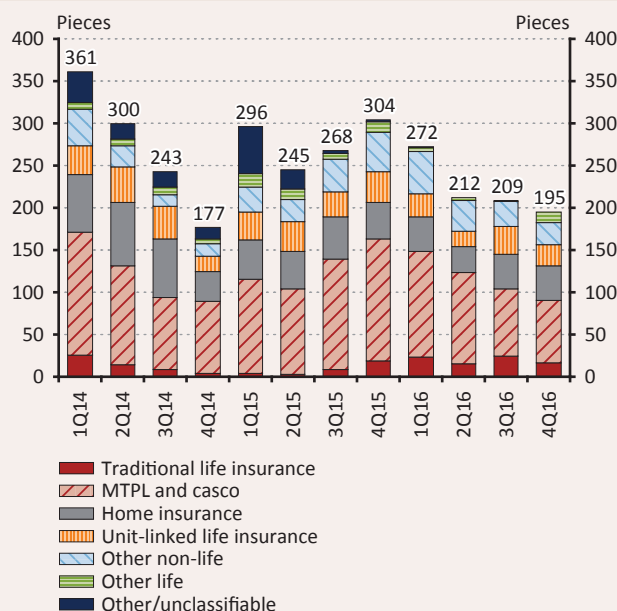
Two thirds of the petitions affected the activity of banks (66 per cent), one quarter related to financial enterprises, 3 per cent were in connection with savings banks and credit institutions each, and 1 per cent related to building societies, intermediaries, agents and other financial institutions each.

Insurance market petitions

Insurance market petitions accounted for one quarter (888) of all petitions in 2016, which represents an increase of 5 per cent compared to the previous year. These include traditional and unit-linked life insurances, compulsory motor third-party liability insurances, “casco”, home, accident, travel, credit and pension insurances. Similarly to previous years, almost half of the petitions (386) related to some kind of motor insurance. Within this, 90 per cent of the problems concerned compulsory motor third-party liability insurance. Quite a few complaints (151) were received in respect of home insurance, and unit-linked life insurance were also affected by a larger number of petitions (151) – but compared to previous years the situation improved in respect of this product. As regards the individual and group pension insurance, and credit insurance, only a few complaints were received during the year. When examining the types of the petitions, almost two thirds of the problems were caused by the rejection of the claim. This was followed by information shortcomings (22 per cent) and the amount of the compensation (16 per cent). Several consumers disputed the method of premium calculation and complained about lengthy claim settlement.

Chart 13
Distribution of petitions related to the insurance sector, by service type

(pcs)



Source: MNB.

The experiences of the MNB’s Customer Service Desk showed that a large part of the petitions affecting compulsory motor third-party liability insurance arose from disputes related to the chosen communication channel (whether the primary channel is the post or e-mail), from the absence and content of the notification letters. Apart from these, disputes related to bonus-malus categories, non-coverage premium and claim settlement. It was often found that the clients did not deal with their contracts, failed to monitor the deadlines and anniversaries, although this would be in their basic interests. In the case of property insurance, one frequent problem was that consumers tend to select the product primarily based on the insurance premium. In the case of cheaper products, it would be particularly important for the clients to obtain detailed information on the contractual conditions, because if they are not aware of the exact coverage provided by the property insurance, they only realise after the occurrence of the claim event that the insurer pays less than they expected or nothing at all.

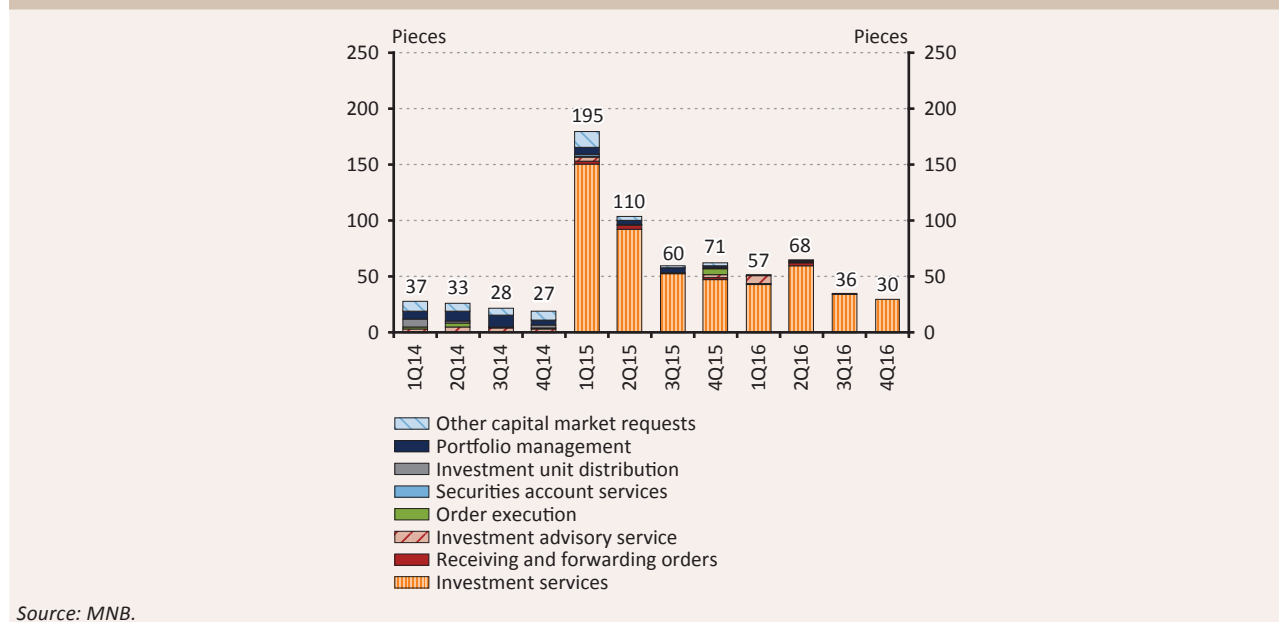
A large ratio of the petitions related to the activity of insurance corporations (87 per cent), branch offices and insurance associations (5 per cent each), brokers (2 per cent) and agents (1 per cent).

Capital market petitions

Capital market petitions accounted for 5 per cent of all petitions (191) in 2016, representing a decrease of 2 per cent year on year. These include investment services, investment advisory services, the acceptance, forwarding and execution of orders, portfolio management and other related services. Compared to previous years, most of the disputes related to investment services (167), but some clients also had problems with advisory services (9) and orders (5). As regards the type of the petitions, more than one quarter of the complaints related to the settlement between the service providers and the clients. This was followed by information shortcomings (20 per cent) and problems related to the Investor Protection Fund (18 per cent). Several consumers disputed the rate of the commissions and costs charged (7 per cent) or complained about record-keeping shortcomings (4 per cent). Notifications implying the unauthorised conduct of an activity or suspected financial fraud were received more often (6 per cent).

Chart 14
Distribution of the most typical petitions related to the capital market sector, by service type

(pcs)



Several notifications related to the performance of unauthorised activity suggest that retail investors fail to check whether the market participant they contact has the necessary licence. The Report has already dealt with the cross-border services – primarily in relation forex trading, but consumers also called the MNB’s attention to a number of Hungarian websites, social and online advertisements, which offer unlicensed investment opportunities, advisory services and investment analysis services. The use of most of the investment vehicles essentially requires greater than average care, and therefore it is extremely important to obtain basic information on the service providers. The “Search for market participant” application³⁵ on the MNB’s website can be used by anyone free of charge and provides an opportunity to check the authorisations of service providers. When in doubt, the MNB’s Customer Service Desk also provides assistance.³⁶

A substantial part of the petitions that affected investment firms (84 per cent), one tenth related to investment services activities of financial institutions (10 per cent), 4 per cent that of fund managers and 2 per cent that of agents and intermediaries.

³⁵ <https://www.mnb.hu/felugyelet/engedelyezes-es-intezmenyfelugyeles/piaci-szereplok-keresese>.

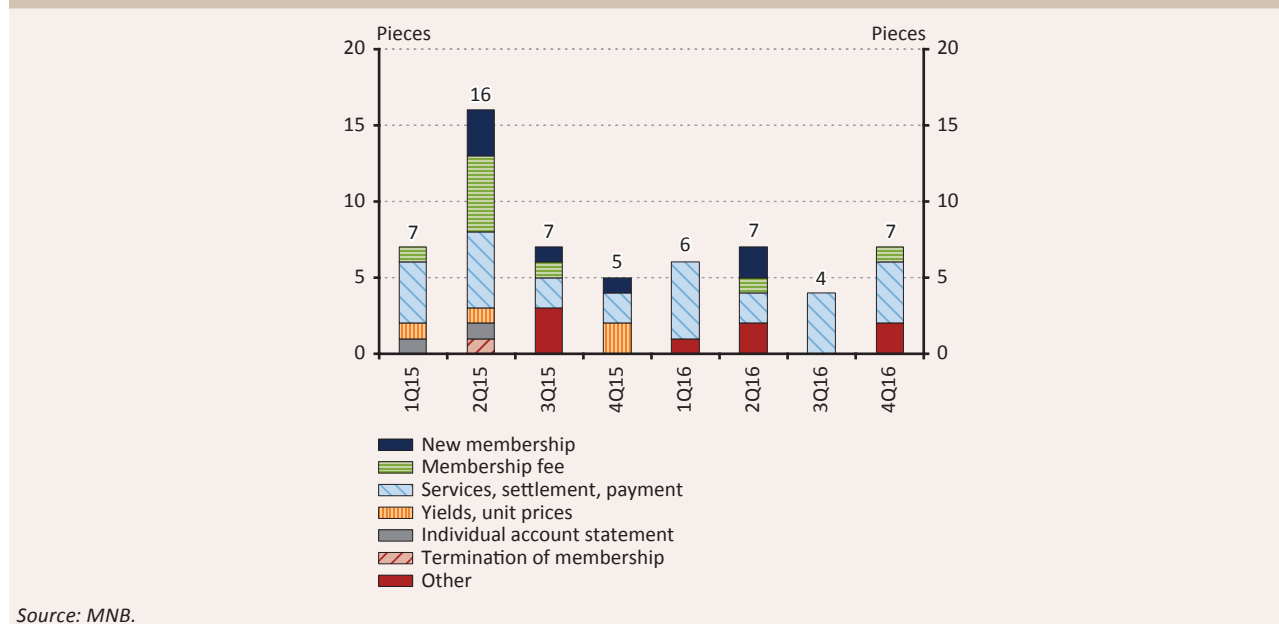
³⁶ Telephone number: +36 80 203 776.

Petitions related to the funds market

The ratio of the petitions related to the funds market remained marginal, accounting for less than 1 per cent (24) of all petitions in 2016. There was no material change compared to previous years. As regards the funds, the extremely low number of petitions and the funds service, as a single product, limit the possibilities of evaluation. The degree of decrease or increase represents only a few complaints year by year. Nevertheless, the problem of service and payment can be identified every quarter, accounting for two thirds of the petitions; problems also arose in respect of the establishment of the membership legal relationship and the accounting for the membership fee (16 per cent). As regards the petition types, several petitions concerned settlements between the fund and the member (50 per cent) and information shortcomings (21 per cent). One complaint was received in each of the areas of the rate of commissions, costs and fees, record-keeping shortcomings, contract validity, service quality and objections related to member's claims.

Chart 15
Distribution of the most typical petitions related to the funds sector, by service type

(pcs)



Source: MNB.

Half of the petitions related to voluntary pension funds (50 per cent), one third of them to the activity of voluntary health funds (32 per cent) and 18 per cent to that of the private pension funds.

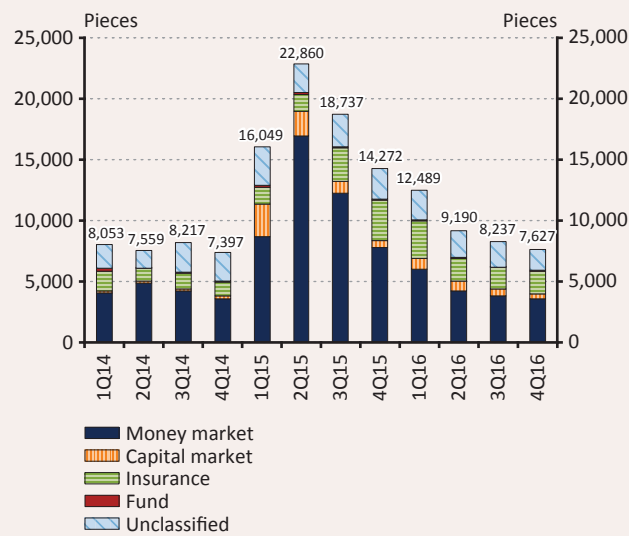
Customer service enquiries

In 2016, the MNB's Customer Service Desk received 37,543 enquiries requesting information. Almost half of these requests (17,647) related to the financial market sector, about one-quarter of them (8,544) involved the insurance market, seven per cent of them (2,702) pertained to the capital market and one per cent (281) were related to funds. Another one fifth (8,369) of them were enquiries of a general nature, not related to any particular sector.

In the period under review, the dominance of the enquiries related to the financial market sector decreased slightly compared to previous years, but it still represents a significant, almost 50 per cent share (17,647). The prevalence of lending issues is still typical, but quite a few enquiries were also received in respect of collection and workout. A good one tenth of the questions related to current account management and payment services. Several consumers requested information in connection with the replacement of banknotes and this is expected to continue in 2017. However, it is a positive experience that the spread of electronic services did not generate an increase in the number of problems.

Chart 16
Customer service enquiries, by sector

(pcs)



Source: MNB.

The share of enquiries related to the insurance sector almost doubled in recent years, but in terms of the number they did not change compared to the previous year (8,544). The enquiries are still dominated by questions related to compulsory motor third-party liability insurance, and in particular to contracts and claim payments. Many clients asked for information related to property insurance, and almost half of these enquiries concerned home insurance. Enquiries related to life insurance accounted for less than one tenth of the questions, and it is a positive development that the ratio of questions related to unit-linked products decreased.

The share of enquiries related to the capital markets decreased slightly in year-on-year terms, while in terms of their number a major decrease was observed (2,702). A large number of enquiries were received in relation to investment services. Within that, relatively many clients asked for information on brokerage firms in liquidation. One tenth of consumers asked for information on securities accounts, and several enquiries were received in respect of government securities and investment funds. Questions about the Securities account enquiry application, which is available through the MNB's website, were asked by about 5 per cent of consumers.

The ratio of the enquiries related to the fund sector has not changed compared to previous years, but there was a substantial fall in terms of their number (281). Almost half of the questions related to voluntary pension fund services, and one fifth of them involved health funds. The most typical enquiries were requests for information related to payments and membership fee accounting, while some consumers asked about the yields, termination of the membership or member recruiting activity.

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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