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Rationale, Past and Future of Financial Consumer Protection

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A B S T R A C T

This short artile, written by the President of the IAFICO, reviews philosophical rationales of financial consumer proection (FCP) and its past and future in general.
After introducing five different perspetives of the FCP, the author makes a comment on the evolution of the FCP to emphasize the importance of strengtheing traditioal way of FCP in spite of new technological development. Although technoloical advancement may reduce the need of FCP to some degree, the new wave of FCP cannot succeed wihout acomplishng the existing FCP system.

Keywords: Consumer protection. Finance, Philosophy, system. Financial consumer

Ⅰ. Review of the 20th century in the financial market

What is the meaning of the 4th industrial Revolution (automation or digitalization in other expressions[1]), which seems to be a growing issue in industrialized countries and to influence financial service industry more than any others? Although human being have developed nature and environment to their benefits and convenience, reducing their labor or effort, a few recent victories of cognitive computing over human beings both in West and in East[2] has brought serious concerns about jobless world beyond convenience. What is going to happen in financial market and what should be done in terms of financial consumer protection? This short article aims to the answer those challenging questions based upon my personal knowledge and option.

With the beginning of the 21st century, protection of financial consumers (FCP heareafter) has attracted unprecented public attention, probably due to its close relationship with financial crisis, globalization, income disparity, life expectancy, and household debt. The first decade of the 21st century observed an American and an European financial crisis, putting many individual borrowers in financial hardship while transmitting the burden rapidly across border owing to continuing globalization process which in turn contribute to growing income disparity within most of countries. Moreover, many industrialized countries undergo increasing longevity risk and increasing level of consumption, resulting in larger household debt, while developing countries strive to expand financial inclusion.

Back in the 20th century, financial restrictions had prevailed in most of decades prior to 1970s when the fixed foreign exchange regime, or the so called the Brettonwood system, was replaced by floating exchange

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1 http://industrie-wegweiser.de/von-industrie-1-0-bis-4-0-industrie-im-wandel-der-zeit/

2 In the year 2011, IBM's supercomputer Watson defeated the best human player in the US TV gameshow Jeopardy, and in the 2016, British artificial intelligence, Alphago won the Go game with the best Korean player. IBM (2015), The Future of Insurance, IBM Software whitepaper.

rate and in turn free interest rate system. Beginning from the 1970s, financial liberalization has been deepened with internationalization in 1980s (regional liberalization), financial convergence, all finance or bancassurance in 1990 s[3] (sectoral liberalization, so to speak). All of these liberalization put financial consumers on more choices of financial products as well as their corresponding danger, whereas driving financial service providers to more competition, leading to low cost strategy or differentiation strategy for survival. That is, financial consumers begin to face more products with more complexity, lower prices, requiring protection system that used not to be necessary since after the 21st century.

A variety of schemes have been carried out in order to protect consumers' interest in financial service sector, by including enhancing financial literacy among consumers, business ethics among industries and salespersons, self-regulatory system in industry associations, and sophistication of official supervision system. Even international organizations have directly or indirectly been involved in the globally important agenda of financial consumer protection - International Monetary Fund, World Bank, United Nations Global compact, OECD INFE (International Network on Financial Education), OECD guidelines for multinational corporation, Asian Development Bank, and so on. Those intergovernmental organizations serve either for financial sectors in their nature or distinctly for promoting responsible business conduct in any kind. The ISO 26000 and Global Reporting Initiatives are also included in the latter initiatives to encourage ethical management or corporate social responsibility (CSR).

Ⅱ. Philosophical Backgrounds of FCP

Why should we protect financial consumers ? We may answer the question from economic standpoint or from moral fundamental philosophy encompassing the economic concept. While the former focuses on efficiency dimension, the latter may go over that to see the other perspectives covering equity or more. As financial consumer is a type of consumers, the reason for the FCP may be the same as the one for consumer protection in general, given though financial consumption is one of the most crucial, complicated, or fatal one that may be only comparable to health service consumption. Relying on the five different ethical theories[4], we may describe the reason d'etre of FCP as follows.

First of all, utilitiarianism tells us that the FCP provides larger net social benefit, which is total social benefit subtracted by total social cost, to all the stakeholders in society or in economy. The FCP enables both consumers and suppliers in financial market to conclude and sustain more transactions, as traffic light may increase traffics for both cars and pedestrians on the road. Without the FCP, as without traffic light, transaction cost for financial transaction could be untolerably so high that both financial and goods market cannot sustain. Any remaining issue in utilitarianism here may be how much or how the FCP should be conducted in order to maximize social welfare.

Second, (human) right theory or deontology says that financial consumer's right should be protected simply because it is right to do so. As a thing to do right, the FCP should prevail in the financial market, regardless of its outcome or utilitarian value, which is the core concept of the right principle. Although the right may be provided in reality by contract or law to consumer by supplier or government, it can be also considered to be born by nature or by human ration, in order to meet universalizability, reversibility, and respect to human being. As human right grows with economic or social development, the FCP also grows with society or economy, as consumption is an inevitable activity of mankind.

Third, justice is another ethical standard to support the FCP, in spite of the variety of the justice concepts. Included are, to name a few, a classical justice concept developed by the Aristotle, a greek philosopher, and modern justice concepts with respect to distribution, redistribution or compensation. Consumers should be equally treated as long as they are equal (non-discrimination principle or distributional justice), while some consumer group in need may be treated more favorably than other to make up for the difference in starting point (redistributional justice) for financial inclusion, for example. Rawlsian fairness can also explain how to exercise principles of equal liberty, difference, or fair equality of opportunity,

[3] for instance, the Financial Modernization Act in the U.S.A. (1999)

[4] Manuel G. Velasquez (2012)

when it comes to distributional justice.

Forth, ethics of care is another moral discipline to explain why the FCP is necessary in economic system. Financial consumers are so weaker or more vulnerable than financial suppliers, due to lack of knowledge, information, power, or size in general, that the former group should be specially cared for. As they are so close to the supplier group or as the latter cannot exist without the former, in addition, the latter should conduct the FCP as promoter of the ethics of care. Naturally, financial consumers do rely on financial suppliers too as the opposite relationship is also true.

Last but not the least, moral virtue can be a reason for the FCP. Unlike the others above, actions or decisions, moral virtue imply human disposition or mental orientation toward a certain value system. FCP are closely related to various human disposition such as honesty, hospitality, generosity, friendliness, respect, and so forth. The disposition should be acquired, cultivated or expanded by self training into habitual behaviour.

Ⅲ. Past and Future of FCP

Financial consumer protection seems to be a relatively young concept, probably just ten to forty years old one. As noted before, Financial liberalization and innovation began in 1980s in most industrialized countries, as a result of the end of the Brettonwoods system in 1971. Freely moving interest rates as well as free exchange rates did trigger price and quality competition among financial intermediaries, leading to development of numerous new financial products in banking, security, and insurance markets as well as risk management (derivative) products. Moreover 1980s observed many default of international loan or bank failures mainly mid- or south America. Globalization, as a form of foreign direct investment, became popular in the world in 1990s, in particular in Asian region where its economic growth exceeded Europe or North America, while the 2000s may be recorded as the decade of financial integration, convergence, or universal banking system (including the U.S. where the Financial Modernization Act was created to replace the traditional Glass-Stegall Act). The liberalization, globalization, integration process in financial service sector gave birth not only to the frequently happening financial crisis but also financial consumer protection, which was empowered also by information revolution.

Liberalization, Globalization, and Information revolution appear to play continuing key roles as the FCP's driving force as they were in the recent past. In addition to the liberalization described above, we may consider the globalization as increasing exposure of consumers to ever-increasing financial crisis, strengthening business ethics of financial intermediaries, highlighting the importance of financial literacy of consumers. Moreover, globalization has contributed to growth of cross border transaction or international remittance while also providing unprecedented valuable opportunities to consumers of international transaction. That is, globalization leads to expansion of arena, depth, importance and remedy of the FCP.

Doubtlessly, information revolution, equivalently information communication revolution, has been gaining more and more influence in daily life of people including financial transaction[5]. Having come into a noticeable existence since late 1990s, the internet is now an indispensable element of studying, working, playing, and resting activities of human being, while transforming from personal computer into mobile phone in device. Artificial Intelligence, Big Data, Cloud Computing, Internet of Things, Block Chain, Drone, 3-D Printers are a laundry list of the so -called information revolution, Digitalizierung (in German), or the 4th Industrial Revolution(in Switzeland).

There are many positive effects of the revolution. Once sufficiently developed in technology, for example, driverless car can reduce road accidents enough to lower automobile insurance premium to hopefully lower level than now, while block chain technology may enormously cut down errors and omission that man used to make, contractual (insurance) fraud. Moreover, accidents at road, factory, office, sea, and air could be reduced[6], coupled with smart underwriting and claim adjustment process, by automation, resulting in lower risk management cost comprising of insurance premium amount but higher profitability of insurers over time.

On the other hands, the information revolution may influence human life and society in a negative way. It may curtail job opportunity of people through replacing

[5] See Wolter et al(2016) for its overall impact on economy.

[6] See CRO forum (2015)

it by robots or machines[7] to widen income disparity in a society, which in turn motivates the insured moral hazard or fraud to make up for the reduced income. On top of that, accurate forecasting of risk or accident can undermine equity by charging unaffordable rate to the high risk and low income group, although enhancing efficiency of insurance system through reflecting in a scientific pricing system. This can be an opposite outcome of the well-known adverse selection problem that high risk group can be fully insured while low risk group can be driven out of the insurance market or only partially insured. This structure of insurance market may not be so socially viable or desirable as to affect social insurance system too.

Another issue related to the information revolution is on individual privacy or right to dispense personal information. A lot of private information is available or accessible nowadays in internet, social media, or email, which reaps and bounds day by day to be collected, traded, and used for business without getting official consent of the information owner. The private information is a such a double-edged sword that, if reasonably combined and transferred, can be an invaluable social asset, but also a source of catastrophe or crime. Banks, credit card companies, insurers handle huge amount of personal information, exposed to the unintentional or malicious disclosure of the information.

Interestingly, speed and size of the information revolution is being perceived differently by countries or societies. Germany seems to be the one of the early adopters to introduce the big technological change in manufacturing industry, under the name of 'industry 4.0', in early 2010s. U.S.A. has been innovating every industry in a slow and steady manner by a newly developing technology, while hesitating to call the change as 'a revolution', but rather 'automation' so far. Switzerland, which the annual Davos Forum hosts, promotes the expression of the 4th Industrial Revolution, after importing from Germany, to transmit to other countries including Korea and Japan. [8]

To adopt a technological change is one thing, and to adapt people or system to the change is another. The U.S. financial system, for example, seems to be the one of the most advanced one in terms of technological development, but with keeping traditional floor way in security transaction until recently, whereas some newly developing countries have introduced highly automated security trading system without relying on human traders. Insurance market shows something similar to that. Although internet sales of insurance is a strategic focal choice for several insurers, they also have a well functioning real-time advisors with sufficient knowledge and expertise that could complement their automated system. That is, competent human advisors work not only with traditional insurers but also with contemporary automated insurers when intensifying their customer relationship management[9].

Despite that automation in financial market may facilitate information transmission without errors, omission, or exaggeration to financial customers, financial consumers do still need simplified financial products, qualified salespersons and their education, an consumer oriented supervision system. That is, automation should not function as a mechanism to bring financial consumers to a worse off position otherwise than before. The technological change may enhance consumers' welfare in some respects, but still leave them in the need of hands-on protection. Therefore, those countries or societies which have not been developed in terms of FCP but can catch up with developed ones with emerging technologies, should not forget what should be done and served for consumers today or tomorrow.

To sum up, on-going globalization and information revolution may reshape the FCP to some degree in style, depth or width, consumers should be still provided with informed advices, quality products, reasonable contracts, impartial infrastructure, transparent counterparties, and reliable grievance mechanism as before. Level of FCP may not be expected to elevate to a satisfactory level for those unsatisfactory societies or countries in traditional standard, while that level for satisfactory societies may be maintained even after adoption of new technology. If that is the case, we will have to keep going for the FCP in the evolutionary or revolutionary era of financial markets, irrespective of its size or speed. Refraining from hustle-bustle instability, experts or the empowered in financial system should ponder what to do for the sake

7 See CEDA (2015) and Accenture (2016), Digital Disruption, Accenture Strategy. Unlike conventional wisdom, employees are not a barrier to digital progress, yet they expect it to improve their work experiences and job prospects and proactively seek out the skills they need.

8 http://m.heise.de, (13 November 2016), Studie: Nicht weniger aber andere Arbeitzplaetze in der Industrie 4.0

9 CRO forum (2015), op.cit, p.14,

of both consumers and providers, comparing social costs and benefits, to help reduce financial divide inter nations or intra nations.

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The Effectiveness of Microinsurance in Bangladesh : Can It Sustain?

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A B S T R A C T

Micro-insurance products designed for the low-income individuals. Micro-insurance differs from traditional insurance in terms of the size of premiums, coverage limits and target customers. The objectives of micro-insurance also vary amongst different stakeholders. For governments and policymakers, for instance, micro-insurance is a way to ensure inclusive growth and support the livelihoods of the vulnerable segment of the society. For a developing country like Bangladesh, micro-insurance seems like a boom that can help Bangladesh address its problems regarding poverty especially in the agriculture and health sectors. Yet, a stellar idea like micro-insurance may not be a proper solution to Bangladesh's problems. In the study, five parameters (Policyholders, Claims, Premiums, Employees, Coverage) involved in micro-insurance have been analyzed to get a generic idea about the effectiveness of micro-insurance in Bangladesh. The study shows the overall acceptance of the parameters on the basis of the policy-holders responses. From the findings it is evident that the claims resolution and employees performance are quite effective in the micro insurance industry; but the rest three parameters are not very effective. Thus, from the whole analysis, we can conclude that the micro-insurance in Bangladesh needs to be improved in certain areas for trust building and making it more effective among the stakeholders.

Keywords: claims, coverage, knowledge, micro-finance, micro-insurance, premium, operation.

Ⅰ. INTRODUCTION

A. Background

Micro-insurance is a concept which bridges the two terms "micro" and "insurance" to provide a solution for this insurance deprived nation. Micro insurance refers to the protection of low income people against specific perils in exchange for regular premium payment proportionate to the likelihood and cost of the risks available. This way, the target segment, the 40% of the population of Bangladesh who are stricken by major poverty, becomes more complete:. The major cause of this poverty is the deprivation of land and non land asset, access to education, remunerative occupation and opportunities of diversified income sources. If productivity is increased, it will alleviate the poverty to a significant level. To aid this fact, many insurance companies have brought out a single comprehensive micro insurance package to cover for both life insurance and property risks. What it ensures is that the possibility that some peril may interrupt the income of the poor household is greatly reduced.

Micro-insurance was casually introduced in Bangladesh in the 1970s in the form of health insurance by an NGO called "Ganashasthya Kendra". But more structured form of the concept of micro insurance stems from the idea of micro credit lending which initiated in 1980s. Micro-insurance can be defined as an affordable subset of a financial service that uses risk pooling to provide compensation to low income and poor individuals, entrepreneurs, house-

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holds or groups that are adversely affected by specific risks. While there may be great variance between different micro-insurance schemes, they generally share a number of key characteristics (Khan, 2013): 1) Targets low income and poor individuals and households, 2) Designed to pool risks faced by the insured, 3) Pricing is based on willingness to pay, and is proportional to the likelihood and cost of the risks involved, 4) Products are developed in collaboration with the communities they are supposed to benefit and 5) Products must be of substantive value to the poor in terms of addressing their vulnerability to poverty.

Micro insurance providers can be broadly divided into two categories: 1) Mainstream insurance companies, 2) NGOs/MFIs. Among the NGO/ MFIs, some are specialized in the provision of healthcare, while others provide a range of financial services as well (Ahsan and Barua, 2010). The sector is dominated by non-government organization microfinance institutions (NGO-MFIs). Other types of organizations which operate in this sector are private insurance companies and a couple of state-owned corporations (Khan, 2013). During early 2000, the Government of Bangladesh permitted Islamic insurance companies to operate; their insurance plans are known as “Takaful”. Almost all major NGO’s have micro insurance schemes which cover various factors such as outstanding loan balance, health, disability and in some cases even provide one time monetary benefit. In many cases, these micro insurance schemes are financed partly by donor funds. The areas in which micro-insurance has a prospect are mainly: dwelling, stables, stores and shops; pump sets, harvesters, threshers; handicrafts and household productions; and personal accident and hospitalization. Some MFI-NGO’s are now offering the service of micro-insurance in the name of “self insurance” (Ali, 2011).

The micro insurance in Bangladesh has come a long way and currently it constitutes on average 30% of the income generated. At present, there are over 60 micro-insurance providers within the country and the growth rate of micro-insurance has been 33% in recent past, which is quite commendable. In the formal side, the most popular scheme is the Depository Pension Scheme (DPS), which gained popularity not because of its competitive premium rates, but because of people’s familiarity with the term DPS as it was introduced earlier by some commercial banks.

One of the barriers for starting an insurance company is in the unavailability of the capital. None of the private life insurance companies have been able to raise a capital of more than Tk. 30 crore whereas the ideal amount should have been greater than twice. A main lacking that has been pointed out is the lack of proper training (Ahmed, 2011). One of the major challenges faced by micro insurance is the lack of proper regulation. While there are clear guidelines for general insurance practices, rules and regulations are not as well put for micro insurance plans. For a healthy growth and consistent growth in the micro insurance segment, a proper set of rules and regulations must be set up and implemented (Ali 2009). The government of Bangladesh is trying to improve the insurance acceptance by embarking on a reform program. As a first step, the government has replaced the Insurance Act 1938 with the Insurance Act 2010.

B. Issue/ Problems

Bangladesh is situated in the delta formed by multiple rivers as they meet the Indian Ocean through the Bay of Bengal. Most of these rivers (Padma, Meghna and Jamuna for instance) are originated from the Himalayas which lie to the north of the country. The lofty Himalayas in the north and the funnel-like shape of the Bay of Bengal in the south have made Bangladesh one of the worst victims of the catastrophic ravages of natural disasters like floods, cyclones, storm surges, droughts, etc. These natural disasters render Bangladesh towards many losses: loss of agricultural production, loss of livestock, loss of livelihood and loss of lives (Sakib, 2012). And another notable fact about Bangladesh is that the country is highly dependent on its agricultural sector. A total area of 14.94 million hectares are cropped within the country, may it be singly, doubly or triply in a year. A staggering 47.5% of the total manpower of Bangladesh earn their livelihoods from this sector and cumulatively account for 19.29% of the country’s GDP as of 2013.

When both of the above facts are combined, the consequence that natural disasters have on the economy of Bangladesh is overwhelming. Damages to the agricultural sector are defined as full or partial destruction of assets in the sector. This includes destruction to agricultural land, permanent plantations, irrigation or drainage systems, storage facilities, machineries, roads, etc. Production losses occur due to the loss of a full crop due to the calamity, or as a result of a decline in units yielded (Global

Facility for Disaster Reduction and Recovery, 2008). When methods are looked upon on how to tackle these production and financial losses which the farmers suffer, one of the solutions that are often mentioned is the use of micro-insurance.

In Bangladesh, there exist a huge number of small and medium enterprises. The definition of SMEs, though poses many controversies, consistently point out that the businesses contain a small number of employees (below 25 as per Bangladesh Bank) and a small spread of fixed assets other than land and building (below Tk. 5,000,000 as per Bangladesh Bank) (Bangladesh Bank, 2010). In many cases, the assets held by these SMEs are insured by insurance firms. In a case study by Aliber (2001), it was stated that low-income entrepreneurs are particularly vulnerable to risks. Lacking adequate financial and other assets, the poor are exposed to the smallest economic shocks. Their vulnerability is exacerbated by the fact that low-income persons tend to live and work in riskier environments than wealthier people, with a greater likelihood of illnesses, accidents and thefts (Aliber, 2001). This pointed out that as the family of most of the entrepreneurs depends highly on income from this business, the insurance policies specifically aimed towards them can also be micro-insurance focused.

In Bangladesh, "insurance" is limited to only a certain proportion of the urban community and almost non-existent within the rural community. This narrow focus of insurance can be attributed to numbers of factors. The first and foremost is the fear of the public of being cheated. People have preconceived ideas about the existing insurance policies and do not welcome the new ideas as much as the company hopes they would. The rules and regulations regarding this sector are very vague and subjective. The companies themselves are afraid of being cheated due to provision of wrong and misleading information regarding claims, opening of fake branches. In addition lack of planning, lack of capital and lack of motivation are three major reasons for which the insurance industry has not had its desirable influence over the country. .

The span of micro-insurance is not only limited to the poor farmers from Bangladesh's agricultural sector. One of the major applications of micro-insurance can be in the public health sector. Bangladesh is a country where 88% of one's health expenditure comes from 'out-of-pocket' expenditure, 10% from non-profit institutions serving households and only a mere 0.8% from pre-payment and risk pooling plans (Werner, 2009). This is enough to show why micro-insurance cannot be popular in Bangladesh. All these lead us to our research question: With so high potential in this sector and with so many companies serving the general population, why is the micro-insurance not a common tool used by the households throughout Bangladesh? Is the micro-insurance sector truly effective?

C. Objectives

The broad objective of the study is to find out the effectiveness of micro-insurance in Bangladesh. Specifically the study will look into:

- the level of knowledge of the existing policyholders on the policies that are being offered by the existing micro-insurance companies
- the coverage of micro-insurance within Bangladesh in terms of the assets that are being insured by the existing micro-insurance policies
- the problems faced by the policyholders in the process of insurance claims and settlements
- the problems faced by the policyholders in the process of payment of premiums
- the problems faced by the policyholders in the process of recovering the premiums following the maturity period
- the level of cooperation of the employees of the micro-insurance companies

II. INSURANCE INDUSTRY OF BANGLADESH

The insurance industry in Bangladesh is relatively small. Currently there are 77 insurance companies in Bangladesh (31 Life and 46 General). Of these 75 are private local, 2 public (1 Life and 1 General) and one foreign life insurance company. While the Insurance Act 2010 has been framed with the view to synchronize functions of the existing insurance companies, the regulatory body (IDRA) aims to overlook the industry and protect customer's interests. The Insurance Act 2010 now recognizes and brings under it other than the normal insurances, Islami insurances and micro insurance businesses. The act is making way for the micro insurance business opportunities in the insurance sector of Bangladesh, which has a great prospect for small and medium enterprises as well as the growing businesses, especially in the rural areas.

A. The Micro Insurance Industry

In 1980, Grameen Bank of Bangladesh started the revolutionary decision of lending money to poor people without collateral security. Inspired by this scheme, a life insurance company – Green Delta of Bangladesh – came forward in 1988 to provide financial security to the poor in the form of micro insurance at a small amount of monthly premium. Following this micro insurance spread among other life insurance companies at a rapid pace. To date, almost every life insurance company in Bangladesh operates at least more than one micro insurance project. In 2010, about two million new policies were sold under micro insurance, compared to a million in ordinary individual life insurance. The total micro insurance premiums in 2010 amounted to approximately half of ordinary and other life premiums.

For the last few years, micro-insurance portfolios of different companies have grown at an average rate of more than 20% per annum (Ali, 2011). This spectacular growth of micro-insurance in such a short period reflects the necessity and acceptability of micro-insurance among the masses in the country. Given that this trend is expected to continue in the years to come, premium income under the micro-insurance portfolio will likely to overtake ordinary life premium (Mamun, 2016).

B. Types of Micro Insurance

A number of different types of micro-insurance is available in the market. Most commonly sold micro-insurance are mentioned below:

1. *General Micro Insurance*: This type of micro insurance aims to provide security towards everything other than life of the underprivileged in the economy. As a normal general insurance applies, the micro general insurance provides the same type of security at a much lower premium. This type of insurance is rare in the micro insurance scenario. Only recently has it been started to be of use by SMEs (Small Medium Enterprises) due to insurance being a condition for micro finance. The insurance is still limited to events of fire.
2. *Micro Life Insurance*: Like normal life insurances, micro life insurances provide security against the policy holder's life. The premiums are lowered to make it available for the lower income group segment of the country. From the survey observations, this type of micro insurance is yet to be popular with the target market.
3. *Microtakaful (Islami Micro Insurance)*: This segment of micro insurance is the type of micro insurance being provided by Islami insurance companies.
4. *Deposit Pension Schemes (DPS)*: This is the most popular micro insurance plan launched by the commercial life insurers. This gained popularity not because of the benefits it provides in relation to its premium rate but mainly because of the familiarity among the common people of a deposit scheme introduced by some of the commercial banks with the same title. The premium rates of DPS is determined usually by dividing the amount of sum assured with the number of premium installments payable during the term of the insurance. At maturity, total amount of premiums paid during the term is payable together with the accrued bonuses. A policyholder, instead of receiving the total amount of premiums at maturity, may exercise the option of pension benefit.

C. Micro Insurance in Public Health

One major prospect of micro insurance is the public health sector. It has been stated that micro-insurance can lower both the ongoing, preventive health cost and also the high catastrophic health cost for families affected by poverty in Bangladesh. The micro-insurance scheme of India has been criticized and it has been stated that that scheme will not apply to Bangladesh. This micro-insurance will reduce the tendency of rural people to turn to minimally-trained village pharmacists or traditional healers. Instead they will seek professional healthcare due to risk pooling. But to achieve all these, the initiatives must exercise adept level of professional management, product development, management information system and re-insurance.

Ⅲ. METHODOLOGY

The study made use of both primary and secondary data and pertinent literature review. Forty existing policyholders of different micro-insurance companies were interviewed. In addition micro-insurance policymakers were also interviewed to understand the behavioral pattern of the policyholders and how it affects the policy. The secondary data includes various journal articles and reports on the micro-insurance sector of Bangladesh. This review helps us to understand the key factors that are posing barriers to the effectiveness of the policies.

A combination of non-probability judgmental and snowball sampling was used for sample selection. On the basis of co-ordination schema (Appendix 1) two sets of questionnaires were designed to carry out the survey:

- *Questionnaire for the existing policyholders of micro-insurance policies:* This is the main questionnaire for the research since most of the variables listed in the co-ordination schema are aimed at the existing policyholders of micro-insurance.
- *Questionnaire for the micro-insurance policymakers:* To cross check some of the complex variables and to check for the coverage of micro-insurance, interviews were carried out to some of the companies providing micro-insurance services.

The questionnaires ware pre-tested and necessary corrections were made. Using SPSS package different statistical tests were administered. The tests that include: Index analysis, frequency analysis, correlation analysis, one sample T-Test, etc.

Ⅳ. FINDINGS AND ANALYSIS

A. Knowledge of Policyholders regarding Micro-Insurance Aspects

As noted, the total number of insurance companies in Bangladesh is 77 of which 31 provide life insurance. Roughly 60 companies (both life insurance and MFIs) provide micro-insurance facilities (Khan, 2013). Majority of the respondents are policyholders of “micro life insurance”. The study noted that the most of the respondents (83%) do not have the appropriate knowledge regarding the number of companies currently in the industry (Table 1). Regarding the respondents’ idea about the other insurance offers of the company he/she is a policyholder showed that only 22.5% of the respondents are knowledgeable regarding other programs of the same insurance company. The study showed that 60% of the respondents have good understanding of the micro-insurance policy that he/she has taken. Regarding reason for choosing the micro-insurance policy shows that 70% of the respondents are aware of the repercussions of the policy. But quite a few (30%) adopted the policy being influenced by the words of another person or party.

B. Claims of Micro-Insurance

In the Insurance industry claims settlement is a major hurdle for the policyholders. The first stage of the claim process in micro insurance is to validate the claim of the policyholder by performing a thorough background check via independent third party. The study noted that 7 (17.5%) of the sample policy holders (40) actually

Table 1. Respondents’ knowledge regarding different aspects of the policy

Knowledge	Aware	Unaware
Knowledge regarding number of companies	17%	83%
Knowledge regarding the chosen micro-insurance policy	24 (60%)	16 (40%)
Knowledge regarding other programs of company	9 (22.5%)	31 (77.5%)
Knowledge regarding the reason for choosing the micro-insurance policy	28 (70%)	12 (30%)

made a claim in the tenure of their policy, while 82.5% policyholders have never applied for an insurance claim. The policyholders of micro-insurance perceive that the background check on claims is quite thorough (Mean Index = 0.78) in a scale of +2 (Highly thorough) to − 2 (Highly careless) as noted from the responses.

Regarding acceptance rate of the claim the study noted about 71.4% (5 out of 7) of the respondents have experienced acceptance of their claim. The reasons for denial of the claims are mainly due to policy immaturity and policy nullification due non-payment of the premiums. The policyholders perceive that the acceptance rate of the claims is moderate (Mean Index = 0.48) in a scale of +2 (Very highly) to − 2 (Very low) as found from the responses.

The time taken for the companies to pay off the premium varies from 1-3 months with an average of 2 months. The policyholders' satisfaction is tested with the time taken for the company to evaluate, respond, and provide the claimed amount. It is observed that the policyholders are satisfied (1.00) with time taken for claim evaluation and response. The study also finds out that the respondents' satisfaction regarding amount they receive after a claim is made is not so strong (0.40).

C. Collection and Recovery of Premium

From the research, it is found out that the micro-insurance policyholders usually pay the premiums through three major ways: 1) *company offices, 2) company agents, 3) bank accounts*. The study noted that (Table 2) most of the payments are made through company office (37.5%) and company agents (40%). There are few (15%) who makes the payment through banks (15%), any of the three (2.5%) or other unique ways (5%). Hence we can conclude that there are a number of methods of premium payment from different geographical locations of Bangladesh.

Table 2. Different medium of premium payment

Medium	Frequency	Percentage
Through office	15	37.5%
Through agents	16	40%
Through bank accounts	6	15%
All of the three mentioned above	1	2.5%
Other methods	2	5%
Total	40	100%

The study made two different considerations from the policyholders' perspective regarding premium payment. These are: 1) the policyholders' occupation, 2) the policyholders' expense patterns. The study noted that the premium collection process do not strongly consider the occupation of the policyholders (0.40) neither their expense patterns (0.35). The finding is strongly supported by the high correlation coefficient between these two variables (r = 0.884) found in the study.

Regarding incidence of fraud in micro-insurance companies 83% of the respondents have shown their concern, whereas 17.5% of the respondents are found direct victims of fraudulent activities. The typical fraudulent activities include: 1) fraud agents (32%), 2) fraud companies (36%) and 3) fraud paperwork (5%). The respondents seemed to have a generic negative perception of the companies when it came to effective handling of the frauds cases. According to the policyholders, the companies do not deal with frauds effectively (Mean Index = - 0.16), though, at a significance level of 5%, it cannot be concluded that the companies do not deal with frauds effectively.

From the managerial interviews it is found out that the time of payment of all the aggregated amount of the premium usually took two months from the completion of the necessary paperwork subsequent to the maturity of the insurance. But the study noted that the actual time of recovery of premium is a little over 4 months (4.11 months).

The policyholders were asked to mention how satisfied they were on the amount of premium recovered following the maturity of the policies. The results showed that the policyholders are somehow satisfied (Mean Index = 0.16) regarding the amount of premium recovered after maturity. At a significance level of 5 percent, the claim that the policyholders are satisfied with the amount of premium that they are recovering after the maturity cannot be accepted.

D. Employee Involvement in Micro-Insurance Operation

1. Employee behavior

Regarding behavior pattern of micro company insurance employees it is found that about 10% of the respondents have experienced instances of misbehavior by employees/agents of the insurance companies. The perception of policyholders regarding the behavior of employees of the insurance firms supports above findings. The study observed that the respondents have a satisfactory perception towards the behavior of employees (Mean Index = 1.08).

2. *Amount charged by agents*

Regarding commission of agents the respondents think that it should not be more than 11.5%, which is a little less than the industry standard of 15%. This implies that according to the respondents the agents are paid more commission than they deserve.

3. *Unrecorded payments*

In the insurance industry, unrecorded payments can be held as the precursor for attempts at fraudulent activities. In this section we test whether the respondents have ever faced instances of unrecorded payment. The study noted that about 18% of the respondents have faced instances of unrecorded payment. This means that there are chances that these respondents are on the stepping stone of an attempt of fraudulent activity.

4. *Knowledge of employees*

This section of the findings understands the findings regarding knowledge of the employees. The study found that the respondents judge the employees to be knowledgeable (Mean Index = 1.16) and effective. The study further noted that a good percentage of the employees (25%) failed to explain the queries of the respondents.

5. *Visits by agents*

In this section we test whether the frequency of visit made by agents is high or low for those policyholders who have to pay the premiums via agents. The study noted that a significantly large proportion of policyholders (87%) believe that agents make regular visits. This also proves that the companies are serious about premium collection and utilize their employees effectively for this purpose.

E. Coverage of Micro-Insurance

The study tried to find out whether micro insurance is able to cover most of the insurance needs of the people of Bangladesh. The Table 3 shows the perception of the respondents regarding the different items needs to be insured and the items they have already insured. From the table we can see that the most common item they have insured is the life insurance. Most people use micro insurance schemes for having the security of life. Fifteen (15) respondents out of 40 have micro life insurances. Security against housing, vehicles, hospitalization, retirement savings plans, and weather take a back seat when it comes to micro insurance. Very little people have made micro insurance against these items. On the other hand items like cultivation, pest attacks and diseases, livestock, primary health care, maternity do not even appear in the picture. Due to the sample frame and lack of awareness amongst the consumer market, micro insurances are not taken against these items.

However out of these items hospital, primary health care, retirement plan and maternity seem to have a potential demand in the market. Micro insurance companies need to educate its consumer market and accommodate such flexible or varied micro insurance schemes. In terms of effectiveness, we may safely claim that micro life insurance is being certainly effective looking at the number of people who have insured their life by a micro insurance plan.

Table 3. Different items need to be insured, are already insured

Items	**Items that need to be insured first (f)**	**Items that are insured (f)**
Hospitalization	5	3
Primary health care	5	-
Maternity	3	-
Life Insurance	4	15
Retirement savings plans	5	1
Against weather	4	1
Against rising cost of cultivation	-	-
Against pest attacks and diseases	1	-
Livestock	-	-
Housing	3	1
Vehicles	7	1
Total	**37**	**22**

However in terms of the other items in the table, micro insurance has a long way to go.

Ⅴ. SUMMARY, FINDINGS AND CONCLUSION

Micro-insurance can't be said to be a stand-alone industry in the insurance sector of Bangladesh. The reason of buying the insurance plan revolves around factors such as family security and future planning. In order to measure the effectiveness of micro insurance 5 parameters divided into 16 complex variables, and 44 simple variables are considered. Each simple variable's effectiveness perceived by the policyholders has been measured in order to measure the effectiveness of the industry. The first parameter that has been tested is "*knowledge of the policyholders regarding micro-finance aspects*" and it seems to be not very effective by 4 different tests. The parameter deals with knowledge on the companies and the policy being used by the policyholder as complex variables.

The second parameter, "*the micro-insurance claims settlement*" is tested with 5 different statistical tests and is found highly effective in the insurance industry of Bangladesh. With complex variables *acceptance of claim*, *amount of claim*, and *time required for claim settlement*, respondents gave us a holistic idea of the claim scenario in the micro insurance industry. The third parameter "*collection and recovery of micro-insurance premium*" is tested with a total of 6 statistical tools and was found to be non-effective in the micro-insurance industry. Starting from the method of collection, timing and frequency of collection, fraudulent activities during collection, and recovery of premium, showed in details as how this segment of the micro insurance industry is lacking behind in terms of effectiveness.

The fourth parameter, "*employee involvement in micro-insurance operation*" was tested with 7 statistical tools and found to be marginally effective. The complex variables taken into consideration while dealing with this parameter include the perception of the policyholders on the behavior of the micro-insurance employees, *amount charged by agents*, any sort of misbehavior, instances of unrecorded payments, etc. The fifth and final parameter, "the coverage of micro-insurance" deals with the variety of insurance schemes available in the micro insurance industry is found highly ineffective. This basically means that there is a gap between the demand of the policyholders of micro-insurance in Bangladesh and the policies provided by the insurance companies in this industry.

Overall it can be said that the micro-insurance sector of Bangladesh is not very effective. Thus, for sustenance and further growth, the micro-insurance in Bangladesh needs to be improved in certain areas for stakeholders' trust building, reliance and conviction.

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Appendix 1: Coordination Schema

Parameters	Complex Variables	Simple Variables	Values
Knowledge of policyholders	Knowledge on companies	Number of companies providing similar programs	Explanatory
		Types of programs available	Yes / No
	Knowledge on particular insured policy	Understanding of the policy undertaken	Yes / No
		Rationale behind choosing the policy	Explanatory
Insurance claim	Acceptance criteria of claim	Acceptance rate of claim	Checklist of ranged percentages
		Extent of background check done on the claim	Likert scale
		Reasons for denial of a claim	Checklist
		Handling of challenges to the denial of a claim	Likert scale
Insurance claim	Amount of claim	Judgment criteria to determine amount	Explanatory
		Satisfaction level on the received amount	Likert scale
	Time of claim	Time taken to evaluate claim and respond	Checklist of ranged time limit
		Time taken to pay the claim if acceptance criteria is met	Checklist of ranged time limit
		Satisfaction level on the time of claim	Likert scale
Insurance premium collection and recovery	Medium of premium collection	Through office	Checklist
		Through agents	
		Through mobile	
		Through bank accounts	
	Timing and frequency of premium collection	Consideration of policyholders' job	Likert scale
		Consideration of policyholders' expenses	Likert scale
	Fraud during premium collection	Instances of fraud	Yes / No
		Types of fraud	Checklist of items
		Effectiveness in handling the fraud	Likert scale
	Recovery of premium	Time of recovery of premium	Checklist of ranged time
		Satisfaction level on the amount of recovered premium	Likert scale
Agents of micro-insurance companies	Behavior of agents	Instances of misbehavior	Yes / No
		Types of misbehavior	Checklist
		Perception on the behavior of agents	Likert scale
	Money charged by the agents	Perceived right amount	Checklist
		Instances of unrecorded money	Yes / No
	Quality of agents	Perception on knowledge of agents	Likert scale
		Instances when an agent failed to answer a question	Yes / No
		Regularity of agents	Yes / No
Coverage of micro-insurance in terms of assets	Health care	Hospitalization	Checklist of items
		Primary health care	
		Maternity	
	Life	Life Insurance	
		Retirement savings plans	
	Crop	Against weather	
		Against rising cost of cultivation	
		Against pest attacks and diseases	
	Property	Against fire	Checklist of items
		Livestock	
		Housing	
		Vehicles (rickshaws for example)	

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Financial Consumers and Applicable Provisions a European and Italian Perspective

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A B S T R A C T

In Europe, general legislation requires protection of the economic interests of consumers. This includes, for instance, the consumer protection from financial services, misleading advertising and unfair contract terms. However, only after the global financial crisis, the European Union (EU) has become aware of the lack of transparency, poor handling of conflicts of interest, over-indebtedness, and low awareness of risks of the consumers in dealing with financial services. This paper aims to investigate the financial knowledge and overconfidence in Europe, and to provide an overview of consumer protection policy in EU. Here, it will be analyzed the EU regulatory framework, whose aim is to ensure the stability of the financial markets and to establish specific and common rules for banks and investments companies among the Member States. Furthermore, it deals with protections of financial consumers in the Italian legislation and within a European context. It concludes providing the Italian financial system as best example of crisis management and resolution, by providing out-of-court settlements, collective redress and crisis management procedures, with the aims to establish a systemic stability and financial consumers' confidence in the bank system.

Keywords: Financial consumer; financial consumer protection; literacy, ADR; out-of-court settlement; access to justice; compulsory mediation; class actions

Ⅰ. Introduction

A. The Importance of a Financial Literacy : A General Overview

Economic and technological developments have brought greater global connectedness and the massive changes in communications and financial transactions, as well as in social interactions and consumer behavior. Such changes have made it more important that individuals be able to interact with financial providers. In particular, consumers often need access to financial services in order to make and receive electronic payments like income, remittances and online transactions, as well as to conduct face-to-face transactions in societies where cash and checks are no longer favored. All of these trends have transferred the responsibility of major financial decisions to individuals, who are expected to be sufficiently financially literate to take the necessary steps to protect themselves and ensure their financial well-being. In point of fact, however, this scenario is very different.

The recent collapse of the financial markets has highlighted consumers lack of financial knowledge that can go unnoticed for long periods of time before exploding on the surface. Accordingly, after the credit crunch, many countries have adopted measures to prevent similar crises in the future. Financial institutions, avoiding the risk of disputes with consumers and loss of reputation, have therefore started to provide detailed financial information

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Table 1. Level of Financial Skills

Rank	Paese 2011	Rank	Paese 2011
1	Denmark 8,31	31	Spain 6,70
2	USA 8,08	32	Argentina 6,67
3	Ireland 8,08	33	Thailand 6,47
4	Australia 8,00	34	Japan 6,38
4	Switzerland 8,00	35	Greece 6,29
6	Sweden 7,91	36	Qatar 6,27
7	Canada 7,86	37	Slovak Republic 6,25
8	Israel 7,83	38	Hungary 6,21
9	Finland 7,79	39	Czech Republic 6,16
10	Hong Kong	40	Poland 6,04
10	India 7,60	41	UAE 6,00
12	Netherlands 7,57	42	Indonesia 5,86
13	Norway 7,52	43	Mexico 5,82
14	Germany 7,50	44	Italy 5,81
15	Iceland 7,40	45	Portugal 5,76
16	Chile 7,33	46	Korea 5,65
17	Turkey 7,31	47	Slovenia 5,52
18	United Kingdom	48	Jordan 5,50
19	Belgium 7,24	49	Ukraine 5,49
20	Austria 7,18	50	China Mainland 5,48
21	Philippines 7,12	51	Peru 5,41
22	Taiwan 7,11	52	Venezuela 5,37
23	Malaysia 7,06	53	Brazil 5,35
24	New Zealand 7,04	54	South Africa 5,01
25	Singapore 6,94	55	Lithuania 4,83
26	Colombia 6,84	56	Croatia 4,49
27	Russia 6,75	57	Estonia 4,42
28	Luxembourg 6,72	58	Romania 4,30
29	Kazakhstan 6,72	59	Bulgaria 3,73
30	France 6,71		

Source: IMD World Competitiveness Yearbook

to financial consumers about the characteristics and costs of services, ensuring the transparency and correctness of contractual conditions as well as their rights and obligations in the financial transactions[1]. Financial education has therefore become a strong need, through which financial consumers make aware choices and decisions on their investments. Nevertheless, international analysis shows a situation worrying in the baseline financial knowledge levels. A growing body of evidence suggests that many consumers still lack the knowledge they need to evaluate and make decisions about financial transactions and informed decisions.

A report of ABI, the association of Italian banks, informed that according to the World Competitiveness index of 2011 prepared by IMD (International Institute for Management Development), (see Table 1 below), the problem of financial illiteracy is a global phenomenon.

The data emerging from the above survey shows the difficulties of many countries in this area. According to the IMD world ranking, Italy, for instance, is at the forty-fourth place for the dissemination of financial and last among the G8 member states. A Doxa[2] survey conducted in the same year also shows that 50% of young people between 18 and 29 years does not know what is a bond, 83% cannot orientate in asset management, while only 50% of the holders of a counter current is able to correctly read the own bank statement. According to a research conducted by the European House - Ambrosetti[3], the average level of financial culture in Italy, according to a scale of 1 to 10, is 3.5 percentage points, against 5.18 in Germany, 4.68 in the UK, 3.87 in France. In the UK a lack of financial education costs Britain £ 3.4bn a year[4]. A research conducted by YouGov's Financial Services team into the financial literacy of the UK reveals that young adults are least likely to understand financial literature, with just 8% of UK 18 to 24 year-olds admitting to having a 'high understanding', compared to at least 20% of older age groups. Generally, half of all UK adults (50%) modestly rate themselves as having some understanding of financial products and services and only 15% say they have a 'very good' understanding. A minority of just 5% admitted to having "no understanding". In addition, that research reveals that online sources are the first port of call for consumers who don't understand a term used in documentation for a financial product, with the majority of respondents (58%) turning to the internet[5].

[1] For the scope of this paper financial transactions mean banking and financial products.

[2] Italian Institute of Statistical Research and Public Opinion Analysis.

[3] The European House-Ambrosetti-Consorzio Patti Chiari: L'educazione finanziaria in Italia: La prima misurazione del livello di cultura finanziaria degli italiani. Roma 25 November 2008.

[4] The Telegraph Journal, finance section, 7 January, 2013.

[5] See https://yougov.co.uk/news/2012/06/07/britains-financial-literacy/.

1. The Role of the International Organizations in the Financial Education

The Organization for Economic Co-operation and Development ("OECD"), is one of the most active international institution in the world who has been promoting the importance of financial literacy in the world, recommending that it should start as early as possible. To get this goal, OECD started an inter-governmental project since 2003 with the objective of providing ways to improve financial education and literacy standards through the development of common financial literacy principle, adopting the "Recommendation on Principles and Good Practices for Financial Education and Awareness" (OECD, 2005b). Alongside these recommendations, the publication "Improving Financial Literacy: Analysis of Issues and Policies" details the reasons for focusing on financial education, and provides a first international overview of financial education work being undertaken in various countries (OECD, 2005a). Recognizing the increasingly global nature of financial literacy and education issues, in 2008 the OECD created the International Network on Financial Education (INFE) to facilitate the sharing of experience and expertise among worldwide public experts and to promote the development of both analytical work and policy recommendations. In this regard, the OECD has tested 15 year-olds on their knowledge of personal finances and ability to apply it to their financial problems. This is the first large-scale international study to assess the financial literacy of young people, the data collection was completed in Fall 2015, and the results will be published in the next Program for International Student Assessment ("PISA") study.

2. European Union and Financial Literacy

The European Commission has provided impetus in the development of financial education in the EU, taking several practical steps towards promoting and involving financial education to improve information and raise awareness of consumer rights and interests. In this regard, on 2007, the European Commission convened an Expert Group on Financial Education with the aim to promote the exchange of ideas, experiences and best practices in the area of financial education.[6] Next, it established a European Database for Financial Education that lists and describes financial education resources that are available within member states.[7] Currently, the European Commission has providing sponsorship/patronage to Member States and private actors in the organization of national or regional conferences and other events, which give visibility and impetus to the promotion of financial education in the EU, and supports the continued development of the Dolceta online resource.[8] This project, started in 2003 and realized in collaboration with European Continuing Education Network and various European universities, has the objectives to educate students, vulnerable adults in the financial arena as well as to reduce the gap to university level and in the protection of academic consumption.

3. National Strategies: The First Goal

According to Article 165 of the Treaty on the Functioning of the European Union, EU Member States are responsible for legislating on education. On this ground, several European countries have gained experience in financial education implementing in primary and secondary schools target programs as well as setting forth strategy plans to reduce the financial illiteracy.

In Czech Republic, for instance, the strategy was approved in May 2010 by the Czech Government. The financial education became compulsory in high schools at the beginning of the 2012. The Government is also working with the OECD looking at how to measure financial literacy (pilot program). On the other hand, in Spain there is a national program that covers all the financial sectors, including pension funds, called "*Plan de Educación Financiera*". This initiative is along similar lines to one conducted by the UK's Financial Services Authority, and it is informed by the principles and guide-

[6] You can get information on the EU Expert Group on http://www.ec.europa.eu/

[7] The EDFE was discontinued and taken offline on 17 June 2011. However, a survey of financial literacy schemes in the EU is available at: http://ec.europa.eu/internal_market/finservices-retail/docs/capability/report_survey_en.pdf

[8] The Commission's on-line consumer education website to help teachers to incorporate financial matters into the school curriculum. With respect to consumer education in schools, the Commission will promote the sharing of best practices through an interactive community site for teachers. This new community site will replace the dolceta.eu site, and offer a platform for exchange of experiences, dialogue and teaching materials on consumer education.

lines of the OECD and European Commission. The Portuguese Parliament has adopted, instead, two acts addressing recommendations to the Government on possible sets of measures aimed at promoting financial literacy. In particular, one of the acts foresees in an express manner the objective that the Government takes into account the content of the *National Plan on Financial Education*, which is a joint initiative of the three sectorial national supervisory authorities. The Plan has considered the years 2011-2015 and it was decided that its governance model should include, apart from the Co-ordinating Commission (composed by representatives of the financial regulators), two Monitoring Committees and a Consultative Committee (these, including public entities, financial sector associations, consumer representatives, universities as well as other entities aiming at the promotion of financial literacy).

Other European countries are preparing national strategies, and several bills are pending in Parliament awaiting their approvals. In Italy, for instance, the Parliament is at present working on the adoption of a specific Bill on Financial Education, also considering some coordination issues.[9] In the meantime, a recent law (n. 107/2015, so called "Buona Scuola"), concerning the reform of the public school in Italy has, *inter alia*, launched financial education program involving all school grades. In line with international best practice, the project is competence based and designed to help students develop the skills and knowledge necessary to make informed financial decisions.

In Poland, the Polish National Strategy on Financial Education is still in the early stage of development and has not been implemented. On the other hand, in Romania the *Comisia de Supraveghere a Sistemului de Pensii Private* is involved in a working group on development of a national strategy of financial education. The purpose of this strategy is to create a framework that all organizations involved in financial education, and policymaking in this area, will find useful and provide guidelines on developing financial education programs for the next five years.

By contrast, there are some EU countries where there is no national strategy on financial education, although a special body has been set up with the aim to determine principles on financial education initiatives themselves (such as in Ireland) or with the particular aim to improve financial literacy (such as in Denmark, Netherland and United Kingdom). In Ireland the National Steering Group on Financial Education was established by the then Financial Regulator (now Central Bank of Ireland) in late 2006, and included a range of stakeholders with an interest in personal finance and education. The purpose of the Steering Group was to encourage the development of personal finance education in the Republic of Ireland. The group conducted extensive work including a review of current practices and resources in financial education in Ireland and abroad and a financial competency framework was developed. This is a resource development tool that would support the creation of personal finance education initiatives and to define what a financially capable person should know and be able to do. While there is no 'national strategy' per se, the Steering Group published a report "Improving Financial Capability – a multi-stakeholder approach" in mid-2009, making commitments and recommendations intended to foster personal finance education in this country. The report sets out a roadmap for where the Steering Group saw financial education going in the future but there are no specific time spans.

In Belgium, on April 1, 2011, a law entered into force introducing the 'Twin Peaks' financial supervisory model. The law provides that the Financial Services and Markets Authority ("FSMA") contributes to the financial literacy and education of financial consumers. The FSMA is currently exploring how it can best implement this new competence and take a coordinating or leading role by developing a network with relevant stakeholders and defining a strategy at national level. In Denmark, instead of launching a national strategy, a board called The Money and Pension Panel was established by the Danish Parliament in June 2007. The aim of the Panel is to further more comprehensive knowledge of and interest in financial matters among consumers. The main tasks of the Panel are from an objective point of view: (i) to provide consumer information about financial products and services; (ii) to carry out and publish financial market studies of e.g. prices, customer services and conditions at diverse financial suppliers; and (iii) to carry out consumer affairs studies thereby achieving a better understanding of consumer views, consumer behavior and consumer affairs with regards to the provision of financial services.

9 Senate Bill n. 1288, XVI Legislature, filed on 17 December 2008, assigned to the 10th Permanent Commission (Trade, Tourism and Industry) on 4 February 2009.

In Luxemburg, financial education is present at two different levels: at the level of continuous vocational training (CVT) and at an academic level. CVT or tailor-made training for the professionals of the financial industry is offered by private companies (such as the "Institut de Formation Bancaire Luxembourg") as well as public institutions such as the Chamber of Commerce or the Chamber of Workers ("Chambre des Salariés"). In the early 1990s, at a time when the Government wanted to emphasize the growing importance of CVT to the economic and social development of Luxembourg, the law of 1st December 1992 created the National Institute for the Development of Continuous Vocational Training (INFPC), which is a state institution under the supervision of the Ministry of Education. The INFPC is responsible for the promotion of CVT and the development of CVT concepts, in association with private partners, such as training companies, and institutional partners, such as social partners. On the other hand, the academic level is developed via education programs and academic research in finance for university students. The Luxembourg School for Finance– created in 2003 as a Department of the Faculty of Law, Economics and Finance at the University of Luxembourg – is offering education programs and conducts academic research in finance at the highest level. It strives to attract students having a previous degree in finance or in a related field, as well as professionals seeking to obtain a greater theoretical foundation in finance to support their career objectives. In Sweden, in 2010, The Swedish Financial Supervisory Authority and several other stakeholders started to build a financial education network, supported by the Swedish Ministry of Finance, for raising self confidence in personal finances.

In UK the Financial Services & Markets Act 2000 provides for the regulation of financial services and markets, and until 2010 included provision for financial education, by providing a public awareness objective of "promoting public understanding of the financial system". After the 2010, the Financial Services Act ("the ACT") made a number of amendments regarding the provision of financial education. The Act, which comes into force on 1 April 2013, required to establish a new consumer financial education body (named the Money Advice Service), with the scope to raise the public's understanding and knowledge of financial matters and improve their ability to manage their financial affairs. In addition, the ACT required creating a new regulatory framework for the supervision and management of the UK's banking and financial services industry, giving to the Bank of England macro-prudential responsibility for oversight of the financial system and day-to-day prudential supervision of financial services firms managing significant balance-sheet risk.

Ⅱ. Good Practices for Consumer Protection

A. The European Framework

The European Council adopted its first special program for consumer protection and information policy in 1975,[10] where it defined five fundamental consumer rights: the right to protection of health and safety, the right to protection of economic interests, the right to claim for damages, the right to an education, and the right to legal representation (or the right otherwise to be heard). This program has served as a basis for an ever growing corpus of directives (that do not apply directly and need to be transposed into the national laws of each EU Member State) and regulations (that are self-executives) in the area of consumer protection. At present, around 90 EU directives cover consumer protection issues, and that is why the consumer acquis remains complex and sometimes inconsistent (in the case of the same directive, since it can be transposed into national law differently, but also because of differences between various directives).

1. The EU Directives in the Financial Sector

One of the pivotal directives in the financial sector is represented by Directive 2004/39/EC on Markets in Financial Instruments Directive ("MiFID")[11]. This

[10] Council Resolution on a preliminary program of the European Economic Community for a consumer protection and information policy, OJ C-092, 25 April 1975.

[11] The Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on Markets in Financial Instruments has recently been recast in the framework of Directive 2014/65/EU (so-called MiFID 2), in an effort to incorporate the significant amendments made to the text. MiFID 2 provides for a new legal framework that better regulates trading activities on financial markets and enhances investor protection. The new rules revise the legislation currently in place and

Directive was adopted by European Union to protect investors/consumers, to promote fair, transparent, efficient and integrated financial markets as well as to safeguard market integrity by establishing harmonized requirements governing the activities of authorized intermediaries. Although the aims of the MiFID are to protect investors, surprisingly it does not contain neither references nor rules to improve the retail investor's procedural position by reversing the burden of proof in their favor. More specific is instead the Directive 2002/65/EC on Distance Marketing of Consumer Financial Services[12]. This latter Directive also refers to consumers[13], but it leaves to the Member States the possibility of extending the scope of this Directive, and thus the qualification of 'consumer', to non-profit organizations and people making use of financial services in order to become entrepreneurs[14]. Moreover, it rules the burden of proof upon the supplier. As a matter of law, Art. 7, paragraph 3, provides that in those cases where the consumer exercises his right of withdrawal from a distance contract, the supplier may not require the consumer to pay any amount for the service actually provided, unless he can prove that the consumer was duly informed about the exact amount payable. In addition, Art. 15 provides that the Member States may also shift the burden of proof to the supplier in respect of other suppliers' obligations to inform the consumer's consent to conclusion of the contract and, where appropriate, its performance. Similarly, Art. 33 of the Directive 2007/64/EC on Payment Service provides that the Member States may stipulate that the burden of proof concerning the compliance with the information requirements laid down in this Directive shall lie with the payment service provider.

Another pivotal provision is represented by the Directive 2004/109/EC[15], concerning the harmonization of transparency requirements in relation to issuer disclosure for those whose securities are listed for trading on a regulated stock market within the EU and further market participants. This Directive guarantees investors a high level of protection and strengthen confidence in the market. Finally, the financial legislative framework is completed by the Directive 2003/71/EC[16] regarding the type of prospectus to be published when securities are offered to the public or admitted to market trading,

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will apply from January 2017.

12 The Directive 2002/65/EC of the European Parliament and of the Council of 23 September 2002 concerning the Distance Marketing of Consumer Financial Services, and whose text contains a direct obligation to inform customers of any risks involved in the financial services being offered, has been amended by the Directive 2005/29/EC of the European Parliament and of the Council of 11 May 2005, concerning unfair business-to-consumer commercial practices in the internal market. In this regard, Article 9 (Unsolicited services) of Directive 2002/65/EC has been replaced by the following Article 9 of the Directive 2005/29/EC: "*Given the prohibition of inertia selling practices laid down in Directive 2005/29/EC of 11 May 2005 of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the internal market and without prejudice to the provisions of Member States' legislation on the tacit renewal of distance contracts, when such rules permit tacit renewal, Member States shall take measures to exempt the consumer from any obligation in the event of unsolicited supplies, the absence of a reply not constituting consent*. Moreover, the Directive 2002/65/EC has been amended by the Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market. In this regard, Article 4 of the Directive 2002/65/EC has been added: "*Where Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market is also applicable, the information provisions under Article 3(1) of this Directive, with the exception of paragraphs (2)(c) to (g), (3)(a), (d) and (e), and (4)(b), shall be replaced with Articles 36, 37, 41 and 42 of that Directive*". Additionally, Article 8 ("Payment by card") of the Directive 2002/65/EC has been deleted.

13 According to the Directive 2002/65, art. 2d) consumer means "any natural person who, in distance contracts covered by this Directive, is acting for purposes which are outside his trade, business or profession".

14 Recital 29 states: "This Directive is without prejudice to extension by Member States, in accordance with Community law, of the protection provided by this Directive to non-profit organizations and persons making use of financial services in order to become entrepreneurs".

15 The aim of the Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 is to establish minimum requirements regarding to the financial information distribution all over the European Union and an increase in transparency at the capital markets and in investor protection to meet information deficits in a developing financial market environment. This Directive has been amended by the Directive 2010/78/EU of the European Parliament and of the Council of 24 November 2010 establishing a European System of Financial Supervisors (ESFS), consisting of a network of national financial supervisors working in tandem with new European Supervisory Authorities (ESAs), created by transforming the existing European supervisory committees into a European Banking Authority (EBA), a European Insurance and Occupational Pensions Authority (EIOPA), and a European Securities and Markets Authority (ESMA), thereby combining the advantages of an overarching European framework for financial supervision with the expertise of local micro-prudential supervisory bodies that are closest to the institutions operating in their jurisdictions. In addition, this Directive has established a European Systemic Risk Board (ESRB), to monitor and assess potential threats to financial stability that arise from macro-economic developments and from developments within the financial system as a whole. The ESRB provides an early warning of system-wide risks that may be building up and, where necessary, issue recommendations for action to deal with these risks.

16 The Directive 2003/71/EC of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or omitted to trading came into effect on 31 December 2003, has been also amended by the Directive 2010/78/EU.

and by the Directive of the 23th of July 2013, where the European Commission has decided to adopt a revision of the Payment Services Directive (PSD), the so called "PSD2"[17]. The scope of the latter Directive is to increase consumer rights when they send transfers and money remittances outside Europe or paying in non-EU currencies (the existing legislation addresses only transfers inside Europe and is limited to currencies of Member States) as well as when they are involved in unauthorized debits. Currently, in fact, the PSD protects rights of consumers in the event of unauthorized debits from an account within certain conditions. In order to enhance consumer protection and promote legal certainty further, the PSD2 will provide an unconditional refund right for consumers. This means that consumers would be allowed to ask for an unconditional refund even in the case of a disputed payment transaction. The only exceptions to this unconditional refund right will relate to cases where the merchant has already fulfilled the contract and the corresponding good or service has already been consumed. Moreover, the consumers will also gain a stronger position in case of disputes with their bank and other payment service providers: the new rules will oblige banks to answer in written form to any complaint within 15 business days. Finally, the PSD2 will oblige Member States to designate competent authorities to handle complaints of payment service users and other interested parties, such as consumer associations, concerning an alleged infringement of payment service providers of the directive. Payment service providers that are covered by this Directive on their side should put in place a complaints procedure for consumers that they can use before seeking out-of-court redress or before launching court proceedings.

On 26 November 2014 the Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs) was published into the Official Journal of the EU, . The Regulation aim is to ensure that retail investors are able to understand the key features and risks of retail investment products as well as and to compare the characteristics of different products levelling the playing field between different manufactures of investment products and those who sell such products. According to this Regulation, that will apply only from 31 December 2016, the investment product manufacturers shall draw up a key information document for each investment product and publish the document on a website before the investment product can be sold to retail investors.

The further Directive 2014/65/EU (so-called MiFID 2), on Markets in Financial Instruments deserve also particular attention. The Directive revision of MiFID constitutes, in fact, an integral part of the reforms aimed at establishing a safer, sounder, more transparent and responsible financial system as well as at improving the organization, transparency and oversight of various market segments, especially in those instruments traded mostly over the counter. MiFID 2 amending MiFID includes: (a) a Regulation (MiFIR) setting out, *inter alia*, requirements in relation to the disclosure of trading transparency data to the public and transaction data to competent authorities, specific supervisory action and the provision of services by third-country firms without a branch; and (b) a directive, amending, *inter alia*, specific requirements regarding the provision of investment services[18].

More specific are instead the two Directives recently adopted by the Council and the Parliament.[19] The first Directive, 2014/92/EU, concerns the 'comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features' (to be transposed by the Member States by 18 September 2016).[20] The second Directive 2014/17/EU regards the 'credit agreements for consumers relating to residential immovable property' (to be transposed by the Member States by 21 March 2016).

All those Directives have the aim of approximate the laws, regulations and administrative provisions of the Member States in the fields concerning the distance marketing of consumer financial services, the minimum re-

[17] See http://ec.europa.eu/finance/payments/framework/index_en.htm (last access: 15 March 2016).

[18] On 10 February 2016, the European Commission has proposed a one-year extension to the entry into application of the revised Markets in Financial Instruments Directive (MiFID II). *See* http://europa.eu/rapid/press-release_IP-16-265_en.htm?locale=en (last access 15 March, 2016).

[19] Older legislation in this area: Directive 2002/65/EC concerning distance marketing of consumer financial services, and Directive 2008/48/EC on credit agreements for consumers, are already in force.

[20] In 2011, the Commission issued a Recommendation on access to a basic payment account, where it presented general principles regarding access to basic payment accounts by European consumers in all European Union countries, stating that access should not be made conditional on the purchase of additional services.

quirements regarding the financial information, as well as to protect investors as consumers in the financial market promoting a fair, transparent, efficient and integrated financial market. Under the above-mentioned Directives, however, only natural persons are qualified to be 'consumers', enjoying thus a higher level of protection. Accordingly, are excluded entrepreneurs, no-profit associations, companies and all persons who are acting for their business, trade or profession, except financial investors who, acting as natural person outside the scope of an economic activity, have to be intended as 'consumers'.[21] This interpretation is also followed by the Court of Justice of European Union (CJEU), which has excluded from the definition of 'consumer' start-up contracts, assignments of consumer claims, and mixed contracts.[22] This has been the case of the Directives on doorstep selling (85/577/EEC), consumer credit (2008/48/EC), unfair contract terms (93/13/EC), time shares 2008/122/EC), distance selling (97/7/EC), and consumer sales and guarantees (1999/44/E).

B. LEGAL REMEDIES IN EU

1. *Alternative Dispute Resolution (ADR) and the ADR Directive*

The ADR Directive ensures that consumers have access to ADR for resolving their contractual disputes with traders.[23] Access to ADR is ensured no matter what product or service they purchased (only disputes regarding health and higher education are excluded), whether the product or service was purchased online or offline and whether the trader is established in the consumer's Member State or in another one. This Directive also established binding quality requirements for dispute resolution bodies offering ADR procedure to consumers. Member States' competent authorities, after their assessment, communicate to the European Commission the list of national dispute resolution bodies. However, these out-of-court mechanisms have been developed differently across the European Union. Some are the fruit of public initiatives both at central level (such as the consumer complaints boards in the Scandinavian countries) and at local level (such as the arbitration courts in Spain), or they may spring from private initiatives (such as the mediators/ombudsmen of the banks or insurance companies). Precisely because of this diversity, the status of the decisions adopted by these bodies differs greatly. Some are mere recommendations (such as in the case of the Scandinavian consumer complaints boards and most of the private ombudsmen), others are binding only on the professional (as in the case of most of the bank ombudsmen); and others are binding on both parties (arbitration).[24]

Recently, the European Commission has developed a web-based platform called The Online Dispute Resolution platform (ODR platform). The ODR platform's objective is to help consumers and traders resolve their contractual disputes about online purchases of goods and services out-of-court at a low cost in a simple and fast way, and establishes a common framework for ADR in the EU member states by setting out common minimum quality principles in order to ensure that all ADR-entities are impartial, independent, transparent and efficient. It allows consumers to submit their disputes online in any of the 23 official languages of the EU, and to transmit the disputes only to the quality dispute resolution bodies communicated by Member States. The ODR platform is accessible to consumers and traders since 15 February 2016.

Another financial dispute resolution network of national out-of-court complaint schemes in the European Economic Area countries (the European Union Member States plus Iceland, Liechtenstein and Norway) is FIN-NET. This

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21 However, the Directive 2002/65/EC makes clear in Recital 13 that Member States should remain competent, in accordance with Union law, to apply the provisions of this Directive to areas not falling within its scope. Member States may therefore maintain or introduce national legislation corresponding to the provisions of this Directive, or certain of its provisions, in relation to contracts that fall outside the scope of this Directive. This goes on to provide a number of examples, which include extending the application of the Directive to persons falling outside the Directive's definition of "consumer", such as small and medium-sized enterprises.

22 ECJ judgment of 14 March 2003, C-361/89 - *Criminal proceedings v Patrice Di Pinto* [1991] ECR I-01189. See also *Cape Snc v Idealservice Srl*, C－541/99 [2002] All ER (EC) 657, [2003] 1 CMLR 42, [2002] ECR 1-9049.

23 Directive 2013/11/EU of the European Parliament and of the Council of 21 May 2013 on alternative dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC (Directive on consumer ADR) OJ L 165/63.

24 The Necessity of Alternative Dispute Resolution systems in Romania Best practices in the Member States. How to build up confidence between consumers and businesses? Report of 14 May, 2009. Available at: www.eccromania.ro/media/pdf/raport_conferinta_adr_en.pdf

network, launched by the European Commission in 2001, is responsible for handling disputes between consumers and financial services providers. Within FIN-NET, the schemes cooperate to provide consumers with easy access to out-of-court complaint procedures in cross-border cases. If a consumer in one country has a dispute with a financial services provider from another country, FIN-NET members will put the consumer in touch with the relevant out-of court complaint scheme and provide the necessary information about it.

Ⅲ. The Italian Framework and its Relationship with the EU Framework

The principal source of rules and regulations for the banking and financial sector is EU legislation. The tools used by the EU - regulations, directives, decisions, recommendations and opinions - vary depending on whether or not they are binding and on how they are applied in the member states as described in Article 288 of the Treaty on the Functioning of the European Union. Regulations have general application, are binding in their entirety and are directly applicable in the member states without the need for transposition. They are therefore the preferred tool for achieving full harmonization and for limiting national discretion, in part to avoid distortions in competition between economic actors caused by differences in legislation across member states. Directives are binding on member states as to the results to be achieved, but leave the choice of forms and methods to the national authorities. Regulatory and implementing technical standards play an increasingly important role in banking and financial regulation. They are developed by European supervisory authorities and adopted by the European Commission via regulations. The standards seek to harmonize the most complex and detailed aspects to create a complete, homogeneous and unified system of rules for the single market.

The main European legislation governing the supervisory duties of the Bank of Italy is Regulation (EU) No. 575/2013 and Directive 2013/36/EU. Regulation (EU) No. 575/2013 (the Capital Requirements Regulation - CRR) introduced prudential supervision rules directly applicable to all European banks and investment firms. The Bank of Italy's regulatory powers over the subject matter are governed by the CRR (capital, minimum capital requirements and public disclosure) and therefore confined to those areas where the Regulation allows it very limited discretion to make the necessary adjustments for integration with Italy's law and specific circumstances. Directive 2013/36/EU (the Capital Requirements Directive IV - CRD IV) establishes the conditions for access to the activity of banks; the freedom of establishment of banks in the EU and freedom for them to provide their services; prudential control; additional capital buffers; and bank corporate governance. The Law No. 154 of the 7th of October 2014, named “Legge di delegazione europea 2013-bis”, was enacted in order to implement the above EU directives, and thus the EU framework, into the Italian financial services sector.

A. Financial Services and Applicable Consumer Protection Provisions

The Italian financial services[25] sector is governed either by general consumer law or special provisions contained in the “Testo Unico Bancario”[26] (Consolidated Law on Banking) and in the “Testo Unico della Finanza”[27] (Consolidated Law on Finance). In addition, related regulations issued by the “Banca d'Italia” (Bank of Italy) and by the Italian Securities and Exchange Commission (Consob) provide further guidance. Finally, the Italian legislative decree No. 206/2005, a consolidated Act called “Consumers’ Code”[28], also plays an important role within the financial services scenario, ensuring a high level of protection to the consumers involved in financial trans-

[25] Italian financial regulation has been traditionally organized along functional lines. Financial services activities are divided among four main industries: banking, investment services, asset management, and insurance. Each industry has its own supervisor, legal framework, and rules. For the scope of this paper the banking sector will be dealt with only.

[26] Legislative Decree No. 385/1993. A Legislative Decree under the Italian legislation is act having force of law adopted by the Government under authorization of the Parliament (Art. 76, Italian Constitution). It is often usually employed in cases of highly technical matters.

[27] Legislative Decree No. 58/1998, as amended by Law no. 208 of 28 December, 2015.

[28] The text was approved by the Italian Council of Ministers of 22 July, 2005 and promulgated on 6 September 2005 (published in Italian Official Gazette on 8 October 2005, entered into force since 23 October 2005).

actions and banking practices

1. The Consolidated Law on Banking

The Consolidated Law on Banking is the main legislative source for the framework of the powers and liabilities of the regulatory authorities in Italy. It contains principles relating the carrying out of business by banks, other financial intermediaries, as well as by other entities operating in the banking sector. Part of the Consolidated Law on Banking provisions are addressed to all bank clients, such as corporates, bodies having a contractual relationship with the bank, professionals, whilst regulations on consumer credit concern only consumers.

In order to increase the consumer protection, the Legislative Decree No. 141/2010, which has implemented the EU Consumer Credit Directive (2008/48/EC) on Credit Agreements for Consumers, has introduced a set of provisions in the Consolidated Law on Banking regulating, *inter alia*, pre-contractual transparency duties, verification of the creditworthiness of consumers and the rights of consumers in case of withdrawal[29].

The new rules on pre-contractual duties impose certain information obligations on lenders or intermediaries in order to make potential consumers aware of the terms of the proposed loan, or credit agreement, and its consistency with their needs. Such information must be provided in a particular format, including the standard European consumer credit information form[30]. Furthermore, those rules declare void all contractual clauses that impose costs on the consumers that are not fully included in the annual percentage rate disclosed in the pre-contractual documentation, providing also a series of consumers rights such as: a) a right of withdrawal (which can be exercised within 14 days of the signing of the credit agreement or the consumer's receipt of all the required pre-contractual information, if such information is provided after the agreement is signed); b) a right of early termination if the supplier connected with the credit agreement breaches its terms (if such a right is exercised, the lender must reimburse the instalments already repaid by the consumer, plus any additional charges); and c) a right of early repayment at any time, with a reduction in the total cost of the credit equal to the interest and charges that would otherwise have fallen due during the remainder of the agreement.

Moreover, with regard to the consumer credit, consumers are also entitled to consult and obtain by the bank, or other regulatory authority, copies of all special information sheets containing details of the bank, the characteristics and inherent risks of the transaction or service concerned, the terms and conditions applying thereto as well as the most significant contract clauses. In addition, they are also entitled to receive paper or other hard copies of this notice and of the information sheets relevant to the transaction or service concerned if the bank uses remote communication techniques. Before signing it and subject to no conditions of any sort, the consumers may obtain a copy of the full contract as well as a summary of the terms, financial and otherwise, applying thereto to allow for a careful assessment of the same and on the understanding that delivery of such a copy does not entail an obligation on the part of the bank (or the customer) to conclude the contract. After the contract has been signed, the consumers are entitled to receive regular updates on the status and performance of their account - at the end of the contract period and once a year at a minimum - in the guise of a formal statement along with a summary of the contract's terms and conditions as well to be informed about any unfavorable changes to the contract's terms and conditions. In the event of any unfavorable changes in rates, prices or other conditions, the consumers are entitled to withdraw from the contract within 60 days of receiving the bank's notice thereof - in writing or by any other authorized means - without incurring any penalties and on the same conditions as were applied beforehand[31]. Finally, they are also entitled to obtain within a maximum period of 90 days a copy of the documentation relevant to any transaction executed with the bank during the previous ten years.

If a bank, instead, is involved in the placement of government bonds and certificates, in addition to ensure the existence of disclosure, transparency and advertising rules, it must allow to the clients full understanding of such secured transaction. Moreover, if an offer is made

[29] See Art. 124*bis* and Art. 125 of the Consolidated Law on Banking.

[30] The form includes key details such as the type of credit, the annual percentage rate, the number and frequency of payments, the total amount owed etc. Receiving the same form from each credit provider will allow consumers to easily compare and choose the best credit offered.

[31] See Art. 118, paragraph 2, of the Consolidated Law on Banking.

in a place other than the bank's central or branch offices, the customer shall be given copies of this notice and of the information sheets relevant to the transaction or service concerned before signing the contract. The customer is, furthermore, entitled to receive all relevant information sheet before subscribing any structured securities. If the customer is a 'consumer', instead, he shall be supplied with the relevant information sheet before finalizing the purchase of any complex financial products; any contract clause providing for the interest rate or any other prices or terms to be modified to the consumer's detriment must be expressly approved as well as any contract clause relating to the capitalization of interest. Credit and debit interest accruing on current accounts shall be calculated at the same intervals, and any contract clauses purporting to set the interest rate or any other prices or terms by reference to custom shall be null and void, as will any clauses stipulating less favorable rates, prices or terms than those advertised in the relevant information sheets. Such clauses shall be replaced automatically by applying the conditions and prices that are foreseen by the law.

2. The Consolidated Law on Finance

The Italian securities regulations are instead provided for by the Consolidated Law on Finance and by the Consob under the Regulation No. 11522/98. The Consolidated Law on Finance provisions have the aim to provide protection for a general category of financial consumers related to authorized intermediaries[32] against unreliable financial investments going beyond ordinary risk standards proper to these types of transactions, respecting the duties of care and fairness, and, more generally, contributing to the efficient functioning of financial markets.

According to Art. 21, paragraph 1, of the Consolidated Law on Finance, as amended by article 14 of Law 262/2005, authorized intermediaries shall conduct an independent, sound and prudent management and make appropriate arrangements for safeguarding the rights of customers[33] in respect of the assets entrusted to them. In doing this, they must act diligently, fairly and transparently in the interests of customers and the integrity of the market classifying, according to the minimum general criteria to be set forth in a specific regulation issued by Consob, the risk inherent in financial products[34] and individually managed investment portfolio. At the same time, they shall do acquire the necessary information from customers and operate in such a way that they are always adequately informed; in addition, they shall use publicity and promotional communications which are correct, clear and not misleading, and have resources and procedures, including internal control mechanisms, suitable for ensuring the efficient provision of services and activities.

Moreover, the authorized intermediaries in conducting financial investments shall: a) adopt all reasonable measures to identify and manage conflict of interest which may arise with the customer or between customers, also by the adoption of appropriate organizational measures, in order to avoid a negative impact on the interests of the customer; b) clearly inform customers, prior to acting on their behalf, of the general nature and/or sources of conflict of interest where measures taken pursuant are not sufficient to ensure, with reasonable certainty, that the risk of damaging the interests of the customer is avoided; c) perform independent, sound and prudent management and take measures to safeguard the rights of customers with regard to their assets.

Finally, in recommending the transaction to investors they shall also do evaluate the profile of each customer. In doing this, they shall check the customer experience (concerning investments in financial products), his financial situations as well as his investments objectives and the possibility to incur risks. In any case, the orders expressly given by the customer in writing or by telephone or electronic means shall be valid and binding for the intermediaries, on condition that, pursuant to Art. 21 of the Consolidated Law on Finance, procedures ensuring the possibility of ascertaining the provenance of the orders and retention of the related documentation. Art. 23, con-

[32] According to Art. 1, lett. r), of the Consolidated Law on Finance "authorized intermediaries" means investment companies (SIM), EU investment companies with branches in Italy, non-EU investment companies, asset management companies, harmonized asset management companies with branch in Italy, SICAVs and financial intermediaries entered in the register referred to in Art. 107 of the Consolidated Law on Banking and Italian banks, EU banks with branches in Italy and non-EU banks, authorized to engage in investment services or activities.

[33] In this context the term 'customers' include either consumers or professionals.

[34] 'Financial products' shall mean financial instruments and any other form of investment of financial nature as provided for in article 1, letter u), of the Consolidated Law on Finance.

cerning the discipline applicable to contracts for the provision of investment services or non-core services, provides for that such contracts under penalty of nullity shall be reduced to writing and a copy given to customers.

3. The Bank of Italy and the CONSOB

The implementation of the Consolidated Law on Finance and Banking is granted by secondary legislation enacted by the Bank of Italy and by the Consob, which have equivalent powers of control and supervision over financial markets.

The Bank of Italy requires intermediaries (banks and financial intermediaries) to comply with principles of transparency and correctness in their relations with customers. In carrying out this task, the Bank of Italy has adopted several regulations governing the requirement for the pre-contractual transparency, the organization and effectiveness of the alternative dispute resolution system provided by the Consolidated Law on Banking, the authorization and supervision procedures over all supervised entities. One of those is the Regulation issued on 29 July 2009 for "Transparency of Banking and Financial Operations and Services" and for the "Correctness in Relations between Intermediaries and Clients" containing the new regulation on transparency in banking and financial services. Under this Regulation, Bank of Italy provides a series of graduated measures in relation to the nature of the services provided and the characteristics of the clientele to which they are targeted. On the basis of the principle of proportionality, duties differ according to the features of services provided and their recipients, who - taking into consideration the varying intensity of the degree of protection - can be identified as follow: a) 'consumer', namely the natural person who is acting for purposes which can be regarded as outside his trade or profession; b) 'retail clients', understood as consumers, non-profit entities and businesses having total revenues lower than Euro 5 million and fewer than 10 employees[35]; c) 'client', that is every natural person or legal person that has a contractual relationship, or that is willing to enter into such, with an intermediary. The status of 'consumer' or 'retail clients' must be verified by intermediaries before the conclusion of the contract, since some provisions apply exclusively to contracts entered into with consumers or 'retail clients'.

On 17th June 2013, the Bank of Italy launched a public consultation concerning some changes to the provisions on transparency of banking and financial services and transactions, as well as on the correctness of the relationships between intermediaries and customers. The proposed changes are aimed at establish a sort of balance between efficiency needs and solidity of the banking and financial systems, on the one hand, and the protection of clients on the other, simplifying the disclosure of the documentation to be provided to clients and clarifying the relevant requirements for banks and financial intermediaries.

The Consob, instead, is the public authority responsible for regulating the Italian securities market. It exercises its supervisory powers to ensure transparency and correct application of the rules of conduct of business by the banks and investment firms in the provision of investment services and activities. According to Art. 74, paragraph 1 and 3, of the Consolidated Law on Finance, the Consob shall supervise regulated markets with the aim of ensuring the transparency of the markets, the orderly conduct of trading and the protection of investors, by adopting, in cases of necessity and as a matter of urgency, all the measures required for the above-mentioned purposes.

In the financial market scenario, the Consob also plays an important role adopting proper measures either setting restrictions on short sale of shares issued by banks and insurance companies with the aim of ensuring the transparency, the orderly conduct of trading and the protection of investors[36], or setting provisions ensuring adequacy evaluation with regard to the investment services and financial instruments suited to the customers, or potential customers[37]. In this regard, the Consob provide the intermediaries, in recommending investment services and financial instruments, shall obtain necessary details from their customers or potential customers in relation: a) to

[35] In fact, the Consolidated Law on Banking contains general rules protecting the "client", and some specific provisions on the "consumer" applicable on the basis of the consumer definition.

[36] See Consob Resolution No. 16622/2008 on "Measures on short sales of securities aimed at ensuring the orderly conduct of trading and the integrity of the market".

[37] See Consob Resolution No. 16190/07. This Resolution and annexed regulation were published in ordinary section no. 222 of Official Gazette no. 255 of 2.11.2007 and in CONSOB, Fortnightly Bulletin 10.2, October 2007. The Consob Resolution No. 16190/07 was later amended by Resolutions no. 16736 of 18 December 2008, no. 17581 of 3 December 2010 and no. 18210 of 9 May 2012, and no. 19094 of 8 January 2015).

awareness and experience of the investment sector relevant to the type of instrument or service; b) the nature, volume and frequency of financial instrument transactions performed by the customer and the period in which such transactions were executed. In addition, they have to obtain necessary information on the level of education, profession or, if relevant, the former profession of the customers; c) the data on the period for which the customer wishes to retain the investment, his preferences in relation to risk, his own risk profile and investment aims, where relevant. Where intermediaries providing investment consultancy or portfolio management services are unable to obtain the information required, they shall abstain from providing said services and to carry on[38]. Further, duties arise upon intermediaries in the case the customers give all information required. As a matter of law[39], even if the intermediaries receive in full all details and information from the customer, they shall, however, assess whether the specific transaction recommended or executed as part of the provision of portfolio management services satisfies the correspondence with the customer's investment objectives. Moreover, the intermediaries shall verify the customer have necessary experience and awareness of the nature of that transaction to understand the risks involved in such a transaction or management of the portfolio. However, where investment consultancy or portfolio management services are provided to professional customers, not qualified as consumers, intermediaries may presume that they are financially able to face any investment risk compatible with their investment objectives, since those have the necessary level of experience and awareness in conducting such transactions.

The complex structure of the Italian banking and finance system represent, however, a veritable legislative labyrinth for the investors who, in conducting a specific transaction with the banking/financial institutions, have to be first wondering whether they are acting as 'consumers' or 'retail investors'. The notion of 'investor' in the financial market must be thus accordingly defined in order to apply the proper law, and to ascertain whether that individual will enjoy of the higher level of protection, under the provisions of the consumer law, or no.

38 See Art. 39 Consob Resolution No. 16190/07.

39 See Art. 40 Consob Resolution No. 16190/07.

4. The Consumer Code

The EU consumer protection legislation has been collected into the Italian legislative decree No. 206/2005, a consolidated act called "Consumers' Code". The Consumers' Code harmonizes and consolidates the laws of purchase and consumption, in accordance with the principles of the EU legislation, so as to ensure a high level of protection to consumer and users in all contractual processes they take part in. Following the Consumer Code, the Italian Government approved a package of measures, designed by the Minister of Economic Development, with benefits to 'citizens-consumers' exploiting the effects of the liberalization processes on the national market[40].

Art. 2 of the Consumer Code lists all the fundamental rights of consumers[41], while Arts. 40-43 grant the consumers special protection in consumer credit contracts and financial services[42], where consumer is meant to be a "natural person who is acting for purposes which can be regarded as outside his trade or profession"[43]. Here, for example, when marketing at a distance involves 'consumers', due account must be taken and the relevant Consumer Code provisions apply. In particular, among those contained in the section regarding the distance marketing of investment services and activities and financial products, it is worth mentioning: a) Art. 67*quater*, which indicates the information on the service provider to be supplied to the consumer prior to the conclusion of the distance contract or offer. Such information concern (i) the identity and the main business of the supplier, the geographical address at which the supplier is established and any other geographical address relevant for the custom-

40 Decree-Law No. 7 dated 31 January 2007, converted in Law No. 40, dated 2 April 2007.

41 Pursuant to Art. 2 of the Consumer Code the fundamental rights of the consumers are: a) health protection; b) product and service safety; c) adequate information and correct advertising; c-*bis*) exercise of commercial practices according to principles of good faith, correctness and loyalty; d) education to consumption; e) correctness, transparency and equity in contractual relations; f) promotion and development of free associations between consumers and users; g) delivery of quality and efficient public services.

42 The Directive 2002/65/CE concerning the Distance Marketing of Consumer Financial Services has been directly inserted as a new section of the Consumer Code (Section IV-*bis* of Chapter I of Title III of Part III: Art. 67*bis* to 67*vicies bis*). The beneficiary (Art. 67*ter* lett.d) of this protective legislation is thus the "consumer".

43 Pursuant to Art. 3, paragraph 1, sub-paragraph a), of the Consumer Code, "consumer" means "any natural person who is acting for purposes which are outside his trade, business or profession".

er's relations with the supplier, (ii) the identity of the representative of the supplier established in the consumer's Member State of residence, if any, and the geographical address relevant for the customer's relations with the representative, (iii) when the consumer's dealings are with any professional other than the supplier, the identity of this professional, the capacity in which he is acting vis-à-vis the consumer, and the geographical address relevant for the customer's relations with this professional, (iv) where the supplier is registered in a trade or similar public register, the trade register in which the supplier is entered and his registration number or an equivalent means of identification in that register, (v) where the supplier's activity is subject to an authorization scheme, the particulars of the relevant supervisory authority; b) Art. 67*sexies* lists the information to be provided in respect of the financial service offered, such as (i) a description of the main characteristics of the financial service, (ii) the total price to be paid by the consumer to the supplier for the financial service, including all related fees, charges and expenses, and all taxes paid via the supplier or, when an exact price cannot be indicated, the basis for the calculation of the price enabling the consumer to verify it, (iii) where relevant notice indicating that the financial service is related to instruments involving special risks related to their specific features or the operations to be executed or whose price depends on fluctuations in the financial markets outside the supplier's control and that historical performances are no indicators for future performances, (iv) notice of the possibility that other taxes and/or costs may exist that are not paid via the supplier or imposed by him, (v) any limitations of the period for which the information provided is valid, (vi) the arrangements for payment and for performance, (vii) any specific additional cost for the consumer of using the means of distance communication, if such additional cost is charged; c) Art. 67*sexies*, concerning the distance contract itself, requesting the provider to supply information on (i) the existence or absence of a right of withdrawal and, where the right of withdrawal exists, its duration and the conditions for exercising it, including information on the amount which the consumer may be required to pay, as well as the consequences of non-exercise of that right, (ii) the minimum duration of the distance contract in the case of financial services to be performed permanently or recurrently, (iii) information on any rights the parties may have to terminate the contract early or unilaterally by virtue of the terms of the distance contract, including any penalties imposed by the contract in such cases, (iv) practical instructions for exercising the right of withdrawal indicating, inter alia, the address to which the notification of a withdrawal should be sent, (v) the Member State or States whose laws are taken by the supplier as a basis for the establishment of relations with the consumer prior to the conclusion of the distance contract, (vi) any contractual clause on law applicable to the distance contract and/or on competent Court, (vii) in which language, or languages, the contractual terms and conditions, and the prior information referred to in such article are supplied, and furthermore in which language, or languages, the supplier, with the agreement of the consumer, undertakes to communicate during the duration of this distance contract; d) Art. 67*octies*, on the redress mechanism (*i.e.* information on whether or not there is an out-of-court complaint and redress procedure for the consumer that is party to the distance contract and, if so, the methods for having access to it, and the existence of guarantee funds or other compensation arrangements).

Ⅳ. Consumer's Financial Definition

A. Acting Outside Trade or Profession

1. The Notion of 'Consumer'

As we have seen, the "client-consumer" that purchases a consumer credit contract is protected by special legislation provided either by the Consumer Code or by the Consolidated Laws. Both legislations, however, make the identification of the 'consumer' quite confusing[44]. As a matter of fact, the Consolidated Law on Banking contains general rules protecting the 'client' and some specific provisions on the 'consumer' applicable on the basis of the consumer's definition. Moreover, Art. 121 of the Consolidated Law on Banking[45] repeats at the first para-

[44] Amato, C., Perfumi, C. *Financial Investors as Consumers and their protection: Recent Italian legislation from a European perspective.* In Op. J. Vol. 3/2010, Paper n. 3. (2010), pp. 6-24.

[45] Art. 121, letter b), of the Consolidated Law on Banking defines consumer: "any natural person who is acting for purposes which are

graph the definition proposed by the Consumer Code in Art. 3, by which consumer is identified as a "*natural person who is acting for purposes which can be regarded as outside his trade or profession*"[46].

At the same time, the fourth paragraph of the Art. 121 enumerates those cases excluded from its range of application. Letter a), for example, refers to "financing instruments that have an aggregate value inferior or superior to limits imposed by the Interministerial Committee for Credit and Savings (CICR)". Consequently, if the person that received the financing is a "natural person who is acting for purposes which can be regarded as outside his trade or profession", but the financial operation has a greater value of the limits imposed by the CICR, the contract may no longer be regulated by consumer rules. It means, although a consumer is a natural person who is acting for purposes that can be regarded as outside one's trade or profession, under certain circumstances that 'natural person' cannot be qualified as consumer, and the proper consumer rules do not apply.

2. Extension to business-persons

Some Courts propounded the view for a time, that a person should be protected as a consumer, if the relevant transaction does not belong to his core business activities[47]. The Italian Supreme Court, however, rejected this variant establishing a narrow definition of consumer, ruling that consumer is that person who is acting also for related purposes to his business activity[48].

The definition of consumer thus appears to distinguish between two different types of information: the first is that a consumer can only be a physical person; the second is that the purpose of the activity concerned must be non-professional, that means the scope of the activity must be the satisfaction of some personal or family need. Having regard to the first condition, Italian experts have increasingly proposed the extension of consumer protection to legal persons, in particular to corporate entities, paying particular attention to those having a not-for-profit purpose, such as associations, committees and consortia carrying out both external and internal activities[49]. This way, it would be possible to provide a more coherent definition of the "weaker" contractual party. However, this interpretation has been rejected both by the Italian Constitutional Court[50] which clarified that an extension of protection to legal persons is not provided for in Italian constitutional law, and by the Italian Supreme Court[51], who have invoked the need for coherence towards European policy.

Nevertheless, recently the United Sections of the Italian Supreme Court[52] has extended the scope of consumer protection provisions under the Consolidated Law on Finance issuing a decision concerning the obligation for banks and financial intermediaries, engaging in "door-to-door" selling of financial instruments. The Court provided a withdrawal right to be exercised by retail clients within seven days of the signing of the relevant contract. This decision is important because it extends such obligation, originally provided by Art. 30, paragraph 6, of the Consolidated Law on Finance only in relation to the placement of financial instruments and portfolio management contracts entered into outside the registered office/place of business, also to other types of financial services and in particular to all investment services performed by financial salesmen through home visit whereas that need for investor's protection, resulting from the "surprise effect" and "traditionally" typical and inherent in the placing of financial instruments investment service, effectively occurs. The regulatory framework is provided by Art. 30, paragraph 6, of the Consolidated Law on Finance according to which: "The enforceability of contracts for placing of financial instruments or the portfolio management concluded outside the registered office shall be suspended for a period of seven days beginning on the date of subscription by the investor. Within that period the investor may notify his withdrawal from the contract

outside his own trade, business and profession".

46 The same definition is contained in the Art. 1469*bis* of the Italian Civil Code: "a consumer is any natural person who, in contracts covered by this provisions, is acting for purposes which are outside his trade, business or profession". This interpretation run in accordance with the purpose of the Directive 93/13/CEE on Unfair Terms in Consumer Contracts that expressly applies only to the persons acting for purposes which are outside trade, business or profession.

47 Tribunale Roma, 20 of October 1999, Giustizia civile 2000, I, 2117.

48 Supreme Court, 25 July 2001, No. 10127, I Contratti 2002, 338.

49 Ebers. M. *The Notion of "Consumer"*. Consumer Law. Compendium, Part III. (2007), p. 13.

50 Corte Costituzionale, 22 November 2002, No. 469, Giustizia civile 2003, 290 *et seq*.

51 Cass. 14 April 2000, n. 4843, in Foro Italiano, (2000), I, 3196; Cass. 25 July 2001, n. 10127, in Giurisprudenza italiana, (2002), 543.

52 The United Sections of the Italian Supreme Court, sentence n. 13905 of 3 June 2013.

at no expense and without any compensation for the approved person or the authorized person. This possibility shall be mentioned in the forms given to the investor. The same rules shall apply to contract proposals effected outside the registered office", and the following paragraph 7, under which "failure to indicate the right of withdrawal in forms shall result in the nullity of the related contracts, which may be enforced only by the customer". Regarding the scope of those provisions, two opposite interpretative orientations, either in doctrine and in case law, were formed over time, necessarily leading to the referral of the matter from the Supreme Court's First Civil Section, by order of April 2012, to the United Sections, in order to reconcile the contrast. In particular, the dispute was related to the concept of "contract for placing of financial instruments". The first orientation - prevailing, also because supported by two recent legitimacy judgments[53] and reassured by the concerned supervisory authority[54] - was upholding the technical and restrictive interpretation of the contract for the investment service of "placing of financial instruments" (service defined by Art. 1, paragraph 5, Consolidated Law on Finance) concept, recalled in article 30, paragraph 6, Consolidated Law on Finance. Consequently, that provision was held to be unenforceable for the other investment services of a typical "executive" nature, as, dealing on own account, execution of orders on behalf of clients and reception and transmission of orders.

Otherwise stated, the prevailing interpretation, adhering to the wording of the provision, was restricting the scope of application to the sales of financial instruments and products carried out by the intermediary on the basis of a mandate of placing of financial instruments conferred by the issuer or the offeror, on the assumption that the reason of the *ius poenitendi*[55] was to be inferred from the door-to-door selling of a contract promoted by the intermediary, with possible "surprise effect" for the client. On the contrary, the second and minority orientation, assuming that the Legislator had wanted to convey a "nontechnical" meaning to the term "placing", was upholding an application of the *ius poenitendi* extended also to investment services different from that of placing of financial instruments and portfolio management explicitly recalled by the concerned provision. In this regard, the minority orientation was giving a broad interpretation to the concept of "placing of financial instruments" provided by Art. 30, paragraph 6, Consolidated Law on Finance, thus supporting the applicability of that provision, in particular, also to the investment services of dealing on own account, execution of orders on behalf of clients and reception and transmission of orders, when promoted door-to-door by the intermediary.

In this scenario, the United Sections of the Supreme Court, diverging from the recalled recent legitimacy judgments and also disregarding the Consob, have joined the minority interpretation, stating the principle according to which the *ius poenitendi* granted to the investor by Art. 30, paragraph 6, Consolidated Law on Finance, and the prescription of nullity of the contracts in which that right has not been provided (as per paragraph 7) should be applied not only when the door-to-door selling of financial instruments by the intermediary has taken place within a placement carried out by the intermediary itself in favor of the issuer or offeror of such financial instruments, but also when the same door-to-door selling has taken place in the execution of a different investment service, where the same investor's need of protection occurs.

The United Sections ruling will be influencing the decisions that have to be taken by national courts in cases relating to the provision of any sort of investment service having been accompanied by promotional activities by the intermediary (in particular, it has to be emphasized, would fall within this category also the combination of investment advice service with a typically "executive" investment service). Moreover, the principle expressed in the judgment in question would apply not only to the retail clients but also in respect of certain corporate investors and local entities.

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[53] See Supreme Court of Cassation, February 14, 2012, no. 2065, and March 22, 2012, no. 4564.

[54] See Consob Communication no. DIN/12030993 of April 19, 2012.

[55] *Jus Poenitendi* is the right of rescission or cancellation. The Consumer is the sole party entitled to cancel any order under a Contract in accordance with the Consumer Code, Art. 64 *et seq.* and obtain repayment of the sums paid at the moment of purchase. A Professional is not entitled to any such cancellation right.

Ⅴ. Remedies

A. Alternative Dispute Resolution(ADR) and Access to Justice in the Italian Financial Sector

The European legislation on consumer credit and distance contracts for financial services as well as the compelling need of protection of investors against unfair terms in consumer contracts and against unlawful conducts perpetrated by financial intermediaries, have recently led the Italian Government to introduce either alternative, fast and cheap methods of dispute resolution as out-of-court dispute resolution processes or new remedies to access to justice[56].

The Consolidated Law on Finance and the Consob lack, in fact, to state clearly what remedies are available to the investors in case the investment firm should breach any of its duties[57]. This omission explains why Italian Lower Courts have recognized different remedies in case of individual lawsuits: (a) reliance damages deriving from pre-contractual liability[58]; (b) expectation damages deriving from breach of the financial contract[59]; (c) invalidity of the financial contract absent the required written form or due to the violation of mandatory rules[60].

In order to avoid this fragmentation, and also in compliance with the guidelines issued by the European legislation, the Italian Government updated the legislation for protecting savings and regulating financial markets enacting the Law no. 262/2005. Accordingly, it introduced two difference remedies available to investors: i) the guarantee indemnification fund within the settlement procedure and the Conciliation and Arbitration Chamber, and the ii) no-fault indemnification fund[61].

B. Out-of-Court Remedies

1. The Guarantee Indemnification Fund within the Settlement Procedure and the Conciliation and Arbitration Chamber

The Conciliation and Arbitration Chamber housed on Consob premises was founded on the provisions of the Italian Investment Protection Law (no. 262/2005), enacted by Legislative Decree 179/2007, and later governed in organizational and procedures terms first by Consob Regulation No. 16763 of 29th December 2008 (expired on 1st August 2012) and then by Consob Regulation No. 18275 of 18th July 2012[62]. With Resolution No. 18310 of 5 September 2012, the Commission approved new rules for the organization and operation of the Conciliation and Arbitration Chamber at the Consob. The Chamber[63] is the organization responsible for the administration of conciliation and arbitration proceedings involving disputes arising between investors[64] and financial inter-

56 Most of the Italian contemporary legislation on ADR – except for labor mediation and judicial conciliation in civil litigation - has its origin in Institutions of the European Community. One of the main document in this path may be identified in the "Commission Green Paper on access of consumers to justice and the settlement of consumer disputes in the single market" of 16 November, 1993. This document conceived with the official purpose "to enable all the Community's consumers to gain access to justice and to deal with cross-border disputes" focused on both in-court and out-of-court dispute resolution procedures.

57 Amato, C. *Financial Investors as Consumers in a European Perspective* (2012), p. 8.

58 See Tribunale Udine, decision No. 376 of 5 March 2010.

59 See Corte di Appello di Torino, decision No. 615 of 10 April 2012.

60 See Tribunale Ravenna, decision 29 May 2010, available at: http://www.unijuris.it/sites/default/files/sentenze/Tribunale%20di%20Ravenna%2029%20maggio%202010.pdf

61 On 4th September 2012, the Bank of Italy published a consultation paper containing new rules on prudential supervision and risk containment for banks, which include, *inter alia*: (i) the establishment of an internal alert procedure; (ii) clearer provisions on the role of the chief risk officer; and (iii) the assignment to the banks' board of tasks originally belonging to the surveillance committee established pursuant to Legislative Decree 8th June 2001, No. 231. As result of the public consultation, some additional chapters (namely, nos. 7 ("Internal controls system"), 8 ("Informative system") and 9 ("Business continuity")) have been introduced in the Bank of Italy Circular 27th December 2006, No. 263 ("New Regulations for the Prudential Supervision of Banks on Highly Significant Transactions"), laying down new prudential supervisory instructions for Banks (See Bank of Italy on 2 July 2013 with the 15th amendment of Circular No. 263 of 27th December 2006).

62 The Resolution and annexed regulation were published in the Official Gazette No. 176 of 30 July 2012 and in CONSOB's fortnightly bulletin No. 7, 2nd July 2012.

63 Pursuant to the opinion of the Council of State of 20 October 2011, the Chamber without subjectivity, is "classified [...] as a technical body, instrumental to Consob but not separate to it" and whose functions, provided autonomously, in any case belong to Consob, which is the final arbiter of the related effects. The regulatory changes introduced in the more general system of civil mediation aimed at conciliation pursuant to Italian Legislative Decree No. 28 of 4 March 2010, the related enactment decrees of the Ministry of Justice, and the experience accrued in the overall Chamber activities derive from Consob.

64 Under Art. 1, lett. b), of the Consob Resolution No. 16763, of 29 December 2008 (as amended by Consob with Resolution no. 18275 of 18 July 2012), "investors" shall mean investors other than the

mediaries[65] regarding compliance with disclosure obligations, correctness and transparency as envisaged in the contractual relations with customers and concerning investment or asset management services. It is composed of a President and two members, appointed by the Consob, chosen from amongst Consob employees who find themselves in a senior management position.

i. Out-of-Court Settlement

A petition to initiate the conciliation procedure may be presented exclusively by the investor when, in relation to the dispute no other conciliation procedures have been initiated, including by the initiative of the intermediary the investor used. In addition, a complaint has to be presented to the intermediary to which a specific response was provided, and a period of ninety days or any shorter period set by the intermediary for handling of the complaint has elapsed without the investor having received a response. Once the petition has been submitted, the Chamber appoints without delay a conciliator from among those listed. The conciliator shall conduct the meetings without procedural formalities and without the obligation to take minutes, in the manner in which he considers most appropriate given the circumstances of the case, the willingness of the parties and the necessity of reaching a solution to the dispute quickly. He also may hear the parties separately or conduct a cross-examination in order to better clarify the dispute and identify the points on which there is agreement, and may order the intervention of third parties, provided the parties agree to this and to covering the relative expenses[66].

If conciliation proves successful, the content of the agreement shall be drafted in the form of a special report signed by the conciliator and the parties involved. Should the parties fail to immediately implement the conciliatory measures, subject to confirmation of its formal consistency, the report shall be approved by decree of the President of the Court with jurisdiction over the district in which conciliation proceedings were held, and shall constitute a writ of execution for enforced expropriation, enforcement of specific performance and for registration as mortgage by order of the court. By contrast, where no agreement is reached and in the event of non-conciliation, at the joint request of all parties the conciliator shall formulate a proposal to which each party shall indicate its final position (*i.e.* the terms under which the party is willing to conciliate). The conciliator shall note these final positions in a special "conciliation failed" report.

ii. Arbitration

In case of breach of disclosure, required by Art. 21 of the Consolidated Law on Financial, investors may also ask for an arbitration redress procedure held by the Consob. In this regard, the parties may submit a joint written application to start an arbitration proceeding, which will be administrated by the Chamber under the provisions of the Consolidate Law on Finance and Consob enactment provisions. Disputes shall be settled by a single arbitrator, selected from among entries on the list held by the Chamber, unless the parties decide to refer the dispute to a panel of three arbitrators, with proceedings as indicated in Art. 810, subsection 1 of the Italian Code of Civil Procedure[67]. During their first meeting, the arbitrators shall ask the parties to deposit a sum as payment on account of arbitrator fees and defense costs to be incurred

counterparties defined under Art. 6, paragraph 2*quater* d) and the professional clients under paragraphs 2*quinquies* and 2*sexies* of Consolidated Law on Finance as amended.

65 Under Art. 1, lett. c), of the Consob Resolution No. 16763, of 29 December 2008 (as amended by Consob with Resolution no. 18275 of 18 July 2012), "Intermediaries" shall mean the persons entitled pursuant to Art. 1, paragraph 1, let. r), of Consolidate Law on Finance, as amended, and the company Poste Italiane - Divisione Servizi di Banco Posta – authorized pursuant to Art. 2 of Italian Presidential Decree No. 144 of 14 March 2001.

66 See Art. 12 of the Consob Resolution No. 16763 of 29 December 2008, as amended.

67 Pursuant to Art. 810 (Appointment of the Arbitrators) of the Italian Code of Civil Procedure: "Where, in accordance with the provisions of the submission to arbitration or of the arbitration clause, the arbitrators are to be appointed by the parties, each party, by means of a bailiff's notification may inform the other party of its appointment of an arbitrator or arbitrators and request said other party to name its own arbitrators. The party so requested shall, within twenty days, serve notice of the personal data regarding the arbitrator or arbitrators appointed by it. Failing this, the party which has made the request may petition the President of the Court in whose district the arbitration has its seat, to make the appointment. If the parties have not yet determined the seat of arbitration, the petition is presented to the President of the Court in the place where the submission to arbitration or the contract to which the arbitration clause refers has been executed or, if such place is abroad, to the President of the Court of Rome. The President, having heard the other party where necessary, shall issue his order against which there shall be no recourse. The same provision is applied where the submission to arbitration or the arbitration clause has entrusted the appointment of one or more arbitrators to the judicial authority or where, if entrusted to a third party, that third party has failed to act".

by the parties in order to obtain the award, deciding also the criteria for distribution of costs between the parties. The payment on account shall be determined by the Chamber on recommendation from the arbitrators.

The arbitrators shall pronounce the award within one hundred and twenty days of acceptance of the appointment. However, this deadline may be extended prior to its expiry for a period not exceeding one hundred and twenty days by the Chamber, following justified application from one of the parties or arbitrators, after consulting the other parties involved, or the by joint written declarations of the parties. The investor, however, can also opt for a fast-track arbitration procedure, which will be based solely on evidence submitted in advance by the parties with the application for arbitration and it more fast than the "full" arbitration. The option of recourse to fast-track arbitration must be expressly indicated in the arbitration agreement, and the application cannot be accepted if as part of the same dispute no complaint was issued to the intermediary to which specific response was provided, or if ninety days have lapsed, or shorter term as established by the intermediary for handling of the complaint, in which time the investor has received no response.

The fast-track arbitration shall be settled before a single arbitrator appointed by a joint application by the parties among entries on the list held by the Chamber, and has the aim to compensate the equity damages suffered by the investor as a result of intermediary default in terms of disclosure, correctness and transparency obligations envisaged in contractual relations with investors. The equity compensation will be determinate on the base of the documentary evidence provided, and consists of a lump sum appropriate to compensate the equity damages suffered as an immediate and direct consequence of default by the intermediary. This is an alternative redress. Should the claimant be unsatisfied with the arbitration decision, he, however, may file claim before the ordinary courts that will award all damages suffered by investors in addition to the equity damages eventually recognized.

2. No-Fault Indemnification Fund

The second remedy has been introduced by the Law No. 23/2006, then implemented by the Law No. 179/2007, which has established new procedures for the conciliation and arbitration system of compensation and guarantee fund for investors. This provision consists of a no-fault indemnification fund based on the unlawful brokerage activities. To have access to this "fund" investors have to demonstrate their economic loss and provide evidence of the breach of broker's duties as stated in Part II of the Consolidated Law on Finance.

This means that the broker's activities are already judged as unlawful by an ordinary court or arbitrator, and the final judgment of the court or the arbitration award is not more subjected to appeal. The Fund, managed by the Consob, is exclusively created by collecting half of the total amount deriving from criminal fines eventually paid by financial brokers.

3. Mediation in consumer and financial litigation

The mediation proceeding provided for by the Legislative Decree No. 28/2010 (Mediation Law)[68] which implemented the Mediation Directive (2008/52/EC)[69], and it is administered by a qualified mediation body, registered on a list kept by the Italian Ministry of Justice. Both the mediation bodies and the mediators themselves must, furthermore, meet some requirements in order to be qualified. As for the mediators, they must hold a university degree (not necessarily in law), or at least be enrolled in a professional association; moreover, they must have a certificate of good standing issued by their professional association and have attended a specific training on mediation theory and techniques[70]. The Mediation Law provides

[68] The Legislative Decree No. 28/2010 has been amended by the Law 9th August 2013, No. 98, converting the Law-Decree 21st June 2013, No. 69 (the so-called "Decreto del Fare). The main changes concern, *inter alia*,: (i) the introduction (based on decision no. 13905 of the Joint Chambers of the Supreme Court of Cassation of 3rd June 2013) in Section 30, paragraph 6, of the Consolidated Law on Finance – which provides a withdrawal right for investors (the so-called "*jus poenitendi*") in case of door-to-door selling - of a new period according to which the mentioned regime is applicable, as from 1st September 2013, not only to the services of placement of financial instruments and portfolio management, but also to the dealing for own account (pursuant to Section 1, paragraph 5, lett. a), of the Consolidated Law on Finance); (ii) the reintroduction, as from 20th September 2013, of the mandatory mediation in civil and commercial disputes (including those related to banking, financial and insurance contracts). As a result, the parties to a dispute must resort (assisted by a lawyer) to a mediator in an attempt to reach an out-of-court settlement.

[69] The European Council has in late April 2013 adopted two key legislative measures regarding dispute resolution. This includes a Directive on alternative dispute resolution and a Regulation on online dispute resolution. The aim is to offer consumers fast and cost-effective means to resolve disputes with businesses.

[70] See Art. 4 Ministerial Decree No. 180/2010 (as amended by the

three forms of mediation: a) voluntary mediation, spontaneously decide to avail themselves of mediation services; b) delegated mediation (whenever deemed necessary, the judge may refer the parties to mediation); and c) mandatory mediation. In this latter case, a large range of disputes[71] cannot be brought before civil courts unless the plaintiff had first attempts the mediation procedure.

The Italian Constitutional Court was called several times to judge on compliance of mandatory mediation attempts with Arts. 24, 25 and 111 of the Italian Constitution, according to which anybody has the right to access State justice. In at least three consistent judgment s[72] the Court, considering that after mandatory mediation attempt parties are allowed to refer their dispute to the State judge, affirmed such compliance. Despite this, also a cause of many criticisms and protests, the law was challenged on various grounds before the Italian Constitutional Court[73].

Nearly six months after its entry into force, the Italian Constitutional Court made invalid Art. 5 of the Mediation Law, finding it in breach of Art. 76 of the Italian Constitution. Relying on technical grounds, the Court found that by enacting the law, the government had exceeded the scope of both the Mediation Directive and Law No. 69/2009, which empowered the government to adopt a legislative decree introducing administered mediation procedures. The overall rationale embodied in the preamble to the directive was identified as follows: "Mediation can provide a cost-effective and quick extra-judicial resolution of disputes in civil and commercial matters through processes tailored to the needs of the parties. Agreements resulting from mediation are more likely to be complied with voluntarily and are more likely to preserve an amicable and sustainable relationship between the parties. These benefits become even more pronounced in situations displaying cross-border elements." The Mediation Directive, thus, defines 'mediation' as "extrajudicial resolution of disputes", whereas the Italian government had conceived in mediation as a compulsory preliminary step of judicial litigation. Further confirmation of this misunderstanding is to be found in Art. 60 of Law No. 69/2009, which officially recognized mediation in civil and commercial disputes and delegated power to the Italian government to issue a Legislative Decree on mediation to implement the provisions of Mediation Directive. For this reason, the Italian Constitutional Court ruled that compulsory mediation was implemented in Italy in order to reduce the congestion of tribunals, rather than to create an alternative (*i.e.* more rapid and less expensive) form of dispute resolution and that mediation was pushed beyond its natural scope in an attempt to achieve economies in the administration of justice. At the same time, the Constitutional Court decision represents a setback for the promotion of alternative dispute resolution, which in a litigation-friendly country such as Italy would actually benefit individuals and businesses.

Nevertheless, on 15 June 2013, the Italian government issued a Law Decree[74] (so called "Decreto del Fare"), then converted in Law No. 98, on 9 August 2013, providing urgent measures that also involve important changes to Italian litigation system. It resurrected the mediation provision by announcing a new mandatory mediation for a wide range of classes of disputes, including banking and financial agreements.

4. Conciliation in consumer and financial litigation

The Consob conciliation procedure is modelled upon state-sponsored out-of-court commercial mediation (Legislative Decree No. 3/2005). Benefits of the procedure include the judicial enforceability of the settlement agreement and exemption from stamp duty. Confidentiality is strictly protected, and the mediator can meet the parties separately. If the parties agree in advance, the mediator can make a final settlement proposal on which both the investor and the financial intermediary have to take a stance, also stating under what conditions they could sign an agreement. This last proposal, together with the

Ministerial Decree No. 145/2011) which entrusts the examination of applicants' professionalism and efficiency to the person in charge.

71 Those matters include: i) banking and financial agreements; ii) rights *in rem*; iii) division of assets; iv) inheritance; v) family estates; vi) eases of real property or going concerns; vii) gratuitous loans for use; viii) medical liability; ix) defamation in the press and other media; x) insurance.

72 See Italian Constitutional Court, decisions No. 82/1992, No. 376/2000 and No. 403/2007.

73 The case was heard before the Italian Constitutional Court on 23rd October 2012, and on 6th December 2012 the decision was issued.

74 A decree-law is issued in special and urgent cases by the Government. It must be presented on the same day to Parliament for conversion into law, if it is not converted within sixty days of its publication it loses validity retroactively, but the Parliament may regulate by means of law any relation that have arisen by virtue of unconverted decree.

parties' positions, is recorded in the minutes, and could be taken subsequently into account by a judge in order to rule on the costs of judgment.

5. Banking and Financial Arbitrator

In the banking sector, a different - albeit similar in several respects - procedure has been introduced by article 128*bis* of the Consolidated Law on Banking, introduced in 2005 following the financial scandals of Cirio, Parmalat and the Argentinean Bonds, and then amended by the Legislative Decree No. 28 of 4 March 2010, and subsequently by the Law 9th August 2013, No. 98.

Article 128*bis* provides for a special alternative dispute resolution procedure (the Arbitro Bancario Finanziario, or ABF) applicable to all disputes arising between banks (and financial intermediaries) and clients in the context of banking and financial services/products (with the exclusion of investment services). The procedure applies to all bank-client litigation whether or not the client qualifies as a 'consumer'; only clients that are financial intermediaries themselves are excluded. The procedure applies to all disputes relating to rights and obligations regardless of the monetary value of the underlying contractual relationship. However, if the litigated matter includes a request for money, the procedure only applies if the requested sum does not exceed Euro 100,000.

Access to the procedure is voluntary for clients but mandatory for intermediaries. The procedure is managed by an Arbitration Tribunal which comprises five arbitrators appointed as follows: one each by intermediaries and consumers' associations respectively, and three (including the President) by the Bank of Italy. The procedure can only be initiated by clients, and the action starts with a complaint and then follows a typical litigation path. The possible outcomes of the procedure, however, are peculiar in several respects. The litigated matter is limited to the claims brought about by the client; the intermediary can defend itself but, it seems, cannot advance counterclaims. If the tribunal upholds the client's complaint, it orders the intermediary to comply with its decision within a fixed date.

The ABF's decisions, however, are not binding as those of a court judge, and therefore if the broker fails to comply with the above-mentioned decisions, this bad behavior is made public both either through the ABF's website or through two national newspapers, at the intermediary's own expense. The law does not expressly provide for any appeal against the ABF's decisions. It does provide, however, that the decision does not prevent either party from returning to court or any other applicable dispute resolution system. This, together with the general, constitutionally granted right to justice, seems to imply that the intermediaries may request the redress of damages caused by the publication of their non-compliance to a decision if they can make a successful case that it was wrong on the merits.

6. The Banking and Financial Ombudsman

The Banking and Financial Ombudsman was set up in 1993 under an interbank agreement of 1992. It is an alternative Court, composed by five members, where the customer can try to resolve disputes with banks and financial intermediaries for free. The Ombudsman's powers are limited to matters relating to operations and investment services as well as other types of operations not covered by Title VI of the Consolidated Law on Banking (*i.e.* consumer credit and payment services), and its value jurisdiction is up € 100,000.

To start the procedure, the consumer has to submit a written application to the ombudsman's offices. The application must be signed by the consumer who may, if he so wishes, be assisted by a lawyer, an accountant or an adviser. Before lodging a complaint with the Ombudsman, the consumer must first lodge a complaint with the bank concerned. However, if this procedure has not been followed, the Ombudsman's office will forward the complaint to the bank which has 60 days (90 in the event of financial transactions) to respond. The Ombudsman has unofficial investigatory powers so it draws up an adversarial report with the bank and obtains all the documentation considered necessary. After evaluated all documents the Ombudsman issues a reasoned decision which may concern only compensation for damages sustained by the applicant. The decision is not binding between the parties, who are however free, if unsatisfied, to apply before the ordinary courts.

The arrangements for financial out-of-court redress, however, vary from country to country – and there are some significant gaps. Most other member states still have separate ombudsmen schemes for the various different areas of financial services. In Belgium, for example, there are two banking ombudsmen, because they have a post-office bank as well as ordinary banks. But the most complicated is Germany, where they have four different types of banks with redress schemes at federal and regional levels. Altogether, they have 14 different banking ombudsman schemes. Although complaint-handling is generally quite well-developed for banking – it's often less so for insurance and investment. So it's in those sectors that there are still quite a lot of gaps.

C. Court Remedies

The Italian legal system provides not only individual actions in order to ascertain and block the unlawful broker's activities, but also different kinds of collective remedies with the aim to handle those claims that concern a plurality of individuals. Further to the cumulative action, where multiple plaintiffs may grant the same lawyer proxies to act on their behalf against the same defendant in the same proceedings, the Consumer Code sets forth rules for both an injunctive Class Action and for a Class Action for monetary recovery. As a matter of law, pursuant to Art. 140 of the Consumer Code, consumer associations can bring representative action for injunctive relief in favor of all consumers (not only association members), asking for the cessation of unlawful conduct (the so called "Representative Action"); moreover, pursuant to Art. 140*bis* of the Consumer Code, each member of the same category may start a Class Action seeking compensation for damages and/or restitution of undue payments.

1. Collective Injunctions

Highly recommended by the European legislation[75], collective injunctions represent an efficient alternative redress to ordinary individual claims. The Directive on Injunctions (Directive No. 2009/22/EC) ensures the defense of the collective interests of consumers in the internal market by providing means to bring action for the cessation of infringements of consumer rights[76]. The consumers (that is, consumer representative body, excluding individual claimants) can thus claim interest damaged by unlawful practices carried out by professionals infringing European law, asking for the cessation or prohibiting defendants from any infringement, requiring accordingly adequate measures to eliminate the effects caused by that infringement as well as compensation for damages and loss suffered.

By contrast, the Italian financial legislation grants standing to consumer associations representing collective consumer interests against any violations of investment services activities. So, for instance, Art. 32*bis* of the Consolidated Law on Finance refers back to Arts. 139 and 140 of the Italian Consumer Code, and both provisions regulate collective injunctions issued as redress for damages.

i. Area of application

Consumer associations (officially registered with the Ministry of the Economic Development) may initiate representative actions in order to stop behavior prejudicial to the interests of the consumers and users and/or to adopt the measures aimed at amending and/or removing the harmful effect. Pursuant to Art. 37 of the Consumer Code, a representative action may be further started in order to obtain the cessation of the use of unfair terms and conditions in consumer contracts causing a significant imbalance in the parties' rights and obligations, to the disadvantage of consumers. The procedure starts with a formal warning notice, sent by the consumer associations, in which has given a term of at least 15 days to cease the challenged behavior. The procedure is the one of an ordinary civil trial; accordingly, class actions for injunctive relief are tried and decided by a single Judge. The extension of the class is defined by the plaintiff claim and the Judge can also order interim and urgency measures anticipating the decision. It worth to notice that the only reliefs available in the class actions are injunctive reliefs, whilst monetary compensation is not possible. The decision has effect on all the class members.

2. Class Actions

The class action came into force since the beginning of 2010. This new legal institute allows each consumer to act for the protection of a determined class of persons' rights, also through consumer associations. Art. 49 of

75 See Directive on Injunctions 2009/22/EC.

76 For the purposes of the Directive 2009/22/EC an infringement means any act contrary to the Directives listed in Annex I, as transposed into the internal legal order of the Member States which harms the collective interests. The Annex I includes the Directive on distance marketing of financial services, but any other violations of financial services legislation are not mentioned.

Law no. 99/2009 amending article 140*bis* of Consumers' Code[77], regulates the class action. The same article also provides that the abovementioned action can be applied only with reference to the offenses completed after the date of entry into force of Law No. 99/2009 (therefore, after 15 August 2009). As a preliminary matter, it should be highlighted that Art. 140*bis* Consumer Code sufficiently defines the range of application of the collective redress procedure: the subjective range is restricted to "consumers and users of public services", whilst the objective range of application is limited only to specific situations. It had been argued whether investors might be included under the definition of 'consumer' (as intended by Art. 3 of the Consumer Code), and thus under the range of subjective application of class actions, or no. While previous drafts of the law dealing with class actions did contain a clear reference to investors, in the present version of Art. 140*bis*, all references to investors have been removed.

i. Area of Application

Pursuant to Art. 140*bis* of the Consumer Code, the Class Action aims to protect: a) the contractual rights of a plurality of consumers and users who find themselves in an identical situation vis-à-vis the same defendant, including the rights related to agreements entered into through standard forms and conditions; b) the identical rights that end-users of a certain product have vis-à-vis the related manufacturer, even without any direct contractual relationship (such as product liability); and c) the identical rights to compensation for the prejudice suffered by the same consumers and users as a consequence of unfair business practices or unfair competition".

It is argued whether the extension of the Class Action is applicable to the financial products, and therefore to the investors. As a matter of law, the investors have their own regulation (the Consolidated Law on Finance), and there is no sense to provide this 'category' of another redress. However, Art. 32*bis* of the Consolidated Law on Finance refers to "collective injunctions" (orders), rather to "class actions for damages". By the same token, consumer credit statutory regulations are dealt with under Arts. 121 and ss. of the Consolidated Law on Finance, thus remaining outside the coverage range of class actions under the Consumer Code. Although the literal meaning - as well as the overall framework of the statutory provisions - do not leave any further objection to the argument excluding investors from class actions, this argument is nonetheless still not convincing[78].

However, since the provisions concerning the distance marketing of consumer financial services has been introduced into the Consumer Code, accordingly the financial services providing the distance selling methods should implicitly be included within the area of application of Art. 140*bis* of Consumer Code, and a Class Actions concerning that services can be thus brought.

ii. The Procedure

Pursuant to Art. 140*bis* of the Consumer Code, all class members may start a Class Action acting as a class representative, also through consumers' associations or committees. The claim is put forward with a writ of summons, notified also to the office of the Public Prosecutor at the Court in charge, who may only intervene for the judgment on admissibility. Upon first hearing, the Court shall decide by order on the admissibility of the claim; however, it may suspend judgment when there is an ongoing inquest before an independent Authority on the facts which are relevant to the decision, or a trial before the administrative judge. The claim is declared inadmissible if clearly unfounded or there is a conflict of interest, if the judge does not recognize the identity of the individual rights, and when the proposing party seems incapable of adequately protecting the class's interests[79]. If instead the claim is declared admissible, the Court sets the terms and methods of the most appropriate form of public notice in the order with which it admits the action, so that those belonging to the class can join promptly. By the same order the Court: a) determine the characteristics of the individual rights involved in the judgment, specifying the criteria according to which individuals seeking to join are included in the class or must be regarded as excluded from the lawsuit; b) establish a peremptory time limit that does not exceed one hundred and twenty days from the deadline for public notification.

[77] Art. 140*bis* of the Italian Consumer Code was introduced by Art. 2, paragraph 446, of Law No. 244/2007.

[78] Amato, C., Perfumi, C. *Financial Investors as Consumers and their protection: Recent Italian legislation from a European perspective*. In Op. J. Vol. 3/2010, Paper n. 3. (2010), p. 10.

[79] See Tribunale of Torino, 27 May 2010, ord. – Est. Panzani – R. rappresentato da Codacons c. Intesa Sanpaolo s.p.a.

By this date, the adhesion contracts shall be lodged at the registry, even by the claimant[80].

The order with which the Court admits the action also determines the course of the procedure. In the same or subsequent order, which can be modified or revoked at any time, the Court may prescribe measures aimed at preventing undue repetitions or complications in the presentation of evidence or arguments. If the Court grants the claim, it shall issue a verdict by which the final amounts due to those who have joined the act shall be paid, or shall establish the homogeneous calculation criterion to pay these sums. As far as the kind of recoverable damages possible, the Italian legal system aims at consenting the full recovery of all the suffered damages, both economical (pecuniary loss, out-of-pocket expenses, loss of profit) and non-economical. Under the Italian law, non-economical damages include: (a) biological damages (which represent all damages to the psycho-physical integrity of a person, directly relating to the health of such person and as such can be proven by way of medical assessments), (b) moral damages (pain and sufferance), and (c) the so-called "existential damages" (any event which impacts on the normal life or on the relationships of a person and which negatively affects the existence of such person in a consistent manner). Moral and existential damages are recoverable only in cases provided for by the law, mainly in cases of criminal offences (Art. 2059 of the Italian Civil Code) or breach of human rights recognized by the Italian Constitution. All damages suffered, however, have to be a direct consequence of the defendant's behavior, so 'indirect' damages are not recoverable. The decision becomes enforceable one hundred and eighty days from publication, and the ruling establishes that the trial is also binding upon the members. After the decision no further class action can be put forward for the same facts and against the same company after the closing date for joining assigned by the judge, but single action of those individuals who do not join collective action can be brought without any prejudice.

D. A way forward for the Italian financial framework in EU?

It seems that in the Italian system we find a growing need for protection of weaker parties, also as regards financial contracts. Different remedies have thus been introduced in order to provide adequate investor protection. On the one hand, in fact, case law shows a certain tendency to act against non-transparent behavior by economic actors/operators and, on the other, of the legislator (or delegated authorities) to establish a set of rules allowing consumers to attack the "stronghold" of banking interests. In the same vein, several legislative provisions, such as the so-called "Decreto Bersani-bis" successively confirmed by a Parliamentary Act (Law n° 126/2008), introduced important changes concerning loans by giving a new basis to the relationship between the client and the bank, by granting the former new advantages. Class actions have thus been allowed under Article 32-bis of the T.U.F. applying Articles 139 and 140 of the Consumer Code to consumer associations. Finally, recent legislative and regulatory provisions have introduced an indemnity guarantee fund as well as a no-fault fund, thus creating an alternative compensatory system aimed at compensating damages suffered by a general category defined as "non professional" savers/investors (L. n° 262, 28 December 2005, n. 262 Disposizioni per la tutela del risparmio e la disciplina dei mercati finanziari, as implemented by D.lgs. n. 179/2007 and by Consob Regulation n. 16190/2007).

All these provisions have lead the Italian financial framework to an efficient and well-regulated system, providing consumers with five key elements: (i) Transparency, by providing full, plain, adequate and comparable (and understandable) information about the prices, terms and conditions (and inherent risks) of financial products and services; (ii) Choice, by ensuring fair, non-coercive and reasonable practices in the selling and advertising of financial products and services, and collection of payments; (iii) Redress, by providing inexpensive and speedy mechanisms to address complaints and resolve disputes; (iv) Privacy, by ensuring protection over third-party access to personal financial information; and (v) Trust, by ensuring that financial firms act professionally and deliver what they promise, (vi) Financial education, by providing consumers the knowledge needed to an appropriate use of financial products and services; (vi) ADR, providing several out-of-court procedures.

[80] See Art. 140*bis*, paragraph 9, Consumer Code.

Ⅵ. Final Remarks

The global financial crisis and its origins revealed some fundamental flaws in financial consumer protection frameworks. One of the main reasons for the negative development of the financial services market was the lack of consumer confidence. In turn the main reason for lack of consumer confidence in the financial service scenario was a lack of mechanisms for protection of consumer rights. Based on an assessment of the current situation, this paper has shown alternatives ways and mechanisms for the protection of consumer provisions, with respect to financial services in the bank sector. In analyzing the current situation and listing a set of effective mechanisms for protection of financial consumers, this paper has also discussed the main impact on the Italian system of the European legislation concerning financial markets. In particular, such impact has consisted in rendering financial institutions more transparent and therefore more trustworthy, and in improving the relationship between public institutions and citizens.

However, it is argued that the Italian's mechanism for financial consumer protection cannot be the function of one actor alone, it must be based on the common development of multiple market actors. Different actors, thus, must work together in establishing a framework for the protection of financial consumers' rights, build a system that will be effective in the long run, restore consumers' confidence in the financial sector, improve its public reputation, and finally, to shift the development model of the insurance sector from one of expansion to one of intensification. The courts will also play a very significant role since they will be called to decide, in case of litigation, whether the granting of credit was responsible or not. The supervisory authorities, also, will play a crucial part concerning the supervision of compliance with these provisions and the imposition of sanctions in case of infringements of the national provisions. In this regard, Governments, financial institutions and agencies of Member States, should call for the establishment of an unified European agency or advisor board with the aims to require to financial institutions of Member States to regularly demonstrate, through third-party testing of random samples of their customers, that a good proportion of their customers know, at the time they can use this knowledge, the key pertinent "costs, benefits, and risks" of the products they have bought. And, demonstrating sufficient customer comprehension could be a precondition financial agencies must meet before enforcing a term or charging a fee or firms could be sanctioned (or rewarded) for demonstrating low (or high) comprehension levels.

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Insurance Market Development and Income Inequality

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A B S T R A C T

This study aims to empirically analyze the relationship between insurance market development and income inequality for 13 countries from 1980 to 2006. Specifically, we examine how country-level income distributions are related to one particular measure of insurance market development. Our proxies for insurance market development are total life insurance premiums (LP), and total non-life insurance premiums (NLP), which are used as independent variables. The dependent variable is the Gini coefficient (Gini, a common measure of income inequality). Granger causality tests and Generalized Method of Moments (GMM) methodologies were employed to analyze correlations between these variables. Granger causality tests were used to determine if the direction, if any, of the cause and effect relationships among these variables.

The results of the Granger causality test indicate that LP affects the Gini coefficient while NLP is influenced by Gini in the total sample of countries. For the higher income economies, NLP is influenced by Gini, whereas both LP and Gini affect each other, and NLP affects Gini in the lower income group.

Using the GMM methodology to perform a correlation analysis controls for endogeneity among independent variables, the results suggest that LP has negative (-) relationship with Gini for the total sample. Gini is also negatively (-) related with LP in the higher income economies. Thus, the evidence indicates that life insurance market development results in reduction of income inequality for the total sample of countries. Furthermore, income inequality is lessened as the life insurance market expands in the higher income economies. The empirical findings have some implication for insurance consumer well-being in high income countries.

Keywords: Financial Development·Insurance Development, Income Inequality, Income Distribution

Ⅰ. Introduction

It is now well known that finance affects economic growth through internal effects and external impact (Goldsmith, 1969;, King and Levine, 1993), and that economic growth affects the distribution of income (Alesina and Rodrik, 1994; Dollar and Kraay 2002). More recently, finance has attracted much attention in that it may affect income redistribution (Greenwood and Jovanovic, 1990); Beck, Demirguc-Kunt and Levine, 2007) by boosting incomes of the poorest quintile and thus reducing income inequality. Financial development, mostly measuring banking growth, appears not only to influence economic growth but also to increase the income of the poorest.

Compared with abundant research in banking or in security market, however, no empirical evidence is available regarding the insurance sector with respect to financial development and income inequality. As the insurance market becomes more developed, does the lower and/or middle income population benefit? Or, does the income

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distribution influence the development of the insurance sector? These are still open questions that this research aims to address through Granger causality tests and Generalized Method of Moments (GMM) methodology.

Using annual panel data, this research extends the existing research on finance and economic growth by identifying the macro-economic role of the private insurance sector as it relates to the gap between wealth and poverty in any economy. It also examines if the income redistribution affects the development of insurance markets in some way.

Ⅱ. Literature Survey

A. Banking development and Income inequality

Research on the relationship between financial development and the distribution of income began in the late 1990s and resulted in the creation of several competing hypotheses: (1) the inequality-widening hypothesis, (2) the inverted U-shaped hypothesis, and (3) the inequality-narrowing hypothesis. That is, financial development widens income inequality (Rajan and Zingales, 2003), or increases and decreases income inequality in an inverted U-shape (Greenwood and Jovanovic, 1990)[1], or it narrows income inequality (Banerjee and Newman, 1993; Galor and Zeira, 1993; Beck *et al*., 2007; Clarke *et al*., 2003, 2006; Liang, 2006; Li, Squire and Zou, 1998)[2].

Major empirical findings related to the alternative hypothesis are as follows. Clarke *et al* (2006) found that financial development narrows income inequality, using 83 countries data between year 1960 and year 1995 and applying OLS, 2SLS and a random effect model. They took private credit/GDP and bank assets/GDP as proxy variables for financial development, and used Gini coefficients to capture income inequality, controlling as well for risk of expropriation, ethnolinguistic fractionalization, Government expenditure over GDP, inflation, modern sector/GDP, per capital real GDP. This empirical finding was consistent with Galor/Zeira (1993), Banerjee/Newman (1993), Li, Squire and Zou (1998), and Clarke *et al*. (2003).

More recently, Beck *et al*. (2007) applied OLS and GMM methodologies in an analysis of data for 65 countries and find that financial development reduces the poverty income level more rapidly than the growth rate of per capita GDP. Using GMM analysis, Liang (2006) also investigated 29 Chinese cities between 1986 and 2000 and obtained the same outcome as the other research. Liang (2006) also found similar results from a rural area study.

B. Stock market development and Income inequality

Das and Mohapatra (2003) applied an event study model to explore the relationship between the opening of the stock market and income inequality over the period between 1986 and 1995 for 11 countries including Brazil, India, Korea, Mexico, etc. The results show that the highest quintile gains more income, the next three quintiles lose income, and the lowest quintile is unchanged.

Beltratti and Morana (2007) perform a cointegration regression with U.S. data between 1920 and 2001 and find that income inequality is mainly reduced not by the stock market directly, but by the labor market; it is influenced only slightly in the short run by stock market movements.

C. Insurance market development and Income inequality

There is virtually no research on the relationship between private insurance market development and income inequality. Williamson (2001) compared Chile, Mexico, Bolivia, and El Salvador, all of which have fully privatized pension systems, and Argentina, Colombia, Peru, Uruguay, which have partially privatized pension systems. The study showed that privatization has benefited high income male workers but not low income female workers. That is, privatization appeared to affect financial development that, in turn, widened the income inequality between males and females.

With assistance of the Internal Revenue Service,

[1] Greenwood and Jovanovic(1990) is a pioneering work to argue that financial development increases inequality gap initially but subsequently reduces the gap as financial institutions and services are further developed.

[2] Financial development is argued either to help mostly the rich (Greenwood and Jovanovis, 1990), or to help mostly the poor (Aghion and Bolton, 1997; Galor and Zeira, 1993; Galor and Moav, 2004).

Kennickell (2008) analyzed data from the Survey of Consumer Finances executed by the US Federal Reserve Board and find that the poorer or the younger people take a lower health insurance benefit whereas people with higher education or larger income get more health insurance benefits. Kahn *et al*. (2002) analyzed the impact of the social insurance system on income distribution, using data for 25 cities, in Sweden and find that the Gini coefficient is 15% lower when insurance payments are included in income. The further decomposition by type of payment indicates that disability pension payments have the largest redistributive effect on income inequality.

The brief literature survey above implies that relationship between financial development and income equality is quite a new research subject, and the relationship between the private insurance market and income equality is one area missing in the existing literature.

While few studies consider the relationship of income inequality to formal insurance markets, there are several studies that have examined the how informal insurance mechanisms are affected by the income distribution (Besley, 1995; Laczo, 2008). Genicot (2006) provides a model that suggests higher inequality in income leads to an increase in voluntary risk-sharing between parties, which subsequently could lead to a decrease the inequality in consumption. To the extent that informal insurance mechanisms work well in certain parts of society or certain countries, the lower demand for formal insurance would slow the development of the insurance market.

Ⅲ. Research Methodology

A. Data and Variables

We chose the Gini coefficient, a very popular measure of income inequality among several alternative measures for income distribution. The coefficient is much easier to collect than the other measures that vary in concepts and/or in derivation methods. The Gini coefficient is also convenient because it provides a broad picture with just one number that aggregates inequality distribution among people in any country. It also enables us to easily compare changes over time and across countries.

Gini coefficients can be obtained at WIID (World Income Inequality Database) of the UNU-WIDER (World Institute for Development Economic Research) in the United Nations University. The coefficients used here are from WIID version 2.0b of WIID published in May 2007.[3]

Insurance markets supplement financial markets through risk pooling and risk transferring. Property and casualty insurers serve to indemnify any losses or damages faced by individuals or corporations, while life insurance companies stabilize income streams to policyholders or their family members. In providing these forms of protection, both life insurers and non-life insurers may prevent middle income class people from dropping into the lower-income class, and thus narrow income equality among people as insurance develops.

On the other hand, certain types of insurance, such as compulsory insurance, “savings” policies, or any other high end insurance products, may widen income inequality as the insurance market develops, depending, in part, on the population that has access to, and participates, in these types of insurance. Thus, it is an empirical question to pursue confirmation on these alternative hypotheses.

As measures of insurance market development, this research chooses the direct premiums of life insurance and non-life insurance as independent variables. We create the following index measures for our empirical analysis:[4]

$$= \frac{Life\ \ insurance\ \ premium}{GDP}$$

Insurance market development index 1. (1)

Insurance market development index 2.

$$= \frac{Non-life\ \ insurance\, premium}{GDP} \qquad (2)$$

The variables for our analysis are presented in Table 1. As shown in the table, we also include several control variables obtained from the World Bank's World Development Indicator (2002, 2007) and IMF's International Financial

[3] The WIID contains information on income inequality for 151 developed, developing, and transition countries. It contains several income inequality variables including the Gini-coefficient, quintiles, and other percentiles of the income distribution.

[4] Measures indicating insurance market development may include insurance density, insurance penetration ratio, insurance claim payment, insured amount, and direct premium payment. Among these measures, for national comparison, direct premium payment is chosen as proxy variable for insurance market development. Total life and non-life insurance premiums were obtained from Swiss-Re's Sigma reports.

Table 1. Definition of variables

Name of variables		Definition or Concept	Data source
Dependent variable	GINI	Gini coefficient	UNU-WIDER
Independent variables	LP	Life direct premiums(% of GDP)	Swiss-RE
	NLP	Non-life direct premiums(% of GDP)	Swiss-RE
Control variables	GDPD	GDP deflator(2000=100)	IFS
	TRADE	Trade(% of GDP)	WDI
	UNEMP	Unemployment(% of total labor force)	WDI
	GOVFE	General government final consumption expenditure(% of GDP)	WDI
	POPGR	Population growth(% annual)	WDI

Table 2. Countries Included in the Analysis

High Income Countries(8)	Low and Middle Income Countries(5)
Canada, Denmark, Germany, Finland, Norway, Sweden, United Kingdom, United States.	Argentina, Brazil, Chile, Colombia, Venezuela.

Table 3. Summary statistics

	GINI	ln GINI	LP	NLP	GDPD	TRADE	UNEMP	GOVFE	POPGR
N	288	288	351	351	351	349	339	342	351
mean	0.3913	-0.9877	0.0245	0.0238	0.7486	0.5082	0.0779	0.1837	0.0098
SD	0.1212	0.3187	0.0223	0.0117	0.4633	0.2093	0.0353	0.0581	0.0072
min	0.1914	-1.6500	0.0003	0.0026	0.0000	0.1155	0.0160	0.0298	-0.0035
max	0.6915	-0.3700	0.1311	0.0529	3.9730	1.0084	0.2050	0.2994	0.0315

Statistics (2008).

B. Data Construction

The initial sample for this study contained information on 50 countries, but just 13 countries were adopted for our analysis, due to discontinuity or a lack in annual data. The countries included are shown in Table 2: Argentina, Brazil, Canada, Chile, Colombia, Denmark, Finland, Germany, Norway, Sweden, United Kingdom, United States, Venezuela, which are divided into two groups in terms of income level.[5] We analyze country-level data for the period 1980 to 2006. The statistical features of our sample are shown in Table 3.

[5] Income levels for each country were determined using the WDI 2007 (GNI per capita). High income country >$10,726, Middle-high income country $10,725～$3,466, Middle-low income between $3,465～$876, And Low income < $875.

C. Research Model

1. Hypotheses

From our review of the literature, we suspect to find significant relationships between the development of the insurance market and income inequality. To be clear, our analysis proceeds with the testing of the following four hypotheses:

Hypothesis 1: insurance market development affects income distribution.

Hypothesis 2: Income inequality affects insurance development

Hypothesis 3: Total life insurance premiums are negatively related to income inequality.

Hypothesis 4: Total non-life insurance premiums are negatively related to income inequality.

2. Granger Causality Test

We begin our analysis of the first two hypotheses with an examination of the direction of causal relations between our variables, using the test developed by Granger (1988). This test evaluates the causal relationship between two variables through statistical comparisons of one current variable with another prior variable as follows.[6]

$$Y_{i,t} = \sum_{i=1}^{k} a_i Y_{t-i} + \sum_{i=1}^{k} \beta_i X_{t-i} + \mu_{1t} \tag{3}$$

$$X_{j,t} = \sum_{j=1}^{k} \gamma_j X_{t-j} + \sum_{j=1}^{k} \rho_j Y_{t-j} + \mu_{2t} \tag{4}$$

We use the Granger causality test to test Hypotheses 3 and 4. Specifically, we use the Gini coefficient as our dependent variable (measuring income inequality), and the insurance penetration ratio (direct premium written/GDP) as the independent variables (measuring financial development), and estimate the following functional equations for all countries, *i*, and years, *t*:.

$$GINI_{i,t} = F(ILP_{i,t-1},\ GINI_{i,t-1}) \tag{5}$$

$$GINI_{i,t} = F(INP_{i,t-1},\ GINI_{i,t-1}) \tag{6}$$

Next, we test the reverse of Hypothesis 3. Specifically, we estimate the following functional equations for all countries, *i*, and years, *t*:.

$$ILP_{i,t} = F(GINI_{i,t-1}, ILP_{i,t-1}) \tag{7}$$

$$INP_{i,t} = F(GINI_{i,t-1},\ INP_{i,t-1}) \tag{8}$$

3. Dynamic Panel instrumental variables regression

This next phase of our research employs a panel data analysis method, in particular GMM (Generalized Methods of Moments), which controls for the problem of endogeneity among explanatory variables, and produces consistent and asymptotically normal estimators by using lagged dependent variables as instruments (Arellano and Bond, 1991). The GMM estimator allows us to adjust for endogeneity and over-identifying restrictions of independent variables, time-specific effects, and the potential bias from omitted country-specific factors, such as institutional characteristics (Hansen, 1982). Further, GMM enables us to solve the problem of heteroskedasticity of conventional error terms in instrumental variables (IV) estimation and eventually to secure valid inferences of heteroskedasticity-robust standard errors and statistics. Our GMM model takes the following general form:

$$\begin{aligned} y_{i,t} - y_{i,t-1} = {} & \alpha(X^1_{i,t-1} - X^1_{i,t-2}) \\ & + \beta(X^2_{i,t-1} - X^2_{i,t-2}) \\ & + (\epsilon_{i,t-1} - \epsilon_{i,t-2}) \end{aligned} \tag{9}$$

Based upon our literature survey and corresponding hypothesis, we set up the following regression equation to test hypotheses 3 and 4, i.e., to assess the relationship between insurance market development and income inequality, for all countries, *i*, and years, *t*:

$$\begin{aligned} \ln GINI_{i,t} = {} & \alpha_1 + \beta_1(LPI_{i,t} - LPI_{i,t-1}) \\ & + \beta_2(NLP_{i,t} - NLP_{i,t-1}) \\ & + \gamma_1(GDPD_{i,t} - GDPD_{i,t-1}) \\ & + \gamma_2(TRADE_{i,t} - TRADE_{i,t-1}) \\ & + \gamma_3(UNEMP_{i,t} - UNEMP_{i,t-1}) \\ & + \gamma_4(GOVFE_{i,t} - GOVFE_{i,t-1}) \\ & + \gamma_5(POPGR_{i,t} - POPGR_{i,t-1}) \\ & + (\epsilon_{i,t} - \epsilon_{i,t-1}) \end{aligned} \tag{10}$$

Where:

$\ln GINI$	= the natural log of the measure of each country's income inequality
LP	= total direct premiums written in life insurance
NLP	= total direct premiums written in non-life insurance
$GDPD$	= GDP deflator
$TRADE$	= a measure of trade openness
$UNEMP$	= unemployment rate
$GOVFE$	= a measure of government expenditures
$POPGR$	= population growth

We are particularly interested in the estimates of β_i which capture the impact of insurance market development on the measure of income inequality. Our research method includes a correlation analysis of direct premiums written

[6] When there are two time series variable X_t and Y_t, and X_t helps to forecast Y_t, then we can say "X Granger causes Y" or if not helps to effect "X does not Granger causes Y".

Table 4. Correlation analysis

	All the samples(13)			High income countries(8)			Mid/Low income countries(5)		
	0 lagged	1 lagged	2 lagged	0 lagged	1 lagged	2 lagged	0 lagged	1 lagged	2 lagged
ln GINI ⇒ LP	0.35	0.29	0.38	0.32	0.13	0.30	0.95	5.35*	10.20**
LP ⇒ ln GINI	3.57*	3.56*	3.02	2.23	2.94	1.91	0.03	12.56***	6.67*
ln GINI ⇒ NLP	0.07	5.82*	5.40	1.35	4.81*	4.00	0.86	0.53	1.76
NLP ⇒ ln GINI	1.29	1.82	2.31	0.17	0.75	5.01	0.33	6.33*	4.81

*p<.05 **p<.01 ***p<.001
* ⇒ : direction between variables

Table 5. Granger causality test results

	All the samples(13)			High income countries(8)			Mid/Low income countries(5)		
	0 lagged	1 lagged	2 lagged	0 lagged	1 lagged	2 lagged	0 lagged	1 lagged	2 lagged
ln GINI ⇒ LP	0.35	0.29	0.38	0.32	0.13	0.30	0.95	5.35*	10.20**
LP ⇒ ln GINI	3.57*	3.56*	3.02	2.23	2.94	1.91	0.03	12.56***	6.67*
ln GINI ⇒ NLP	0.07	5.82*	5.40	1.35	4.81*	4.00	0.86	0.53	1.76
NLP ⇒ ln GINI	1.29	1.82	2.31	0.17	0.75	5.01	0.33	6.33*	4.81

*p<.05 **p<.01 ***p<.001
* ⇒ : direction between variables

with Gini coefficient, and a regression analysis of the dependent variable in natural log form[7], that is, semi-log model[8] and independent variables and control variables in the 1st difference in order to resolve autocorrelation.

In order to compare the fitness of our models, we ran a variety of models with varying lags of our independent variables, i.e. from one year to five years. All quantitative variables in the analysis were transformed into ratio variables, and the log model was added to measure elasticity of the variables.

Ⅳ. Empirical Results

A. Granger Causality Analysis

Granger causality tests with all the sample countries show that direct premiums written in Life insurance (LP) significantly affects the Gini coefficient, while Non-life premiums (NLP) appear to be affected by the Gini coefficient.

Among the high income countries, NLP appears to be affected by the Gini coefficient. In the low and middle income countries, on the other hand, LP and the Gini coefficient appear to affect each other, and NLP affects Gini coefficient.

Since Granger causality test is a basic univariate test that does not consider the other explanatory variables, we may not conclude any definite relationship between income disparity and insurance market growth. Rather, it may be said that the Gini coefficient may interact with insurance market growth to some degree and in one way or another. For the sake of more elaborate analysis, we run dynamic panel regression and fixed effect model, after employing the well-known Hausman test to see if random effect model is better than fixed effect model or vice versa.

[7] The reason why only Gini coefficient is transformed into natural log form is that the coefficient tends to converge into values between 0.2 and 0.5 by it nonlinear nature.

[8] Log model takes one or more variables in log forms; double log model takes both dependent variable and independent variables in log form, while semi-log model takes either dependent variable or independent variable(s) in log form.

Table 6. Results for Full Sample

Variables	GMM estimates			Fixed effect model estimates		
Model	1	2	3	1	2	3
LP	-22.4100 (-1.95) *	-24.4835 (-3.39) ***		1.3738 (1.09)	1.4894 (1.19)	
NLP	-7.3651 (-1.06)		-15.7176 (-1.92) *	1.3655 (0.73)		1.6180 (0.88)
GDPD	-2.6277 (-2.83) ***	-2.7608 (-2.59) **	-3.2667 (-3.03) ***	0.0430 (0.65)	0.0478 (0.73)	0.0409 (0.62)
TRADE	-1.4802 (-1.18)	-0.7308 (-0.59)	-1.5429 (-1.36)	0.5804 (3.62) ***	0.5659 (3.56) ***	0.5995 (3.76) ***
UNEMP	-3.5965 (-1.23)	-4.0379 (-1.33)	-2.9597 (-1.39)	-0.2377 (-0.72)	-0.2587 (-0.79)	-0.2453 (-0.74)
GOVFE	-4.5533 (-1.96) *	-2.2057 (-0.29)	-3.7937 (-0.65)	0.6044 (1.49)	0.5952 (1.47)	0.6205 (1.53)
POPGR	33.9629 (1.13)	2.9642 (0.13)	30.7243 (0.99)	8.0617 (1.78) *	7.9116 (1.75) *	8.1630 (1.80) *
Number of Countries	13	13	13	13	13	13
Sargan Test	22.04	22.02	20.9			
R-square				0.9156	0.9154	0.9153
F test				266.14 ***	266.64 ***	267.4 ***

*p<.05 **p<.01 ***p<.001

B. Dynamic Panel Instrumental Variable Regression

1. Analysis of full sample

For our panel regression analysis, we begin with our full sample of 13 countries and include independent variables in 1 lagged to 5 lagged forms for our GMM estimation. Our analysis suggests that the model with one lagged independent variable produced the optimal regression equation.

In the model 1, where both LP and NLP are simultaneously analyzed, only LP significantly affects Gini coefficient in a negative way, and the same is also found in the model 2. In model 3, where only NLP is considered, NLP appears to affect Gini coefficient negatively.

The coefficient -22.41 indicates that as one unit increase of life insurance premium results in 22.41 times reduction of Gini coefficient, which implies in particular that increase of 0.001%p is followed by 0.00002%p reduction of Gini coefficient. The results above imply that both life and non-life insurance may improve income inequality to some degree, while life insurance looks more dominant in terms of effect when controlling any endogeneity problem available in the fixed effect model.

2. Analysis of Subsample of High income countries

GMM estimates with the data from high income countries reveal that most of independent variables do not directly affect Gini coefficients except LP that appeared to affect Gini coefficient in a negative way in model 1 and 2.

High income countries reveal a similar relationship between Gini coefficient and insurance market development to the all the sample case in the previous section. That is, both life and non-life insurance market can grow to reduce income disparity, while life insurance is more effective than non-life insurance. On the contrary, the low and middle income countries show somewhat different outcomes, as you can see below.

Table 7. Results for Subsample of High income countries

Variables	GMM estimates			Fixed effect model estimates		
Model	1	2	3	1	2	3
LP	-19.0520 (-1.79) *	-16.4857 (-1.85) *		1.0906 (0.73)	1.1591 (0.79)	
NLP	14.5284 (0.92)		-10.5261 (-0.88)	1.1033 (0.35)		1.4024 (0.45)
GDPD	-27.1663 (-9.66) ***	-31.1758 (-13.21) ***	-27.1166 (-9.15) ***	-0.7425 (-1.6)	-0.7359 (-1.59)	-0.7557 (-1.63)
TRADE	-0.3278 (-0.13)	5.0932 (1.41)	1.9069 (0.52)	0.7242 (2.5) **	0.7219 (2.5) **	0.7607 (2.67) ***
UNEMP	16.0976 (1.86) *	4.4598 (0.76)	7.7568 (1.85) *	-0.8389 (-1)	-0.8253 (-0.99)	-0.8999 (-1.08)
GOVFE	-24.9864 (-1.79) *	25.4480 (1.15)	-6.0108 (-0.45)	0.9998 (0.66)	1.0281 (0.68)	1.0899 (0.72)
POPGR	104.7808 (1.23)	18.3622 (0.36)	55.1491 (0.87)	9.2699 (1.73) *	9.2679 (1.73) *	9.3156 (1.74) *
Number of Countries	13	13	13	13	13	13
Sargan Test	10.31	8.18	11.43			
R-square				0.7751	0.7750	0.7745
F test				93.2 ***	93.61 ***	93.35 ***

*p<.05 **p<.01 ***p<.001

3. Analysis of Subsample of Low and Middle income countries

In middle and low income countries, insurance appears not to influence Gini coefficient in three different models at all. Neither life insurance nor non-life insurance is shown to influence the Gini coefficient, as income disparity may be determined by some other social or economic variables in large extent. It is unclear what makes the effect of insurance market growth on income disparity between high income countries and low income countries.

Ⅴ. Discussion of Implication for Financial Consumers

It is well known that insurance is an economic mechanism for individuals and corporations to transfer their risk to insurers in exchange of insurance premium. The empirical result here leads to the following propositions regarding the role of insurance for financial consumers. As far as its role in income disparity, life insurance may play a larger role than non-life insurance in high income countries, possibly because the former is voluntary and protection-based in high income countries, whereas the latter is somewhat compulsory (i.e., in case of automobile insurance) or of commercial line. In other words, growth in life insurance in industrialized countries may protect people from being drown into poor economic class thanks to its protection type policies, while it may not mean so much in low income countries because of dominant savings elements in life insurance contracts. Non-life insurance tends to grow ahead of life insurance in most emerging economies, in particular in commercial line such as fire, ocean marine, corporate property or liability insurance. As the non-life insurance expands with economic growth, it may contribute to economic growth itself

Table 8. Results for Low and Middle Income Countries

Variables	GMM estimates			Fixed effect model estimates		
Model	1	2	3	1	2	3
LP	-76.2727 (-0.75)	-107.709 (-1.55)		-1.3510 (-0.27)	-0.2634 (-0.05)	
NLP	6.7840 (0.15)		213.4425 (1.98)	1.5336 (0.83)		1.4029 (0.79)
GDPD	-1.3301 (-1.84) *	-2.1784 (-2.21) **	-0.1278 (-0.15)	0.0992 (2.08) **	0.1049 (2.23) **	0.0995 (2.1) **
TRADE	-2.2793 (-0.46)	5.8411 (1.77) *	-0.2077 (-0.23)	0.3614 (2.25) **	0.3399 (2.14) **	0.3655 (2.29) **
UNEMP	-2.9621 (-1.52)	-2.4319 (-2.08) **	0.5840 (0.34)	-0.0193 (-0.07)	-0.0631 (-0.24)	-0.0232 (-0.09)
GOVFE	-4.8912 (-1.04)	-7.1562 (-0.94)	15.8589 (1.23)	0.5085 (1.69) *	0.4884 (1.63)	0.5068 (1.7) *
POPGR	360.3306 (1.56)	406.4943 (1.25)	277.5375 (0.8)	-36.9740 (-2.2) **	-39.1232 (-2.36) **	-38.1047 (-2.35) **
Number of Countries	5	5	5	5	5	5
Sargan Test	3.16	2.86	3.02			
R-square				0.7530	0.7516	0.7529
F test				84.18 ***	85 **	85.85 ***

*p<.05 **p<.01 ***p<.001

while not to income disparity, especially when its personal line grows mostly with compulsory insurance.

Although both life and non-life insurance are highly valuable financial services to individuals and corporations, life insurance may be said to protect the first party in voluntary basis, while non-life insurance is compulsory one to protect the third party and the first party at the same time. In that sense, the life insurance can be a critical factor to determine income disparity level as well as welfare of financial consumers, when it is appropriately designed and grown by autonomous market demand, although it is known to be generally sold not bought.

Saving-type life insurance is believed to function like a saving that may reduce economic growth rate, differently from consumption per se, while protection type life insurance play a role of shock absorber in case to recover family's economic condition to normal level in case. As a complement to social security system, life insurance may play a secondary role to income equalizer if reasonably developed as in advance countries.

In spite of its research value as the first of its kind, nevertheless, this empirical research has not yet reached any definite conclusion over the role of insurance in income equality, but has just started its exploration with that regard. Future research may be expanded with more data based upon theoretical modeling to find the role of insurance in macro- economic sense and financial consumer well-being. And comparison of life and non-life insurance should be continued in the future as well.

Ⅵ. Summary and Conclusion

Does the development of insurance markets affect income inequality? Financial consumer or insurance consumer can be better off with growth of insurance market? This is the academic question of this research that has not been addressed in previous research. Using data for

13 countries and a few different econometric methods (Granger causality test and Generalized method of moments), we find that the development of life insurance may reduce income inequality while non-life insurance may not.

This research has some limitations in that only 13 countries were included in our sample, due to difficulty in obtaining annual Gini coefficients, and we are limited to assessing this relationship using data spanning only 26 years. Further, financial development, measured by quantitative values like other researches, is measured not by qualitative or institutional aspects, which might allow for a more refined assessment of how the specific features of the insurance market, such as concentration, are related to the income distribution. Nonetheless, our data show several statistically significant results which should be informative for further research in this area.

In terms of financial consumer's welfare , this empirical research show that life insurance may be able to reduce income disparity more than non-life insurance in most countries except low income countries. This result may need further analysis both in theory and empirical research, nevertheless it is a new finding that may complement the existing research on role of insurance and finance in economic development. Combining with the previous research on the role of insurance in economic growth, this research may imply a differentiated role of life insurance and non-life insurance in income redistribution and economic growth. In order to increase financial consumer welfare through income equality, life insurance seems to play a more important role than non-life insurance, ,whereas the latter does more for economic growth in general.

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Perspectives in Development Finance and Overseas Development Assistance (ODA) in the Philippines

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A B S T R A C T

This paper reviews development finance and ODA in the Philippines, amidst current trends and historical flow, as well as reveals similarities and differences with the ODA trends of one of its closest neighbors, Indonesia, to determine whether either country, is moving towards casting off its ODA recipient status. Findings reveal an uptrend in global ODA, with trends in the Philippines ODA and other overseas capital flow, appearing to mimic the world economy. Downward ODA trends in the Philippines were evident, during international financial crises and presidencies, marked by corruption.

Total ODA commitments in the Philippines reveal a converging trend with the public sector, as the main ODA channel, and this was the major ODA channel for Indonesia as well. Bilateral ODA commitments surged in 2012, with Japan emerging as the top donor for both the Philippines and Indonesia. The Philippines' major multilateral ODA donor was the European Union (EU); however, other multilateral institutions were Indonesia's top multilateral donors. In terms of total aggregate ODA, major bilateral donor countries of the Philippines included Japan, the U.S., Australia, Korea, Germany, and France.

This was the case also in Indonesia, except that Korea did not figure in its top five list. Furthermore, a jump in ODA value was observed in the Philippines and Indonesia ODA trends, after an environmental disaster hit these countries, on two separate occasions. Thus, while many similarities were found in terms of ODA trends in the Philippines and Indonesia, the Philippines remains a net recipient of ODA, while Indonesia is emerging as a donor country, as seen in the steady decline of its multilateral ODA, received during the past few years.

Keywords: development finance, ODA, capital flow, Philippines, Indonesia

Ⅰ. Introduction

The Philippines has been on a growth streak in the past five years, outpacing its East Asian neighbors, growing by 6.9 percent, in the first six months of 2016 (The World Bank, 2016). Its history in receiving ODA is traced to its past and current relationships with countries, which have established economic ties with it, such as Japan, the U.S., and Spain, among others. With viable development assistance, it traces its lengthy ODA history, to its past and current relationships with countries, that have established ties with it.

The vital role of ODA in enabling developing countries to address development challenges, has been evident in past successes, but may have also been a source of corruption and misuse, by errant recipients. ODA has enabled countries to respond to development challenges, such as poverty alleviation, combatting inequality, and enhancing food security, which cannot be discounted. Countries such as South Korea and Taiwan, which used to be net

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recipients of ODA, have become donor countries as well. What about the Philippines, and Indonesia? Can both countries mirror South Korea, and Taiwan? What is the current state of development finance and ODA, in the Philippines? How do its ODA trends compare, to those of Indonesia?

This paper reviews ODA trends in the Philippines, and compares these trends with those in Indonesia, to ascertain whether these countries are veering towards donor country status, or remaining ODA recipients. Therefore, it is organized as follows. Section II examines evolving trends in global development finance. Section III presents a historical overview of the Philippines ODA, Section IV compares ODA trends in the Philippines, with those of Indonesia, and Section V presents concluding notes.

Ⅱ. Evolving Trends in Development Finance

Since the Bretton Woods Institutions, and the United Nations system were established, overseas development assistance (ODA) has grown steadily, and played a lead role as a source of external capital, for economic growth and development, in underdeveloped countries around the world (Amerasinghe & Espejo, 2006). When the Millennium Declaration in 2000 was adopted, much of the economic growth of emerging market and developing countries, outpaced those of countries categorized as advanced economies, although the past three years reveal a closing of this gap (Figure 1). In addition, on the average, from 2000-2015 annual GDP, constant growth in advanced economies was 1.80 percent, while emerging market and developing economies grew on the average by 5.9 percent.

The global community responding to the challenges in poverty, inequality, food security, conflict, and natural disasters, has made impressive progress in achieving some of the Millennium Development Goals (MDGs). In the context of growth gaps between the two group economies, global poverty decreased significantly, and the poverty reduction target of MDG 1 was achieved ahead of schedule. Evidence of meeting these social challenges, is the marked growth of ODA for most of the last 50 years (Figure 2), which by 2006-2007, rapidly increased because of high levels of debt relief, while its decline in 2011-2012, was in the wake of global financial crises.

This unprecedented international agreement pursued global progress, through a developmental agenda, and emerging from post-2015, a more holistic, yet broader vision, was developed. Furthermore, in September 2015,

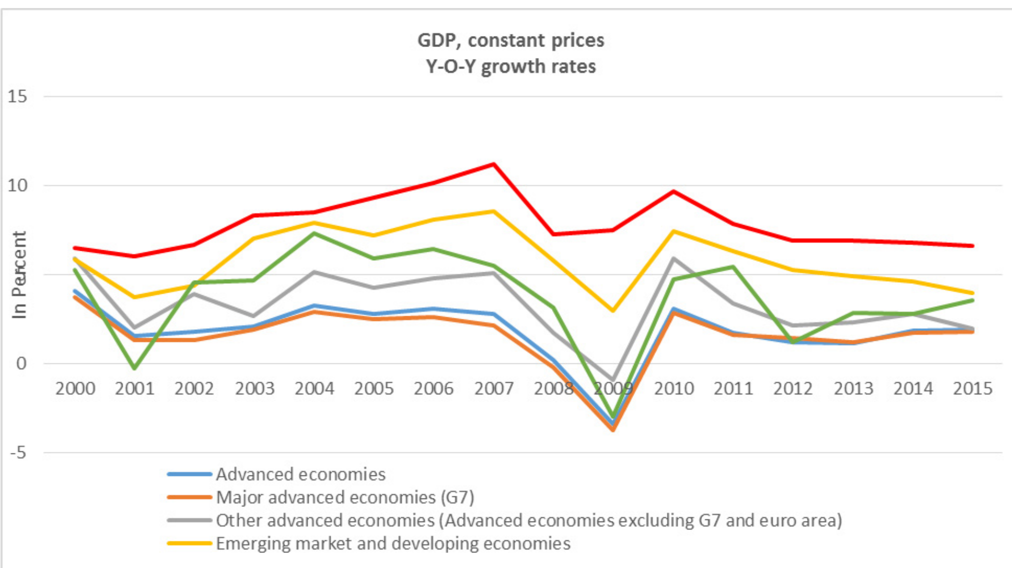

Figure 1. Annual Gross Domestic Product (current) – Growth Rates Source of Basic Data: IMF World Economic Outlook, April 2016

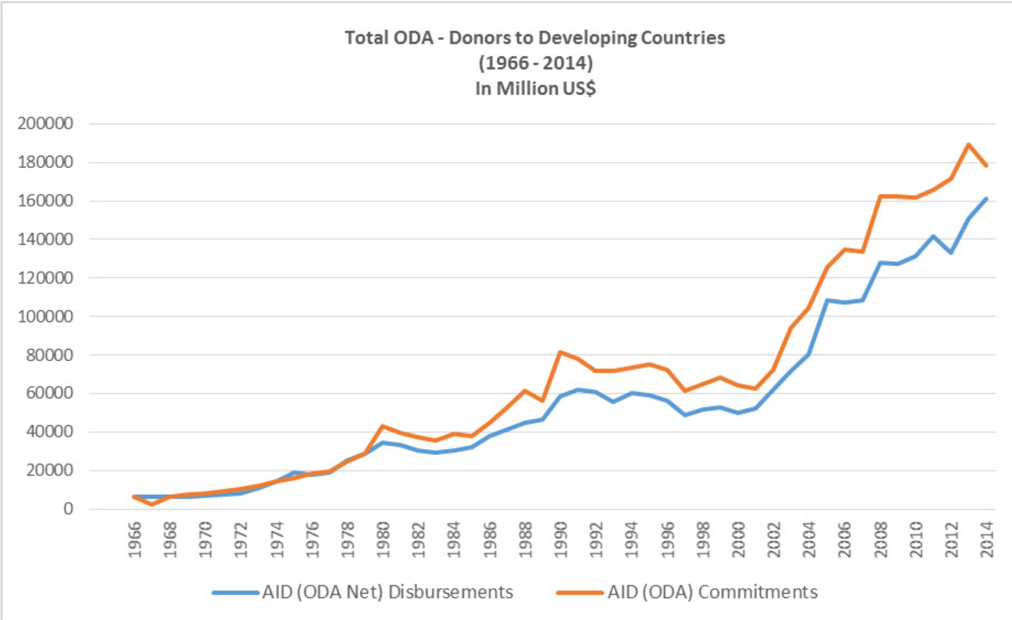

Figure 2. Historical Total ODA – Donors to Developing Countries
Source of Basic Data: OECD.stat

the United Nations member states were convened, for a special General Assembly summit, to introduce a new global agenda. The intention was to mobilize a fully inclusive global partnership of state and non-state sectors, to achieve a set of Sustainable Development Goals (SDGs), that will supersede the Millennium Development Goals (Tomlinson, 2014).

In the UN-led published report by Strawson et al. (n.d.) titled, *Improving ODA Allocation for a Post-2015 World*, these three paradigm shifts from the MDGs, to the emerging post-2015 development agenda, are significantly relevant, to the question of allocating ODA:

1. From halving poverty, to ending poverty everywhere. Poverty reduction was achieved ahead of schedule in 2010. The Open Working Group on Sustainable Development Goals of the United Nations General Assembly, has set an ambitious vision for ending poverty, as the primary goal of the global agenda for the next 15 years. (See https://sustainabledevelopment.un.org/owg.html)
2. From an ODA-led agenda, to an all resources agenda. Because of the emphasis on basic social needs, external financing for the MDGs was focused on ODA. While ODA is critical in providing direct support to basic social services, many of its roles are evolving, from driving change, to mobilizing and establishing partnerships with other resources, that can support implementation.
3. From the sustainability and development agendas, to a unified and universal post-2015 sustainable development agenda.
   The post-2015 development agenda was developed to bridge the sustainable and development agendas into a single vision, which to date has largely evolved separately, from each other.

Other ODA initiatives involved its modernization, and new measures (Tomlinson, 2014). Currently, there are three proposals for modernizing ODA, developed by the Development Co-operation Directorate (DCD) for the DAC members, namely: 1.) Focused ODA – which is to streamline the reporting contributions by removing donor-centric costs (refugees and students, among others), and concentrating on real expenditures incurred by a donor; 2.) New ODA – which will include only the "grant equivalent" of loans, to consider the cost of borrowing, and country risk; and 3.) Updated ODA – a risk adjusted discount rate will be used, to assess gross amounts of concessional loans, as well as flow mobilized by ODA.

The new proposed measure is the "Total Official Support for Development," which should provide clear norms and standards, for the transparent inclusion of finance, based on demonstrable outcomes of future SDGs.

Ⅲ. Historical Flow of ODF/ODA to the Philippines

A. Overview of Datasets and Definitions

The considerable amount of raw data that is used in this study, has been sourced mostly from the Organization for Economic Co-operation and Development (OECD), particularly from OECD.stat, which is the statistical online platform of the OECD, of which users can search and access OECD's statistical databases. Data sets representing the developmental capital inflow to the Philippines used in this study, are sourced from statistical data of the Development Assistance Committee (DAC) of the OECD.

B. Development Capital Inflow in the Philippines

A historical overview of development capital in the country, reveals that it continues to be dominated by private sector flow (Figure 3), which reveal marked increase and decline, particularly during specific presidencies. Private sector flow flourished during the Ramos administration (June 30, 1992-June 30, 1998), the Macapagal-Arroyo administration (2001-2008) and the Benigno Aquino III administration June 30, 2010-June 30, 2016 (note that Figure 3 only includes the period until 2014, based on available data).

The marked decline of flow during the period from 2000-2003, appears to highlight international investor response, to the Estrada administration's reaction to corruption allegations, that could have damaging effects on their investment, while 2008 outflow, reflects the effects of the global financial crises, and 2012 Euro-Greek crises.

Capital flow for ODA disbursements increased 2011-2014. However, a proportional decline seemed to prevail, in terms of ODA commitments. This can be attributed mostly to government adoption of a combined strategy of pre-paying debts, reducing reliance on ODA, and optimizing the foreign-domestic borrowing mix, given the prevailing low interest rates in the financial market (Llanto, Navarro and Ortiz, 2015).

A review of this observation can be seen, through the comparative line graphs of Total Official Development Assistance vs. ODA commitments, which by 2014, seem to be converging (Figure 4).

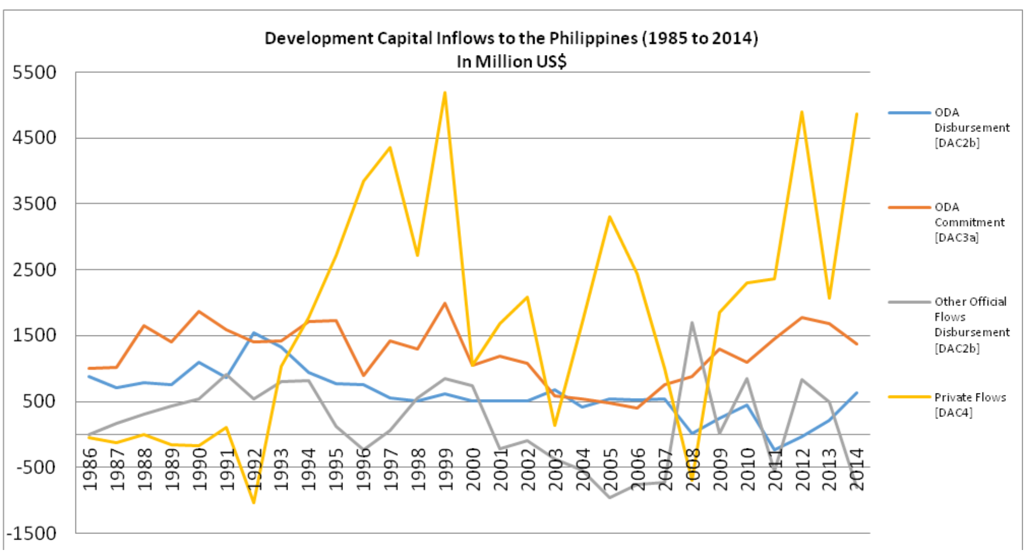

Figure 3. Development Capital Inflow to the Philippines (1985 to 2014)

Source of Basic Data: OECD.stat

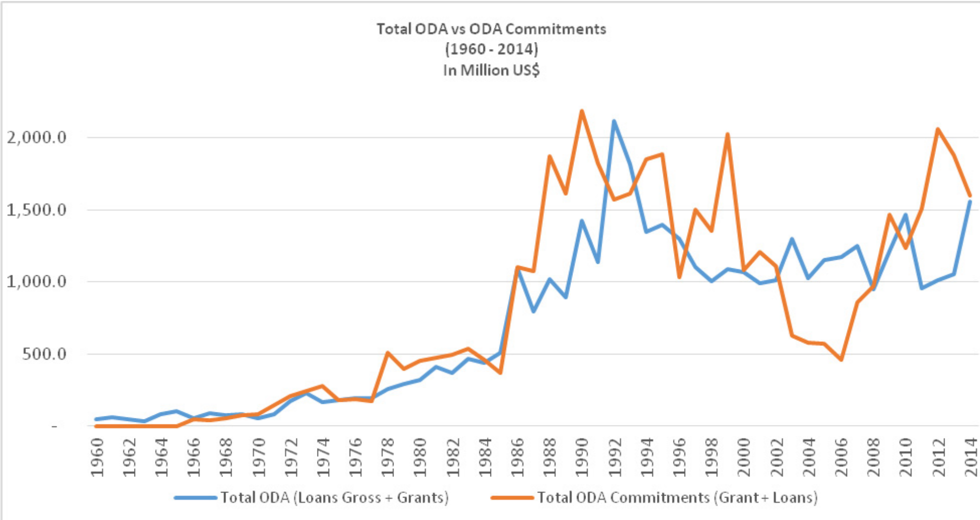

Figure 4. Total ODA vs. ODA Commitments (1960-2014)
Source of Basic Data: OECD.stat

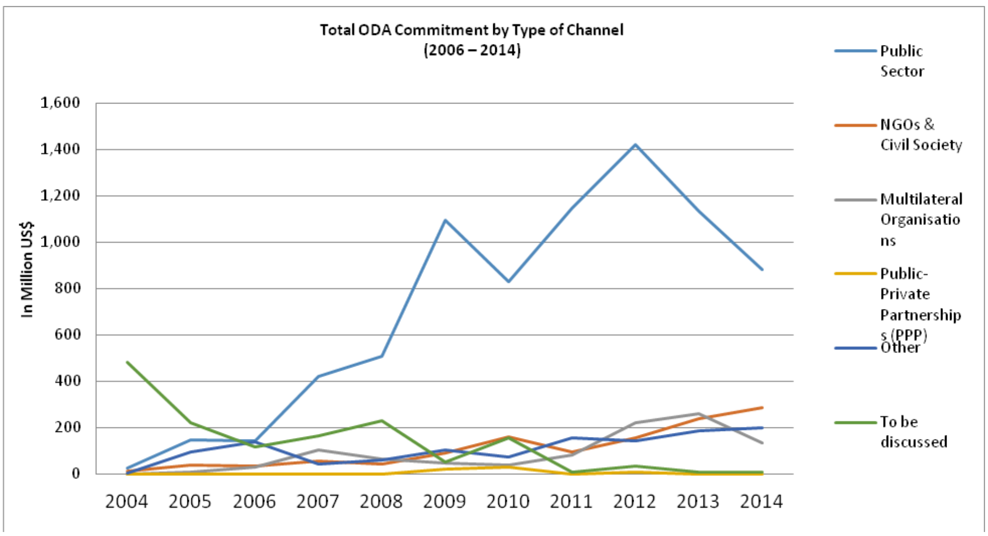

Figure 5. Total ODA Commitment by Type of Channel (2006-2014)
Source of Basic Data: OECD.stat

C. Channels of Philippines ODA

The main channel of Philippine Overseas Development Assistance continues come from the public sector, both for ODA commitments, and disbursements (Figures 5 and 6). While Public-Private Partnerships (PPP) was launched in 2010 by the Aquino administration, which focused on key strategies primarily on infrastructure investments, it has not provided significant impact, in shifting to such a channel. However, data for 2015, may provide a nominal increase, since much of the flow was approved, during the latter part of the past administration.

D. Bilateral ODA Flow

This section provides a broad overview of bilateral aid flow to the Philippines, in which several donors have

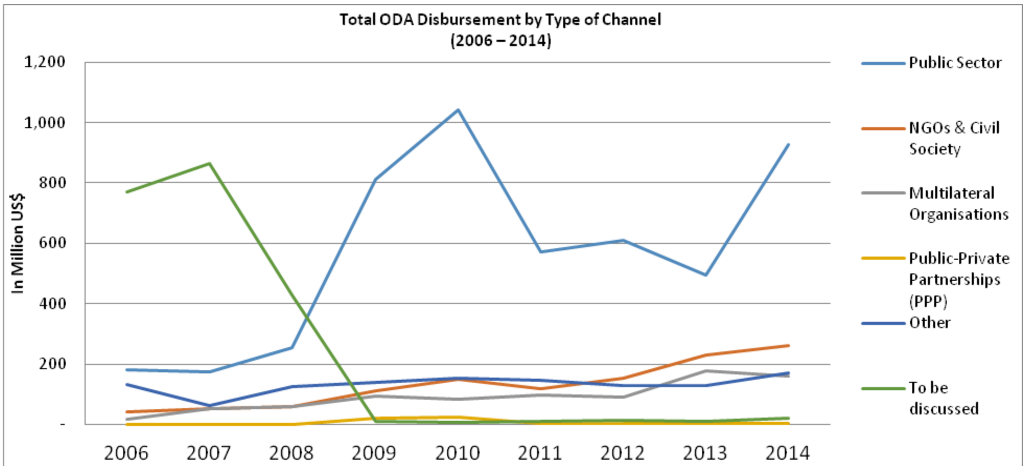

Figure 6. Total ODA Disbursements by Type of Channel

Source of Basic Data: OECD.stat

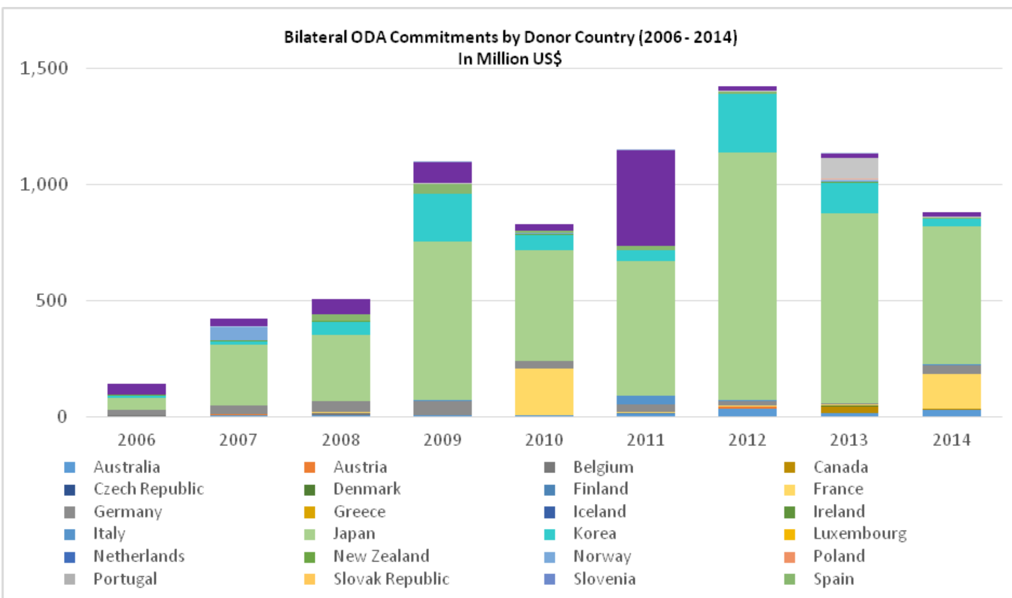

Figure 7. Bilateral ODA Commitments by Donor Country (2006-2014)

Source of Basic Data: OECD.stat

continued to render aid, from 2006-2014 (Figure 7 and 8). Japan prominently leads the bilateral flow landscape in the Philippines, in terms of ODA commitments and disbursements from 2006-2014. Besides the prevailing dominance of Japan as a donor, no other discernible pattern in terms of value, of bilateral ODA commitments of other donor countries to the Philippines, is seen in Figure 7. However, relative to bilateral ODA disbursements besides Japan, the U.S. and the Netherlands, appear to match each other, during the years relative to funds flowing into the Philippines.

E. Multilateral ODA Flow

Relative to multilateral ODA flow, historically, major

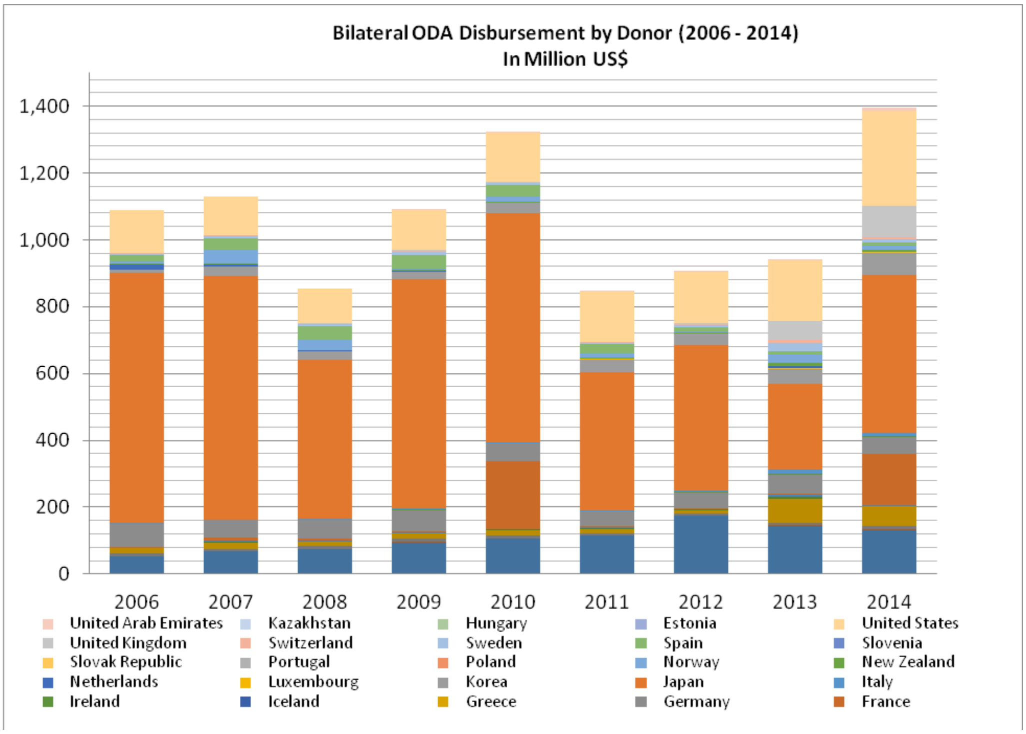

Figure 8. Bilateral ODA Disbursements by Donor Country (2006-2014)
Source of Basic Data: OECD.stat

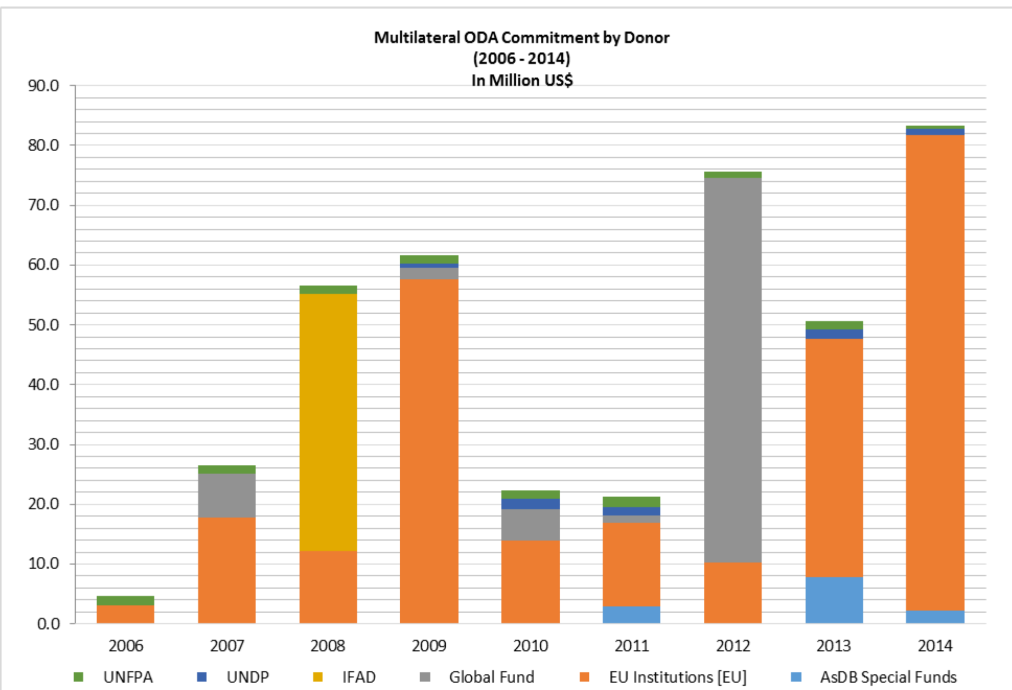

Figure 9. Multilateral ODA Commitments by Donor (2006-2014)
Source of Basic Data: OECD.stat

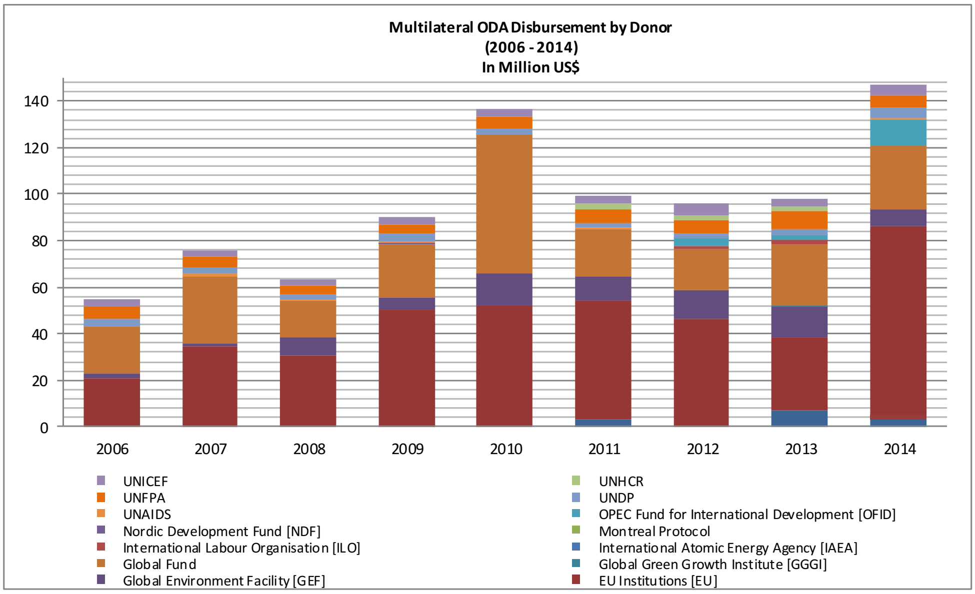

Figure 10. Multilateral ODA Disbursements by Donor (2006-2014)
Source of Basic Data: OECD.stat

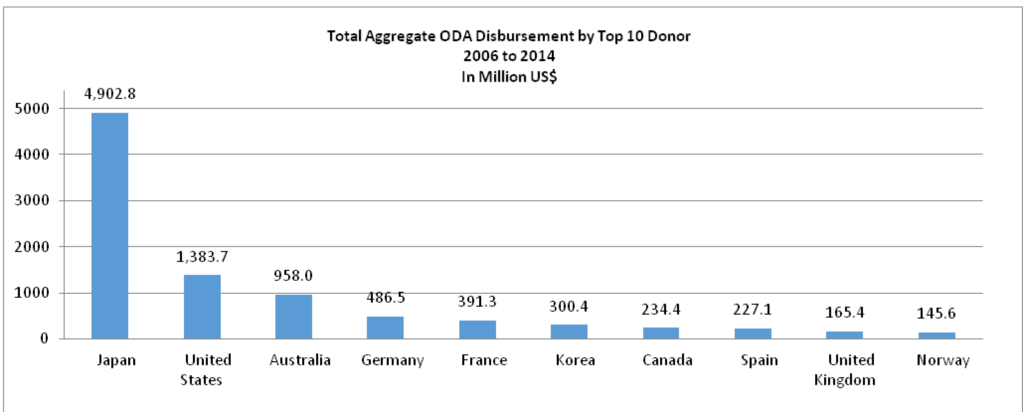

Figure 11. Total Aggregate ODA Disbursements by Top 10 Donors
Source of Basic Data: OECD.stat

multilateral donors have functioned as creditors or banks, not donors, by lending money at non-concessional interest rates. For the period presented in Figure 9 and 10, for ODA commitments and disbursements, the EU was a consistent donor, as was the United Nations Population Fund(UNFPA). The EU was the major multilateral donor to the Philippines, but only in recent years beginning in 2013, while the UNFPA maintained its steady, modest contribution, among the top six multilateral donors. Various institutions were reported to contribute to ODA commitments, while several institutions such as the Global Fund, were donating substantially, under ODA disbursements.

F. Total Aggregate Bilateral ODA: Top 10 Donor Countries

On an aggregated level covering 2006-2014, as seen in Figures 11 and 12, Japan dominated aid flow by commitment and disbursement, which reflects its continuing role

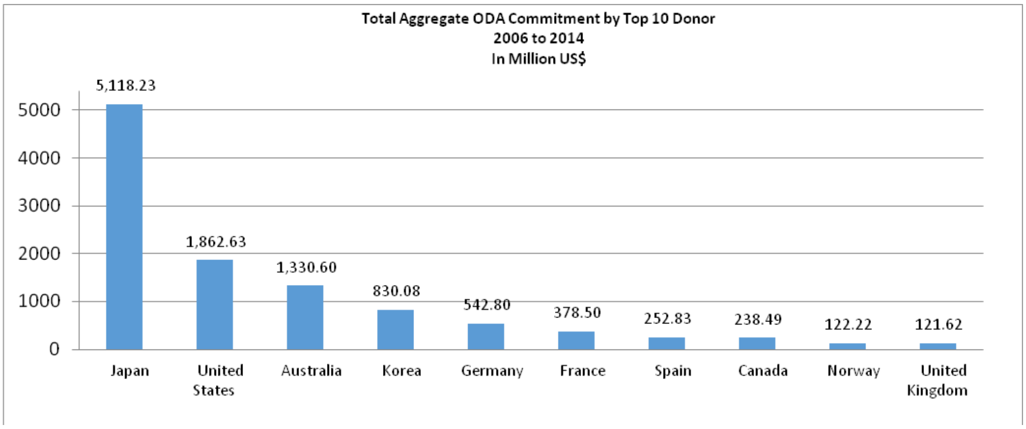

Figure 12. Total Aggregate ODA Commitments by Top 10 Donors
Source of Basic Data: OECD.stat

as a regional leader. Not surprisingly, the Philippines' closest strategic and economic partner – the U.S., is second, while another Asia-Pacific leader – Australia, is third. Interestingly, for the eight-year reference period, South Korea has emerged as the fourth major donor, for ODA commitments, followed by Germany, which is ranked fourth, in terms of ODA disbursements. Other donor countries in the top 10 included France, Canada, Norway, and Spain.

What can readily be concluded in this ranking, is the continuing efforts of these countries to foster strategic, business interests, and influence, in the recipient country through aid. ODA by sector is defined, as the distribution of bilateral ODA commitments by economic sector. It does not refer to the type of goods or services provided. The body of data represents aggregates of individual projects, notified under the Creditor Reporting System, supplemented with reporting on the sectoral distribution of technical co-operation, and on disbursements of food and emergency aid. This indicator is measured in millions of USD (U.S. dollars) at prevailing prices, using 2014 as the base year.

G. The Role of the National Economic and Development Authority (NEDA)

NEDA is the Philippine government agency, tasked with formulating and implementing development plans, pursuant to national development goals. In 2015, NEDA assisted in formulating "structural reforms for sustainable and inclusive growth: a) Passage of the Fair Competition Act and Cabotage Law; b) Sound fiscal management; c) Strong governance and anti-corruption agenda; d) Increased investment in basic education; and e) Widespread implementation of the Pantawid Pamilya Program, or the Conditional Cash Transfer Program, among others" (NEDA Annual Report, 2015). Among the tasks which NEDA performs is program and project appraisal, to ensure alignment with the Philippine Development Plan (NEDA Annual Report, 2015).

1. Philippine ODA Portfolio Review

According to NEDA (2013), the country's ODA portfolio at the end of 2013, was $12.05 billion (USD), comprised of 77 loans worth $9.09 billion (USD), and 503 grants totaling $2.97 billion (USD). The Japan International Cooperation Agency (JICA) is the major source of loans ($3.23 billion USD), accounting for 35.5 percent of ODA loans in 2013, while the World Bank and the Asian Development Bank(ADB) provided ODA loans totaling $2.34 billion USD (25.7 percent) and $1.64 billion USD (18 percent), respectively.

Australia was the top donor in terms of ODA grants, providing the Philippines with $891.29 million USDA (30.06 percent) worth of grants in 2013, while the U.S. was a close second (through the USAID and Millenium Challenge Corporation), releasing grants totaling $875.33 million USD (29.52 percent). The UN System ranked third in grant provision, with $407.27 million USD (13.73 percent).

In terms of sector, infrastructure accounted for the largest ODA share in terms of loans at 57 percent, followed by agriculture, agrarian reform and natural resources (15 percent), and government and institutions development (14 percent). Social reform and community development was the top recipient in terms of ODA grants, comprising 51.8 percent of total grants (NEDA, 2013).

As of 2014, the NEDA reported that the country's ODA portfolio was $14.37 billion (USDA), consisting of of 76 loans worth $11.18 billion (USDA) and 449 grants totaling $3.19 billion (USDA). Compared to 2013, total ODA in 2014 increased by 19 percent. The World Bank became the major source of loans ($4.45 billion USDA), accounting for 39.8 percent of ODA loans in 2014, while JICA and ADB provided ODA loans totaling $3.16 billion USDA (28.3 percent) and $2.23 billion USDA (20 percent), respectively.

The U.S. was the top donor in terms of ODA grants, providing the Philippines with $1148.6 million USDA (36.1 percent) worth of grants in 2014, while the UN System provided grants totaling $608.5 million USDA (19.1 percent). Australia was number three, releasing

Table 1. Approved New Projects by the NEDA Board in 2015

	PROJECT TITLE	PROPONENT AGENCY	TOTAL PROJECT COST (in PHP M)	FUNDING SOURCE
1	Integrated Marine Environment Monitoring System (PHILO Project Phase 2)	DA	1,675.89	ODA
2	Access to Sustainable Energy Program	DOE	4,891.42	ODA
3	Bureau of Fire Protection Capability Building Program, Phase II	DILG	1,426.36	ODA
4	Metro Manila Priority Bridges Seismic Improvement Project	DPWH	4,290.42	ODA
5	Davao City Bypass Construction Project	DPWH	16,814.69	ODA/LFP
6	Panguil Bay Bridge Project	DPWH	5,086.71	ODA
7	Tarlac- Pangasinan-La Union Expressway (TPlex) Project(Ultimate Stage)	DPWH	24,303.00	PPP
8	Laguna Lakeshore Expressway – Dike Project	DPWH	122,811.12	PPP
9	Proposed Restructuring of the World Bank-funded National Roads Improvement and Management Program Phase II	DPWH	28,943.34	ODA
10	North-South Commuter Railway (NSCR) Project, Phase I	DOTC	117,304.40	ODA
11	Naga Airport Development Project	DOTC	3,532.90	Local Financing
12	Clark International Airport New Passenger Terminal Building Project	DOTC	15,354.48	Local Financing
13	Light Rail Transit (LRT) Line 2 West Extension Project	DOTC	10,118.46	Local Financing
14	LRT Line 4 Project	DOTC	50,150.00	PPP
15	LRT Line 6 Project	DOTC	64,710.00	PPP
16	North-South Railway Project (NSRP)- South Line	DOTC	170,699.00	PPP
17	Manila-Quezon Avenue Bus Rapid Transit (BRT) Project	DOTC	4,789.08	ODA
18	Harnessing Agribusiness Opportunities Through Robust and Vibrant Entrepreneurship	LBP	11,426.00	ODA
19	Local Government Units Investment Programme (LIP) Supplement 3	LBP	231.21	ODA
20	Agno River Irrigation System Extension Project	NIA	2,629.54	Local Financing
21	Balog Balog Multipurpose Project	NIA	13,370.00	Local Financing
22	Civil Registry System Information Technology (Project Phase II under Solicited Mode)	PSA	1,586.78	PPP
23	Maritime Safety Capability Project Phase II	DOTC-PSG	4,922.59	ODA
	TOTAL NEW PROJECTS		470,824.44	

Source: NEDA Annual Report 2015

Table 2. Approved Project Requests for Change in Approval by the NEDA Board in 2015

	PROJECT TITLE	PROPONENT AGENCY	TOTAL PROJECT COST (in PHP M)	FUNDING SOURCE
1	Regional Prison Facilities through Public-Private Partnership Project	DOJ	50,204.19	PPP
2	Road Improvement and Institutional Development Project (formerly Road Sector Institutional Development and Investment Program)	DPWH	6,934.68	ODA
3	Daang Hari SLEX Link Road Project	DPWH	2,179.06	PPP
4	NAIA Expressway Phase II Project	DPWH	17,930.53	PPP
5	NLEX-SLEX Connector Road Project	DPWH	23,200.00	PPP
6	New Centennial Water Source – Kaliwa Dam Project	MWSS	18,724.00	PPP
	TOTAL PROJECT REQUESTS FOR CHANGE		119,172.46	

Source: NEDA Annual Report 2015

grants worth $587.02 million USDA (18.4 percent). As for the allocation according to sector, infrastructure remained the major recipient of ODA share in terms of loans at 39 percent, followed by social reform and community development (24 percent) and government and institutions development (22 percent).

Social reform and community development likewise, remained the top recipient in terms of ODA grants, comprising 37 percent of total grants (NEDA, 2014). In 2015, the NEDA approved 29 projects which included 23 new projects (12 of which were funded via ODA (accounting for 41 percent of total approved projects), 11 funded by PPP (38 percent), five locally funded, one mixed ODA and LFP financing, and six project requests for change as seen in Tables 1 and 2.

While the major share of such projects (Tables 1 and 2), consisted primarily of infrastructure and transportation development, other major sectors covered by development finance in the Philippines, included agriculture, agrarian reform and natural resources, as well as governance and institutions development.

Ⅳ. Comparative Trends in ODA: Philippines and Indonesia

The Philippines and one of its closest neighbors, Indonesia, are key players in the ASEAN region, the former is a lower middle country, and the latter, has emerging status as a G20 middle income country. While the Philippines continues to be an active aid shopper in recent years, Indonesia is a distinct country recipient, and donor country. Both countries are the largest archipelagos in the world, and comprise the Malay Archipelago, consisting of Indonesia's 17,000 islands, and the Philippines' 7,000 islands (The Editors of Encyclopedia Britannica, 2012), are vulnerable to environmental disasters, and have diverse regional differences, and development.

While Roman Catholicism is the primary religion in the Philippines, because of its Spanish heritage, the southern Philippines is primarily home to a Muslim population. Indonesia has the world's largest predominantly Muslim population, with significantly more decentralized provinces having strong local autonomy. Moreover, since the Philippines and Indonesia have a similar trend in their respective political history during the 1960s-1980s, an interesting aspect to explore, would be to examine how ODA trends in both countries have been tracking.

Both countries have struggled against prolonged dictatorship rule, which prevailed for decades under Ferdinand Marcos (Philippines), and Muhammad Suharto (Indonesia). This has left deep rifts in the Philippines and Indonesia geopolitics, making these countries vulnerable to corruption, and political patronage. An examination of Figure 13-16 reveal that the public sector continues to be the primary channel for ODA flow, in terms of commitments and disbursements for both countries, but in terms of value, Indonesia leads by approximately 40 percent, most likely because of its larger population, needing basic social services. A wide gap is evident, with respect to the other types of ODA channels, but such gap is closer regarding Indonesia, compared to that of the Philippines. A noticeable trend is the apparent effort made by the Philippines government, to encourage Public-Private Partnerships as a channel. However, this is conspicuously absent regarding Indonesia.

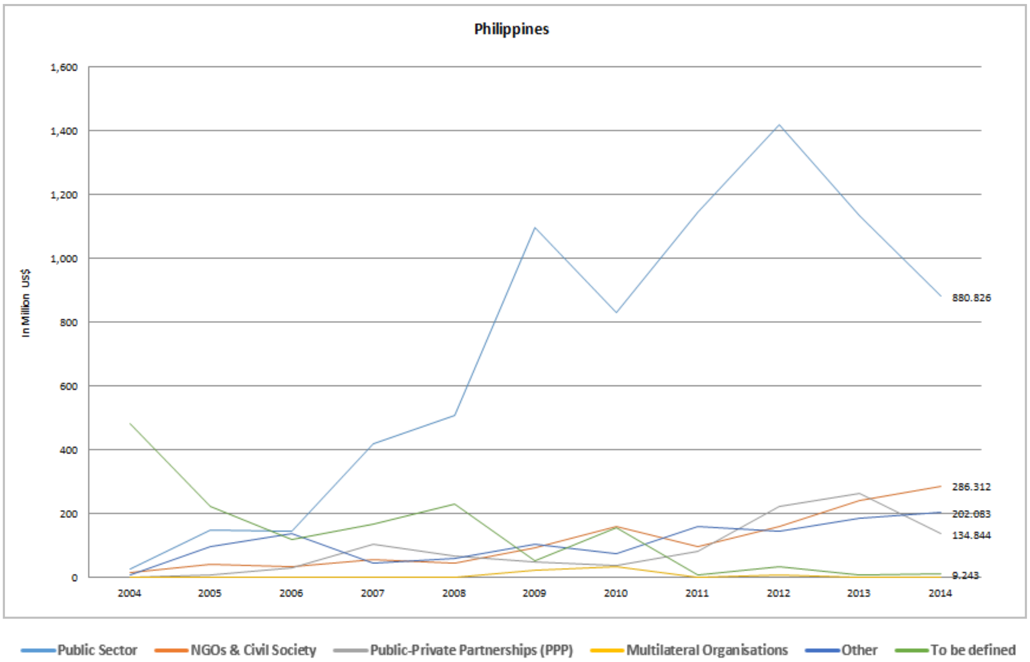

Figure 13. Total ODA Commitments by Type of Channel (Philippines)
Source of Basic Data: OECD.stat

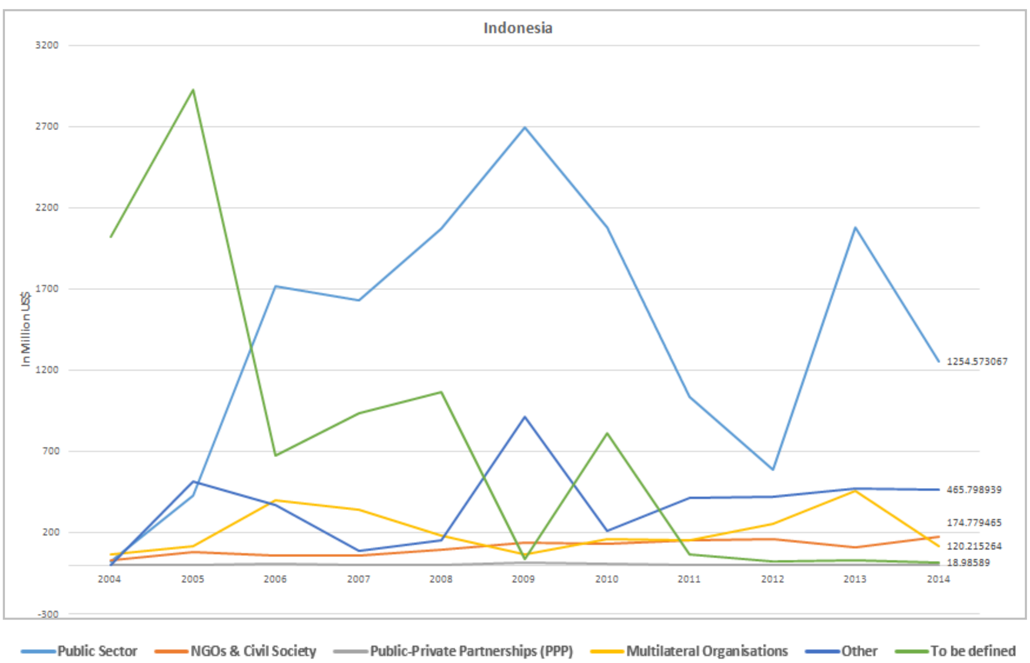

Figure 14. Total ODA Commitments by Type of Channel (Indonesia)
Source of Basic Data: OECD.stat

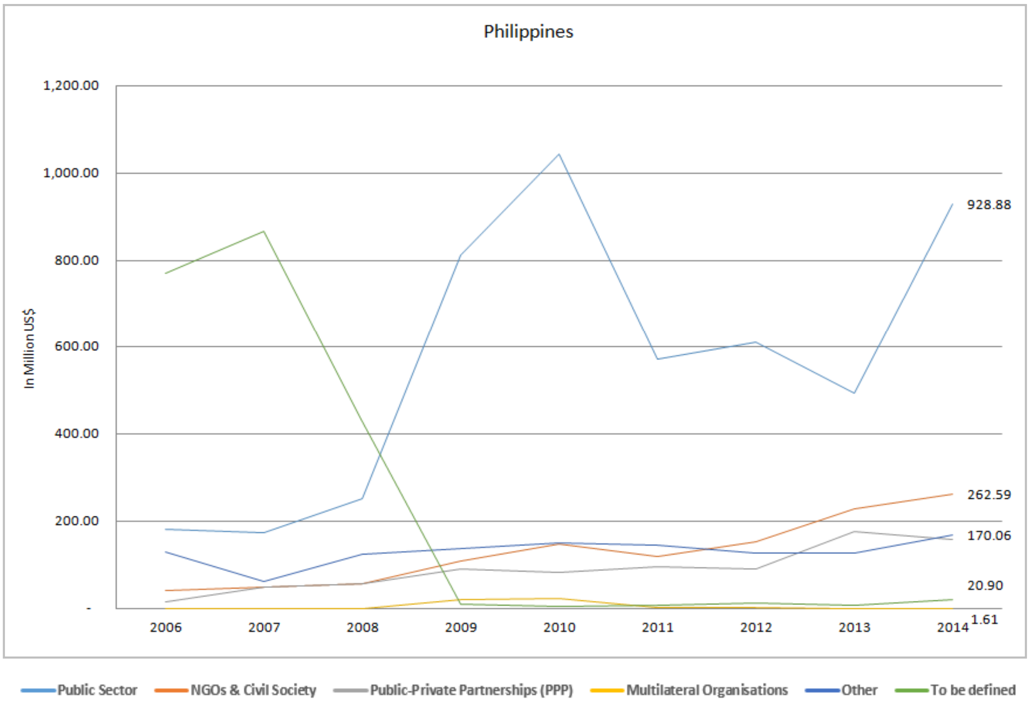

Figure 15. Total ODA Disbursements by Type of Channel (Philippines)
Source of Basic Data: OECD.stat

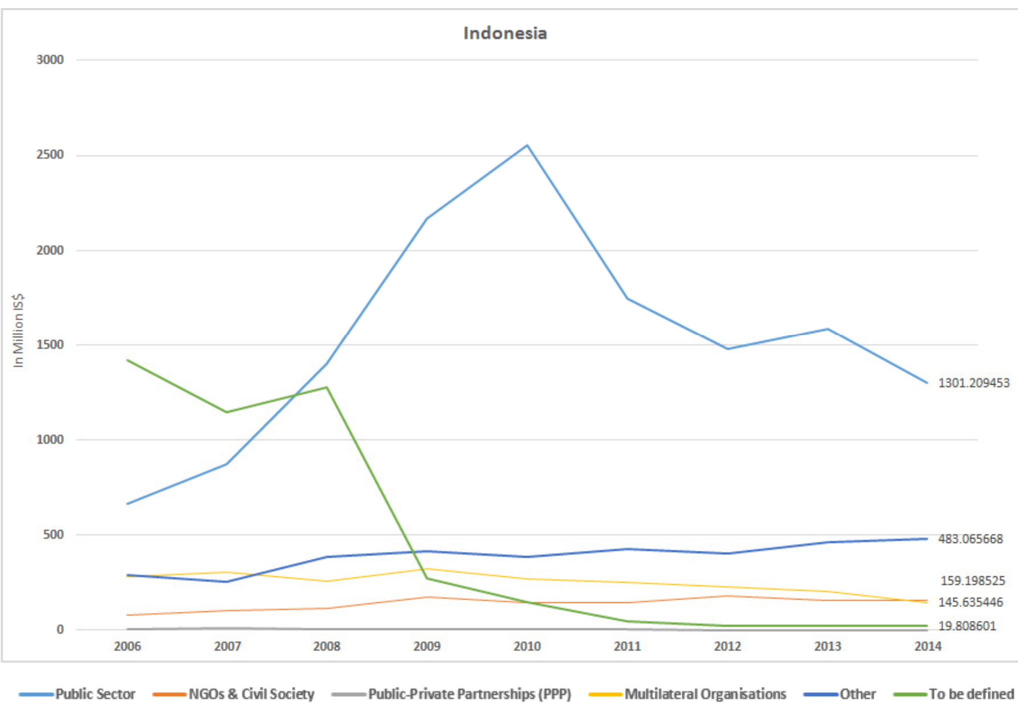

Figure 16. Total ODA Disbursements by Type of Channel (Indonesia)
Source of Basic Data: OECD.stat

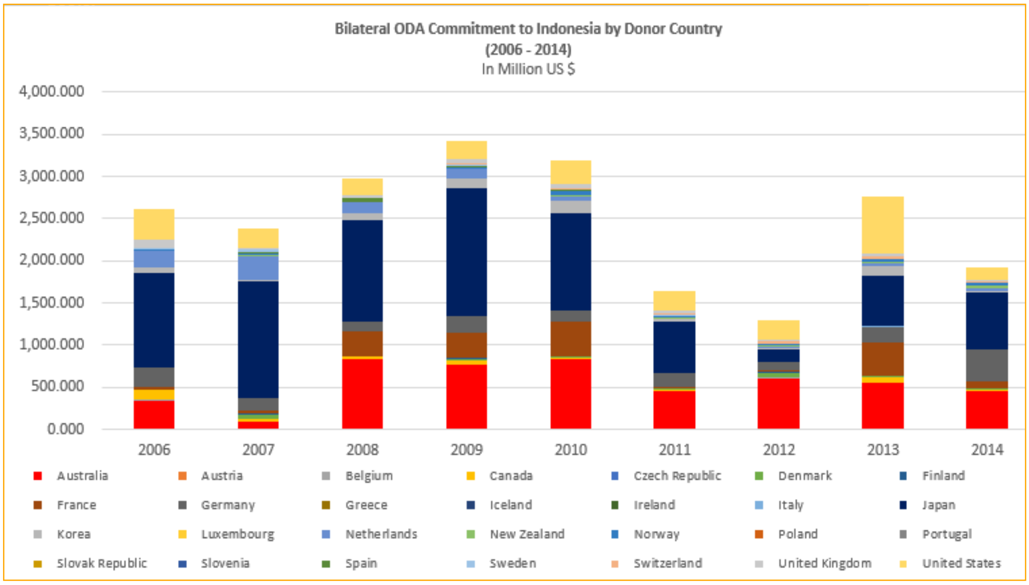

Figure 17. Bilateral ODA Commitments to Indonesia by Donor Country
Source of Basic Data: OECD.stat

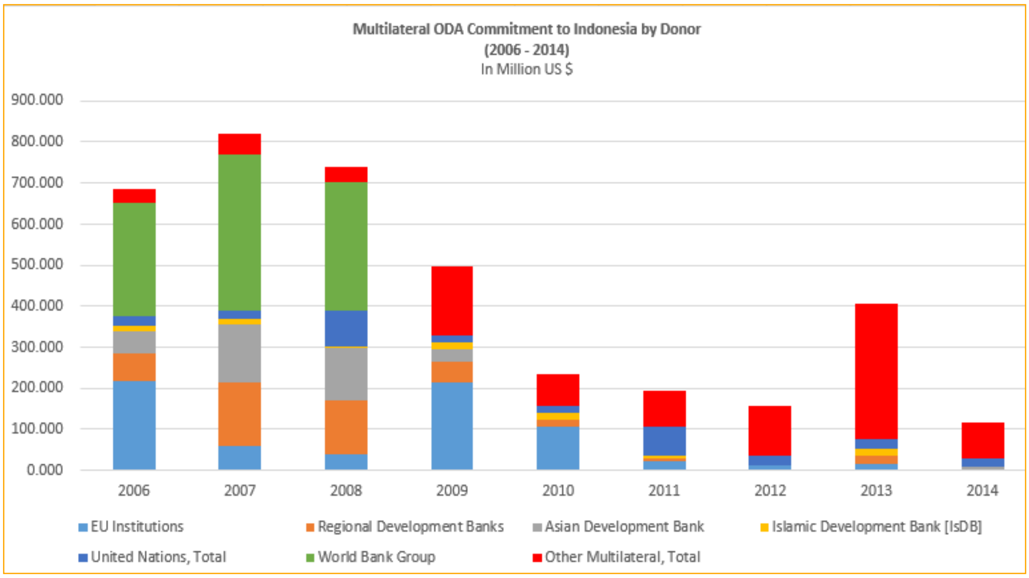

Figure 18. Multilateral ODA Commitments to Indonesia by Donor Institution
Source of Basic Data: OECD.stat

Although aid flow to Indonesia, may still be substantial with ODA commitments and disbursements still in the billions of U.S. dollars, the ODA disbursement trend in Indonesia has been declining since 2010 (Figure 16), compared to that of the Philippines which reflected a marked ODA disbursement increase in 2014.

In Figure 17 and 18, a key observation is a general decline in bilateral and multilateral ODA commitments, by donor countries and multilateral groups to Indonesia. While the same trend is not as distinct in bilateral ODA disbursements (Figure 19), a similar declining trend is observed in multilateral ODA disbursements (Figure 20).

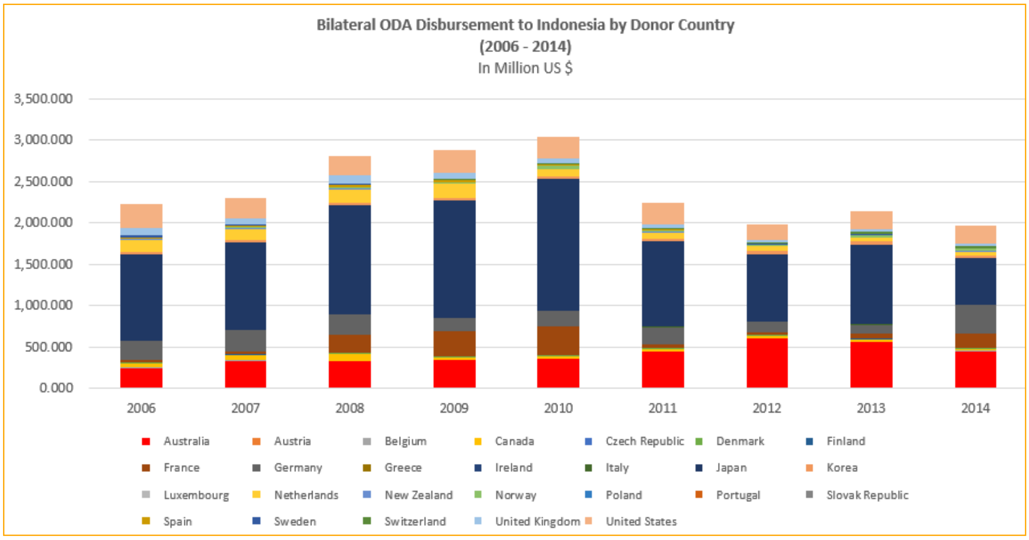

Figure 19. Bilateral ODA Disbursements to Indonesia by Donor Country
Source of Basic Data: OECD.stat

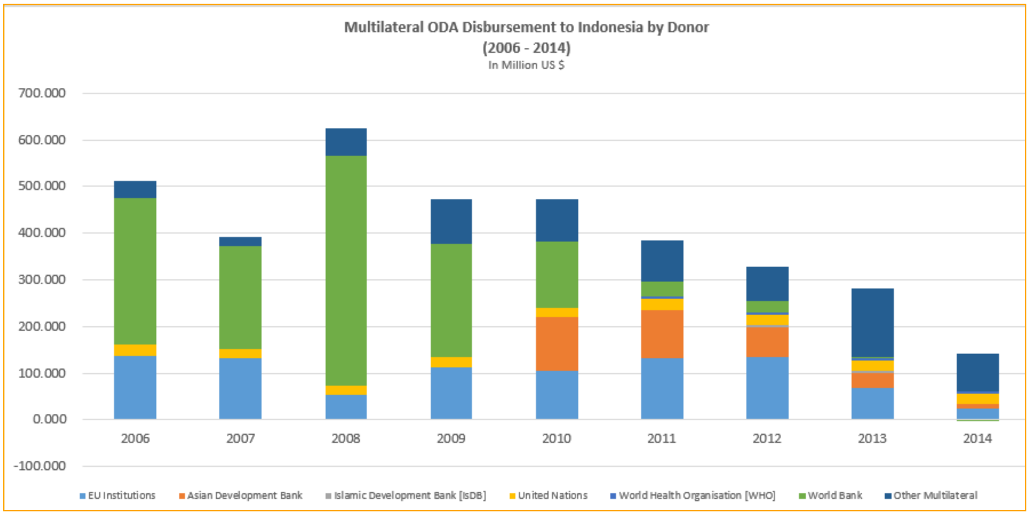

Figure 20. Multilateral ODA Disbursements to Indonesia by Donor
Source of Basic Data: OECD.stat

As an active participant in South-South and Triangular Cooperation, Indonesia has demonstrated that such patterns of ODA commitments and disbursements can be explained, by its gradual transformation from being a net recipient country of ODA, to evolving into a donor country. It essentially has been a provider of South-South cooperation, in which developing countries of the Global South, engage in the exchange of resources, technology, and knowledge (The Asia Foundation, 2014). The same could not be said of the Philippines, which is a net recipient of ODA (Figures 7-10).

Before gradually establishing itself as a donor country, Indonesia was predominantly an ODA recipient country, and received significant loans, from bilateral donors such as Japan, Australia and U.S. These three countries figure in the top three list of bilateral donors of the Philippines, based on OECD statistics. Multilateral ODA flow was provided significantly by ADB and World Bank initially from 2006-2008, which focused on infrastructure and public spending projects. By 2010, bilateral and multilateral ODA flow to Indonesia significantly declined, but a surge in aid flow in 2013, was attributed to several disasters such as the Mount Sinabung volcano eruption in North Sumatra, and the South East Asian haze in 2013, which affected and displaced approximately 100,000 Indonesians (Figure 18).

Not surprisingly, other multilateral funding which dominated the flow in 2013, were from other multilateral organizations such as the Global Environment Facility (GEF), and Global Green Growth Institute. GEF is considered the largest public fund, providing projects to improve the global environment such as biodiversity, climate change, international waters, land degradation, and persistent organic pollutants. Global Green Growth, is a South Korea-based organization promoting green growth, whose mission is, to balance economic progress with environmental sustainability.

As corroborated by OECD data summarized in Table 3, the top five donor countries in terms of ODA commitments for the Philippines and Indonesia, are Japan, U.S., Australia, Germany, and France. While Indonesia has the same five countries on its list of top five donor countries in terms of ODA disbursements, the Philippines has Japan, Korea, U.S., France, and Germany. Korea is not amongst Indonesia's top five bilateral ODA donors.

A look at the top five aggregated multilateral ODA commitments and disbursements data by the OECD, reveal different sets of multilateral aid donors for the two countries with EU institutions, Global Fund, International Fund for Agricultural Development (IFAD), Asian Development Bank Special Fund (AsDB) and UNFPA in the list of top five multilateral donors of the Philippines, while for Indonesia, these include other multilateral institutions, the World Bank, EU institutions, Regional Development Bank and ADB (in terms of commitments). As for the top multilateral disbursement donors, the Philippines has

Table 3. Top 5 Aggregated Bilateral ODA Commitments and Disbursements by Donors (Philippines vs. Indonesia)

Philippines (2006 - 2014)				Indonesia (2006 - 2014)			
Commitment	**In million US$**	**Disbursement**	**In million US$**	**Commitment**	**In million US$**	**Disbursement**	**In million US$**
Japan	4,902.8	Japan	4,818.4	Japan	9,605.8	Japan	9,827.5
United States	1,383.7	Korea	810.2	Australia	5,266.5	Australia	3,659.1
Australia	958.0	United States	732.6	United States	2,779.3	United States	2,183.3
Germany	486.5	France	364.1	Germany	2,339.9	Germany	1,864.0
France	391.3	Germany	293.9	France	1,956.7	France	1,233.4

Source of Basic Data: OECD.stat

Table 4. Top 5 Aggregated Multilateral ODA Commitments and Disbursements by Donors (Philippines vs. Indonesia)

Philippines (2006 - 2014)				Indonesia (2006 - 2014)			
Commitment	**In million US$**	**Disbursement**	**In million US$**	**Commitment**	**In million US$**	**Disbursement**	**In million US$**
EU Institutions [EU]	248.2	EU Institutions [EU]	398.4	Other Multilateral	995.9	World Bank	1,473.3
Global Fund	79.9	Global Fund	238.9	World Bank	970.0	EU Institutions [EU]	901.5
IFAD	43.0	Global Environment Facility [GEF]	73.6	EU Institutions [EU]	685.3	Other Multilateral	693.6
AsDB Special Funds	12.9	UNFPA	48.1	Regional Development Bank	449.1	ADB	322.4
UNFPA	11.7	UNICEF	31.4	ADB	356.2	United Nations	190.3

Source of Basic Data: OECD.stat

EU institutions, Global Fund, GEF, UNFPA, and UNICEF in its top five list while the World Bank, EU institutions, other multilateral institutions, ADB and United Nations, comprise Indonesia's top five as seen in Table 4.

Ⅴ. Conclusion

For the past 50 years, the total ODA of donors to developing countries has been increasing, with a surge from 2002, and beyond. Trends in Philippines ODA and other overseas capital flow, also appear to follow the world economy. ODA trends plunged during international financial crises and presidencies, marked with widespread corruption. In addition, the type of development capital flow, as well as the extent of such flow during the Philippines' history of receiving ODA, depend on development policies, of the incumbent administration.

For example,, during the Ramos and Aquino administrations, and to a modest with the Macapagal-Arroyo presidency, private flow (DAC4) revealing marked increase and decline, dominated the Philippines ODA landscape from 1994-1999, then again from 2004-2007, and from 2009 and beyond. Total ODA vs. total ODA commitments revealed a converging trend, with the public sector as the main ODA channel. This was evident in ODA commitments and disbursements data, for the Philippines, and Indonesia.

Bilateral ODA commitments recorded a peak in 2012, with Japan emerging as the top donor since 2007, to the present. Japan was likewise a top bilateral ODA donor country, relative to Indonesia.

The EU was the Philippines' major multilateral ODA donor. However, for Indonesia, other multilateral institutions were its main multilateral aid providers. In terms of total aggregate ODA commitments in the Philippines, major donor countries included Japan, the U.S., Australia, Korea, Germany, France, Spain, Canada, Norway, and the U.K. The same countries figured in terms of ODA disbursements in the Philippines, with a nominal change in the ranking, to wit: Japan, the U.S., Australia, Germany, France, Korea, Canada, Spain, U.K., and Norway.

For Indonesia, Japan, Australia, U.S., Germany, and France, were in its top five list of bilateral ODA donor countries, in terms of ODA commitments and disbursements. The Philippines' ODA portfolio increased by 19 percent from \$12.05 billion (USD) in 2013, to \$14.37 billion (USD) in 2014, which appears to because of the international response in the wake of Typhoon Haiyan (Yolanda), which wrought havoc on the Central Philippines in late 2013. For Indonesia, a similar surge in ODA portfolio was observed, after a series of environmental disasters devastated the country.

JICA, the World Bank, and ADB, were the top ODA loan providers, while Australia, the U.S., and the UN System, were the major providers of ODA grants. In 2013 and 2014, the infrastructure sector cornered the largest share of ODA loans (comprising 59 percent in 2013, and 39 percent in 2014), while the social reform and community sector was the primary recipient of ODA grants (accounting for 51.8 percent in 2013, and 37 percent in 2014).

It remains to be seen what the Philippines ODA landscape will be like, when NEDA subjects all ODA once again, to its review process in the next few years, particularly under a new Philippines president. Finally, while the Philippines and Indonesia may have similarities relative to their archipelagic form and location, and geopolitics and vulnerability to extreme weather, these countries also track identically, relative to ODA trends, in terms of channel type, top five bilateral donor countries, and surges in ODA portfolio after environmental disasters. One glaring observation, however, is that it is evident that Indonesia is gradually becoming a donor country, if it has not achieved that status already, while the Philippines remains a net recipient of ODA.

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The Good Practice in Marketing Microinsurance Product: Evidence from Indonesia

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A B S T R A C T

The purpose of this study is to investigate the good practice of the microinsurance industry in Indonesia, using a case study of three microinsurance providers, namely Allianz, Prudential, and Asuransi Central Asia (ACA). In addition, this study also aims to analyze the challenges, of the microinsurance industry in Indonesia. Results from this study reveal that despite the large market potential for microinsurance in Indonesia, there are challenges that should be addressed, to boost the growth of the microinsurance industry in Indonesia. To respond to this challenge, attention should be focused on consumer protection, and consumer appeal aspects. From the three microinsurance providers discussed in this study, viable approaches to implement when competing in the microinsurance market in Indonesia, including market research to understand the behavior of low-income consumers, the extensive distribution of partners, consumer education practices, and corporate values that demonstrate the dedication of the company, to serve low-income consumers.

Keywords: Microinsurance, low income market, microfinance, Indonesia

Ⅰ. Introduction

The term “microinsurance” has been gaining more popularity. It has also received increasing attention from policymakers and researchers, because of its potential to assist with the poverty reduction effort (Biener, Eling, & Schmit, 2014). Microinsurance can boost the achievement of goals declared by leaders of G20 countries, which embraces financial inclusion and social protection, since microinsurance incorporates both elements, in its implementation (Council of The European Union, 2012).

According to Churchill and McCord (2012), the definition of microinsurance has become operational, and it should create a distinction, between traditional insurance and microinsurance. Hence, there are four characterizations to differentiate microinsurance from traditional insurance: (1) Target group (microinsurance is intended for low-income consumers), (2) Product definition (restrict the premium by placing a cap on the value insured, so the product is relevant for only low-income consumers), (3) Provider definition (the type of organization that could provide microinsurance, including formal insurers, burial or friendly societies, mutual cooperatives, and community-based organizations), and (4) Distribution channel (a product is considered as microinsurance, if it distributed by microfinance institutions (MFIs), low-cost retailers, or other organizations that typically serve the low-income market).

In Indonesia, the development of microinsurance industry is at an early stage. However, the Indonesia Financial Services Authority (Otoritas Jasa Keuangan/OJK) has started to demonstrate its commitment to improving access of low-income consumers, to insurance products. In 2013,

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OJK launched a Grand Design for Development of Microinsurance, in Indonesia. The Grand Design is intended to facilitate the evaluation, development, and implementation of microinsurance and Sharia Microinsurance[1] in Indonesia.

Regarding the definition of terms, OJK has its characteristics, to define microinsurance. In the Grand Design, OJK stated that there are four requirements of the microinsurance product in Indonesia: First, it must be *simple*, meaning that the product provides basic coverage from common risks faced by low-income consumers. It should also have simple features, a simple administration process, and be a simple policy.

Second, it must be *easy to obtain* (accessible to the target market, which are low-income people). Third, it must be *economist*, or affordable for the target market. The insurance company must significantly reduce operating systems related to premiums, so that it can lower premiums. Fourth is *fast*, meaning the insurance provider should be quick in processing the claim (10 days after a complete document is accepted), because low-income people do not have savings to manage the financial impact of a disaster. The authority also set the maximum premiums at IDR50,000 (US$3.73), with a maximum payout of IDR50 million (US$3,731.34).

The Grand Design also has a definition, for the poor who are eligible to apply for microinsurance products. According to OJK, low-income consumers are those who earn no more than IDR2.5 million (US$192) per month. At the end of 2015, OJK reported that the number of microinsurance consumers in Indonesia was 22.8 million (Muchlasin, 2015). A population of more than 250 million, and low penetration rates of insurance products, make Indonesia a market with the most potential, in Southeast Asia.

Relevant to the potential, the trend in Indonesia reveals that the insurance companies that participate in marketing microinsurance products, are increasing annually. At the end of 2015, 65 of 140 companies were marketing microinsurance products (Muchlasin, 2015). However, the first insurance company that observed a potential in low-income market, was Allianz Indonesia, a private insurance company. The company entered the Indonesian microinsurance industry in 2006. Throughout the years, the company has built its reputation as one of the most committed insurance companies that provides microinsurance products to low-income consumers.

Because of its rigorous effort in penetrating the low-income insurance market in Indonesia, Allianz enjoys significant growth, serving a total of 4,833,000 microinsurance consumers, in 2015 (Allianz SE, 2016). Despite the success that Allianz experience in Indonesia's microinsurance market, there are also challenges that hinder the development, of microinsurance companies in general. Hence, it is crucial to present the strategy that has been implemented by current insurance companies, competing in Indonesia's microinsurance market. Therefore, companies can assess which approach works best, in Indonesia's market.

The distribution of this paper is as follows. First, we present three large insurance companies that we consider use the best practice, in marketing microinsurance products, along with the type of microinsurance products they offer. These companies are Allianz Indonesia, Prudential, and ACA. Second, we discuss the challenges in Indonesia's microinsurance industry, that include the large, but untapped market, and the readiness of the industry to meet market demand. Finally, in the discussion portion, we evaluate the appeal of Indonesia's microinsurance market, the state of consumer protection, and we highlight best practices that work, in marketing microinsurance products in Indonesia, based on the experience of the three insurance companies that we discuss.

Ⅱ. Microinsurance Products in the Indonesian Market

A. Allianz

Allianz entered Indonesia's microinsurance market in 2006. Until 2015, the company describes the business of providing insurance for low-income consumers, as microinsurance. However, they changed the name of that business unit into “Emerging Consumers” in 2015. The change is attributable to the re-purposing of its focus, from providing only an insurance product, to servicing

[1] Microinsurance that operated using sharia system, in which the insurance company manages the fund, and after some period, the company will share the profit (profit-sharing system), in accordance with the agreement used.

Table 1. Specification of TAMADERA Microinsurance Products

Product name	TAMADERA An abbreviation for "mencipTAkan MAsa DEpan sejahteRA", or "building a prosperous future"
Product background	From market research conducted among low-income families, that expressed a high demand for life, and health coverage. They also expressed a strong concern about high education costs
Product type (e.g life insurance, savings, assistance)	Endowment
Distribution partner type (e.g. MFIs, banks, retailers)	Microfinance Institutions (MFIs)
Launch date (and end date if any)	November 2010-April 2012 The company discontinued the product in June 2012, with one of the reasons being that interest rates were down to four to five percent, which jeopardized the viability of the product (Prasetyo, 2014)
Product description	A product that combines life insurance coverage, critical illness coverage, and a savings benefit
Group or individual product	Group (only available for MFI customers and their spouses)
Covered risk and benefit/ sum insured	In case of any five of critical illnesses (cancer, stroke, heart attack, kidney failure, major burns) happen, the insurance pays IDR2.5 million (US$186.57) If, after five years, there is no claim from clients, they will receive the full premium, which a is minimum IDR2.5 million. The usage of this maturity benefit is up to the client, however Allianz and its distribution partner suggest to use it for children's education. Hence, the product is also positioned as micro-education insurance, since it allows families to invest in a better future. (German and Indonesia Chamber of Industry and Commerce, n.a) Early withdrawal possible from year two forward, at 15 percent surrender charge
Premium range	The minimum premium of TAMADERA starts as low as IDR10,000 (US$0.75) per week for 250 weeks per year (50 weeks per year). Two weeks per year are premium holidays
Other comments	In terms of consumer education, a specially trained TAMADERA field coordinator of the MFI is in in charge of client education. However, there is no direct hotline provided for the consumers. In addition, to ensure the cost effectiveness, a web-based administration system is in place for automatic processing from enrollment, to invoicing claims

Source: (Allianz SE, 2013)

consumers, and meeting their needs. The range of services Allianz offers is expanded to assistance, or mobile saving.

Allianz believes that in meeting the needs of low-income consumers, it will benefit them in the future. Allianz's reasoning is that low-income consumers will grow into the middle-class segment of Indonesian society in the future. At that time, Allianz could market its conventional products to them (Allianz, 2015). There are many microinsurance products that Allianz offers to the low-income market in Indonesia. To its products, Allianz conducts a self-assessment of seven quality criteria, including strong risk management, other benefits, consumers involved, voluntary, consumer education, product simplicity, and low transaction costs (Allianz, 2015). However, this paper will discuss only four of the microinsurance products developed by Allianz namely TAMADERA, "GO-JEK Driver" Health Insurance Plan, Family Umbrella (Payung Keluarga), and Umbrella for My Savings (Payung Tabunganku). The specifications of these products are provided in Table 1 through Table 4.

Looking at the description of Allianz products above, Allianz has several partner types to distribute microinsurance products, such as Microfinance Institutions (MFIs), commercial banks, productive cooperatives, telecommunication companies, and postal operators (Allianz, 2015). Allianz believes that partnering with Microfinance Institutions, is the most effective marketing strategy, since MFIs have experience with the low-income segment. Currently, Allianz Indonesia is the largest microinsurance provider in Indonesia, with close to five million consumers.

This achievement is consistent with its commitment to serving low-income consumers, by continually seeking opportunities, and developing new products to meet the insurance needs of the low-income market. In addition,

Table 2. Specification of GO-JEK Driver Health Microinsurance Products

Product name	"GO-JEK Driver" Health Insurance Plan GO-JEK is an Indonesia hyper-local transport, logistics, and payments startup founded in 2010
Product background	GO-JEK is considered as a socially-minded company, hence once they are established, they ask Allianz to provide them with cost-effective health insurance for their drivers, and families
Product type (e.g life insurance, savings, assistance)	Comprehensive health insurance
Distribution partner type (e.g. MFIs, banks, retailers)	Direct distribution to motorcycle taxi drivers of "GO-JEK"company
Launch date (and stop date if any)	10 June 2016
Product description	A health insurance product for "GO-JEK" motorcycle drivers and their spouse and children that covers inpatient and outpatient treatment. The benefit for inpatient treatment includes coverage for the cost of hospital rooms, consultation visit, surgeries, and other inpatient treatment. For outpatient treatment, it covers doctor's consultation cost, medicine prescriptions, physiotherapy, and basic immunization.
Group or individual product	Group
Covered risk and benefit/ sum insured	Inpatient and outpatient treatment Coverage limits apply per treatment e.g. maximum of IDR25 million (US$1,866) for surgery per hospitalization period e.g. IDR50,000 (US$3.73) for each General Practitioner outpatient consultation Basic immunization for children < five years Death benefit of IDR3million (US$223.9)
Premium range	The premium is IDR2,300 ($0.17 USD) per person per day. The daily premiums are paid automatically from the GO-JEK drivers accounts, so the process is cashless, and hassle free. The digital process also improves claim settlement duration.
Additional information	Allianz offers a cashless facility in Allianz AdMedika hospital network throughout Indonesia. The company also dedicated a mobile website with informational videos, and product information. The client service is also ready to serve on a 24/7 basis.

Source: (Allianz SE, 2016), (Project M, 2016)

the company is using online technologies to provide services for its microinsurance consumers, and to maintain the low transaction costs of its products. Specifically, in Indonesia, the company has started sending policy renewal reminders, and information, via text messages.

Regarding this matter, it is also crucial to mention, that Allianz also offers a new product, SEKOCI.SEKOCI, which is the first microinsurance product with a SIM card. SEKOCI provides cash benefits for the beneficiary, should the insured die from illness. The benefit is five times the amount, if the death is cause by an accident. To make SEKOCI understandable, Allianz developed a marketing strategy that uses various communication media to educate clients. In terms of premium payments, the company works with Telecommunication Company that provides electronic money, so clients can pay premiums digitally.

The consumer only needs to top up their electronic money, and the premium is automatically deducted from available funds. Using this digital platform, Allianz can also provide financial literacy materials, through interactive voice response (IVR). The use of IVR technology lowers the cost of consumer education, since the company does not have to meet clients in-person, or above the line advertising anymore (Dosiwoda, 2016).

B. Prudential

Prudential Life Insurance (Prudential Indonesia) launched its first microinsurance product, PRUaman, in 2013. However, the company did not launch another microinsurance product until 2016, when they launched PRUaman Sharia, a sharia life insurance product intended to serve low-income consumers. The specification of Prudential's microinsurance product is presented in Table 5.

Table 3. Specification of Family Umbrella Microinsurance Products

Product name	Payung Keluarga (Family Umbrella)
Product background	The product is specifically designed to fulfill the needs of micro borrowers who make loans from Microfinance Institutions (MFI)
Product type (e.g life insurance, savings, assistance)	Term Life (attached to credit accounts), with riders
Distribution partner type (e.g. MFIs, banks, retailers)	Banks, MFIs
Launch date (and date if any)	September 1, 2006 for first product launched November 27, 2013 added an insurance for riders
Product description	Compulsory group credit life coverage (available in conventional or takaful/Sharia) with flexible benefits, and voluntary personal accident riders.
Group or individual product	Group
Covered risk and benefit/ sum insured	Mandatory base product: Risk: death of debtor and spouse (optional) Benefit: outstanding loan balance, or original loan amount Additional funeral benefit of up to two times original loan (optional) Loans: IDR0 – max. IDR200 million Voluntary rider (available since Dec 13): The benefits are up to IDR25 million (US$1,866) to cover accidental death, and total or partial permanent disability, due to a personal accident Payung Keluarga only covers the loan principal, and the foregone interest is not covered.
Premium range	Mandatory base product: IDR100-IDR1 million (US$0.007-US$74.63), depending on loan amount, tenor, and benefits. Voluntary rider: IDR8,000-IDR20,000 (US$0.60-US$1.50)
Additional information	The product features over 50 possible benefit combinations. However, the MFIs decide which benefits they want to include in the package, and the chosen package is compulsory for MFIs microloan borrowers. The company can decide whether they want to cover people aged 61-65, or exclude them. This age range must pay a higher premium rate, due to a significantly higher mortality risk. In terms of client education, brochures are provided by some MFIs, and the MFI staff is also equipped with flip charts, to explain the product in person. However, a direct hotline is not provided, except for the rider product.

Source: (Allianz SE, 2016), (Allianz Life Indonesia, 2013)

Table 4. Specification of Umbrella for My Savings Microinsurance Products

Product name	Payung Tabunganku (Umbrella for My Savings)
Product type (e.g life insurance, savings, assistance)	Term Life Insurance
Distribution partner type (e.g. MFIs, banks, retailers)	Microfinance Institutions (MFIs)
Launch date (and stop date if any)	1 June 2014
Product description	This insurance product is bundled with savings and time deposits of MFIs. The premiums are usually paid by the MFI, and sums insured, are usually equal to the savings balance (this means: "the more you save, the more insurance you get")
Group or individual product	Group
Covered risk and benefit/ sum insured	Death due to any cause Benefit can be up to max. IDR200 million (US$14,926) and structured in three different ways: 1. Same amount as savings balance or time deposit amount 2. Fixed amount irrespective of savings balance 3. Amount that has still not been saved in targeted savings plan
Premium range	0.048 percent of sum insured per month for age 17-60
Additional information	The product also offers spouse coverage and coverage for consumers age 61-65 with a special rate. The MFIs explain about the product to their (potential) borrowers, when marketing their savings product. There are no special education mechanisms for this insurance product. The product is basically integrated with the MFIs microsavings product, to help ensure low transaction costs.

Source: (Allianz SE, 2016)

Table 5. Specification of PRUaman Microinsurance Products

Product name	PRUaman
Product type (e.g life insurance, savings, assistance)	Life Insurance
Product background	PRUaman is developed, based on the results of extensive research conducted by Prudential. There is a need for financial coverage for the micro borrower and lender (MFIs). Research was conducted for two years, by collecting data from five provinces, and 13 cities in Indonesia.
Distribution partner type (e.g. MFIs, banks, retailers)	Microfinance Institutions (MFIs)
Launch date (and stop date if any)	17 April 2013
Product description	Basically, the product offers financial coverage in the form of collateral to the loan principal, granted by MFIs to consumers. If an unfortunate event happens to a client, their debt will be repaid by Prudential.
Group or individual product	Group
Covered risk and benefit/ sum insured	There are four insurance packages, that offer different benefits: • **Package 1**: If the insured person dies from any cause during the insurance period, Prudential Indonesia will pay the remaining balance of loans to MFI. • **Package 2**: If the insured person dies from any cause during the insurance period, Prudential Indonesia will provide benefits in the amount of the initial loan, to pay the remaining loan to the MFI, with the rest of the benefits given to heirs (if any). • **Package 3**: If the insured person dies from any cause during the insurance period, Prudential Indonesia will pay the remaining balance of the loan to policyholders, PLUS the benefits in the amount of original loan, will be paid to the beneficiary. • **Package 4**: There are two benefits; Benefit A: If the insured person dies due to illness or natural causes, Prudential Indonesia will settle the remaining loans to MFIs, PLUS provide compensation in the amount that is equal to original loan to heirs. Benefit B: If the insured person dies due to accident, Prudential Indonesia will settle all outstanding loans to MFIs, PLUS provide compensation in the amount three times the original loan, to heirs.
Premium range	The four insurance package premiums are offered in the minimum of IDR2,000(US$0.15)/year to IDR10,000(US$0.75)/year. This rate applies equally to MFI clients, regardless of age and loan tenor.

Source:(Prudential, 2013)

Table 6. Specification of Dangue Fever Microinsurance Products

Product name	Dengue Fever Microinsurance (Asuransi Demam Berdarah)
Product type (e.g life insurance, savings, assistance)	Health insurance
Distribution partner type (e.g. MFIs, banks, retailers)	Retailers such as Indomaret and Hypermart
Product description	Basically this product provides coverage for consumers diagnosed with dengue fever. The insurance is sold in a voucher and needs to activated via text message. Each consumer is allowed to buy more than one insurance policy, and receive benefits up to IDR10 million
Group or individual product	Group
Covered risk and benefit/ sum insured	IDR1 million – IDR 10 million for a consumer who is diagnosed with dengue fever.
Premium range	There are three insurance package premium options, IDR 10,000/year; IDR25,000/year, and IDR50,000/year

Initially, there were two partners that assisted Prudential with distributing its microinsurance product – Mitra Usaha Mandiri cooperatives, located in Subang and Karawang, West Java province. The cooperatives were chosen to become the first distribution partners, because they have reputation and experience in serving the low-income consumers. In 2010, the number of MFI partners that distribute PRUaman increased, to more than 10 MFIs

Table 7. Specification of House and Earthquake Fund Microinsurance Products

Product name	House and Earthquake Fund (Dana Rumah & Dana Gempa)
Product type (e.g life insurance, savings, assistance)	General insurance
Distribution partner type (e.g. MFIs, banks, retailers)	Retailers such as Indomaret and Hypermart
Product description	Basically this product provides protection for damage caused by fire. The insurance is sold in a voucher, and needs to activated via text message.
Group or individual product	Group
Covered risk and benefit/ sum insured	Benefits up to IDR3,000,000 for a damaged building caused by fire (the sources of fire includes the insured house, neighbors' house, thunder, aeroplane accident, and explosion)
Premium range	The price of premium is IDR20,000, with discount of 30 percent for buying five vouchers

Table 8. Specification of Asuransiku (My Insurance) Microinsurance Products

Product name	Asuransiku (My Insurance)
Product type (e.g life insurance, savings, assistance)	Life Insurance
Distribution partner type (e.g. MFIs, banks, retailers)	Retailers such as Indomaret and Hypermart
Product description	Asuransiku, is a personal accident insurance product that provides for a death or total permanent disability benefit, due to an accident. This product was designed exclusively for the financial literacy campaign
Group or individual product	Group
Covered risk and benefit/ sum insured	IDR30 million
Premium range	IDR50,000 per year

Table 9. Specification of Stop Usaha Microinsurance Products

Product name	Stop Usaha
Product type (e.g life insurance, savings, assistance)	General insurance
Distribution partner type (e.g. MFIs, banks, retailers)	Retailers such as Indomaret and Hypermart
Product description	Stop Usaha is one of the microinsurance products that provides coverage for fires, riots, vehicle impact, earthquakes, tsunamis, or volcanic eruptions coverage, for business premises
Group or individual product	Group
Covered risk and benefit/ sum insured	Provide benefit of IDR2.5 million
Premium range	IDR40,000 per year

(Kharis, 2016).

In 2016, Prudential signed a cooperative agreement with a Sharia Bank in Indonesia, to distribute, market, and promote all bancassurance sharia from Prudential. The first product that Prudential distributed through Sharia Bank's branch was PRUaman sharia (Jaramaya, 2016). PRUaman sharia is a microinsurance product that is in line with Islamic sharia law. Basically, the benefits and risk covered by PRUaman sharia are identical to PRUaman conventional coverage.

C. Asuranci Central Asia (ACA)

Asuransi Central Asia, or ACA, is a local private non-life insurer, that offers microinsurance products. ACA is known as a leader, and a respected private insurance company, with 60 years of experience in Indonesia's insurance market. The company has demonstrated its commitment to developing microinsurance in Indonesia, by combining microinsurance with local wisdom, in a unique microinsurance product, for Indonesia's low-income consumers. ACA offers a wide range of microinsurance products that cover dengue fever, earthquakes, fires, and micro and small business interruption.

Most products are offered, using a voucher that must be activated via text message. The distribution channel includes ACA branch offices, post offices, pawnshops, and retailers such as Indomaret, Hypermart, Boston Health & Beauty, and Foodmart. The partnerships with PT Pos Indonesia, and Indomaret, have made ACA's microinsurance products available in 8,600 branches of Indomaret, and 3,800 branches of Pos Indonesia. The design of the product is simple, because policy holders only need to input a Personal Identification Number (PIN), to be listed online, and the claim process can also be completed through a short message service (SMS) (Gunawan, 2013). The details of microinsurance products offered by ACA are presented in the following table.

D. Generic Insurance Products

There are several generic microinsurance products developed by cooperating institutions such as insurance companies, insurance associations, and the Indonesia Financial Services Authority (OJK), through its program Asuransi Mikro Indonesia (Indonesian Microinsurance):

- **Si Peci (abbreviation for "Penuh Cinta" or "Insurance filled with love")**; A life insurance that provides compensation in the amount of IDR5 million, when the consumer dies of illness, and IDR25 million if the consumer dies due to an accident. This insurance was developed based on input from several life insurance companies, and not directly from the results of market research. Several life insurance companies incorporated in Indonesia Life Insurance Association, distribute this product to clients.
- **Si Bijak (Wise)**; A sharia microinsurance product, that provides insurance for consumers against the risk of death due to illness, compensation for a funeral due to illness, death in an accident, loss of income due to fire, natural disasters, theft, robbery in the client's house, vehicles, or stall or business cart insured in the period of sharia insurance (takaful) membership. This product was launch by Indonesia Sharia Insurance Association in 2014. Low-income consumers can acquire this insurance product from sharia insurance company or other sharia insurance unit. The activation of
- **Warisanku (My Heritage)**; Provides a guarantee against the risk of accidental death, with a compensation of IDR10 million to the heirs + funeral expenses, IDR 500,000, and receive funeral expenses of IDR500,000 per person, if death is caused by illness.
- **Rumahku (My Home)**; Provides protection for residential and business venture buildings of micro enterprises against risk of damage caused by fire, lightning, collateral damage from an airplane crash, smoke, and death. Compensation of IDR5 million is awarded to the owner, if the building is destroyed due to fire, IDR500,000 for the tenants of the building, and grief compensation up to IDR5 million for the heirs.
- **Stop Usaha Erupsi (Eruption)**; Provides protection for an object (1) business (kiosk, stalls, cart, individual retailer, bicycle, motorcycle, and boat); (2) Venture capital/business goods (business equipment/products), risk of damage due to fire, lightning bolt, collateral damage from an airplane crash, smoke, riot, hit by a vehicle, and volcanic eruption.
- **Stop Usaha Gempa Tsunami (Tsunami);** Provides a guarantee for an object (1) business (kiosk, stall, cart, individual retailer, bicycle, motorcycle, and boat); (2) Venture capital/business goods (business equipment/products), risk of damage due to fire, lightning bolt, collateral damage from an airplane crash, smoke, riot, hit by a vehicle, earthquakes, and tsunamis.

Ⅲ. Challenges for the Microinsurance Industry in Indonesia

Microinsurance is a relatively new industry, in

Indonesia. Despite huge potential for growth in the future, there are challenges and barriers, that restrict the growth of the microinsurance industry in Indonesia. These challenges are sourced from the demand, and supply side, of the microinsurance industry.

A. Large Potential, But Untapped Market

Indonesia is home for 238 million people. Of this population, 53 percent lives under the poverty line, with less $2 consumption per day (Allianz, GTZ & UNDP, 2006). Based data from the Central Statistic Bureau (BPS) in 2007, approximately 108 million people (or 66 percent) are estimated to be in the labor force. The employed population is approximately 97.6 million, with only 37 percent of the employed are in formal economy and approximately 63 percent of those employed, are in various forms of rural and urban employment.

A significant number of informal worker do not have a formal insurance mechanism, to cover them from risk, such as illness or an accident, since the formal insurance plans only provide coverage for the formal sector. In addition, social insurance primarily covers employees in large private sector companies, and public sector employees (Jonatan, 2010). Based on this data, it is revealed that there is significant potential for marketing microinsurance products in Indonesia.

However, microinsurance providers have been unable to address this significant potential market, because of several factors. First, the level of financial literacy in Indonesia is low. Based on the *National Survey on Financial Literation* conducted by the Financial Authority Services (OJK), only 18 percent of Indonesian consumers are aware of, and understand, the value of insurance products and services. Low financial literacy is not only a major obstacle in Indonesia, but also in countries such as India, Ghana, and Philipina.

Second, the low level of financial literacy affects consumers' perception, of the value of microinsurance products. There is limited empirical study on consumers' perception, of the value of microinsurance products in Indonesia. One of the few studies, is a survey conducted in 2006, by Allianz, GTZ AND UNDP on microinsurance in Indonesia. The survey reveals that consumers have unrealistic expectations regarding the benefits of microinsurance, which leads to disappointment, when the expectations are unmet.

Outside Indonesia, a study by Giesbert and Steiner (2014) in Southern Ghana, reveals that clients have unrealistic expectations of insurance benefits, expecting compensation for a significant variety of damages, that are not covered by the policy. Initially, expectations lead to a highly-perceived opinion about the value of microinsurance. However, as soon as consumers' perceptions are altered, the value is diminished. Third, the demand for microinsurance products, depends on the availability of alternative risk mitigation tools, such as regular savings, asset liquidation, *arisan*, family, and community assistant. These tools are more commonly used, and widely practiced, by low-income consumers in Indonesia.

From the explanation, it can be concluded that despite of significant potential for marketing microinsurance products, there are several fundamental factors, that prevent the growth of the microinsurance industry in Indonesia. These factors include a low level of financial literacy, consumers' misconception of the value of microinsurance, and the lack of availability, of alternative risk mitigation tools.

B. Industry Readiness

The players in microinsurance industry consist of insurance companies such as PT, ACA Central Asia (ACA); PT Asuransi Allianz Life Indonesia; PT Asuransi Kredit Indonesia; and PT Asuransi Jiwasraya. In addition, PT Pos Indonesia also offers microinsurance products (Rokhim, et.al, 2016). According data from OJK (2015), there are 65 of 140 insurance companies providing microinsurance products. This data indicates that major players in the microinsurance industry in Indonesia are commercial insurers.

According to Llanto, et.al (2006), commercial insurers have strengths and weaknesses, in offering microinsurance products. Primary strengths are substantial insurance expertise, financial strength, and access to global reinsurance markets. In addition, commercial insurers may reduce cost of producing insurance, through economies of scale. However, commercial insurers have limited understanding and access to low-income populations. There is also potential conflict between profit motive, and development objective.

To serve the low-income population, most microinsurance providers use the Partner-Agent Model. For example, PT Asuransi Allianz Life Indonesia, and PT Prudential Life Insurance, work with MFIs to offer microinsurance products, while PT ACA Central Asia works with local retailers, such as Indomaret and Hypermart. In the Partner-Agent model, an established insurance company works with a distribution channel, that actively serves low-income clients. The Partner-Agent model is cost-efficient. However, the major challenge is to train partners' staff, to explain insurance in ways illiterate low-income consumers, can understand (Llanto, *et.al*, 2006).

Another challenge faced by the microinsurance industry, is product development. Most providers find it difficult to design suitable products, for various risks faced by low-income consumers. The low-income population is more vulnerable, and requires unique product designs, that can cover against specific risks. The design of microinsurance products should consider demography and geography factors, which is difficult to conduct. Related to this, because of the lack of historical data, about risk faced by the low-income consumers, the risk underwriting and premium setting process, is difficult to conduct.

It is noteworthy that as most commercial insurers in Indonesia apply the Partner-Agent model, there is a potential that viable actuarial principles are not properly practiced. A study on microinsurance in the Philippines, revealed that microinsurance programs are not being managed, according to viable actuarial principles, and therefore increases the risk, since it assumes that clients' insurance needs are homogenous, and unchanging (Llanto, et.al, 2006).

The discussion above indicates that despite growth in the microinsurance industry, the industry has serious challenges to be overcome. These challenges include inadequate expertise working with the low-income segment, product development, a lack of data for risk underwriting and premium setting, and the choice of effective distribution channels.

Ⅳ. Discussion

Having discussed major challenges in the microinsurance industry in Indonesia, from demand and supply sides, it is crucial to highlight two key issues, related to these challenges. For demand side, the low level of financial literacy, combined with a misconception about microinsurance value, have become major challenges that prevent consumers from buying microinsurance products. The implementation of clients' coverage can overcome these challenges. However, efficiency and viability of the microinsurance industry, becomes the primary consideration, for industry players. Analysis of consumer appeal, relative to microinsurance products, will provide insight, on how to attract new players to enter the industry. The analysis will be based on the case study, of three microinsurance providers in Indonesia, discussed above.

A. Customer Protection

Consumer protection, refers to terms of fairness, or by reference, to the qualities that effective consumer protection exhibit (such as transparency, or prompt claims processing). Regarding microinsurance products, consumer coverage refers to effective use of microinsurance products, by low-income consumers, to cover against risks. Consumer coverage is essential in developing microinsurance products, since it helps consumers from low-income households with low financial literacy, to understand microinsurance products, and build trust in the products.

Effective consumer coverage will directly impact consumers, since it ensures they will benefit from microinsurance products. It also generates indirect consequences in the long term, by expanding coverage of microinsurance products, and adding value to stakeholders in the value chain (Zimmerman, Magnoni, and Camargo, 2013; Microinsurance Network, 2014). Among general principles of consumer coverage include (1) Fair and equal interaction between insurers and consumers, at all stages of their relationship, (2) Disclosure and transparency, (3) Financial education and (4) Complaint management.

As the primary issue from the demand side is consumers' low level of financial literacy, the consumer coverage effort must primarily focus on financial education, particularly education about microinsurance products. A financial education program will assist consumers with understanding the function of microinsurance products, the specific right and obligation of clients and insurers, to the claim process, and other pertinent knowledge. It is important to note that financial education must not only cover financial literacy, but also focus primarily on micro-insurance specific products. It is also crucial to include the distribution channel in this program.

From the case study of the microinsurance providers in Indonesia, all provide financial literacy education for their consumers. For example, Allianz conducts a financial education product titled “Family Financial Education Program.” This program fosters financial literacy among adults, and empowers low-income consumers, to move towards a viable financial situation. This program includes Allianz employees (mostly from other teams, than the microinsurance team) that make voluntary visits to MFI staff and consumer groups, to train them interactively about basic financial models such as financial planning, savings, credit, and insurance. In addition to providing financial education for low-income consumers, Allianz also developed the “trainer for trainer” concept, that is used for MFI partners, so that they can become coaches for others.

Regarding ACA, most financial literacy programs are conducted through campus events, where the target audience is not specifically low-income consumers. For the low-income segment, a socialization program titled “Cerdas Berasuransi Bersama ACA” (Smart Insurance with ACA) has been conducted. The program involves social activities, charity programs, and distribution of free micro-insurance vouchers. In addition, ACA conducts training for pawn shop front liners, since pawn shop officers in rural areas, interact with consumers more frequently.

All microinsurance providers in this study also use brochures, as part of consumer education. Although there is no empirical evidence on the effectiveness of such programs, the financial education program by PT Allianz Indonesia, is considered an appropriate mechanism to appeal to consumers. In addition, the participants of the programs are not only consumers, but also from Allianz and MFI staffs.

B. Client Appeal

Client appeal is referred to as a condition in which the appeal of one party (the consumer) has been defined broadly, as the ability to generate interest, and appeal to another party (the supplier or seller). The condition is that when either buyer or the seller is appealing to the relational partner, each can appeal to the other, which can lead to superior loyalty, and performance, in the relationship (La Roca, Caruana, & Snehota, 2012). The assumption of consumer appeal is that a buyer becomes so appealing to a supplier, that the supplier offers a desirable price (Lusch & Brown, 1996).

From the supplier’s perspective, the knowledge of the exchange partner’s capabilities and attitude, are crucial, to enable the firm to invest their resources in the most effective manner. Therefore, identifying key factors that influence the appeal of parties in client-supplier relationships, will provide mutual benefits, as these factors can serve as a basis for management attention and a viable allocation of resources. One of the key questions relevant to the microinsurance industry, is if microinsurance products can deliver value to the low-income population, while also being viable to the microinsurance provider.

Given that the low-income population has awareness about the microinsurance products cannot be directly translated that they have willingness to buy the product. A study by Llanto, et.al, (2006) in the Philippines, reveals that the affordability factor is a major obstacle, for low-income consumers desiring to buy insurance. This is true for Indonesia as well. A survey conducted by USAID and SEADI in 2013 revealed that 45 percent of respondents stated that a lack of money is the primary reason, they do not buy insurance products.

The affordability issue includes the premium payment, and the burden of making regular payments thereafter. In addition, most microinsurance consumers are informal worker that have irregular income, which makes it more difficult to meet regular payments. This reveals that the low-income population needs a microinsurance product, with a low premium. Low-income consumers will buy microinsurance products only if the premium paid, is equivalent to the actual claim, or future loss.

However, from the supply side (commercial insurers), the premium assessed to consumers includes transaction costs, administrative costs, and margin for the companies. In addition, since low-income consumers are more vulnerable, the claim ratio is higher, for microinsurance products. This is also relevant, to the microinsurance industry in Indonesia. Based on OJK findings (2015) microinsurance claims have increased 1155 percent from IDR40.79 billion in 2014, to 512.2 billion in 2015. The loss ratio for the microinsurance industry in 2015 was 58.45 percent, which is relatively high. These barriers have prevented other

Table 10. The Performance of Allianz's PK Business 2006-2012

	2006	2007	2008	2009	2010	2011	2012
Premium (EUR)	3,000	17,000	70,000	150,000	215,000	370,000	865,000
Number of in force insured per 31 Dec	6,596	35,521	183,800	184,175	269,375	396,039	1,264,302
Number of MFI distribution partners	1	8	15	24	29	69	84
Claim ratios						75%	80%
13-month partner persistency		100%	100%	93%	74%	69%	90%

viable players, from entering the microinsurance industry.

Regarding this question, a report published by ILO's Microinsurance Innovation Facility provides evidence that microinsurance is viable for insurance providers, and that it offers value to consumers. Based on the report, 33 of the world's 50 largest insurance companies are offering microinsurance. This indicates that insurers are reasoning, that microinsurance can be viable, particularly relative to life, and personal accident insurance. Another example of the viability of the microinsurance business, is a case study by AIG Microinsurance in Uganda.

It has been reported that AIG Microinsurance covered approximately 1.6 million people, and microinsurance premiums accounted for nearly 17 percent of its Ugandan unit's profits. A $1,000 life insurance policy sells for $1 a year in Uganda, making it affordable to low-income consumers. It is estimated that approximately 135 million low-income consumers worldwide, are covered by low-cost insurance. To make microinsurance viable, there are three requirements for microinsurance providers to achieve viability.

These requirements include acquiring and keeping large numbers of clients, managing claim costs effectively, and completely rethinking the traditional insurance process. From the three microinsurance providers discussed in this study, PT Allianz Utama Indonesia, has the largest microinsurance consumer base. Its famous product, *Payung Keluarga* or Family Umbrella, has attracted more than one million clients. The number of insured continuously increased from 6,956 in 2006, to 1,264,302 in 2012. Following the increase of insured, the premium also increased from €3000 in 2006, to €865,000 in 2012. The details of Payung Keluarga's (PK) business performance is presented in the following table:

From the table above, it is revealed that there is a significant increase in the number of insured, and total premiums from 2006-2012. Microinsurance policies account for 19 percent of total insurance policies, offered by Allianz. It can be inferred that although the premium for microinsurance product is low, however, its potential growth is promising. In addition, with the Indonesian economy steadily growing, many microinsurance consumers are expected to advance economically, in the coming years. Therefore, in terms of profitability, the microinsurance market in Indonesia is said to be appealing, since there is potential profit from sales volume, rather than profit from margin per sales.

Ⅴ. Approaches to Marketing Microinsurance Products

After the discussion about several microinsurance products from three different companies, there are lessons learned, that we should note, as one of the best practices in developing microinsurance products in Indonesia. Initially, it is necessary to list possible obstacles for the industry, in marketing microinsurance products. An uneducated and dispersed geographic location of the market, are among prominent challenges, for insurance companies in Indonesia. It is also critical to consider factors that affect consumers' level of interest in purchasing microinsurance products.

Based on the survey conducted by Asuransi Mikro Indonesia (Indonesian Microinsurance), the suitability of the product with consumer's needs, benefits offered, and a clear understanding of the products, are among factors that could make microinsurance products appealing (Asuransi Mikro Indonesia, 2016). However, insurance companies should also consider geographical contours of the consumer's location, especially since Indonesia's geographical profile is diverse. This could be relevant, with the types of products that consumers desire. For example, the consumer who lives in a region prone to earthquakes, will be more interested in earthquake insurance.

The insurance companies, that want to enter this market, should conduct initial market research for insight about the consumers' needs that have not been met. Since insurance is an intangible product, any product designed without market research, to understand preferences of a target market, is likely to be less appealing. Risk perception analysis, product attribute preferences, knowledge level, perceptions, attitude towards insurance, and consumer willingness to pay, are several key elements to guide a company, in designing appropriate products and marketing messages (see MicroSave Optimising Performance and Efficiency Series).

Allianz Indonesia conducted a small-scale "customer conversion" research project November 2013-December 2014, to validate the probability of marketing voluntary insurance products in addition to mandatory credit life insurance. Of the three voluntary products types that they offered (personal accident, fire with personal accident benefit, and hospital cash), personal accident was the most popular one among clients (Prasetyo, Escaping the Credit Life Trap: Learning Diary on an Upselling Pilot Project in Indonesia, 2015). Although other factors should be considered when designing a new microinsurance product for low-income consumers, the results of marketing research serve as key data in the decision-making process for insurance companies.

Furthermore, a market-oriented company is more likely to profit in the long-term, because they provide superior value to meet consumers' needs, know the strength and weakness of their competitors, present a new service to impact the market environment, and reveal coordinated reactions (Narver and Slater, 1990 in Kazemian et al., 2016). In addition, to expanding and improving the distributional channel, Allianz, ACA, and Prudential have collaborated with several types of institutions, such as banks, retailers, and Microfinance Institutions.

The trend also reveals that MFIs are the primary distribution partners, since MFIs have experience interacting with the low-income market. The practice lowers companies' operational costs (because it does not have to hire an insurance agent), and enables it to appeal to the low-income market, in different geographic locations in Indonesia. The low-income market tends to trust MFIs, since they are familiar with MFIs. Hence, distribution partners are the key, to ensure that insurance products reach a large consumer base.

We believe that consumer education is one of the key factors that contributes to the growth of the microinsurance industry in Indonesia, since it could encourage greater demand for insurance products, and also enables consumers to buy insurance products. The only company that has implemented an education strategy for each of the products, is Allianz. For example, they provide an informational video on a mobile website, to educate GO-JEK's drivers about the health insurance plan, that Allianz provides for them.

Meanwhile, for the Family Umbrella product education, the MFI staffs are equipped with flip charts to present the product to their consumers. (Allianz SE, 2016). Therefore, insurance companies should not depend on the government, to educate potential consumers. They must be willing to make an effort in gaining low-income market knowledge, and the trust of the low-income market, in their products. It is worth noting that as the market leader in the microinsurance industry, Allianz has an aggressive strategy to develop this business unit.

They have developed microinsurance values, which are passion, quality, fairness, and transparency. These values guide them in providing the best service to low-income consumers. To further evaluate the performance of their microinsurance product, Allianz has assessment tools, for evaluating the quality of their microinsurance products. They rank their microinsurance products with scores from highest to the lowest. Therefore, Allianz can enhance features of their microinsurance products, according to results of the assessment.

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Editorial Principles

1. Mission

The International Review of Financial Consumers (IRFC) aims to offer a communication platform for scholars, regulators, and practitioners to share their latest academic research on financial consumers and related public policy issues in both advanced economies and emerging market countries. All theoretical, empirical, and policy papers of relevancy are welcome, with the following as the topics to cover:
① protection for financial consumers
② business ethics of financial institutions
③ market discipline of financial industries
④ corporate social responsibility of financial institutions
⑤ renovation or innovation of law and regulations related to financial consumption
⑥ public policies for financial consumption
⑦ fair trading of financial products
⑧ dispute resolution for financial consumption
⑨ case studies of best practices for financial consumption
⑩ international comparison on any of the above topics

2. Publication schedule and contents

IRFC, the affiliated journal of the International Academy of Financial Consumers (IAFICO), will be published twice a year – April and October each year - and will pursue to be the first international academic journal focusing on the research related to financial consumers. As the contribution of financial consumption becomes increasingly important to the national economy for most countries, how to maintain an efficient and equitable financial market is an imminent issue for research. The trend of globalization and liberalization policies has reinforced the challenges in financial markets. Not only the financial instruments become more complicated and hard to understand by the public, but also the frequent changes in regulations and business practices cause confusions to the financial consumers. Consumption disputes regarding the financial products have drawn attention by the media in recent years. IRFC attempts to serve as a forum to publish and share original and innovative research, both academic and policy-oriented, on all the above issues.

3. On ethics for research

The range of research misconducts
① Misconducts related to academic research (“misconducts” hereafter) means that fabrication, falsification, plagiarism, unfair showing of papers' author, during research proposal, research performing, research report and research presentation,

etc. It is as follows.

1) “Fabrication” is the intentional misrepresentation of research results by making up data or research result.

2) “Falsification” is the distortion of research contents or results by manipulating research materials, equipment and processes, or changing or omitting data or results.

3) “Plagiarism” is the appropriation of another person's ideas, processes or results, without giving appropriate approval or quotation.

4) “Self-plagiarism” is the reusing a large portion of their own previously written research.

5) “Unfair showing of papers' author” is not qualifying people, who have been contributing to research contents or results scientifically, industrially and politically, as an author without just reason, or qualifying people, who have not been contributing the same, as an author with an expression of thanks or respectful treatment.

6) Obstructing investigation about misconducts of their own or others, or harming an informant.

7) Action which is out range of usually acceptable in the course of the research.

8) Action which is suggestion, pressure or threat to others to do the above things.

4. On plagiarism

Types of plagiarism

Following two forms are defined the representative action of research misconducts (Plagiarism).

① Using the original author's idea, logic, unique terms, data, system of analysis without indicate the source.

② Indicating the source but copying the original paper's words, idea, data and so on without quotation marks.

Bylaws of the International Academy of Financial Consumers (IAFICO)

March 31, 2015
April 19, 2016

Section 1 General Provisions

Article 1 (Official Name)

The official name of this academic society shall be the "International Academy of Financial Consumers (IAFICO hereafter)".

Article 2 (Registered office and Branch offices)

The registered office is to be in Seoul, South Korea. Branch offices may be established in provincial cities in South Korea or overseas should the need arise.

Section 2 Objectives and Undertakings

Article 3 (Objectives)

* *Pending*

The IAFICO is a non-profit association aiming at promoting and developing at an international level collaboration among its members for the study of various issues relating to financial consumers, including its education, legislation, creation of best practices, supervision and policy advancement to contribute to the development of the global economy and financial market, through investigation or research into financial consumers, and other academic activities.

Article 4 (Undertakings)

The following activities shall be carried out in order to achieve the objectives of the IAFICO.
1. Publication of journal and other literature
2. Hosting of academic conferences
3. Additional undertakings corresponding to the objectives of the academic society which are deemed necessary at the board of directors meeting or the general meeting

Section 3 Membership

Article 5 (Requirements and Categories)

The IAFICO shall have following categories of membership :

① Individual member
Individual members are categorized further into a regular member or and associate member.

1. Regular member shall be a specialist in the area such as finance, consumer studies, economics, management, law, or a specialist in the area such as finance, consumer studies, economics, management, law, or education etc, and must be a full-time instructor at a domestic or overseas university, an researcher at a research institute with equivalent experience, or should hole equal credentials to those mentioned previously, and shall become its member by the approval of the board of directors. Regular members attend general meetings and may participate in discussions, hold the right to vote, and are eligible to be elected a director or other status of the IAFICO.
2. Associate members shall be divided into either a student member, who is a current domestic or overseas graduate school student, or an ordinary member, who works for a financial institution or a related organization. Associate members do not hold the right to vote and not eligible to be elected to a director or other status of IAFICO.
3. Both regular member and associate member must pay the membership fee to the IAFICO every year.
4. In the case that a decision is made by the Board of Directors to expel a member due to a violation of the objective of the society, or demeaning the society, or in the case that a member fails to pay the membership fees for two years continuously without prior notice, their membership shall be revoked.

② Institutional member
1. Institutional member

Shall be organizations related to financial consumers who do not damage the impartiality of the IAFICO subject to approval of the Board of Directors Institutional members do not hold the right to vote and are not eligible for election.

2. Institutional member must pay its membership fee to the IAFICO every year.

Section 4 Organization

Article 6 (Designation of Board of Director)

The following Directors are designated to constitute the Board Directors to run the IAFICO.

1. Chairperson
2. Vice-Chairperson
3. President
4. Vice-President
5. Ordinary Directors
6. Auditor

Article 7 (Election of Board Members and Director)

① The Chairperson, Directors, and Auditors shall be elected or dismissed at the general meeting.
② Appointment of the Directors may be entrusted to the Chairperson pursuant to the resolution of the general meeting.
③ The Vice-Chairperson, President, and Vice-President shall be appointed and dismissed by the Board of Directors.

Article 8 (General Meetings)

① General meeting shall decide following matters relating to the activities of the IAFICO.
1. Amendments to the Bylaws
2. Approval of the budget and settlement of accounts
3. Election or Dismissal of the Chairman
4. Election or dismissal of Auditors
5. Regulations concerning the duty and right of members
6. Resolutions regarding items submitted by the President or Board of Directors
7. Other important matters

② The Chairperson must call a regular general meeting at least once a year and report on the undertakings of the IAFICO. Provisional general meetings may also be held by the call of the Chairperson, or at the request of at least a quarter of current regular members, or according to the resolution of the Board of Directors.
③ At a general meeting, a quorum is formed by one third of regular members. However, regular members who are not able to participate in the general meeting in person may be represented by proxy, by entrusting a specific regular member attending the general meeting with their attendance or voting right. In this case the letter of proxy is included in the number of attendees.
④ Resolutions at the general meeting will be made according to the majority vote of the attending members who hold the right to vote.
⑤ In principle, the general meetings shall be held with face-to-face meeting, however, it may be held web-based meeting when needed.

Article 9 (Auditors)

① The auditors shall audit financial affairs, accounts and other transactions of IAFICO, shall participate in, and may speak at board meeting, and must present and auditor’s report at the regular general meeting.
② There shall be two appointed auditors.
③ Auditors are elected at the general meeting.
④ And auditor shall serve a term of two years and may be reappointed.

Article 10 (Board of Directors)

① The Board of directors shall be made up of chairperson and fewer than 80 directors.
② The Board of Directors shall decide a plan of operation and establish the budget, in addition to matters on the running of IAFICO.
③ Board meeting requires a quorum of at least one third of current board members. Resolutions at the Board meeting will be made according to the majority vote of the attending members. However, board members who are not able to participate in the board meeting in person may be represented by proxy, by entrusting another specific

board member attending the board meeting with their attendance or voting right.
④ A board member shall serve a term of two years, with a possibility of serving consecutive terms.
⑤ A number of sub-committees or branches in each country or region may be set up under the Board of Directors to support the running of the IAFICO.

Article 11 (Steering Committee)

① The Board of Directors may entrust some decisions relating to the conducting of business to the Steering Committee.
② The Steering Committee shall be comprised of the Chairperson, Vice-Chairperson, President, and the heads of each subcommittee.
③ Temporary task forces may be established by the Steering Committee when necessary to run the business of the Steering Committee.

Article 12 (Chairperson)

① The Chairperson shall represent the IAFICO and chair its general meeting and board meeting.
② There shall be one appointed Chairperson who serves a term of five years.
③ In the case of an accident involving the Chairperson, the Vice-Chairperson shall complete the remaining term of office of less than one year. If it lasts longer than one year, a new Chiarperson shall be elected at the general meeting.
④ A new Chairperson should be elected at the general meeting one year prior to the end of the current Chairperson's term of office.
⑤ Should it be judged that it is difficult for the Chairperson to carry out their duty any longer, he or she may be dismissed from their post by the decision of the Board of Directors and general meeting.

Article 13 (Vice-Chairperson)

① The Vice-Chairperson shall assist the Chairperson, and serve as a member of the Board of Directors.
② The Vice-Chairperson shall serve a term of two years, or the remaining term of office of the Chairperson, whichever is shortest.
③ The Vice-Chairperson shall be elected from one of the regular members at a meeting of the Board of Directors, according to the recommendation of the Chairperson.
④ The Vice-Chairperson shall may be reappointed.

Article 14 (President)

① During its term of office, the President shall become the head of the organizing committee supervising international conferences, and serves for a term of one year. The President shall attend the board meeting as a member of the Board of Directors.
② The succeeding President shall be elected by the Board of Directors after considering their ability to organize and host the following year's conferences. The succeeding President shall also attend board meeting as a member of the Board of Directors.
③ The Board of Directors may elect the next succeeding President should the need arise. The next succeeding President

shall also attend board meeting as a member of the Board of Directors.
④ The President, succeeding President, and the following President may appoint a vice-President respectively by obtaining approval of the Board of Directors.
⑤ The appointment and dismissal of the President is decided at the board meeting.

Article 15 (Vice-President)

① A Vice-President is a member of the Board Directors and shall assist the President, supervise applicable international conferences.
② A Vice-President is recommended by the President and shall be approved by the Board of Directors.
③ Multiple Vice-Presidents may be appointed.
④ A Vice-President shall serve a term of one year, the same as the term of President.
⑤ In the event of an accident involving the President, a Vice-President shall fulfill the President’s duties during the remaining term of office.

Article 16 (Editorial Board)

① The Editorial Board shall be responsible for editing of journals and other materials to be published by the IAFICO.
② The head of the Editorial Board shall be appointed by the Board of Directors, and shall serve a term of office decided by the Board of Directors.
③ The head of the Editorial Board shall be a member of the Board of Directors.
④ Additional matters concerning the running of the editorial board shall be decided separately by the Board of Directors.

Article 17 (Advisory Board and Consultants)

① The Chairperson may select individuals who could make a large contribution to the development of IAFICO, and appoint them as advisors subject to the approval of the Board of Directors.
② The Chairperson may appoint consultants subject to the approval of the Board of Directors in order to receive advice relating to all business matters of the IAFICO, such as development strategies, conferences, research plans, and research projects etc.
③ Advisors and consultants shall serve terms of one year and may be reappointed.

Section 5 Financial Affairs

Article 18 (Accounting and Revenue)

① The fiscal year of the IAFICO shall run from the 1st of January to the 31st of December each year.
② The finance required to operate the IAFICO shall be sourced from membership fees, member contributions, society participation fees, and other incomes. Related matters shall be decided by the Board of Directors or the Steering Committee.

③ Should the need arise, the IAFICO may accept sponsored research, donations or financial support from external parties in order to support the business performance of the IAFICO. The Chairperson shall report the details of these at the board meeting.
④ Chairperson should report all the donation from outside and their usage of the year at the IAFICO homepage by the end of March of the next accounting year.

Section 6 Supplementary Rules

Article 19 (Revision of the Bylaws)

① Any other matters not stipulated by this Bylaws shall be resolved by the Board of Directors.
② Revision of the Bylaws shall be carried out, by the proposition of the Board of Directors, or at least one-tenth of regular members, at a general meeting where at least one-third of the total regular members are in attendance, or at a provisional general meeting, with the agreement of at least two-thirds of current members.

Article 20 (Dissolution)

Should the IAFICO intend to be dissolved, it must be decided upon at a general meeting with the agreement of at least two-thirds of current members, and permission must also be received from the Fair Trade Commission. Except for bankruptcy, the dissolution must be registered and reported to the Ministry of Strategy and Finance within three weeks, accompanied by a certified copy of register.

Article 21 (Residual Property upon Dissolution)

Should the IAFICO be dissolved, according to article 77 of the Korean civil law, all remaining assets of IAFICO shall belong to the state, local government, or other non-profit corporations carrying similar objectives.

Additional Clause

These Bylaws shall become effective from the 1st April 2016.

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