



FINANCIAL CONSUMER PROTECTION REPORT



2018

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

Ferenc Rákóczi II



FINANCIAL CONSUMER PROTECTION REPORT

2018

Published by the Magyar Nemzeti Bank

Publisher in charge: Eszter Hergár

H-1054 Budapest, Szabadság tér 9.

www.mnb.hu

ISSN 2498-6844 (print)

ISSN 2559-8473 (on-line)

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

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

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

The editorial deadline was 12 June 2019

Contents

| | |
|---|-----------|
| Greeting by the deputy governor | 7 |
| Summary | 9 |
| 1 Background of the financial consumer protection activity | 11 |
| 1.1 Macroeconomic outlook | 11 |
| 1.2 Directions of supervision and consumer protection | 12 |
| 2 Consumer protection risks | 15 |
| 2.1 Risks identified in the financial market sector | 15 |
| 2.2 Risks identified in the insurance sector | 29 |
| 2.3 Risks identified in the funds sector | 35 |
| 2.4 Risks identified in the capital market sector | 37 |
| 3 Financial consumer protection communication | 45 |
| 3.1 Financial Navigator: it shows the way in finances | 45 |
| 3.2 The Financial Navigator information materials | 46 |
| 3.3 Financial Navigator Advisory Office Network | 48 |
| 3.4 Financial Navigator Civil Programme | 50 |
| 3.5 Financial Navigator campaigns | 52 |
| 3.6 CSR-based co-operations | 52 |
| 3.7 Supervisory press communication for the provision of information to consumers | 53 |
| List of boxes | 55 |
| List of charts and tables | 56 |
| Annexes | |
| Annex 1: The MNB's consumer protection activity in numbers | 57 |
| Annex 2: Complaint Statistics | 60 |

Greeting by the Deputy Governor

The MNB considers it as one of its key tasks – in addition to the regularly published press releases, professional articles and interviews – to publish a comprehensive publication on consumer protection once a year to inform the institutions of the financial system and the general public on current financial consumer protection issues, thereby improving the risk and financial awareness of stakeholders and strengthening trust in the financial system. The primary purpose of the annually published Financial Consumer Protection Report is to provide consumers and the institutions operating in the financial sector with a comprehensive picture on the current consumer protection topics. In addition, the publication summarizes the experiences, results and data collected in consumer protection supervision in the past year.

Following the summary of priorities, the report describes in detail the financial consumer protection, educational, official and customer service activities of the MNB. In this publication, we will present the results achieved by the MNB in its domestic supervisory, analytical and controlling tasks performed for the protection of consumers, as well as in its international activities, what risks were identified by it and what measures were taken to address these risks. In addition, we will also discuss other current issues that are important from consumer protection point of view and might be of special interest, as well as the customer service experiences.

Complimenting the central bank information system, the Financial Consumer Protection Report helps readers to get a clearer picture on current financial trends, and by organizing the active consumer protection activities performed in 2018 and the related communication in a comprehensive material, it offers a better picture on the trends observed in financial supervision. I am convinced that the readers will be able to utilise in their financial decisions the knowledge obtained from learning about the developments and analysing the expected risks and thereby we take another step together towards developing the financial awareness of consumers. I am certain that this publication will be of great help for the responsible managers of financial institutions in managing the activities of their institutions according to the consumer protection principles of the MNB, considering the interests of consumers, too, and in a fair way.

According to the principles of the Green Programme announced on 11 February 2019, the MNB will make this publication available in on-line form only, ensuring the provision of information in the widest possible scope, but in environment-friendly way.

Dr László Windisch
Deputy Governor
Financial Institutions Supervision
and Consumer Protection

Summary

In order to protect consumers, the MNB continuously examines domestic and international market developments, and monitors and controls the lawful operation of institutions, their communication channels and the contents of the latter. In addition, the MNB continuously evaluates the topicalities in terms of consumer protection, pays special attention to summarising the enquiries and notices received from customers, based on which it strives to pursue as efficient as possible consumer protection activity and active communication. In the course of this activity, apart from the changes in the weights of already known risks, the MNB has identified additional risks, and has taken or is taking the necessary measures to manage them.

As a result of central bank measures, the structure of housing loan disbursements has changed in a favourable way, i.e. there was a shift from the earlier typical variable-rate loans to products with rates fixed for longer terms. Therefore, owing to the transformation in 2018, new household housing loans do not carry any effective interest rate risks. The ratio of housing loans with interest rates fixed for a period over one year or until the end of the term has increased to 96 percent within new loans, while the ratio of variable-rate products has dropped below 4 percent from the previously typical level of 40-50 percent, as a result of which new household housing lending is realized in a healthier structure, as far as interest rate risks are concerned.

The Certified Consumer-friendly Housing Loan (CCHL) brand reached outstanding results both in its market effect and in its volume. As a result of the more and more intensive competition on the market, the average interest rate spread difference of housing loans with interest rates fixed for over a year and housing loans with variable interest rates keeps decreasing. This way the relative cost disadvantage of housing loans with over-a-year interest rate fixation has disappeared. Another remarkable result is that from September 2017 to April 2019, the participating institutions disbursed more than 39 thousand CCHL contracts in the value of HUF 470.29 billion.

In addition, providing the consumers with improper information is still a risk in the financial market, evidenced both by the feedbacks from customers and the inspections performed by the MNB in 2018. The inspections revealed errors in the commercial communication of the institutions in several cases; of these the ones to be highlighted include the indication of the APR in the advertisements of loan products in a hardly visible form, the absence of the APR or a representative example, and cases when the data shown contradict the provisions of the APR regulation.

Based on the number of complaints, special risks are presented by settlement debates related to bank card operations, too, which are typically around the rates of commissions, costs and fees and the quality of the service. In addition, the number of frauds committed within the country and abroad with payment cards has also increased, and this demands special caution from both consumers and service providers.

On the insurance market, the entry into force of the EU regulation containing uniform requirements with regard to information and distribution of retail investment package products and the EU insurance distribution directive prescribing the creation of standard information brochures and the making of the intermediary commissions public in 2018 brought changes that increased the safety of consumers. These, as well as the ethical life insurance concept introduced in 2017 for life insurances resulted in major changes in the transparency of costs and the features of products. Beside the positive changes, however, problems can still be experienced in the definition of the target group, when products not matching the ages and objectives of consumers are sold. In addition, the so-called “portfolio-rotation” can still be detected, in which existing contracts are terminated at unfavourable repurchase values, and the accumulated funds saved up to that point are transferred to a new contract. In order to terminate undesired phenomena, the MNB acts in both its inspecting and regulating capacity.

As to the pricing of home insurance products and the process of claim settlement, several unfavourable market practices can be identified, which can be basically traced back to the low intensity of the competition. Unfavourable market practices

may cause extremely high cost levels and latent overinsurance. In order to reverse disadvantageous processes and recover the home insurance market, the MNB examines the possibility of announcing the Certified Consumer-Friendly Home Insurance (CCHI) tender, as a result of which consumers could easily compare the home insurance products of individual insurance companies.

In the capital market sector in 2018, the greatest challenge was the compliance with the new regulatory framework (MiFID II/MiFIR) established for investment firms and regulated markets, and market players met this challenge with some deficiencies. As part of the new regulation, the national competent authorities as well as the European Securities and Markets Authority (ESMA) were enabled to introduce product intervention measures. Utilizing its right, in 2018 the ESMA decided on restricting (contract for difference – CFD) and prohibiting (binary options) measures for certain types of structured products.

As a result of the development of technology, financial services go through significant changes, and a lot of new possibilities and products appear on the market, which may present earlier unknown risks to consumers who are not careful enough. Therefore, in these cases, careful collection and provision of information are of special importance.

The information provision obligations stipulated by legal regulations reach their objectives when consumers utilize the possibilities and rights that are available to them and try to make informed financial decisions. In order to promote this, the MNB established co-operation with Government Offices, set up the Financial Navigator communication tool set, operates the Financial Navigator Advisory Offices, carries out its own educational activities and participates in programmes initiated by other organisations, and all these, with hard work and probably on a longer term, will bring positive results.

1 Background of the financial consumer protection activity

1.1 MACROECONOMIC OUTLOOK

In developed countries, a slow-down in previously vivid recovery processes and a slowly increasing inflation are expected, therefore the orientation of monetary policy is characterized by increasing caution. Last year the Federal Reserve increased the interest rates gradually, in four steps, but the direction of future steps is not clear. Although the figures related to growth in the United States are still favourable, the commercial war developments present an effective risk to growth. At the end of 2018, the European Central Bank finished its asset purchase programme, but the continuation of the loose monetary policy for a longer period is more and more likely on the basis of market prices and decision-maker's statements, considering the expected slow-down of the economy.

The shock-absorbing capacity of the banks of the European Union increased, but they still struggle with major structural challenges. In a number of Member States, the indebtedness of the state and the private sector reached such a high level in the low interest rate environment that will be more and more risky to maintain under the conditions of increasing yields and slower economic growth. This is especially sensitive for banks in countries with strong sovereign-bank relations, for instance in Italy, where the significant political uncertainty further increased the risks related to public debts.

The ratio of non-performing loans keeps decreasing on average in the EU, but it is still high in a number of Member States. This deteriorates the profitability of the affected banks and erodes the lending capacity of banks. At the same time, the normalisation of the monetary policy, with the improvement in net interest income, may have a favourable effect on banks' profitability. The operating efficiency of a number of banks is still low, and digital developments are often postponed because of their high costs. The postponement of these developments threatens long-term profitability and allows non-bank players to gain more ground on the market, and both of these may present financial stability risks.

The Hungarian economy expanded dynamically throughout 2018, but economic growth is expected to decelerate gradually from 2019. Determined by household consumption and expansion in investment, expansion in domestic demand will continue to play an important role in Hungary's growth. Apart from the favourable real wage processes, retail consumption is supported by strong consumer trust, vivid retail lending and the earlier accumulated net financial assets. As of this year, households' consumption, saving and investment decisions may be effectively influenced by the newly implemented measures of the government (family allowance programme, Hungarian Government Security Plus products). In parallel with the increase in domestic internal demand, imports are growing, so net exports will probably have a negative contribution to the growth of the economy this year. As a consequence of the vivid investment activities seen in a wide range of sectors in 2019, the contribution of savings to the GDP may keep growing, but after 2020, the drop in government investments will limit the growth rate of investments. Apart from the base effects, the anticyclical fiscal policy also contributes to the slow-down in investments. In spite of the slow-down expected from 2020, the role of investments may still remain determining in the growth, so the investment-to-GDP ratio may get stabilized around a level of 28 percent. From around 3 percent at the beginning of the year, inflation rose to the top third of the central bank tolerance band in the last few months. In line with the changes in global oil prices, the rise in the consumer price index was primarily attributable to the increase in fuel prices.

The upturn in domestic demand resulted in a growth in outstanding credit in the household segment. The volume of loans disbursed to households in 2018 outstripped the previous year's value by 30 percent. At the same time, owing to the borrower-based measures introduced by the MNB and the interest rates being fixed for longer periods, the growth in lending – contrary to the pre-crisis years – takes place in a much sounder structure.

Over the past few years, we have observed the gradually increasing indebtedness of households. While in 2015 16.6 percent of the contracts were disbursed with a debt-service-to-income (DSTI) indicator over 40 percent, in 2018 this ratio increased to 22.8 percent. This change can be mainly attributed to the DSTI increase of consumption loans with typically fixed interest rates, lower loan amounts and exposures of shorter terms, while the average DSTI value of housing loans representing the largest exposure increased at a lesser extent. At the same time, the risk of increasing indebtedness is mitigated by the present and expected growth in real wages, as well as the improvement in employment data.

The portfolio of mortgage loans with variable interest rates or with interest periods of maximum one year still represents a high risk that needs to be addressed. By the fourth quarter of 2018, the share of housing loans with variable interest rates or with interest periods of maximum one year dropped to 6.5 percent within new disbursements. However, at the end of 2018, almost 60 percent of the mortgage loan portfolio disbursed by banks, i.e. HUF 2,300 billion was still made up by variable-rate mortgage loans. More than 60 percent of these loans have remaining terms of more than 10 years, so they mean a high interest rate risk for the consumers.

The banks did not change their household loan conditions, the spread on fixed-rate housing loans sank below the level of variable-rate loans. In the last quarter of 2018, the APR level of new housing loans increased in most interest rate fixation categories compared to the previous quarter. While the total credit cost of variable-rate housing loans dropped by 0.2 percent, the APR value of housing loans with interest rates fixed for periods longer than one year increased by 10-25 base points on average, depending on the period of interest rate fixation and compared to the previous quarter. In spite of the temporary drop observed in Q4 2018, the interest rate spread difference over the reference interest rate has been negative since June 2018 for loans with over-a-year interest rate fixation and for variable-rate loans, so the pricing of housing loans was adjusted to international trends.

In 2018 the cleaning of non-performing mortgage loans from bank balance sheets continued. By the end of 2018, the ratio of household loans in arrears for more than 90 days decreased further within the credit institution sector, therefore by the end of the year, in a year-on-year comparison, their ratio dropped to 4.5 percent, after a decrease by 3.2 percentage points. Compared to the level at the end of 2017, the household NPL ratio of the credit institution sector dropped by 4.1 percentage points to 7 percent by the end of 2018. The volume of non-performing household loans reached HUF 399 billion at the end of the quarter. Almost two thirds of the total non-performing portfolio are made up by loans in arrears for more than 90 days. Two thirds of the non-performing household loan portfolio of the credit institution sector are mortgage loans, and the largest portfolio is represented by multi-purpose mortgage loans. Loan loss coverage ratio for non-performing household loans is still high.

1.2 DIRECTIONS OF SUPERVISION AND CONSUMER PROTECTION

The consumer protection activities of the MNB have become increasingly complex over the past few years. In addition to its classic official inspection activities, the MNB relies more and more on continuous supervision and problem management under that in the framework of continuous surveillance, and measures to manage risks affecting a wide range of consumers come to the front. Because of its preventive and – when required – sanctioning effect, the classic official inspection activity should still get proper emphasis, but official inspections should be initiated only in justified cases, when there is a reasonable suspicion. The MNB pursues active consumer protection inspection activities, as a result of which fines were imposed in the value of HUF 249,200,000 in 2018 in consumer protection procedures.

In addition to official tools, other tools that influence the behaviour of market players are also important, a good example for the latter is the CCHL application system.

The continuous and two-way communication with financial service providers improves the efficiency of supervision, and one of the key tools is the consumer protection warning that allows for the proactive management of concerning market behaviours – in 2018, the MNB utilised this tool on altogether 137 occasions.

As to the enforcement of consumer rights, it is important to analyse the general terms and conditions of contracts to be signed with consumers, in order to detect provisions that give rise to suspicions about unfair treatment. Although the MNB has rather limited possibilities to directly intervene in the contents of the terms and conditions of contracts, as the

decisions about unfair practices belong to the competence of courts, so far, in the course of negotiations – and prior to possible lawsuits – the MNB has always achieved that the affected institutions reconsidered and modified the problematic elements of the terms of the contracts, so there was no need to initiate lawsuits.

The MNB considers that the proper practices of product supervision and controlling related to retail products on the financial market are very important, and the related recommendations of the MNB were published in 2016 regarding the creation and development of these products, their sale to consumers and their supervision. In the course of reviewing the practices of institutions, the MNB found that they had the product supervision processes and controlling mechanisms that are specified in the relevant recommendations, but the extent to which they are internally regulated, the scope of products and services covered by the actions, the frequency of reviews and the focus on consumers' interests are still fairly different in individual institutions.

The MNB paid special attention to the inspection of compliance with the rules of fair information provision by banks, which was inspected by the MNB at 16 additional financial institutions, primarily in the respect of the information provided before concluding the contracts and the application of the interest rate amendment indicators in accordance with the provisions of the law. The inspection closed in 2018 revealed minor deficiencies in the compliance with the "fair banking" regulations. In addition, the examination of the provision of information in commercial communication also played a key role, in which the MNB found deficiencies mainly in connection with the indication of the APR and its demonstration with representative examples.

In the financial market sector, based on infringements detected under the continuous supervision and on customer feedbacks, the MNB found it necessary to check and continuously monitor the compliance with the provisions of legal regulations related to the provision of information about the APR and in commercial communication, in the case of financial enterprises extending small amounts of loans without security or offering pawn loans.

With special regard to the continuously extending market – which is the result of the portfolio tidying up process of credit institutions – and for the supervision of operation according to the provisions laid down in the relevant MNB recommendation, the MNB maintained the priority regarding the continuous monitoring of the practices of financial enterprises involved in the purchase and management of overdue receivables and pays special attention to the related consumer petitions. The MNB still finds it necessary to define proper legal regulations regarding financial enterprises involved in the purchase of receivables and the receivables management activity.

On the insurance market, the entry into force of the EU regulation containing uniform requirements with regard to information and distribution of retail investment package products and the EU insurance distribution directive prescribing the creation of standard information brochures and the making of the intermediary commissions public in 2018, generated major changes, in connection which both the supervised institutions and the supervisory authorities took the necessary steps. In the supervision of the domestic implementation of new legal regulations, in order to assess the preparedness of the affected market players, in the establishment of uniform and good practices, the MNB implemented supporting and monitoring supervision, as well as bilateral communication and exchange of information and experiences with the affected market players.

In the insurance sector, special focus was given to the controlling of the sales activities of insurers, in the respect of product governance, provision of information and demand assessment stipulations, and unchanged attention was devoted to the examination of the compliance with the consumer protection provisions in the fair life insurance recommendation and to the MNB order on life insurance demand assessment, as well as to the examination of misconducts. In parallel with all these, close attention was paid during the inspection to the checking of the provision of information regarding third party liability car insurances.

In the capital market sector in 2018, the greatest novelty was the introduction of the new regulatory framework (MiFID II/MiFIR) regarding investment ventures and regulated markets. One of the main objectives of the regulation is to ensure increased protection for investors and better transparency of financial markets. In the frames of continuous monitoring, the MNB reviewed the application of new consumer protection provisions (requirements related to the preliminary collection of information, marketing communications and record-keeping) at multiple institutions. These inspections identified minor

risks, and the MNB requested the affected institutions to remedy the problems. The MNB monitors the compliance with these provisions in 2019, too. As part of the new regulation, the individual national supervisory authorities as well as the European Securities and Markets Authority (ESMA) were enabled to take product intervention steps. Utilizing its right – in agreement with the national supervisory authorities – in 2018 ESMA enforced restricting (contract for difference – CFD) and prohibiting (binary options) actions for some structured products.

The risks identified by the MNB regarding the intermediary sector over the past years – for instance, deficiencies found in customer information, analysis and delivery of offers of insufficient volume, deficiencies in the assessment of demands and inadequate product offers – formed the basis of the consumer protection supervision of the intermediary sector.

The MNB finds it particularly important to make sure that institutions selling the CCHL that has been available since the middle of 2017 operate according to the tender invitation. As a result of the inspections, the MNB drew the attention of institutions to incorrect practices, in many cases already in early phases, and this way helped the fluent and transparent administration of CCHL products and prevented consumer complaints.

The MNB finds it important to manage risks, too, so the MNB paid particular attention to the provision of information on the interest rate risks of earlier concluded variable-rate mortgage loans. In the frames of the co-operation with the Hungarian Banking Association, the banking sector ensures that – if the debtor decides so – it is possible to modify variable-rate mortgage loans to fixed-rate loans on the long term, under favourable conditions.

The development of information technology constantly presents new challenges to the supervisory activity. Among other things, the MNB reacted to this challenge with the establishment of the Innovation Hub and the Regulatory Sandbox. Through the Innovation Hub, the MNB offers a quick consultancy forum for innovators to clarify the emerging issues as soon as possible. With the Regulatory Sandbox, the MNB allows innovators and consumers to try innovations in “live” operation, under controlled conditions, affecting a limited number of customers only and with proper guarantees.

In the course of its supervisory activities, the MNB pays special attention to the development of tools used in these activities and to the competitiveness of market players. In the course of this, they consider the current developments in the continuously progressing Big Data, Fin Tech, Insur Tech and Reg Tech trends that emerged in the past few years, and, in the course of the supervisory activities, the MNB attempts to take advantage of these possibilities and encourages the supervised institutions to carry out the necessary developments.

In addition to the above, digitalization is another important area, on one hand it is identified as a requirement against the supervised institutions, and on the other hand it is related to the performance of the supervisory activity, as it contributes to sustainable development and forms the basis of modern financial services.

In addition to performing supervisory tasks, education is an extremely important element of consumer protection. In order to do it successfully, the MNB tries to reach consumers in channels that match their fields of interest, life situations, ages and the characteristics of the topics, with clear communication that attracts enough attention. For this purpose, apart from the traditional educational activities, the MNB co-operates with other players in the economy, too, from multinational companies to businesses operating on-line games.

2 Consumer protection risks

2.1 RISKS IDENTIFIED IN THE FINANCIAL MARKET SECTOR

65 percent of consumer petitions ¹ and more than half of the enquiries received by the MNB's customer service desk were related to the products and services of the financial market sector.

Similarly, to previous years, most of the enquiries and consumer complaints were related to the lending activity, and within that to housing loans and to unsatisfied payment obligations under loans. At the same time, compared to previous years, the MNB customer service was contacted by a larger number of debtors whose debts were re-sold by the lending institution for receivables management. More than 80 percent of consumer complaints and requests for information about the receivables management activity was related to the collection of receivables originating from some kind of financial services. The majority of enquiries related to lending and collection activities affected the settlement between the consumer and the financial institution, and there was an increasing number of leniency applications from debtors having difficulties with payments. Apart from loan contracts and the receivables management activity, most of the requests for information and most of the complaints were received in connection with current account contracts, payment services and bank card operations. In the case of current account contracts, consumers typically complained about the fees charged by financial service providers. In the case of payment services – such as transfers or collections – most of the complaints and enquiries were received in connection with the performance of the order given to the financial institution. As to enquiries and complaints regarding operations with bank cards, most of them were related to the quality of the service and the performance of the order, but a significant number of consumers contacted the MNB customer service for general information, too.

Similarly, to previous years, compliance with fair banking regulations was given special attention in the financial market sector, therefore in 2018 the MNB started inspections at additional 10 institutions, primarily regarding the application of interest rate variation indicators in line with legal regulations. On the financial market, another objective was to review and monitor the dynamically developing and new innovative products and services, and to detect possible consumer protection risks.

In the intermediary sector, in the course of the integrated prudential and consumer protection supervision, the compliance with complaint management and customer information rules were in the focus in the case of independent financial market intermediaries. Therefore, the consumer protection activities of Hitelcentrum Szolgáltató Kft. and HC Központ Pénzügyi Közvetítő Kft. were checked under targeted inspections. In the case of the first, a consumer protection fine of HUF 2,000,000, while in the case of the latter, a fine of HUF 1,000,000 was imposed for violating the complaint management and customer information rules. The main focus of procedures initiated on request was still the provision of information before the signing of the contract, but compared to the previous year, the number of petitions was lower.

In the receivables management sector – maintaining the practice of previous years – the MNB continued to devote special attention to consumer petitions regarding the behaviour of financial enterprises that purchase and manage overdue receivables, and to risks that originated from the non-compliance with the consumer protection principles defined in the MNB recommendation, and that were identified in addition to the risks that were the subjects of inspections initiated on request or in official procedures – typically in connection with complaint management and the management of problems about the transfer of data to the Central Credit Information System. So, for instance, continuous supervisory activities focused on the provision of inadequate information to consumers, establishing contact, maintaining contact and the difficulties of co-operating with the assignor.

¹ Petitions for the conduct of consumer protection procedures.

2.1.1 Fair lending

The examination of the compliance with the fair banking rules in force since 1 February 2015 still receives special attention. The main subject of the inspection that affected 16 financial institutions and was closed in Q3 2018 was the provision of information before concluding the contract, as well as the checking of the application of interest rate variation indicators according to legal regulations. From the 16 financial institutions inspected, infringements were identified in the case of 15 institutions – because of minor, not systemic deficiencies – and the amount of the consumer protection fines imposed was HUF 13.65 million. In the case of certain loan transactions of market players, it was not possible to subsequently prove the handing over of information documents, personal information materials about mortgage loans were incomplete, and in several cases the practice of unilateral interest rate amendment did not fully comply with the fair banking rules, either. In addition to the identification of infringements and the imposing of consumer protection fines, the MNB issued resolutions to oblige institutions to take certain measures for the compliance with legal regulations, and they carried out these measures. In 2018, the MNB started to examine the application of interest rate variation indicators and the provision of information on interest rate changes according to legal regulations at 10 financial institutions. The inspections are expected to be closed in the first half of 2019.

2.1.1.1. Interest rate risk and management options

Owing to a number of measures taken by the MNB, new housing loan disbursements do not carry effective interest rate risks any longer.

Box 1

The MNB uses a number of tools to support the spread of housing loans with rates fixed for longer terms

As of 1 October 2016, the MNB introduced the **Mortgage Funding Adequacy Ratio (MFAR)** to mitigate the maturity mismatch related to the financing of mortgage loans, and in an indirect way, by deepening the mortgage bond market, this fostered the spread of fixed-rate loans, too.

In June 2017, the MNB launched the **CCHL programme**. With their increasing share in new disbursements, the standardized and easily comparable CCHL products that can only be disbursed with longer interest rate periods efficiently support the mitigation of interest rate risks of households.

Following that, in 2018, the MNB applied the **monetary policy interest rate swap (MIRS)** facility and the **mortgage bond purchase programme** to foster further increase in mortgage bond issuance and the enforcement of loose monetary conditions, on a longer section of the yield curve.

Since October 2018, by modifying the **debt-service-to-income (DSTI) ratio** the MNB has also contributed to the maintenance of the sound structure of the new disbursements.

As a result of the CCHL certification framework and the central bank programmes that support the long-term funding of banks at low costs, the structure of housing loan disbursements changed in a favourable way, i.e. there was a shift from the earlier typical variable-rate loans to fixed-rate products. As a result, from the aspect of interest rate risks, the strengthening new housing lending occurred in a healthier structure in Hungary.

Box 2

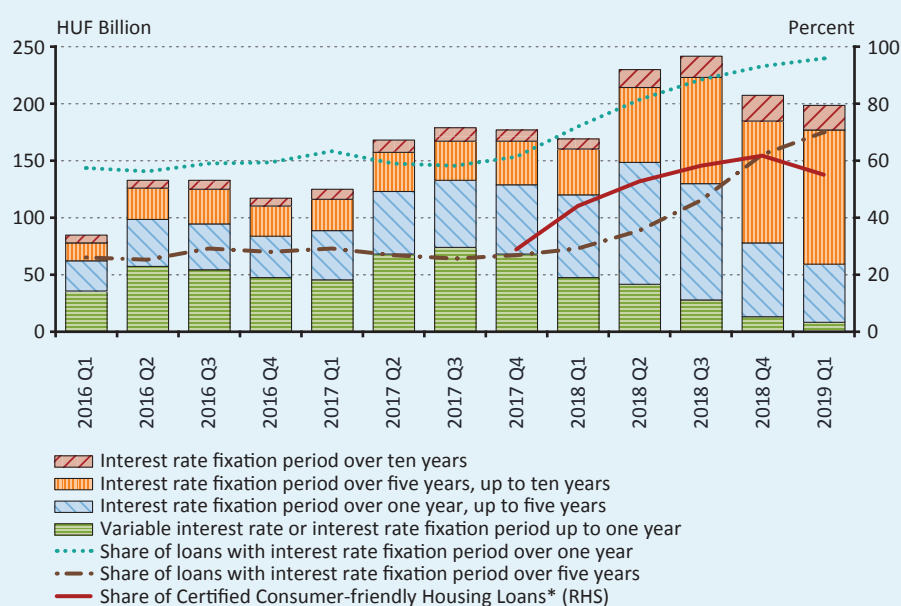
Results of Certified Consumer-friendly Housing Loans so far

The MNB created the CCHL certification framework in 2017 in order to increase competition in the banking system, considering consumer protection aspects, too. Before the introduction the certification, 45-50 percent of household housing loan disbursements were made up by variable-rate products that were unfavourable from stability and

consumer protection points of view and carried significant interest rate risks, and loans with over-a-year interest rate fixation were offered with a high spread by banks, even in regional comparison. The purpose of introducing the certification was to make sure that housing loans with uniform conditions, therefore easy to compare, with favourable prices and interest rates fixed for longer periods spread on the market. By December 2018, the market share of certified products exceeded 60 percent within new housing loans with interest rate fixation of at least five years, contributing to the mitigation of the exposure of households to interest rate risks and to the maintenance of the sound structure of housing lending.

From September 2017 to April 2019, the participating institutions disbursed more than 39 thousand CCHL contracts in the value of HUF 470.29 billion. In the course of 2018, CCHL products with interest rates fixed for longer terms, for ten years or until the end of the term continued to gain ground within the disbursement of certified products (Chart 1). By the beginning of 2019, the share of certified products got stabilized around 60 percent within the potentially certifiable new housing loans with at least five-year interest rate fixation. This favourable trend was supported by the modification of the CCHL Tender Invitation in October 2018, when certified products with interest rate periods of three years – that offered the least protection against the interest rate risk – were terminated, and it became possible to certify housing loans with 15-year interest rate fixation.

Chart 1
Breakdown of housing loan disbursements by interest rate period



* The market share of CCHL products was calculated as a ratio of certified loans within potentially certifiable housing loans disbursed by banks – until September 2018, loans with interest rate periods exceeding three years, and from October 2018, loans with interest rate periods exceeding five years were considered.

Source: MNB.

In parallel with the certified products gaining ground, the ratio of housing loans with over-a-year interest rate fixation increased to 97 percent by April 2019 within new housing loan disbursements. Within the provision of housing loans with over-a-year interest rate fixation, most of the loans have rates fixed for ten years, and there are a lot of products with rates fixed for terms longer than 10 years, typically for the whole term, while the share of variable-rate products representing higher risks dropped to around 3 percent from the previously typical 40-50 percent. Owing to the CCHL programme and other central bank actions supporting long-term fund-raising, the structure of housing lending was rearranged in a favourable way, and new loans do not carry effective interest rate risks any longer.

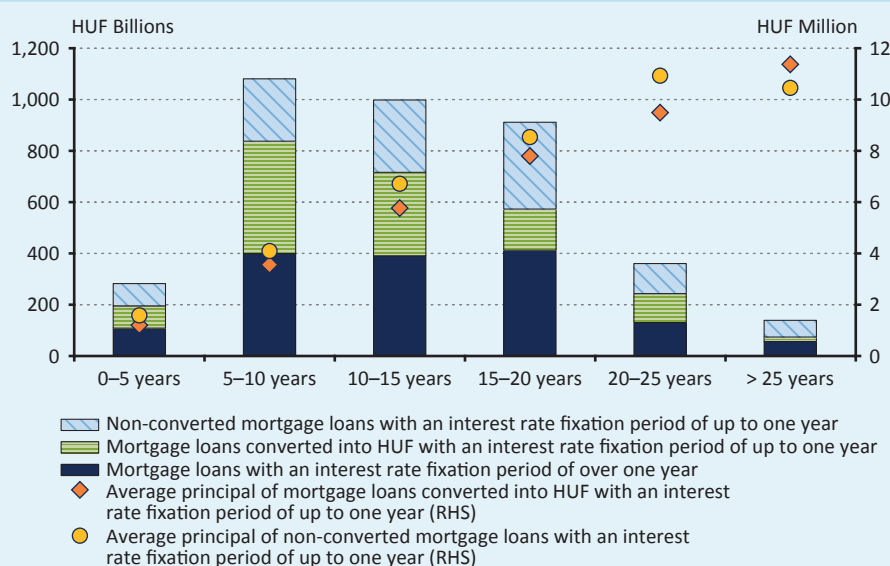
As a consequence of the more and more intensive competition on the market, we can observe a continuous decrease in the average interest spread difference of housing loans with over-a-year interest rate fixation and variable-rate housing loans. As a result, by May 2018, the relative cost disadvantage of housing loans with over-a-year interest rate fixation has disappeared. Therefore, the higher interest rates of housing loans with longer-term interest rate fixation originate only from the higher costs of raising longer term funds. The rearrangement of the structure of housing loan disbursements and the changes in the pricing of products with over-a-year interest rate fixation is in line with international trends and supports the maintenance of the healthy structure of household lending.

In 2018, the MNB made special efforts to check the institutions' practices related to the provision of CCHL products. The regular inspections by the MNB examined the compliance of financial institutions with the Tender Invitation, which, among other things, covered the issuing of binding offers, the rate of fees charged, the processing time of transactions and the proper level of the applied initial interest rate. The MNB identified minor deficiencies at a number of institutions in connection with the full completion of binding offers and the provision of information to consumers on the website. Furthermore, in the case of certain loan transactions, the initial fees and the interest level specified in the contract and the interest level actually applied exceeded the limits specified on the basis of the Tender Invitation. As a result of the fast actions of the MNB, the financial institutions have corrected the contracts and adjusted the proper interest rate levels and refunded possible overpayments.

The regular inspections by the MNB facilitated the smooth and transparent management of CCHL products, and this is confirmed by the low number of customer feedbacks received by the MNB about these products.

However, the existing portfolio of variable-rate mortgage loans is still significant and presents a risk to be managed. At the end of 2018, a high portion – even in international comparison – of the existing mortgage loan portfolio, i.e. 60 percent of it, which amounts to HUF 2,300 billion, was made up by variable-rate loans or loans with interest rate fixations of maximum one year (Chart 2).

Chart 2
Portfolio of existing mortgage loans by remaining maturity



Existing portfolio of performing mortgage loans disbursed by banks, by number of contracts, at the end of December 2018.
Source: MNB.

The management of loans converted to forint requires special attention, because – at the time of modifying the foreign currency based mortgage loan contracts, in the course of the conversion to forint – financial institutions applied an interest rate linked to a reference interest rate, therefore the existing variable-rate forint mortgage loan portfolio increased with a one-off item of HUF 2,700 billion. So far, the moderate interest rate environment may have effectively reduced repayment

burdens for these loans, but the emergence of interest rate risk would significantly increase the repayment burdens of these debtors (Table 1).

Table 1
Current variable-rate mortgage loan portfolio in the credit institution sector, that can be considered risky (December 2018)

| | Portfolio of variable-rate mortgage loans | Portfolio of variable-rate mortgage loans converted to HUF |
|--------------------|---|--|
| By volume | HUF 895 billion | HUF 620 billion |
| By contract number | 129 thousand contracts | 80 thousand contracts |

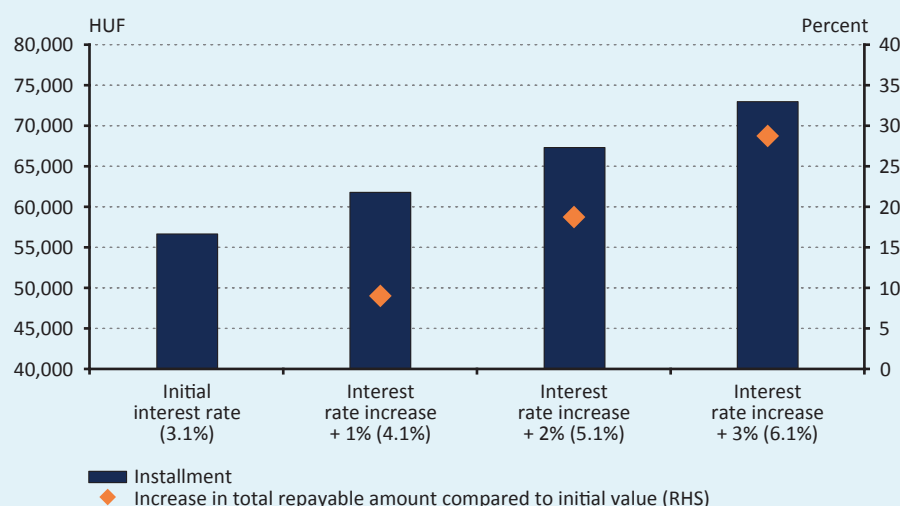
Portfolio of performing mortgage loans disbursed before the fair banking law, with minimum remaining terms duration of 10 years.

Source: MNB.

Exposure to interest rate risk is further increased by the fact that more than 60 percent of this portfolio of variable-rate mortgage loans have remaining duration over ten years and outstanding principal debts of HUF 5 million on average.

A possible interest rate increase of 1-3 percentage points may increase the instalments significantly, even by 20-30 percent (Chart 3)

Chart 3
Change in the instalments of a variable-rate loan in the case of increased interest rates



Q4 2018 average interest rate of loans with maximum one-year interest rate periods, supposing a loan amount of HUF 10 million and a maturity of 20 years. The calculation shown considers an immediate shock as a high estimate of the interest rate risk.

Source: MNB.

If the interest rate is fixed for example in a 10-year interest rate period, the instalment will be slightly higher, but the repayment burden will be predictable for a longer period. If the unfavourable interest rate environment is still there after 10 years, the loan linked to an interest rate period will be re-priced, but this will trigger a smaller increased in instalments, as the outstanding principal has decreased in the meantime.

In the case of outstanding variable-rate loans, the refinancing of the loans or the amendment of existing contracts may mitigate the debtors' interest rate risks. If customers refinance their existing variable-rate loan for a loan with longer-term interest rate fixation or modify their existing contract in agreement with the creditor to apply a longer interest rate fixation, they may significantly mitigate his interest rate risks. In the course of the loan replacement, customers have to pay the one-off costs related to the borrowing of the new loan and to the prepayment of the previous loan, or to the administration of the contract modification, and in exchange they can repay their debt – within the remaining maturity – with instalments that are fixed for a much longer period of time than originally specified, or until the end of the term. Based on the above, the lower the one-off costs are, and the bigger interest rate reduction customers can achieve, and

the longer the remaining term is, the more worthwhile it may be for customers to consider the refinancing of the loan. Considering the fact that in a number of cases the loans of debtors with variable-rate loans are still characterized by remaining maturity of more than ten years and with high interest rates compared to the currently offered conditions, there may be still room to refinance or amend several mortgage loans. However, transitions to fixed-rate loans or loans with longer interest rate fixation, that would be advantageous for the mitigation of the interest rate risk, could be encouraged on the long term only if customer burdens related to loan replacement were reduced.

The material mitigation of the interest rate risk of the existing variable-rate mortgage loan portfolio would be feasible if a higher number of loans were replaced with loans of longer interest rate fixation. Within new disbursements, the share of housing loans contracted for the purpose of loan refinancing was usually around 3-4 percent in the past few years. The reason behind the low level of loan replacements may be the significant cost and time requirement of the process on the side of consumers. The simplification of the process and the reduction of the costs would have a positive effect on the intensity of the replacements and the competition for collecting customers. In parallel with the spread of CCHL products, the share of refinancing loan purposes also grew hence, by the end of 2018, almost half of the loan refinancing transactions were certified loans. As a result, refinancing loan's structures in the respect of their interest rate periods beneficially shifted towards longer interest rate fixation.

Considering the fact that the interest rate risk of existing variable-rate loans affects a portfolio of significant size, the MNB, for the mitigation of the interest rate risks of already existing mortgage loans – in close co-operation with the Hungarian Banking Association and considering consumer protection aspects, too – stated its expectations in a recommendation². The purpose of the recommendation is to make sure that risks related to possible changes in the interest rates of existing variable-rate mortgage loans are presented to the consumers, facilitating more informed decision-making by them, based on all the relevant information regarding the need for the revision of the interest rate risk inherent in the contract. It would be important to achieve that in addition to considering the current interest rates and instalments, consumers evaluate the possible long-term consequences of the interest rate risks of variable-rate loans, too. The MNB expects the recommendation to facilitate – by encouraging contract modifications – that consumers with variable-rate HUF mortgage loans would find it easier to access more predictable and longer-term interest rate fixations that are safer from the aspect of the repayment burden.

The present APR calculation methodology that is uniform at EU level does not reflect the interest rate risks carried by variable-rate loan contracts linked to the reference rate, as the indication of the APR suggests that the interest rate level will be unchanged in the whole term. This is why, the MNB urges a modification in the APR calculation methodology so that interest rate risks could be presented in a more transparent way.

2.1.1.2. Combined credit card products

The dynamic growth in the portfolio of consumer credit continued in 2018, too, and this portfolio contained a combined “hybrid” construction in which the credit card credit limit was provided for the purchase of goods or for optional use, with repayment in instalments of identical amounts, other than the instalments of the credit card.

These new solutions are characterized by the fact that the loans used this way have a lower interest rate than the interest rate level valid in the case when the credit card debt is repaid outside the settlement period. The principal part of the instalment paid increases the available credit limit amount on the credit card, so the credit limit of the credit card can be used again, either as a loan with fixed term and regular instalments (purchase loan and personal loan), or within the frames of the “traditional” credit card product.

The risks indicated in connection with the “hybrid” products are typically related to the provision of information only, as the understanding of the operation of the product requires more attention by the consumer. With prudent consumer information, it is possible to make sure that the consumer – knowing all the key features – selects the loan product that is best for his objectives, and thus avoids misconduct and related consumer complaints. Considering the consumer protection risks presented by the “hybrid” products, the MNB has monitored and will continue to monitor the institutions' practice related to such products.

² Recommendation No. 9/2019 of the Magyar Nemzeti Bank (IV.15.) on the interest rate risks of variable-rate mortgage loans and on the fostering of the provision of information on their management

2.1.1.3. Information shortcomings at a variety of loan products

The MNB has been continuously controlling the compliance of commercial communications published by financial institutions with legal regulations. Regarding 9 institutions, the MNB made resolutions in 11 cases for the violation of legal regulations on commercial communication. The key infringements detected include the lack of the specification of the APR in the loan product advertisements produced for consumers, its indication in a non-prominent way, the lack of a representative example, or the presentation of an example with contents other than stipulated by legal regulations.

In the course of advertising personal loans and overdrafts, Erste Bank Zrt. did not always indicate the APR value or not in a conspicuous way, did not present a representative example at all or presented it with incomplete contents or not in a prominent way, and in a lot of advertisements, they calculated the APR value with a loan amount that was different from the loan amount specified in the legal regulation. The amount of the imposed fine was HUF 14 million. In the case of the MKB Bank Zrt., a fine of HUF 13.5 million was imposed for not indicating the APR, the representative example, and, for mortgage loans, not presenting other information than the representative example and not giving information on the obligation to conclude the contract for ancillary services. In the commercial communications about personal loan products, on multiple occasions, Raiffeisen Bank Zrt. indicated the representative example with a loan amount different from the amount stipulated in the legal regulation and indicated the APR value in a non- prominent way, so their fine was HUF 11 million.

In the case of the Erste Lakástakarék Zrt., the APR was indicated in a non-s prominent way, and a loan amount and a duration other than the ones stipulated in the legal regulations were applied in the representative example, therefore a fine of HUF 7.5 million was imposed. The two inspections conducted at K&H Bank Zrt. found that in one of the commercial communications, the representative example was not indicated at the necessary place, and in other cases, the example was not published with the statutory contents, and in the commercial communication about credit cards, the value of the APR was not striking enough or not indicated at all. The total amount of the imposed fines was HUF 8.5 million.

In the case of the TakaréK Kereskedelmi Bank Zrt., a fine of HUF 4.5 million was imposed for indicating the APR value in a non- prominent way, in the case of Sopron Bank Zrt., a fine of HUF 2 million was imposed for not indicating the APR or not in a prominent way, while in the case of the ONEY Magyarország Zrt., a fine of altogether HUF 8.5 million was imposed for the non-conspicuous indication of the APR and lack or non- prominent indication of the representative example.

In addition, in 2018, the MNB imposed a consumer protection fine of HUF 1 million to a financial enterprise involved in small lending, MikroCredit Zrt., for violating the prohibition of advertising regarding draws.

The inspection of the lending activity under the security of pawns – considering the fact that based on supervisory experiences a significant portion of consumers utilizing such services are in rather exposed situations – was still a key element of consumer protection supervision, similarly to the practice followed in previous years. The MNB continued to pay close attention to the checking of the compliance with legal regulations on the maximum value and the calculation of the APR in this sector. In order to achieve this objective, for financial enterprises that do not belong to bank groups, the MNB initiated altogether 4 targeted inspections in 2018 about the calculation of the APR and observing its maximum value, and 2 targeted inspections to check the compliance with legal regulations on commercial communication. Another key element of the supervisory activity was the checking of the practice of providing information, as the amount of interests, fees and commissions applied for delays in the redeeming of the pawns may be a sensitive issue to these consumers, and in the case of forced sale, the lack of the provision of proper information on the forced sale procedure and on the performance of the settlement obligation may present problems. In order to protect the interests of these consumers, the MNB continuously monitors the announcements published on the websites of financial enterprises offering pawn loans, as well as their other advertisements on the internet and various communication channels, and, if necessary, initiates a proceeding against the infringing institutions.

Regarding the infringements detected in 2018 about institutions involved in pawnbroking activities, the MNB imposed a fine of HUF 1.5 million on the Békés Takarékszövetkezet for unfair commercial practice, not properly indicating the APR and for the lack of a representative example, imposed a fine of HUF 10 million on Korona Takarékszövetkezet for violating the APR calculation methodology and the maximum value of APR, and imposed a fine of HUF 2.5 million on the Centrál Takarékszövetkezet.

MNB recommendation 24/2018. on activities related to pawns was published in 2018, and it builds on the experiences of inspections conducted in previous years and on experiences gained from continuous monitoring and defined the requirements to be met – from consumer protection and prudential aspects – in the pawnbroking activity.

Box 3

Recommendation related to pawnbroking activity

The purpose of Recommendation 24/2018 (VII.5.) is to define the requirements of the MNB on the extension of loans under the security of pawns, directly by financial institutions or through dependant special intermediaries, and on the refinancing of financial institutions offering pawn loans, and thus to increase the predictability of the application of law and to foster the uniform application of relevant legal regulations. The MNB expects the affected financial institutions to apply this recommendation as of 15 September 2018.

The recommendation defines practices to follow from consumer protection aspects, in connection with pawn products, the rates of interests, fees and charges that can be applied for delays, the information provided before the granting of the pawn loan and about forced sale, as well as on the contents of the pawn ticket, the business regulations and the announcement.

The MNB thinks that it is not compatible with consumers' interests, and therefore not acceptable to apply terms shorter than 30 days, or grace periods that are several times longer than the term. The MNB expects the institutions to maximize the rates of interests, fees and charges applied in the case of delays, and in the case of interests, fees and charges applied for delays, it requires them to be proportionate to the costs of keeping the pawn and protecting its value, and the actual costs of forced sale. The MNB thinks that it is not an acceptable creditor behaviour when a fee that is several times higher than the interest rate is applied in the case of late performance, and finds it a good practice to make sure that the rate of the default interest does not exceed a value corresponding to 1.5 times the relevant interest rate plus maximum 3 percentage points, and it should not be higher than the maximum APR rate used for loans granted under the security of pawns.

As to the provision of information before the granting of the pawn loan, the MNB requires the institutions to make sure that the information provided by them covers not only the terms related to pawn lending, but the APR, the procedure to be followed in the case of redemption over the term, and the related interests, fees and charges, as well as the settlement obligations of these institutions in the case of forced sale. As to the interests, fees and charges applied for delay, the MNB requires the institutions to inform their consumers on the maximum rates, and the costs (incurred by the institutions) that will be used as their basis. The MNB finds it a good practice to send direct information to consumers before and after the forced sale – including the amount of the settlement obligations –, if they provided their contact data to the institution.

In addition, the recommendation of the MNB contains requirements about the contents of pawn tickets and announcements, and the information indicated on pawn tickets has been extended with a number of new elements that are of special importance in consumer protection, such as key dates related to prolongation, late performance, redemption and forced sale, the interests, fees, charges applied, their maximum rates, as well as the settlement obligation and the time of expiry. In connection with the announcements, the MNB finds it a good practice to illustrate the fee structure on a diagram, which clearly explains when the individual interests, fees and charges will be applied, i.e. during the term or the grace period, or in any other period specified in the business regulations, and to demonstrate the terms of modifying and extending the pawn loan contract, the terms of forced sale, the procedure to be followed and the amounts of related interests, fees and charges on a representative example.

2.1.1.4. Concerning provisions of credit card contracts

In its competence to submit petitions of public interest, the MNB continuously monitors individual financial sectors to see whether the general terms and conditions applied in the contracts between financial organisations and their consumers satisfy the civil law requirements of good faith and fairness. In the past few years, the MNB reviewed car leasing contracts first, then completed the analysis of consumer mortgage loan contracts, too. Based on the concerns about unfair practices found in the analysis, the affected financial institutions modified the objected terms of the contracts according to the requirements.

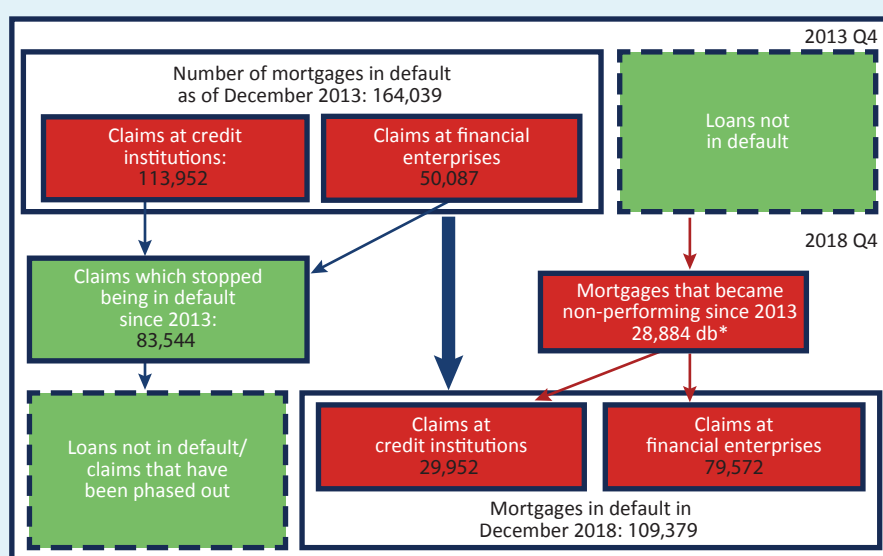
In 2018, the MNB started the comprehensive analysis of credit card contracts, because of the increasing importance of payments with cards and the innovative payment solutions that appeared recently, as well as the complicated credit card products that are often difficult to comprehend for the consumers. By taking steps against the general terms and conditions that are considered unfair, the MNB wishes to promote the development of credit card products in a consumer-friendly direction. In order to make sure that the favourable changes are implemented for the whole market segment without distorting the competition, the MNB performs the analysis for all key market players. In this respect, the objective of the MNB is to make sure that consumers' credit card contracts to be signed after the analysis process contain only fair terms that are transparent and clear for the consumers, too. The analysis process may be finished during 2019.

2.1.2 Situation of mortgage loan debtors in arrears

Over the past few years, the situation of mortgage loan debtors in arrears has shown a gradual improvement. While at the end of 2013, according to the data of the Central Credit Information System, in the whole financial system 164 thousand mortgage loans in arrears were recorded (or receivables from such contracts), by the end of 2018 this number dropped to 109 thousand contracts (Chart 4). A number of factors may contribute to the dramatic reduction. As a result of the activity of the National Asset Manager, almost 40 thousand loan contracts – that were in arrears before – were removed from the category of non-performing contracts, while the recovery of the real estate market helped the elimination of delays with voluntary sales of securities and with forced sales. However, at the same time, other contracts – that were previously performing – got into arrears. The majority of these contracts were also signed before 2010, so they can be clearly considered as the consequences of the previous credit cycle characterized by excessive risk assumption.

Chart 4

Change in the number of non-performing household mortgage loan receivables between 2013 and 2018

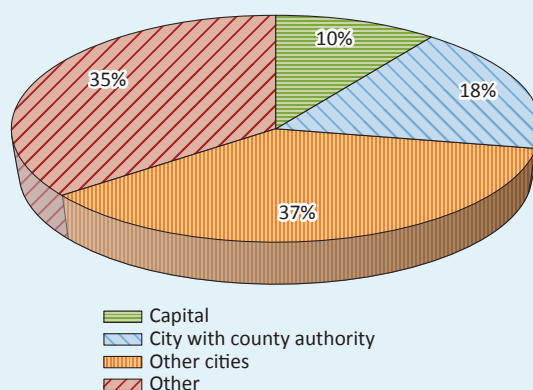


*Of the contracts becoming non-performing between December 2013 and 2018, 24,844 loans were disbursed before 2010 and 3,629 from 2010
Source: MNB, CCIS.

In addition to the improvement in the aggregated number of contracts in arrears, a significant change can be observed among the institutions that manage the contracts, too. In parallel with the recovery of the real estate market, a recovery on the receivables purchase market was also observed. So, while at the end of 2013, almost 70 percent of non-performing mortgage loan contracts were in the balance sheets of credit institutions (commercial banks, foreign banks' branches, co-operative credit institutions), by the end of 2018 this ratio dropped to 27 percent. As a consequence of selling receivables, the ratio of household loans in arrears for more than 90 days within all household loans dropped to 4.5 percent in the balance sheets of credit institutions, from the top level of almost 20 percent.

However, the recovery on the real estate market had different impacts in individual debtors. By type of settlement, 72 percent of mortgage loan debtors in arrears live in towns and villages (Chart 5), and these types of settlements enjoyed the recovery of the real estate market to a small extent only. While between Q4 2013 and Q3 2018, housing prices increased by 144 percent in the capital, the increase was only 75 percent in other towns and 41 percent in villages. The uneven recovery on the real estate market left its mark on the loan-to-value (LTV) ratio, too: for 58.4 percent of the portfolio, the LTV ratio exceeds 100 percent, i.e. the full payment of the debt in arrears is not ensured even in the case of the sale of the real estate.

Chart 5
Ratio of non-performing mortgage loans by type of settlement



Source: MNB, CCIS.

The situation of highly indebted debtors who own certain assets and have proper income may be eased among others by the family insolvency procedure. However, the utilization of the procedure that came into force in 2015 is low: according to the information provided by the Ministry of Justice on a press inquiry³, 1,460 debt settlement procedures were registered until 7 February 2019, and altogether 3,300 people (debtors, co-debtors, guarantors) were connected to them. In order to improve the utilization of the programme, it may be advantageous to assess the reasons for the limited willingness to use the programme, and based on the hindering factors, the modification of the procedure should be considered.

The MNB continues to pay special attention to the consumer protection supervision of receivables purchase and receivables management activities. According to the trend that continues in 2018, too, consumer protection procedures were requested mainly in connection with the complaint management procedures of receivables managing financial enterprises and the management of objections according to the act on the central credit information system. Utilizing these experiences, the MNB initiated two targeted consumer protection inspections to be finished in the following year, regarding complaint management procedures and the management of objections related to the central credit information system. The thematic inspection covering financial enterprises' receivables management and receivables sales activities was closed, and it revealed certain deficiencies in the case of several institutions, namely that notices about assignments were not sent within the deadlines required by the MNB recommendation. In addition, under the continuous monitoring, the MNB indicated to receivables managing institutions on a number of occasions that their practices raised concerns

³ <https://magyarnemzet.hu/gazdasag/meg-mindig-sokan-nyognek-a-devizahitelek-kartetelei-miatt-4563812/>

from consumer protection aspects, with special regard to availability during establishing and keeping contact – which carry significant consumer protection risks – and to supervisory requirements regarding the contents of notices related to assignment. Based on the experiences of inspections, consumers still often question the legal basis and the amounts of receivables, as well as the adequacy of the contents of data stored in the central credit information system, but the examination of these issues are not in the MNB's, but in the courts' decisions-making competence.

In relation to the receivables management activity, the MNB attributes high priority to the adjustment of market practices related to the application of interest rates, fees and charges to the supervisory requirements. In the course of its continuous supervisory activities, the MNB assessed the interest rate, fee and charge application practices of 10 receivables managing financial enterprises. In a few cases, the MNB experienced non-consumer-friendly practices – particularly the flat administrative costs charged for the activities related to the management of the receivables, or the transfer of operating costs – and these experiences were considered in the development of the MNB recommendation on receivables management activity related to consumers.

Box 4

MNB recommendation affecting the management of receivables

Following the professional discussions with market players, other authorities and civil and professional organisations, in January 2019 the Financial Stability Council of the MNB approved Recommendation 2/2019 (II. 13.) on receivables management activities against consumers, which was worked out as a result of the review of recommendation 14/2012 (XII. 13.) of the President of the Hungarian Financial Supervisory Authority for receivables managers on consumer protection principles required in the management of receivables.

The revision of the requirements regarding the receivables management sector were necessitated by the comparison between the supervisory expectations and the regulatory environment and the recent changes in market practices, as well as by the need to formulate the necessary supervisory guidelines. By unifying receivables management practices along the supervisory requirements, it is possible to make sure that both market players and debtors can get acquainted with the available instruments and can apply the best practices that allow for the management of the legal relationship during the receivables management process in a way that serves the parties' interests in a more balanced way.

The Recommendation is addressed to organisations and persons that are subject to the scope of the act on credit institutions and financial enterprises, involved in activities related to managing outstanding receivables of consumers, originating from terminated contracts on the extension of financial services, or received by purchasing receivables or other debts managed by the financial institutions under commission (including public utility or telecommunication service contracts).

According to the Recommendation, the debtor is the obligor – i.e. the consumer – of the debt enforced by the receivables manager. Nevertheless, the behaviours and practices identified in the Recommendation and to be followed against the debtor during receivables management are expected by the MNB during the enforcement of the claim against the guarantor, too.

The Recommendation specifies the supervisory expectations required by the MNB for the fair and co-operative behaviour, the observing of which facilitates the establishment of uniform institutional practices, and – through the extension of the scope of information available to debtors – contributes to the preservation of trust between the parties and the improvement of the quality of co-operation.

In addition to determining the general principles to be followed during the management of receivables, the rules of providing information to debtors, establishing and maintaining contact, the organisational rules, the minimum contents of the internal regulations and the supervisory requirements about record-keeping, the Recommendation specifies a new requirement against receivables managers, as it defines the consumer protection expectations regarding settlement agreements.

The Recommendation also records the features of good practices related to the transfer of receivables, so that their legal nature and correct amounts, as well as the sending of the regular notice letters could be supported by documents, promoting the transparency of receivables purchases as financial service activities.

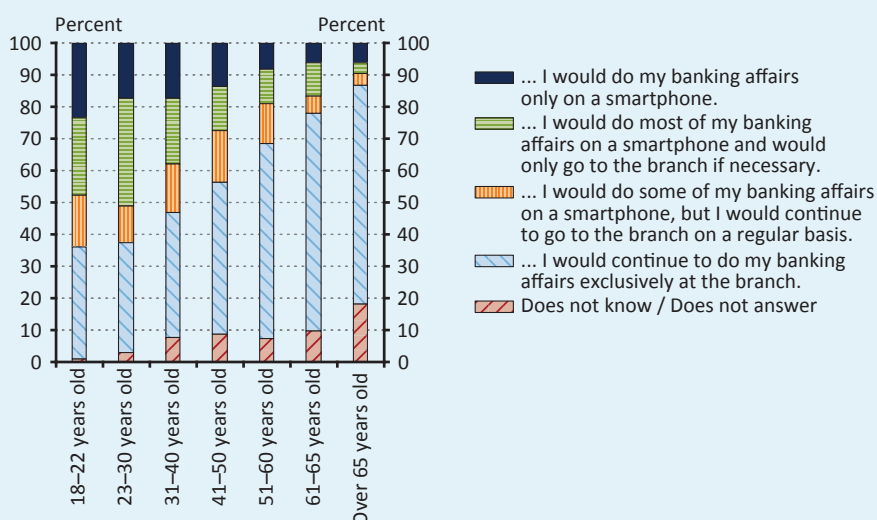
Another new and key element of the Recommendation is the formulation of supervisory requirements on the application of interests, fees and charges, the purpose of which is to make sure that the receivables manager – according to the requirements of good faith and fair procedures – charges only certified and justified expenses that occurred in connection with the enforcement of the claim to the debtor. In addition to clearly specifying that operating costs that are inherent costs of the receivables management activity cannot be transferred to the debtor, the Recommendation also stipulates that the receivables manager can only transfer costs – defined in a transparent structure that the debtor is able to follow – to the debtor if the costs are proportionate to the extent of the receivables, and are directly related to the enforcement of the given claim. It is important to note here that as a result of the transfer, the general terms and conditions applied by the assignee receivables manager do not become parts of the legal relationship between the debtor and the receivables manager, therefore, in order to reduce non-desirable market practices, the Recommendation stipulates that the general terms and conditions applied by the receivables manager can only be used for the given debtor if the debtor knows them and accepted them in a specific statement.

The behaviours and good practices identified by the Recommendation, their incorporation into the receivables management activity of the players of the sector and their controlled observance are expected and monitored by the MNB in order to protect the interests of consumers and families.

2.1.3 Consumer protection considerations of challenges presented by FinTech

Based on the surveys conducted by the MNB, a significant portion of consumers are quite open to technological novelties applied in the field of financial services. The comfort, the speed and the lower costs offered by FinTech services seem to be attractive to consumers who are interested in these options. It is the generation of people of 18-22 years that is the most open to innovation. However, in spite of all the advantages, there is still a strong demand for off-line administration, and thus for branches, too, as only 15 percent of people asked would do all his banking on-line only (Chart 6).

Chart 6
Consumers' openness to e-banking
(If all the banking services were available on smartphones...)



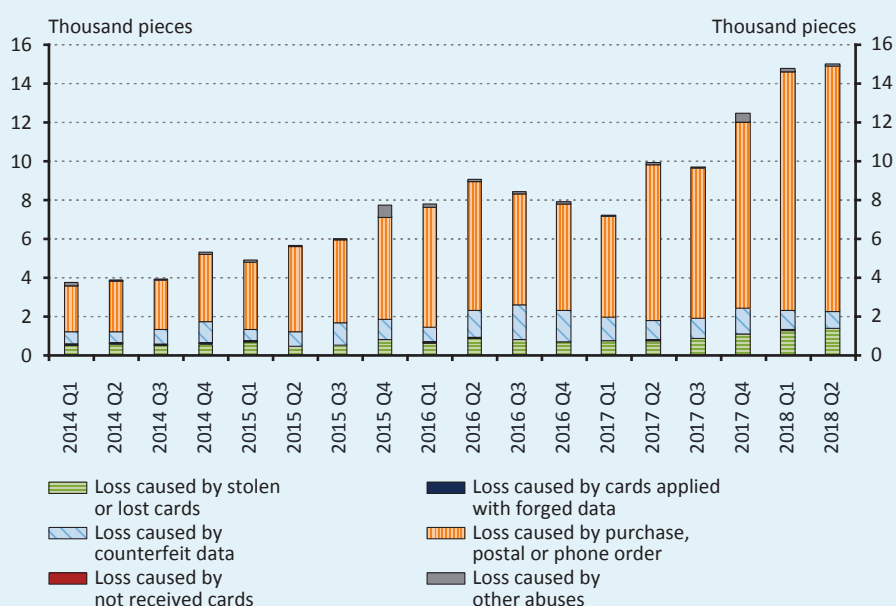
Source: Századvég, MNB.

However, the uncontrolled spread of technology-driven financial innovations may raise consumer and data protection concerns, as well as operating risks and financial stability issues, too. There is a danger that the unknown nature of new solutions and new ways of using the services may lead to consumer decisions that are not informed enough. It is a characteristic feature of innovative services that their technological background allows for effectively faster utilization and shorter contract processing times, therefore consumers' attention should be drawn to the fact that they should act with proper care and should refrain from impulsive decisions.

Data management also plays a key role, as the improper management of personal data or their unauthorized use may mislead consumers or may cause a damage to them. These major negative experiences may reduce trust in the financial intermediary system, and this may work against the further use of digital and innovative solutions, and thus the renewal of the financial system. In Hungary, payment card frauds on the issuer side have shown a continuous increase over the past few years, especially in parallel with the spread of on-line channels (Chart 7). However, the ratio of frauds compared to the total turnover is still negligible, and as to frauds, consumers had to bear a small ratio of the damages directly, owing to securities offered by legal regulations in force.

Chart 7

The number of abuses committed with domestically and foreign issued payment cards by type of abuse



Source: MNB.

The existence of statutory securities and the development of financial awareness are of key importance for the protection of consumers. For the safe spread of innovations, it is necessary to incorporate proper securities and checks by the regulatory side, without hindering the innovations that increase consumer surplus. The strengthening of consumer awareness deserves special attention, as the knowledge and safe application of the achievements of continuous technological development is indispensable in finances, too. The development of the financial culture and the improvement of awareness was given special focus last year, too. As a result, among other things, the Strategy of developing financial awareness, compiled with the involvement of the MNB was published.

Solutions protected by statutory securities on the consumer side still play a special role in the use of a product or service. 63 percent of people interviewed under the MNB survey would definitely not try a service that is not covered by financial securities that are usually valid for financial services. The interviews with focus groups indicated that owing to the trust in banks, customers often prefer their usual service providers to the FinTech companies. The participants of the survey identified mainly data protection concerns about the financial innovations, as they consider that services based on modern

technology are easier to hack. In addition, they see a risk in the over automation of financial decisions, too, which may encourage consumers to make fast and uninformed decisions.

A number of innovative services were introduced on the retail market in 2018, too, typically aimed at the facilitating of banking for consumers. More and more institutions offer the possibility of on-line account opening, too, and by using that, customers can avoid administration and waiting time in the branches. In the case of on-line account opening, the consumer is identified and the data required for account opening is given in a video call, on an electronic communication device (such as a smart phone, tablet or computer) that is suitable for this purpose.

One of the innovative services that appeared on the Hungarian market is the payment option using the QR code. The QR code is a two-dimensional line or point code, which contains the data of the transaction to be paid, therefore, after reading the QR code with a smart phone, the amount of the bill may be paid. The advantages offered by payments with QR code can be enjoyed by consumers who have smart phones that are able to read QR codes and mobile banking applications. The advantage of the QR code is that there is no need for the consumers to enter the transaction data, and the QR code can be read from any angle, while the reading takes only a few seconds.

The testing of touch-free ATM's started already in 2018 on the retail market, and the possibility of withdrawing cash without a bank card was introduced in early 2019. The idea in this solution is that the consumer downloads the mobile application of the institution to his mobile phone, through which he will ask for a code for cash withdrawal. The code arrives at the consumer's mobile phone, and it has to be entered through the ATM, so there is no need to use the bank card.

The new services offered by payment initiation service providers and account information service providers create a number of technical challenges and tasks to be solved. Payment service providers have to solve the provision of an objective and non-discriminative electronic access to the payment account service. The objective is to make sure that FinTech companies operate under the same conditions as "traditional" financial intermediaries, and that requires more efficient consumer protection and EU cash turnover, as well as increased internet security.

Box 5

Introduction of the instant payment system (AFR)

The instant payment service, already available in several countries of the world, will be available in Hungary, too, from March 2, 2020. Pursuant to the provisions of legal regulations, payment service providers will have maximum 5 seconds to carry out individual domestic HUF transfers below HUF 10 million. This means that it is not enough to perform the credit on the beneficiary's side in real time, but the receiving party should be able to freely use the funds, i.e. to initiate other transfers or purchase transactions almost immediately. Another difference from the present situation will be the continuous operation of the system, i.e. it will be possible to make instant payments on any day of the year, and at any point of time. Owing to the real-time performance and the expected new innovative payment solutions, instant payments can soon be alternatives to cash transactions in practically any payment situation.

One of the new services of the system will be the possibility of initiating payments even without knowing the beneficiary's account number, by using secondary account identifiers that are much easier to remember. At the start of the system, as a secondary account identifier, the registration of at least a cell phone number that contains an EEA country code, a tax identification number or an electronic mail address should be required as a mandatory step. It is possible to register multiple secondary account identifiers for one account number, but one secondary account identifier may be connected to one account number only. The registration of secondary account identifiers in the database will be possible at the account managing financial service providers and at banks. In order to maintain strict data protection, only financial service providers can access this central database, and the data contained in it can only be used for specific purposes, to carry out the transfer orders given by the customers.

It is also important to know that the connection of secondary account identifiers to the account numbers does not mean at all that anyone knowing, for example, the telephone number, would be able to access a bank account. Secondary account identifiers will facilitate easier addressing, i.e. when they are registered, consumers can only support that other people can send money to them easier, but, similarly to the present practice, the initiation of transactions still requires the approval of the account owner or the person holding the rights of disposition. In addition, the specification of secondary account identifiers facilitates simpler transitions to other account packages. If consumers give their secondary identifiers, e.g. the never changing tax identification number to their employer, business partners or any party from whom they get regular transfers, then the account number behind the tax identification number can be changed any time. All this means that the wide use of secondary account identifiers allows for changing banks at any time, without the need to tell the new account number to anyone.

Another important new service will be the payment request, which might as well be an alternative to payments with cards, the present grouped collections and the yellow transfer orders. Payment requests are messages sent by the beneficiary and they contain all the data that are required for the initiation of transfers, so all the paying party has to do is approve the initiation of the payment at his own service provider. In practice, this can be used in a number of payment situations. Among other things, it can be used for shopping, when we can approve the request issued by the merchant for the proper amount by pressing a button in our mobile payment application. In the same way, payment requests could be used for invoice payments, where their use would be much simpler compared to paper-based invoice management, and there is the added advantage that the payment is possible with the approval of the paying party only. On the one hand, it makes sure that nobody can debit the customers' account without his approval, and on the other hand, within a certain payment deadline, the consumer may decide when he will pay, e.g. he may adjust the payment of the bills to the receipt of his regular income.

As it is clear from the above points, instant payments can be used in a much wider scope than the present transfers. Consumers will be able to take good advantage of these benefits – shopping or sending money anywhere, to anyone and at any time – if their account managing bank does not charge transaction fees on these transfers. This means that consumers should select account packages in which the use of the transfers is free. Another consideration in changing for another service provider may be the question whether the given bank or other payment service provider supports the initiation and receipt of payment requests. Therefore, it may be worth examining whether the given payment service provider has a mobile payment application that allows for the utilisation of the above advantages of instant payments. The question is whether it is possible to receive payment requests in the mobile application, whether it supports touch payments in shops and whether it is able to read and generate QR codes.

As far as mobile applications and other supplementary services are concerned, it is important to know that with the new European payment service regulations (PSD2) that will come into force in 2019, new third-party service providers may appear who also offer innovative payment solutions. So with the use of the new third-party services of Fintech type, all the functions of the instant payment system may be available even if the mobile payment solution of the account managing service provider is not suitable for the consumers, or does not allow for the sending or receiving of payment requests.

2.2 RISKS IDENTIFIED IN THE INSURANCE SECTOR

27 percent of consumer petitions received by the MNB Customer Service and 23 percent of enquiries affected the insurance sector. The total number of petitions and enquiries dropped compared to the previous year. According to customer service experiences, within this sector and in comparison, with the previous years, most of the customer feedbacks received were related to third-party liability car insurances in 2018, too. Most of the questions were related to claim settlement and insurance premiums that change according to the tariffs, and to the provision of information on the anniversaries. A large number of enquiries and complaints were received in connection with home insurance products, too, mainly about the rejection of the claims and the rate of the compensation. Among the products of the life insurance business, most enquiries and complaints were received in connection with index-linked or unit-linked life insurance products, but their number was significantly lower than in 2017, which may be attributed to the introduction of ethic regulations in 2017.

In the case of these customer feedbacks, the majority of consumers challenged the value of the unit account, and there was a high number of reports about the incomplete information provided before signing the contract.

In the insurance sector, the inspection focused on the meeting of requirements defined by partly new legal regulations and related to statutory information and demand-based sales, but the MNB laid greater emphasis on the consumer protection aspects of digitalization and the widely spreading automated business processes, in the case of both unit-linked life insurances and home and car insurances. In connection with these products, the consumer protection inspection procedures identified infringements related to information and complaint management in several cases, moreover in a number of cases it was revealed that the insurance companies pursued unfair commercial conduct in respect of consumers. In view of the disquieting practices revealed in the course of the individual procedures and consumer notifications, the MNB sent enquiries to the insurance companies on several occasions as part of the continuous surveillance and also launched targeted and thematic inspections at these institutions during the year.

In the case of insurance brokers, similarly to independent financial market intermediaries, the inspection of the consumer protection activity was realized under the prudential inspections. As to procedures started on request, the number of petitions affecting insurance brokers dropped to half of the previous figure. Procedures initiated on request examined mainly the satisfaction of professional rules, focusing most of the times on the question whether or not the offered product met the customer's requirements. Non-compliance with these professional rules was identified in the case of the Somogy Bróker Biztosítási Alkusz Kft., too, on whom the MNB imposed a consumer protection fine of HUF 400.000.

2.2.1 Problems related to not demand-based sale in the area of life insurances

In the insurance sector, the focus of surveillance continued to be on the consumer protection risks related to unit-linked life insurance contracts. These products are characterized by complex cost structures, long-term commitments and high investment interest rate risks – most of which are borne by the consumer. Therefore, it is of special importance that insurance companies properly assess and consider the needs, objectives and saving abilities of their customers, and sell their financial products after the provision of correct information and in line with the relevant legal regulations.

This category includes the “whole life” versions contracted in spite of well-defined saving requirements for definite periods specified by the consumer, the long-term saving programmes for elderly – even over 80 years – consumers (knowing the consumer's opposite intentions in the detected cases), and contracts not optimized for the declared pension purpose and this way not suitable for taking advantage of tax credits. In recent years, the MNB developed the expectations applicable to the customer information on unit-linked life insurances ceasing by expiry, which also contains requirements related to time, form and content. At the same time, the rotation of the portfolio is still a common practice, when existing contracts are terminated at low repurchase values, and the accumulated funds are transferred to a new contract. This practice may generate expenses to consumers at two points – in the repurchase and in the conclusion of the new contracts – and this makes it more difficult to access to their money. The MNB expects the institutions to set out control systems and inspection practices that are able to control the institutions and the rotation of portfolios, detecting the exact intentions of the customers, even with quality assurance calls, and checking the existence of the information received, preventing damage to consumers.

2.2.2 Issues related to the provision of information to consumers on the anniversaries

Considering the high consumer protection risk originating from the provision of insufficient information, the MNB paid special attention to the examination of information processes applied on anniversaries and the relevant letter templates.

It is a statutory obligation of insurance companies – when they supply the regular annual information to customers – to provide exact information on the current parameters of the contract, to draw customers' attention to any changes in premiums and indexing – which may influence decisions about staying with the given institution or changing for a new one – with warnings about forfeit deadlines, and in the case of life insurances, warnings about the fact that the insurance contract will expire in the following year.

In the course of its supervisory activities, the MNB monitored with special attention, evaluated and sanctioned the cases where inaccurate data, e.g. the bonus/malus category in third party liability car insurances, or the current repurchase value in saving versions, or the lack of information on expenses related to repurchase, deadlines missed because of late notices or practices that are not transparent and do not facilitate comparisons – for instance, consumer rights related to the anniversary not (properly) indicated – caused quantifiable material damage to consumers.

2.2.3 The impacts of digitalization on the insurance sector

In the past few years, a business approach based on new and innovative technologies and the practices built on them – covering the whole sales cycle – has become increasingly dominant in the insurance sector, more than before. In the area of needs assessment, it is the on-line “questionnaire” interfaces that are gaining more and more ground, as they provide institutions with well grouped and easily parameterized datafiles, although in a uniformed way that makes the recording of consumers’ special requirements or conditions more difficult. The offer is often worked out on the basis of this digital needs’ assessment, calculated by algorithms in an automated way, and in many cases compared to other competitors’ offers. At the end of the process, in the conclusion of the contract, a meeting between the customer and the sales person is less and less required; in the case of some versions, the bearing of risk can be started by pressing a button, and even the end of it can be specified, so the period can be determined in real time. We welcome the fact that digitalization provides consumers with easier, faster and cheaper processes, but the MNB is still at the point that it is one of its key tasks to supervise and monitor the compliance with requirements regarding the establishment of contact, the assessment of needs, the production of customized offers and the provision of the mandatory information at the time of signing the contract.

In the case of insurances concluded with electronic liaison, which are extremely widespread and – owing to their operation with less paper-based administration – are offered with favourable premiums, the insurance companies fulfil their statutory obligation to provide information by sending it to the electronic mail address specified by the customers. This kind of liaison affects the whole contents of the contract, from the receipt of the offer, through the caring for the contract, to services related to possible damages or termination. However, this form of communication can only be efficient if customers specify real channels of communication that they regularly use and pay attention to the scope of documents that require special management, for instance documents that require the customer’s signature.

Insurances – including the ones concluded through mobile applications – with immediate risk-bearing features raise the problem that risk assessment might influence the offered coverage even with retrospective effect. The low number of requested parameters accelerates the development of the offer, but it cannot reveal all the factors that might be important for risk assessment, and cannot record all the information that would justify potential benefits, making sure that all clauses and exclusions not known for the consumer at the time of signing the contract could be avoided during the possible extension of the service. In the opinion of the MNB, in the case of digitalized contracting, the adequacy of the information provided to customers on their rights related to learning and modifying the terms of the contract and to possible withdrawal may present consumer protection risks.

Both in its inspections affecting specific institutions, and in its teams evaluating innovative business techniques and practices, the MNB examined and evaluated the compliance with information provision obligations stipulated in the contract and regulated by legal regulations in electronic way, institution-level problems and deficiencies seen in this area have been detected and corrected, while MNB wishes to foster processes establishing uniform good practices applicable for the whole sector – this is the subject of the management circular on written contracts concluded in writing, written legal statements⁴ – and the related legislative work, too.

⁴ <https://www.mnb.hu/letoltes/ejognyil-korlevel.pdf>

Box 6**New information provision and needs assessment regulation objectives**

In 2018, several new legal regulations came into force on the insurance market, and their application is mandatory in the Member States of the EU. Their purpose on the one hand is to inform consumers in a uniform and comprehensible way, and on the other hand to foster comparisons among insurance products. Both of these objectives facilitate informed product selection that meets consumers' requirements.

Within the new legal regulations, it is the insurance distribution directive (IDD) that regulates among others the format and the contents of non-life insurance product description documents that are mandatory to provide with offers related to such products. On the sale of insurance-based investment products and package products that contain all the savings elements, legislation obliges insurance companies to deliver a so-called "key information document (KID)".

NON-LIFE INSURANCE PRODUCT DESCRIPTION

In order to facilitate informed decision-making for customers, in the sale of non-life insurance products listed in Annex I of Directive 2009/138/EC, a uniform and standardized information document of two (three in justified cases) A4 pages shall be handed over to the contracting party on paper or on other permanent data medium, containing the main characteristics of the product. The insurance product description is compiled by the party who works out the non-life insurance product. The product description is produced with uniform design, structure and format in each Member State, and the legislator precisely defined the mandatory contents of the product description, the font sizes, the use of colours, icons and symbols, from which no diversion is allowed. In the wording of the information, an easy-to-understand language shall be used, technical jargon is to be avoided, and the information provided shall not contain any marketing or advertising materials. The mandatory elements and the required format of the non-life insurance product description are defined by Commission Implementing Regulation (EU) 2017/1469.

The insurance product description shall contain the following information:

- information on the type of the insurance;
- summary of the insurance coverage, including the main risks insured, the insured amount and the geographical scope, and the summary of excluded risks when applicable;
- the means and duration of payment of premiums;
- the main exclusions where claims may not be reported;
- obligations emerging at the start of the contract;
- obligations existing during the term of the contract;
- obligations emerging when claims are reported;
- the term of the contract, including the start date and the end of date of the contract;
- the cases of contract termination.

Key Information Document (KID)

Based on Regulation (EU) No. 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), as of 1 January 2018, the producers of PRIIPs shall supply information to their customers in a new and unified format. In the development of the maximum three-page key information document (KID), the main objective was to increase the transparency of information on the risks, performance and costs of these products by providing information in a format that is easy to read, brief and comprehensible, and to facilitate the better understanding and the comparison of risks related to investments into PRIIPs, thus supporting the making of informed investment decisions based on full scope of information. In order to satisfy the requirements of retail investors, producers have to make sure that the information on PRIIPs, retail investment package products and insurance-based investment products are accurate, correct and clear, do not contain misleading data, and are produced with easy-to-understand language, avoiding jargon and technical terms.

Chart 8

Insurance product description

Xxxxxx Insurace**Insurance Product Information Document****Company: <name> Product <name>**

[Statement that complete pre-contractual information on the product is provided in other documents]

What is this type of insurance?

[Description of insurance]

**What is insured?**

- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx
- ✓ Xxxxxx

**What is not insured?**

- ✗ Xxxxxx
- ✗ Xxxxxx
- ✗ Xxxxxx
- ✗ Xxxxxx
- ✗ Xxxxxx

Are there any restriction on cover?

- ✗ Xxxxxx
- ✗ Xxxxxx
- ✗ Xxxxxx
- ✗ Xxxxxx

**Where am I covered?**

- ✓ Xxxxxx

**What are my obligation?**

- Xxxxxx
- Xxxxxx
- Xxxxxx
- Xxxxxx

**When and how do I pay?**

Xxxxxx

**When does the cover start and end?**

Xxxxxx

**How do I cancel the contract?**

Xxxxxx

Regarding the design and the contents of the KIDs, their unified format, and the methodology defining the presentation of risks, profit and costs, Commission Implementing Regulation (EU) 2017/653 contains the detailed rules. The new information material shall be produced on the basis of the sample document included in the annexes of this regulation and the requirements defined there, specifying the titles and the order of sections, too. In the KIDs, investors – among other things – may get information on the features of the product, and through the presentation of the various performance scenarios, they can get information on the true values of their investments.

It is mandatory for the KIDs to contain the name of the product and its producer, the type and the purpose of the product, and – in case of insurance products – the details of services and the key features of the insurance contract, with the presentation of the expected premiums and costs. It should specify the target group defined by the producer of the PRIIP, i.e. the type of investors to whom the financial product is intended to be distributed. It is necessary to

present the risk and profit profile of the financial product, which include the composite risk indicator, the maximum loss that can be made on the invested capital, as well as the proper scenario defined with the application of the requirement system and related to the performance of the product. Using the prescribed methodology, the costs occurring in connection with the investment in the financial product and the effects of expected costs on the yield, the recommended and the minimum terms of keeping the investment, as well as the risks and consequences of an early exit from the PRIIPs shall be described. Another mandatory part of the document is information on how and at whom the investor may lodge complaints in connection with the product or the behaviour of the producer of the product, the person offering advice about the product or the person selling the product.

The producer of the product has to produce the KIDs already before the start of the distribution and has to publish them on its website and ensure that retail investors receive the document in each case well before making their investment decisions.

2.2.4 Need to strengthen market competition in the area of home insurances

As to retail property insurances covering the household property insurance segment, in the past 15 years, the Herfindahl-Hirschman-index (HHI)⁵ stood in the band signalling high concentration ratio – over 18 percent when considering HHI – and it did not decline significantly in 2018, either (decreased by 0.2 percentage point). Another sign of high concentration is that the share of the five largest market players operating in the insurance sector – based on their incomes from premiums – was constantly around 90 percent in the same period. Similarly, to recent years, the market of home insurances remained extremely concentrated. Based on the combined indicator, the profitability of the sector is identical with the average value in the EU, but service providers are able to achieve this with lower damage ratios and higher cost ratios than the typical average values in the EU.

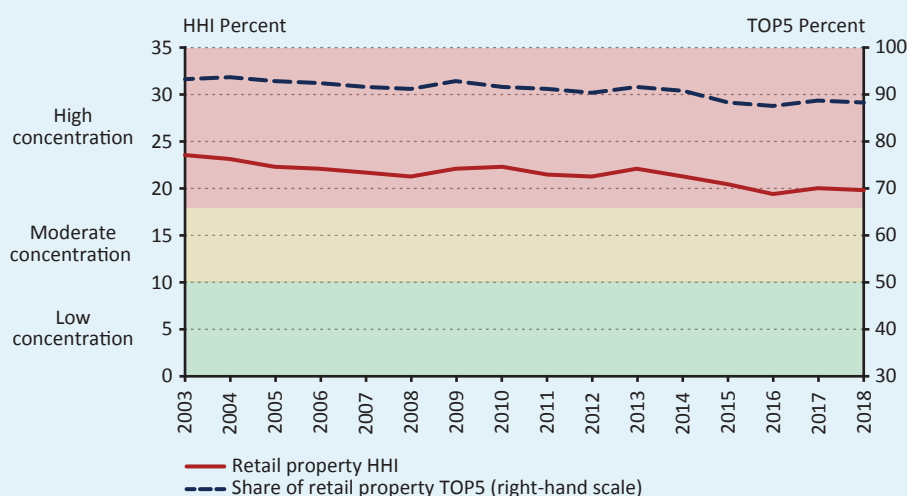
The favourable weather conditions and the moderate volume of storm claims resulted at sector level low, even compared to that registered before, loss ratio, i.e. 30 percent on average. This moderate loss ratio represents high profitability, which is a good incentive for several insurers to enter this segment. However, the change of home insurer still did not receive the same attention as MTPL or casco, in spite of the fact that the coverage with home insurance is high (over 70 percent). The general public simply fails to realise that it might be worth checking the offers regularly also for home insurances to obtain a more favourable contract. In addition, the replacement of insurance linked to loans represented additional administrative obstacle. All in all, the indicators imply a weak competition, and this is supported by the relevant results of the research conducted by the Századvég⁶ among retail consumers. According to this research, a low portion, only 14 percent of new customers changed for another insurance company in the last five years. It is necessary to intensify the low-intensity competition presently seen on the domestic home insurance market.

Because of the lack of competition, several unfavourable market practices can be identified in both the pricing of home insurance products and in the claim settlement process. As to the pricing, the competition of low intensity leads to latent overinsurance because of the too high cost levels and insured amounts. The lack of the regular reviews of insurance contracts and possible refunds may further increase the rate of overinsurance. As to claim settlement, both the damage assessment of bottom-up approach and the payments for damages considering obsolescence, too, may significantly reduce the value of compensations, and because of the lengthy administration of the process, payments are often made with significant delays only. Changes from the existing home insurance contracts are made even more difficult by the fact that mortgage loan contracts partly exclude the mobilization of home insurances, and the lack of a central database for insurance premium payments limits the amount of information available to banks (Chart 9).

⁵ The Herfindahl-Hirschman-index is the market shares of competing companies brought to a square. The value of the index may be between 0 and 100 percent: it is close to 0 percent when all market players have marginal shares, and it is 100 percent when there is only one company on the market.

⁶ Századvég is a Hungarian foundation which initially specialized in journal and book publishing and education strove to spread the values of progressive Hungarian political traditions and the models of European development.

Chart 9
Concentration ratio of the household property insurance business



Note: The colour of the background illustrates the strength of the concentration under HHI.

Source: MNB.

Box 7

The basic concept of the Certified Consumer-friendly Home Insurance

On the market of home insurances, the certification framework – already well established in the housing loan market (CCHL) – is planned to include a uniform basic service package, procedural issues and the related information. In addition to unifying the definition of events in the basic package, another objective may be the simplification of contracting and claim settlement processes and their management on digital platforms. From consumer protection point of view, one of the key objectives is to establish a product that has standardized parameters and that is easy to compare on the home insurance market. The introduction and the spread of this concept would allow for a more intensive competition on the home insurance market, encourage the further spreading of digital solutions in the sector and strengthening the competitiveness of the sector.

2.2.5 Problematic provisions of travel insurance contracts

The MNB reviewed whether, as a result of its actions taken in the previous years, insurance companies modified the stipulations on the reporting of events in the regulations specifying the terms of travel insurance contracts, according to the requirements of good faith and fairness, as well as the relevant provisions of the Civil Code. In 2017, based on a sentence in a case won by the MNB, the MNB revealed that most of the travel insurance contracts – as opposed to the provisions of the Civil Code – limited the performance of insurance companies when the insured party reported the insurance event with a delay. Based on the analysis, the MNB found that the majority of insurance companies modified their terms and conditions, but further clarifications were required in the case of almost all of them. Therefore, the MNB specified in detail the requirements derived from the Civil Code and requested the insurance companies to revise the affected terms and conditions. The analysis was expected to be closed in 2019.

2.3 RISKS IDENTIFIED IN THE FUNDS SECTOR

Similarly, to previous years, the ratio of consumer petitions received by the MNB's Customer Service in respect of the funds market was negligible compared to other sectors. More than two-thirds of these petitions related to the activity of voluntary pension funds. The most frequent consumer complaints concerned the settlement and payment of funds' benefits, and criticised shortcomings in the related information.

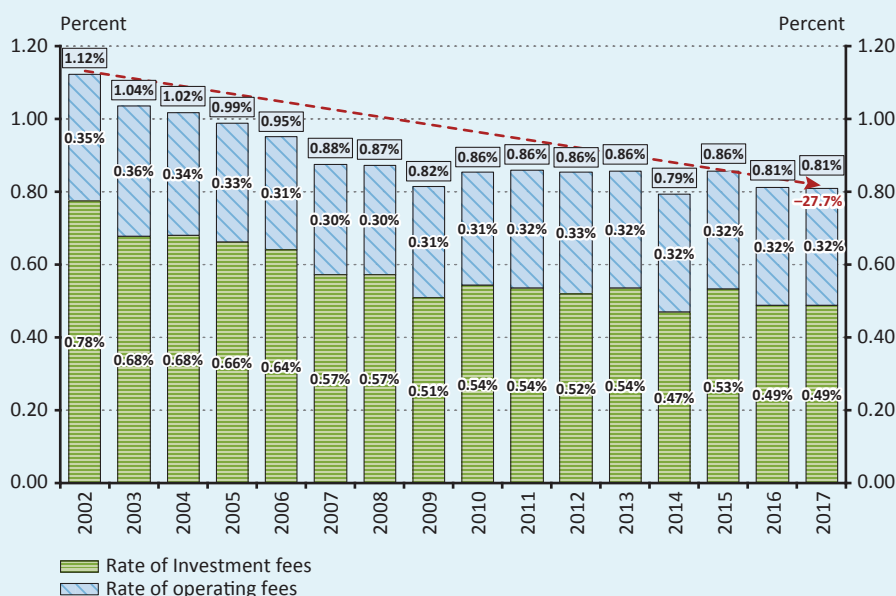
The MNB wishes to foster the informing of the fund members and the transparency of the sector by publishing the indicator presenting the annual cost rate of the voluntary pension funds across the sector and by institutions annually. The annual cost rate informs the fund members about the percentage of their savings paid as operating and liquidity (operating fee charge) and as asset management and custodian fee (investment fee charge) in the individual years in their selected institution.

In previous years, the MNB calculated the fee burden ratio by comparing the fee deducted for operation and liquidity and the fees related to asset management with the fund's assets. The formerly applied fee burden ratio substantially declined in the past 15 years. However, it was difficult to assess the changes in the fees deducted for operation, since due to the major growth in assets during the period – in the past 15 years there was a five-fold increase in the pension funds' assets – the operating fee burden may have declined even if the fee effectively burdening the member has not changed or even increased.

With a view to performing a deeper analysis of the fee deducted by the funds, in 2018 the MNB used an adjusted fee burden index, where the value of the fee deducted for operation is not influenced by the changes in the volume of the funds' assets. In the adjusted index, the adjustment factor is determined by the ratio of the fees deducted for operation relative to the total membership fee. According to the new methodology, the fee allocated to operation is compared to a hypothetical, average volume of assets accumulated in the respective period by an average member, with accumulation period of 30 years, rather than to the pension fund's assets. The MNB did not modify the calculation methodology of the investment fee burden part of the adjusted fee burden ratio as the asset management and custodian fees are charged in proportion to the assets of the fund. The adjusted fee burden ratio provides more accurate picture on the changes in the volume of fees burdening the members of voluntary pension funds.

Based on the adjusted fee burden ratio, in 15 years the rate of the fee charged decreased by 27.7 percent (Chart 10). The decrease in the investment fee component has determinant role in the decrease of the fee burden ratio. Last year, several funds of major weight stipulated lower fees in their asset management contracts. Within the scope of its oversight activity, the MNB pays special attention to inspecting the investment costs of pension funds; in addition, it also helps market participants with its regulatory instruments to develop cost efficient asset management activity harmonised with members' interest.

Chart 10
Changes in the adjusted fee burden index at voluntary pension funds



Source: MNB.

The adjusted fee burden index may provide assistance in selecting the fund by presenting the charged costs; however, the growth of the members' assets primarily depends on, in addition to the deposits, the yield result of the funds' portfolios, and hence prior to joining a fund it is recommended to review the short- and long-term investment performance indicators of the individual portfolios.

2.4 RISKS IDENTIFIED IN THE CAPITAL MARKET SECTOR

The number of petitions and enquiries received by the MNB's Customer Service in respect of capital markets declined further compared to previous years. As the consumer assumes the highest risk in the capital market sector – compared to other financial sectors – the lower number of debated issues may indicate that the institutions are able to handle the complaints properly, to the satisfaction of consumers. It is also possible that consumers select the right services with proper care and according to their risk tolerance.

In the course of the MNB's consumer protection inspections in the capital market sector, the MNB has paid particular attention to the complaint handling activities of capital market players and to their obligations to provide information to customers. In the latter area, during the inspections conducted on demand of consumers, the provision of information on the risks of the deal and on the charges and fees related to the services received emphasised focus, while during the comprehensive inspections, the obligation to obtain prior information (e.g. MiFID test) and the complaint handling activities were paid special attention. As a result of the inspections, a fine was imposed on Erste Investment Ltd. in the total amount of HUF 1 350 000.

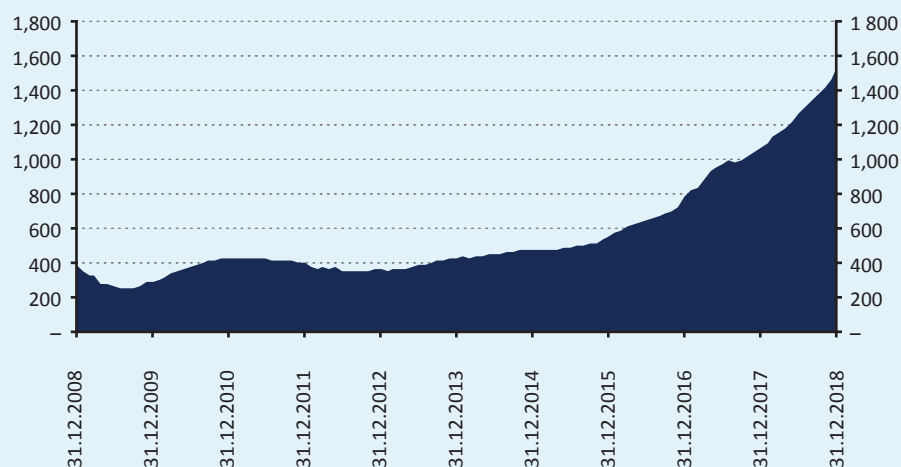
The capital market has also been affected by the innovative solutions. The first roboadvisory software is already out assisting the work of advisors, and in the future, this may allow for the opportunity to receive investment advice without the need for human intervention. This opens up a new dimension in supervision, as the inspections will focus on the legislative compliance of the operational mechanisms of advisory programmes.

Box 8

Distribution practices of real estate funds

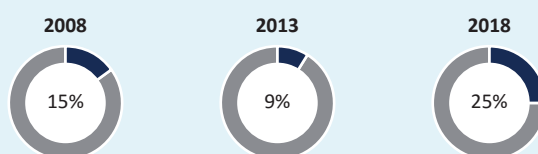
It is a characteristic feature of real estate funds that unlike traditional securities funds, the main driving force behind the yields is the income from the purchase and sale of real estates, the increasing value of the properties in possession of the fund and the income received from rents. Real estate funds owning larger portfolios typically invest a significant part of the assets under management in real estates with higher value, such as office buildings, retail trading and industrial properties, but some of the real estate funds available on the market specifically focus on residential properties. The purchase and sale of a residential property is not done overnight, and this is especially true for properties in real estate funds, as the completion of a transaction may take even a year. Because of this, in order to ensure continuous trading, the fund managers of public and open-ended real estate funds keep a significant portion of their portfolio in less risky securities.

Real estates have become very popular among retail investors too, over the past few years, and following the stagnate market environment after the crisis of 2008, their portfolio increased dramatically from 2015, and by the end of 2018, it exceeded HUF 1 500 billion (Chart 11).

Chart 11**Portfolio of real estate funds (31.12.2008 – 31.12.2018, HUF billion)**

Source: BAMOSZ

Based on the data of the Investment Fund Managers and Asset Managers Association (BAMOSZ), the dynamics of the growth of the portfolio significantly exceeded the growth of the assets managed by the BAMOSZ members, too, and by the end of 2018, real estate funds made up one quarter of the total portfolio (Chart 12).

Chart 12**Ratio of real estate funds within the assets managed by BAMOSZ members**

Source: BAMOSZ

Considering the exposure of (small) investors and learning from the experiences related to the financial crisis of 2008, the MNB has been paying close attention in recent years to practices related to the management and distribution of real estate funds. In 2018 the MNB had ongoing discussions about the issue with trade associations (Association of Investment Service Providers, BAMOSZ), and as a result, in the spring of 2019 issued its recommendations on the distribution of the investment units of public, open-ended real estate funds.

The recommendation has two key elements, which aim at funds distributed both before and after the recommendations coming into force. In the case of newly issued real estate funds and real estate fund series, it is an expectation of the MNB that the investors' order for redemption should be executed at least 180 days after the order was placed, which is a significant difference from the previously typical 3-day redemption deadline. The idea behind this expectation is to make sure that compared to shares and bonds that can be sold quickly, the much lower liquidity profile of the underlying assets of real estate funds are reflected in the terms of distribution, too, mitigating the effects of a possible downturn on the real estate market on investors. In the case of funds that existed before the recommendations took effect, the funds' managers are required to define a distribution maximum, and when justified, they should gradually decrease it.

Another purpose of the recommendations is to facilitate deliberate consumer and (small) investor behaviour, and to make sure that these investment options are selected by people who are aware of the special liquidity features of real estate funds, but wish to collect the possible yields of real estate development and utilization.

Fund managers managing public real estate funds satisfied the provisions of the recommendation, modified the rules of management, thus they primarily introduced a distribution maximum, and there were some attempts to reduce the outstanding volume, too. In the course of the continuous monitoring, it was found that after 15 May 2019, the inflow into real estate funds stopped. The MNB still monitors this segment of the investment fund market.

2.4.1 The MiFID II consumer protection measures

Directive 2014/65/EU (**MiFID II**) created by the recast of Directive 2004/39/EC on the operation of markets of financial instruments (**MiFID I**) ensures more efficient protection for investors and greater transparency of financial markets. The transposition of the directive into national law took place with Act LXIX of 2017 on the modification of acts regulating the operation of financial markets and the trading of financial instruments for legal harmonisation. The start date of the application of the acts amended in accordance with the directive and the related, directly applicable, Regulation 600/2014/EU (**MiFIR**) was 3 January 2018.

MiFID II introduced a number of new provisions related to consumer protection, the institutions had to adjust their organizations, operations, internal and external regulations and informational documents to this new regulation.

The MNB receives a relatively low number of consumer complaints on capital market participants – only 10% of the cases initiated in 2018, i.e. 27 pcs –, and most of them were related to complaint handling, the provision of information and contractual debates. With the low number of complaints, the role of continuous supervision becomes more important, therefore the MNB reviewed the application of certain consumer protection provisions introduced by the MiFID II at a number of market participants, under continuous supervision in 2018. The subjects examined by the MNB included obligations related to record-keeping, the new elements of ex-ante information, and the provisions about marketing communications. These inspections identified minor risks and irregularities, and the MNB requested the affected institutions to remedy the problems.

MiFID II contains some requirements that come into force in 2019 only, for instance the annual ex-post cost information. In addition to the monitoring of the correction of already identified deficiencies, the MNB checks the newly introduced obligations, too in 2019.

2.4.2 Transactions with high leverage, binary options

For both the national competent authorities and the European Securities Market Authority (ESMA), the MiFID II introduced the possibility of applying limitations or prohibitions on the design or sales practices of some products, depending on consumer risks. Regarding some derivatives, the ESMA utilized this option, and reacting to consumers' complaints received by them or national competent authorities – following proper consideration defined in legal regulations – in 2018 prohibited the marketing, distribution and the sale of binary options to retail customers, and in the case of contracts for difference (CFD), introduced restrictions for this customer segment, with the intention of mitigating risks inherent in the structure of the product.

Box 9**Contracts for difference (CFD) and binary options**

Contracts for difference (CFD) and binary options are both derivatives, their value depends on the value of other assets (underlying product), i.e. they can be derived from those. The products are traded independently, as the underlying product is usually not owned by any of the parties to the transaction. The underlying products are typically currency pairs, goods (e.g. oil, gold), indices, or individual shares. The products rely on the expectations on the price underlying products, the profit and loss depend on the whether the price of the underlying is higher or lower on expiry than at the time of opening the position. Profit can be achieved from the decreasing prices of the underlying products as well (short position). On one side of the transaction, there is the customer, and on the side, it is typically the service provider. It is important that the CFD and a binary option means a firm commitment for both parties. Typically, both products are traded within the day, the maturity can be extremely short, as little as 1 minute.

Contract for Difference – CFD

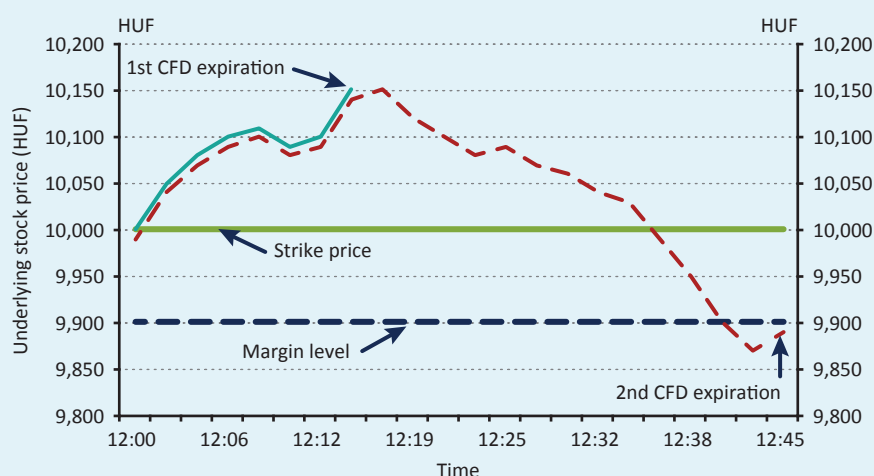
The purpose of the CFD is to follow the price of an underlying product without owning that product, where the buyer and the seller of the CFD exchange the difference between the price of the product at the time of the transaction and on the CFD expiry, i.e. the underlying product is not transferred, only a financial settlement takes place.

CFDs are usually leveraged products, which means that they allow for taking a position that is larger than the amount deposited to the account, or, looking at it from the other side, a position of a given size can be achieved with lower capital, too. CFDs are available with various rates of leverage, before the ESMA's decision on product intervention, transactions were possible even with a leverage of 1:500, but after the intervention, the leverage can be maximum 1:30. The size of the leverage indicates what kind of change is caused in the invested amount by a price change in the price of underlying product. For example, in the case of a leverage of 30x (1:30), a price change of 1% for the underlying product triggers a 30% change in the price of a CFD. The leverage significantly enlarges the profit or the loss that can be achieved with the underlying product, the bigger the leverage is, the higher the risk taken by the investor is. The funds deposited for the opening of the position are called initial margin, and the size of the leverage can be calculated by dividing the size of the position taken with this amount. The initial margin offers a security for the case when the price of the underlying product changes in a direction that is unfavourable for the investor, if the level of funds drops below a certain level, the service provider may close the position before expiry, or may request the customer to supply additional funds (margin call), in which case the position can be maintained.

Example for the operation of the CFD:

The investor believes that the value of a share will increase in the next 1 hour, therefore he/she opens two difference CFD positions with a 15-minute and a 45-minute maturity. If the share CFD is available at the service provider with a leverage of 1:100, the current price of the share is HUF 10 000, and the investor gives the order for 1000 shares, then these positions are worth HUF 10 000 000 each, and each require an initial margin of HUF 100 000. The rate of the share develops as indicated on the following (Chart 13) diagram:

Chart 13
Example for the operation of the CFD



Source: MNB.

The first CFD expires 15 minutes after opening the position when the price is HUF 10 150. A profit of HUF 150 is generated on each share, and HUF 150,000 on the whole position (1,000 shares). Although the rate of the underlying product only increased by 1.5%, this means a 150% yield projected on the invested amount (initial margin).

The second CFD would expire 45 minutes after opening the position, but the price falls below the amount covered by the initial margin a few minutes before the expiry. Either the whole margin is lost, or it can be kept with additional funds, hoping for the price to rise. If the position is held, in this example, on expiry the close price is HUF 9,890, which equals a loss of HUF 110 per share, or HUF 110,000 per the whole position. Although the rate of the underlying product decreased only by 1.1%, this means -110% yield if projected on the invested amount.

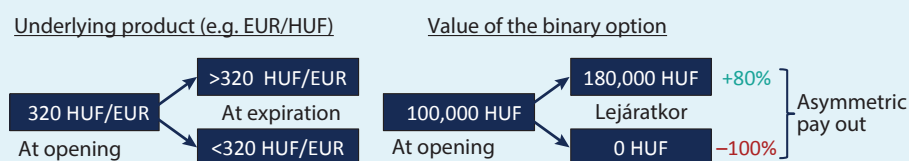
Binary options

In the case of binary options – as opposed to CFD – it does not usually matter how much the price of the underlying product changed on expiry from the value it had at the time of opening the position, the only important factor from the aspect of the deal is the direction of the change. The payments are pre-determined, the two possible outcomes are a fixed profit (which is usually lower than the invested capital), or the loss of some or all of the investment. From consumer protection point of view, the most concerning feature of the product is that the payments are typically asymmetric, i.e. the investor has to win more times than he loses for a zero-sum game. Therefore, the characteristics of binary options are often compared to various forms of gambling, for instance, in the United Kingdom their supervision belonged to the Gambling Commission until 2018, and not to the financial authority (FCA).

Example for the operation of the binary option:

The investor expects the weakening of the forint in the next 5 minutes; therefore he opens a binary option position with HUF 100,000. At the time of opening, the rate is 320 HUF/EUR, if it is higher than that in 5 minutes' time, the service provider pays HUF 80,000, and the investor receives the original investment of HUF 100,000 as well. If the rate goes down, the investor loses his investment of HUF 100,000.

Chart 14
Example for the operation of the binary option



Source: MNB.

Presently Hungarian customers may open CFD positions at five Hungary-based institutions, but it is worth noting that they may meet a number of cross-border service providers, usually headquartered in the United Kingdom or on Cyprus, which offer their services on websites available in Hungarian. Before the ban came into force, binary options were available at two Hungarian institutions, but cross-border service providers are typical in the case of these products, too.

The motivation behind the product intervention decisions originated from the basic features of the products and from the consumer protection concerns originating from the related sales practices. Several European supervisory authorities observed that these products spread very fast among retail customers, so they can easily reach customers who are not familiar with the risks behind the products. The products themselves are of a highly speculative nature, and have high risks, and several competent authorities noticed the aggressive and sometimes misleading sales practices related to them, too. Based on the supervisory data supplies, it was clear that these investments in many cases had negative expected return (in Europe, based on supervisors' data, 74-89% of retail customers suffered losses), and in the case of CFDs, transactions with extremely high leverage were also available. Because of the high, sometimes 1:500 leverage, the size of positions taken were huge compared to the deposited amounts, which can enlarge losses in case of a small price movements to the unfavourable direction, and may lead to the loss of the margin or even additional losses not covered by that.

With the active support of national competent authorities and following the consideration of the above points, the ESMA decided to completely prohibit sales for retail customers in the case of binary options, from July 2018, and in the case of CFDs, restricting measures were implemented in August 2018, in order to mitigate the identified risks. The measures included the introduction of various leverage limits depending on the underlying products, the protection of customers against negative account balances, i.e. the investor could not lose more than his/her investment, the prohibition of financial or non-financial incentives related to the CFD distribution, or making standardized risk warnings related to CFDs mandatory, which also show the ratio of loss-making clients of a broker dealing with CFDs. It is obvious from the ratios published that the majority of customers made losses, it was over 50% at most of the service providers – sometimes over 90%. The MNB was involved in the establishment of these measures, and continuously monitors compliance with the measures under the continuous supervision.

The product intervention decisions of the ESMA are valid for three months and can be prolonged. The prohibition for the binary options – following multiple extensions – will be in force until the end of June 2019, and in the case of CFDs, also after multiple extensions, the restrictions will be in force until the end of July 2019.

Following the validity of product interventions decisions of the ESMA regarding binary options and CFDs, the national competent authorities, including the MNB, will examine the need for further action.

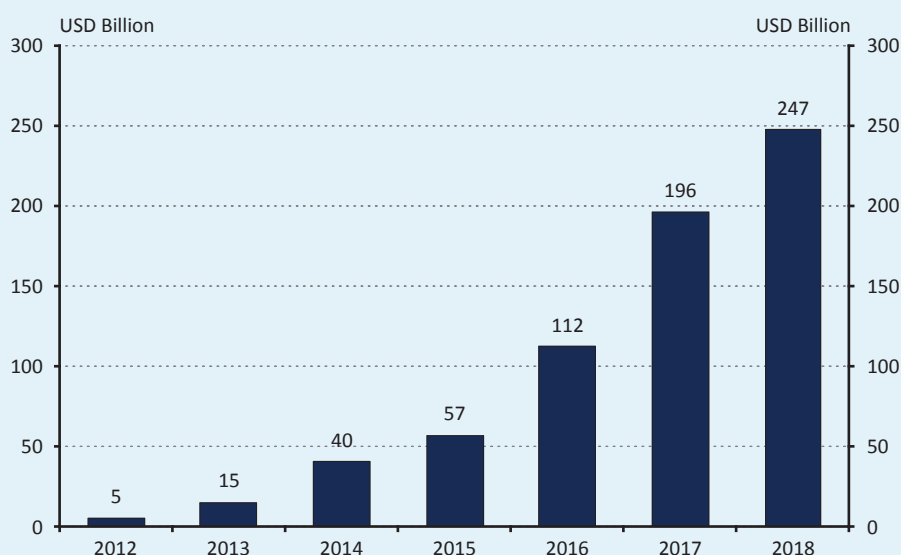
Box 10

Green finance

Sustainable development has an increasingly stronger influence on the participants of the economy, and this is more and more visible in the case of the financial sector as well. Sustainability basically wishes to react to challenges related to social and environment protection issues, in the financial sector, too. The range of green products is fairly wide all around the world, from green bank accounts and recycled, easily degradable bank cards to green loans that intend to increase energy efficiency, to derivatives related to carbon-dioxide quotas. Still, it is mainly the capital markets where the consumers may meet green products (or products that seem to be green). At an international level, the most intensive development can be seen on the market of bonds related to sustainability, but, in spite of its increasing importance and dynamic market growth, its size is still negligible compared to the several thousand billion dollar size of the global bond market (Chart 15).

Chart 15

Annual global issuance of bonds related to sustainability (USD billion)



Source: Institute of International Finance.

Sustainability-related bonds cover a wider spectrum than environment protection. In the case of the so-called green bonds, the funds collected from their issuance is spent by the issuers on investments that are useful from an environmental aspect. At the global level, the green bond market seems to be gaining ground, but Hungary is not yet characterized by this form of financing. Presently in Hungary consumers may reach environmentally sound investments through investment funds. However, the investment funds available in Hungary – in the lack of uniform and accepted definitions and legal frames – define green investments in different ways. Some of them leave the evaluation of possible investments to external experts, others do it by using their internal competence. The uniform European taxonomy is presently under development, but a number of EU-level regulations and recommendations contain or will contain in the near future provisions on green products. The MNB is presently involved in their development and transposition.

The spread of green investments triggered the self-regulation of the market, too, in the form of provisions in various international organizations or voluntary initiatives. Some examples are the Green Bond Principles⁷, the Principles for Responsible Investments⁸ and the Climate Bonds Initiative⁹. These initiatives attempt to define the responsible investments in standards, and the latter operates a qualification system for green bonds, too.

The lack of uniform regulations and definitions effectively make the evaluation and the supervision of green products more difficult, without exact qualification criteria, it is difficult to assess whether or not a product could qualify as a green product, or to what extent the product should contain “green” elements. Therefore, consumers looking for green products need to be extremely careful in the selection of possible products. Partly because of the above points, the MNB launched a Green Programme¹⁰ in 2019, and founded a prize for environment-friendly finances.

⁷ For more details, see: <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

⁸ For more details, see: <https://www.unpri.org/>

⁹ For more details, see: <https://www.climatebonds.net/>

¹⁰ For more details, see: <https://www.mnb.hu/sajtoszoba/sajtokozlemenyek/2019-evi-sajtokozlemenyek/zold-programot-indit-es-dijat-alapit-a-kornyezetbarat-penzugyekert-az-mnb>

3 Financial consumer protection communication

The objective of the central bank is to formulate a conscious consumer society, to reduce the damage and risks stemming from wrong consumer decisions, and thus to enhance financial literacy in Hungary as well as to make the central bank's role in financial consumer protection better known. Based on all this, the consumer protection activity of the central bank continues to place great emphasis on the financial consumer protection communication, the purpose of which is to draw the attention of the public, through as many channels as possible reaching the widest range of the population, to the current risks, the changes taking place on financial markets and the effects thereof impacting consumers. One of the most important cornerstones of prevention is the further improvement of educational activities necessary for making informed financial decisions and of financial literacy.

In co-operation with the supervisory press communication area, the 7 press releases published during the year further strengthened the messages of consumer protection campaigns, provided up-to-date information on the operation of the Financial Navigator Advisory Offices, the results of tenders, as well as on the co-operations established with players outside the financial sector.

3.1 FINANCIAL NAVIGATOR: IT SHOWS THE WAY IN FINANCES

For the efficient and comprehensible transfer of financial consumer protection information that is useful in every-day life, the MNB established an information system consisting of a series of information booklets, one-minute and longer educational films, websites, searching and comparing applications assisting the selection of products, and mobile applications. The information materials process current subjects, which are related to financial products and services and are compiled on the basis of life situations and react to current events in the market that are of high interest.

The results of several international and domestic surveys have shown that consumers use mainly printed publications to collect information on financial services, therefore the MNB published a thematic booklet series of multiple parts. The individual parts of the publication discuss recurring or always current topics, while the shorter booklets called Financial Navigator Extra process one particular current topic that is of interest for the general public, in a shorter version. The Financial Navigator booklets are available at the MNB Customer Service, and at a number of other financial service providers.

Research also supports the fact that almost the whole domestic population has television subscription, and more than three-fourth of the population has internet access. Bearing that in mind, films were produced about a number of financial topics. The episodes of the twenty-part series titled "On financial literacy in one minute" are suitable for on-line use, distribution in social media, and for television broadcast as advertisements of social purpose. The longer versions of 3-5 minutes process the subjects in more details, and can be used as educational aids, too.

Considering the general trends in collecting information, the information that facilitates deliberate financial behaviour and responsible financial decisions can be accessed on a dedicated website, too. The Financial Navigator website contains a number of articles that detail the characteristics of the various financial services and products and emphasizes the importance of collecting information and comparing products and service providers. In order to facilitate that, various searching and comparing applications are available on the website which are independent, their data are from information provided within the data reporting obligation of market participants, and they give information about authorised service providers. As of the summer of 2018, all these contents have been available through a mobile application, too.

The MNB paid special attention to the idea that the Financial Navigator name should spread among the general public, therefore since 2018 all the activities aimed at developing the financial culture and spreading financial knowledge have

been launched under that name. In line with that, as of 2018, one of the most important financial consumer protection channels of the MNB, the national advisory network also operates under this name, as Financial Navigator Advisory Office Network. With a view to reaching the widest possible range of consumers and delivering financial information useful in everyday life and responding to the current trends, the MNB is continuously looking for the help of co-operating partners. As a result of these efforts, leading actors of the commercial and service sector have joined the communication activities aimed at the enhancement of financial literacy recently, and they are the Financial Navigator Partners.

Box 11

Financial Navigator brand

In order to help consumers immediately recognise the contents prepared for consumer protection information among the various publications, reports and information materials of the central bank, a new, standard image was worked out for the Financial Navigator system. As a result of the new visual concept, these materials may appear with individual graphic design, which matches and connects to the general identity of the MNB but is still well identifiable and distinguishable. In addition, another purpose of the new design is to generate confidence in consumers, radiate authentic and professional nature about financial topics, and assist in the spread of the Financial Navigator contents, while on the long term it could be the primary consumer protection information source for consumers. The features of the new graphic concept appeared first in the Financial Navigator mobile application completed in 2018, and then all the information materials were modified according to the new image. By the end of 2019, all consumer protection information materials are expected to be renewed, including the Financial Navigator microsites, too.



3.2 THE FINANCIAL NAVIGATOR INFORMATION MATERIALS

Following the general user trends, and considering the objective that various consumer protection contents should reach the widest possible spectrum of consumers, the MNB started the development of a mobile application that is easy to use, can be customized, and when used on a long term, helps the extension of financial skills. The Financial Navigator mobile application completed in the summer of 2018 helps comfortable and fast gathering of information inter alia with the latest news and exchange rate data, the embedded versions of the on-line browsers and calculators, customer service appointment reservation function and a financial dictionary.

The topics that are important in everyday life are processed in videos, too. The 3-5-minute Financial Navigator educational films talk about individual subjects in detail, and the video materials can be used primarily as teaching aids. In 2018, three new parts were published, they draw attention to the importance of insurances and planning expenses, as well as to the risks of investments.

The series of Financial Navigator booklets were extended with a new edition, which describes the operation of the Financial Navigator Advisory Office Network.



In the summer of 2018, the image of the Household budget calculator available on the Financial Navigator consumer protection website was also renewed. The Loan Calculator of modified contents is able to calculate the process of a loan with monthly annuity repayment, with fixed instalments, based on the input provided by the customer, and is able to calculate the payment-to-income (PTI) indicator, too. As a novelty among calculators, the Deposit Calculator intends to make the consumer capable of using the known interest rate to calculate the nominal yield of his investment, after the expiry of the deposit.

As of 2018, everything that is available on the website, has been available on smart phones, too: the Financial Navigator mobile app runs under both iOS and Android, and can be customized, so users get the news that is important for them, and may quickly open browsers and calculators they use frequently.



3.3 FINANCIAL NAVIGATOR ADVISORY OFFICE NETWORK

In order to improve the population's financial awareness and financial literacy, the MNB operates a financial advisory office network in the seats of all counties within the country. The network became national in May 2018, when its name was changed to Financial Navigator Advisory Office Network, corresponding to the above changes in its image. The offices are operated by civil organisations that are independent of financial institutions and service providers. Consultants offer unbiased, professional and free-of-charge financial advice to consumers personally, on the phone or in electronic way, or through post. The objective of this activity is to make sure that consumers may ask for the opinion of an independent expert before making their decisions and can get help for the formulation of official documents, petitions and complaint letters.

Professionals receive customers in the offices three times a week, in 6 hours a day, and twice in a month, they give advice on site, too (Chart 16).

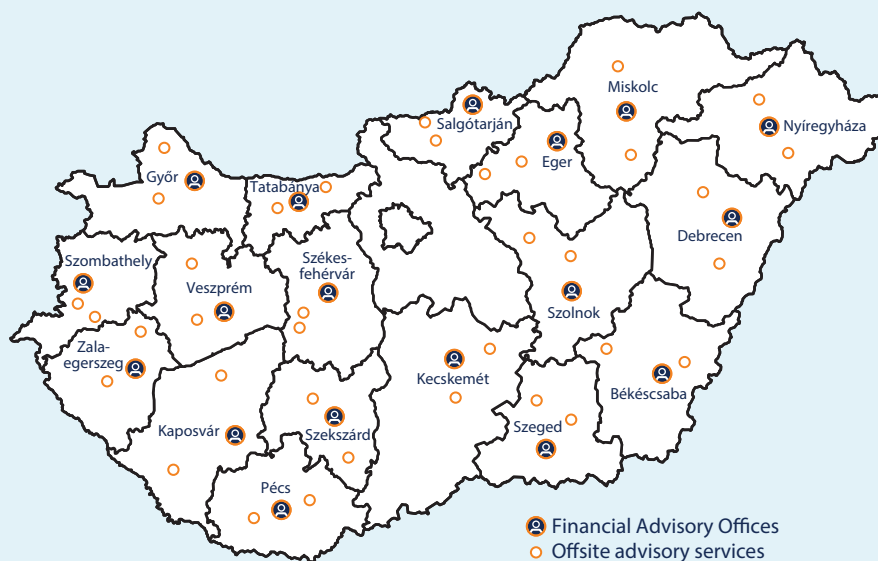
The staff of the office network work under continuous professional control, they all have financial consumer protection experiences of several years. In order to improve the professional skills of consultants, the MNB organises trainings in every half a year.

In 2018, the experts of the Office Network handled 20,724 customer enquiries (Chart 17) and held external counselling events for consumers on 317 occasions. It is a pleasure to note that a significant portion of consumers contacting the advisory network asks for information in their finances not subsequently, but in advance.



Chart 16

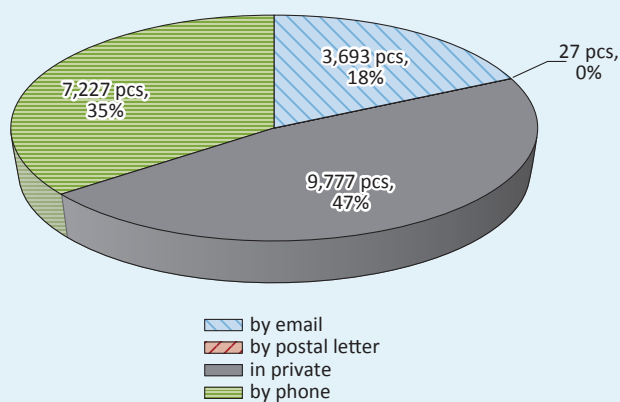
Financial Navigator Advisory Offices and offsite advisory services



Source: MNB.

Chart 17

Methods of customer enquiries in 2018



Source: MNB.

3.4 FINANCIAL NAVIGATOR CIVIL PROGRAMME

The Magyar Nemzeti Bank (MNB) believes that under the strategic objectives of social responsibility it is responsible for improving financial literacy and education, financial awareness and the underlying economic and social thinking, as well as the related system of institutions and infrastructure, therefore contributes to the supporting of the financial consumer protection activities of civil consumer protection organisations.

The provision of financial consumer protection information to the Hungarian population and the provision of remedies related to finances is a key social and economic interest. It is of key social importance to reduce the financial exposure of consumers, to facilitate the enforcement of their financial consumer protection remedies, and to improve the financial awareness of the population.

Recognizing the importance and the possibilities of developing these areas, the MNB established a Civil Network Grant Programme system.

Under this programme, support is given to projects that broadly emphasize the importance of financial skills and individual financial responsibility and improve the financial literacy of individual consumers and the households, enabling them to make prudent, deliberate and responsible financial decisions in the course of using financial product and services.

The objective of the programme is to offer plain and authentic information through the supported projects, adjusted to specific life situations, to ensure the enforcement of financial consumer protection remedies in a wider scope than now, and to contribute to the broad presentation of the activities of the central bank.

Regarding the current market situation and for the implementation of the above objectives, the Magyar Nemzeti Bank worked out several support forms. On the one hand, through the tender advertised for university students, and using its results and experiences, an open tender was advertised for civil and non-profit organisations to improve the financial literacy of consumers and to increase financial awareness.

On the other hand, individual initiatives were also supported: organisations had the chance to submit individual support requests, which should be related to the strategic objectives identified by the MNB for the given year, bearing in mind the improvement of financial awareness.

3.4.1 Civil Network tenders, university tender

The MNB is continuously looking for possibilities to improve the success and efficiency of tenders advertised for civil organisations. In order to implement that, the Bank announced a tender for the students of institutions of higher education in economics.

The purpose of the call for ideas advertised under the name of “Finances at high level – Be creative!” – with the involvement of the Corvinus University of Budapest, the Budapest Business School, the University of Debrecen, the University of Miskolc, the Neumann János University, the University of Szeged and the Széchenyi István University – is the development and submission of innovative and new ideas that improve financial awareness and reflect professionalism, too.

With this call, the MNB wished to facilitate that based on the thorough research work and creative ideas, the applicants present usable initiatives that can be implemented later, and the target groups identified in the tender can be efficiently accessed in the given financial topic – and this can be metered, too.

In connection with the preliminarily defined subjects, university students had to work out a well-thought-out and creative concept, which provides wide and cost-efficient access to consumers. The popularity of the “Finances at high level – Be creative!” tender is nicely reflected by the fact that 90 valid bids were submitted by the students of the seven universities involved in the co-operation.

Finally, from these bids, in the frames of the “Civil Network Grant Programme”, the project titled “Financial literacy development education programme for public employees” was implemented.

Related to the topic of “responsible borrowing”, the civil organization that won the tender launched a training programme of regional level or national access for public employees, in which the subject of responsible borrowing was discussed with simple examples and in an innovative way. As a result, the participants of the training programme did not only learn the basic terms, but understood the relations between them, too. In addition to “traditional” presentations, the training developed the skills of the participants with simulation exercises which presented cause-effect relations taken from real life. This way the participants of the training had the chance for example to quantify the costs of their financial decisions without taking any risks, and were able to experience the risks, too.

3.4.2 Individual grant petitions

In order to improve the financial literacy and the financial awareness of consumers – as part of the Civil Network Programme – the MNB facilitated civil and non-profit organizations to implement their individual programmes in 2018, too. Last year the MNB accepted several individual petitions, and after their professional assessment, a number of programmes providing national access and facilitating financial decision-making were implemented. For example, financial consumer protection activities, i.e. provision of advice and information were carried out at events that attract large numbers of people (in the area of purchasing homes, travelling, furnishings and weddings that usually mean significant financial burdens). At these events, the MNB's Financial Navigator Booklets, as well as other information materials of own production and development were available to read and see. The programme included on-line information, too, which advertised the presence of the Bank at the events, conveyed messages of financial contents, and drew attention to the MNB's on-line financial consumer protection contents, too. One of the key topics of the events were budget planning and borrowing, about which useful advice was given to consumers before their financial decisions.

3.5 FINANCIAL NAVIGATOR CAMPAIGNS

In 2018, based on the system introduced in the previous year, the MNB tried to deliver the financial consumer protection information relevant in the respective period to the consumers through thematic communication campaigns. The timing of the campaigns was determined by the MNB based on the general consumer and commercial trends. For the three large campaigns of 2018 – start of year, autumn and Christmas – the key messages originated from the financial consumer protection topics relevant in the respective periods, while the fourth thematic campaign of the year took place on account of the World Investor Week 2018 (WIW) organised by International Organization of Securities Commissions (IOSCO) at the beginning of October.

For these four campaigns, altogether 650,000 pieces of leaflets and 6,250 pieces of posters were produced, the publications were exhibited by the Financial Navigator Partners in busy customer areas, and they were also distributed by the staff of the Financial Navigator Advisory Office Network in the offices at county seats and during on-site meetings and counselling.

The three one-month thematic campaigns and the one-week WIW campaign altogether generated more than 1.1 million visits on the Financial Navigator microsite.

3.6 CSR-BASED CO-OPERATIONS

In order to reach as many consumers as possible, in 2017 the MNB concluded cooperation agreements with the key participants in the commercial and services sector, who joined the MNB's communication activity aimed at the enhancement of financial literacy, providing free access to the channels and interfaces available to them, and supplementing their own corporate social responsibility (CSR) strategy. As a result, in the course of the campaigns of last year, consumers met seasonal financial consumer protection messages not only on the MNB's consumer protection campaign site, but also on the partners' on-line interfaces, and in nearly 800 department stores and 500 post offices.

In addition to the communication targeting the general public, the activity targeting the partners' employees needs to be emphasised, as it allows the direct and interactive reaching of tens of thousands of consumers. In addition to the appearance in internal publications, TV chains and on intranet interfaces, personal relations were also established, and information was given personally as well at company events and on family days. The importance of reaching employees is reflected in the transfer of information with targeted and deeper content, which potentially provides greater help. Based on the employee base of partners, this direct access was realized to more than 60,000 financial consumers.

3.6.1 Honfoglaló co-operation

The extended range of the communication partners of the MNB created new playful possibilities to improve financial skills. Since July 2018, questions defined on the basis of surveys conducted in the subject have been included on the web and mobile application platform of the Honfoglaló (Conqueror) game, which has more than 600,000 active users. By using the statistics available during the co-operation, it is possible to test consumers' financial awareness on a big sample. In

addition to the analysis of data, the audience was educated, too, as the interface immediately shows the correct answers to the players, and the efficiency of learning the information can also be backtested. In the case of returning users – who see a particular question for the second or third time – it can be seen whether they give better answers.

Box 12

Assessment of financial education programmes – International outlook

For the planning of its consumer protection communication activities, the MNB continuously examines financial consumer protection communication and education topics and projects that are worth implementing and publishing. Domestic and international studies and research results available in this area and the legislative intention all support the demand for the MNB's financial consumer protection communication activity, and, at the same time, set the direction of continuous data collection. As a key milestone of this work, a survey was started in 2018 to assess the depth of the development of the financial literacy of adult consumers at international level, primarily in countries where the MNB is represented by its international offices. In parallel with this research, the processing of available international and domestic reports and analyses and the assessment of local practices were going on, too. For the latter purpose, the staff of foreign offices contacted local experts in Argentina, France, Germany, Italy and the USA, as well as in a number of countries nearby.

Based on the analysis of processed materials and activities, it can be stated that the results achieved in Hungary, including the work of the Financial Consumer Protection Centre of the MNB, are not behind the activities of the examined – sometimes economically more developed – countries, they are at a level comparable with those. The experiences and the lessons learned from the programmes addressed to the adult target group were summarized in a dedicated report. The objective of the programme on the one hand was to serve as food for thought in projects improving the financial awareness and literacy of consumers with the purpose of improving domestic practices, and on the other hand to examine the possibility of presenting domestic good practices at international level. The majority of foreign experts contacted with the objective of learning the results and lessons of the projects already indicated their strong intention to participate in an exchange of experiences.

3.7 SUPERVISORY PRESS COMMUNICATION FOR THE PROVISION OF INFORMATION TO CONSUMERS

Last year the MNB published 121 supervisory press releases, handled 455 supervisory press contacts (TV, radio, written press), organized 5 press events (press conferences, background discussions), and published a number of management media interviews and coordinated lots of conference communication occasions. The majority of all these activities were connected to the consumer protection activities of the MNB.

In 2018, the central bank produced 12 press releases to summarize the findings of the most important consumer protection (and comprehensive) inspections, their orders and the imposed fines, and informed consumers about the related risks that might arise and about possible tasks.

A large number of press releases were produced about subjects that facilitate the making of prudent and responsible financial decisions by consumers. In connection with some so-called “fast loans” (in fact, personal loans), a release drew consumers' attention to prudent behaviour, as a lot of convenience services are available with this loan type, but they may make the costs of the loan significantly higher. The issue of using bank cards abroad was addressed by a separate press release that emphasized the fact that conversion at a foreign location is comfortable but may have extra costs. As part of the Christmas communication campaign supporting informed borrowing decisions, according to the practice of the past few years, a press release was produced in 2018, too, on the consumer risks of loans related to Christmas.

In co-operation with the central bank's Financial Consumer Protection Centre, 7 press releases were published last year. They reported on the university tender, the Civil Network programme and the Financial Navigator Advisory Office

Network that has grown to be a national network. The central bank reported on the renewed search programmes used by consumers and on the start of the newly developed Financial Navigator mobile application, too.

As to the financial market sector, in connection with the CCHL, 4 releases were produced, and 3 about the changes in debt cap rules, and the latter was reported by the staff of the central bank at a press conference, too, and 3 management press interviews were also given about the subject. The MNB recommendation regulating the extension of pawn loans was also given more publicity in a press release. The MNB talked about its more and more well-known fintech development initiatives and on cybersecurity – in the case of the latter, related to the international campaign of the European Cybersecurity Month – at press conferences and in 6 press releases, and the key messages were summarised for the journalists of the affected portals in 3 central bank management interviews.

Sixteen press releases were published, as well as a special management interview on the activities of unauthorized service providers (usually unauthorized intermediaries and deposit collectors), in each case warning consumers about the dangers and the possibilities of prevention.

Several press communication actions were related to last year's key central bank topics on the insurance and funds markets – including the 10-year future vision of the insurance sector, the consumer-friendly housing insurance concept to be worked out by the MNB in 2019 and the joint system of guarantees. The MNB announced its study on the future vision of the insurance sector, and the main messages were discussed in 2 management press interviews. The concept fostering a more ethic housing market and the need to create a self-care guarantee system was discussed in 2 management interviews for the press.

List of boxes

| | |
|--|----|
| Box 1: The MNB uses a number of tools to support the spread of housing loans with rates fixed for longer terms | 16 |
| Box 2: Results of Certified Consumer-friendly Housing Loans so far | 16 |
| Box 3: Recommendation related to pawnbroking activity | 22 |
| Box 4: MNB recommendation affecting the management of receivables | 25 |
| Box 5: Introduction of the instant payment system (AFR) | 28 |
| Box 6: New information provision and needs assessment regulation objectives | 32 |
| Box 7: The basic concept of the Certified Consumer-friendly Home Insurance | 35 |
| Box 8: Distribution practices of real estate funds | 37 |
| Box 9: Contacts for difference (CFD) and binary options | 40 |
| Box 10: Green finance | 43 |
| Box 11: Financial Navigator brand | 46 |
| Box 12: Assessment of financial education programmes – International outlook | 53 |

List of charts and tables

| | |
|---|----|
| Chart 1: Breakdown of housing loan disbursements by interest rate period | 17 |
| Chart 2: Portfolio of existing mortgage loans by remaining maturity | 18 |
| Chart 3: Change in the instalments of a variable-rate loan in the case of increased interest rates | 19 |
| Chart 4: Change in the number of non-performing household mortgage loan receivables between 2013 and 2018 | 23 |
| Chart 5: Ratio of non-performing mortgage loans by type of settlement | 24 |
| Chart 6: Consumers' openness to e-banking (If all the banking services were available on smartphones...) | 26 |
| Chart 7: The number of abuses committed with domestically and foreign issued payment cards by type of abuse | 27 |
| Chart 8: Insurance product description | 33 |
| Chart 9: Concentration ratio of the household property insurance business | 35 |
| Chart 10: Changes in the adjusted fee burden index at voluntary pension funds | 36 |
| Chart 11: Portfolio of real estate funds (31.12.2008 – 31.12.2018, HUF billion) | 38 |
| Chart 12: Ratio of real estate funds within the assets managed by BAMOSZ members | 38 |
| Chart 13: Example for the operation of the CFD | 41 |
| Chart 14: Example for the operation of the binary option | 42 |
| Chart 15: Annual global issuance of bonds related to sustainability (USD billion) | 43 |
| Chart 16: Financial Navigator Advisory Offices and offsite advisory services | 50 |
| Chart 17: Methods of customer enquiries in 2018 | 50 |
| Chart 18: Amount of major consumer protection penalties imposed on the participants of the financial market (HUF) | 58 |
| Chart 19: Amount of major consumer protection penalties imposed on the participants of the insurance market (HUF) | 59 |
| Chart 20: Distribution of petitions and customer service enquiries by the channel of submission (pcs) | 61 |
| Chart 21: Developments in the number of petitions received by the MNB, by sectors (pcs) | 62 |
| Chart 22: Main petition types in 2018 (%) | 63 |
| Chart 23: Number of petitions by main type of credit (pcs) | 64 |
| Chart 24: Breakdown of petitions related to the insurance sector, by service type (pcs) | 65 |
| Chart 25: Breakdown of the most typical petitions related to the capital market sector, by service type (pcs) | 66 |
| Chart 26: Breakdown of the most typical petitions related to the funds sector, by service type (pcs) | 67 |
| Chart 27: Customer service enquiries by sector (pcs) | 68 |
| Table 1: Current variable-rate mortgage loan portfolio in the credit institution sector, that can be considered risky (December 2018) | 19 |
| Table 2: Number of proceedings started in 2018 | 57 |
| Table 3: Number of proceedings carried over from 2017 and initiated in 2018 | 57 |
| Table 4: Result of proceedings by sector | 58 |

ANNEX 1 THE MNB'S CONSUMER PROTECTION ACTIVITY IN NUMBERS

Table 2

Number of proceedings started in 2018

| Institution type | Ex officio targeted inspections (pcs) | Ex officio consumer protection thematic inspections (pcs) | Number of institutions audited within the framework of exofficio consumer protection thematic inspections (pcs) | Consumer protection inspections conducted jointly with theprudential area (pcs) | Consumer protection inspections launched based on consumer petition (pcs) |
|--|---------------------------------------|---|---|---|---|
| Credit institutions sector, Bank | 5 | 1 | 10 | 1 | 165 |
| Credit institutions sector, Cooperative credit institution | 2 | 0 | 0 | 0 | 4 |
| Financial enterprise | 11 | 0 | 0 | 0 | 29 |
| Independent financial market intermediaries | 1 | 0 | 0 | 1 | 4 |
| Insurance market | 1 | 0 | 0 | 6 | 80 |
| Capital market | 0 | 0 | 0 | 3 | 10 |
| Funds market | 0 | 0 | 0 | 6 | 2 |
| Total | 20 | 1 | 10 | 17 | 294 |

Source: MNB.

Table 3

Number of proceedings carried over from 2017 and initiated in 2018

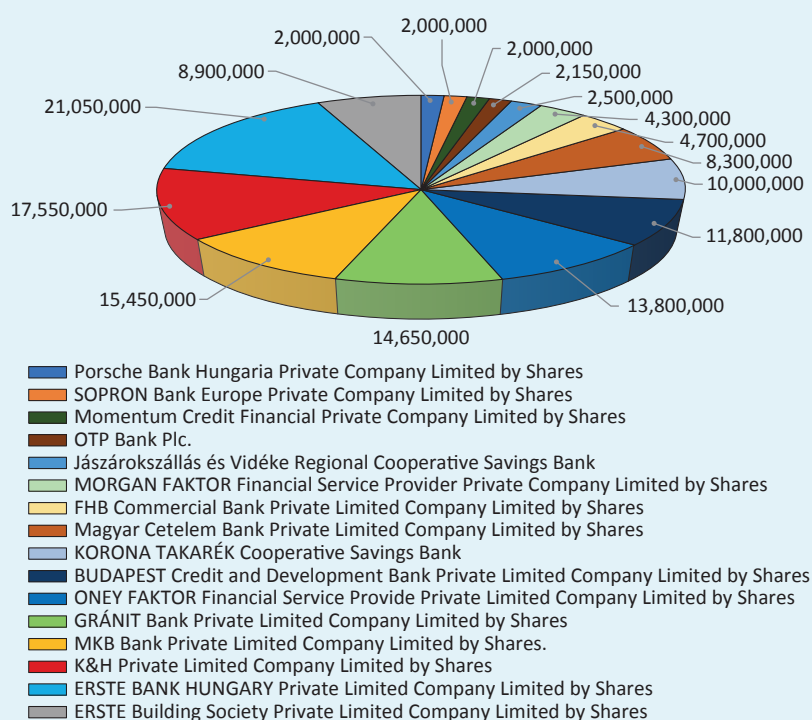
| Institution type | Ex officio targeted inspections (pcs) | Ex officio consumer protection thematic inspections (pcs) | Number of institutions audited within the framework of exofficio consumer protection thematic inspections (pcs) | Consumer protection inspections conducted jointly with theprudential area (pcs) | Consumer protection inspections launched based on consumer petition (pcs) |
|--|---------------------------------------|---|---|---|---|
| Credit institutions sector, Bank | 20 | 1 | 9 | 1 | 226 |
| Credit institutions sector, Cooperative credit institution | 5 | 1 | 7 | 0 | 4 |
| Financial enterprise | 16 | 1 | 1 | 4 | 41 |
| Independent financial market intermediaries | 0 | 0 | 0 | 1 | 6 |
| Insurance market | 1 | 3 | 12 | 12 | 99 |
| Capital market | 1 | 0 | 0 | 6 | 12 |
| Funds market | 0 | 0 | 0 | 7 | 2 |
| Total | 43 | 6 | 29 | 31 | 390 |

Source: MNB.

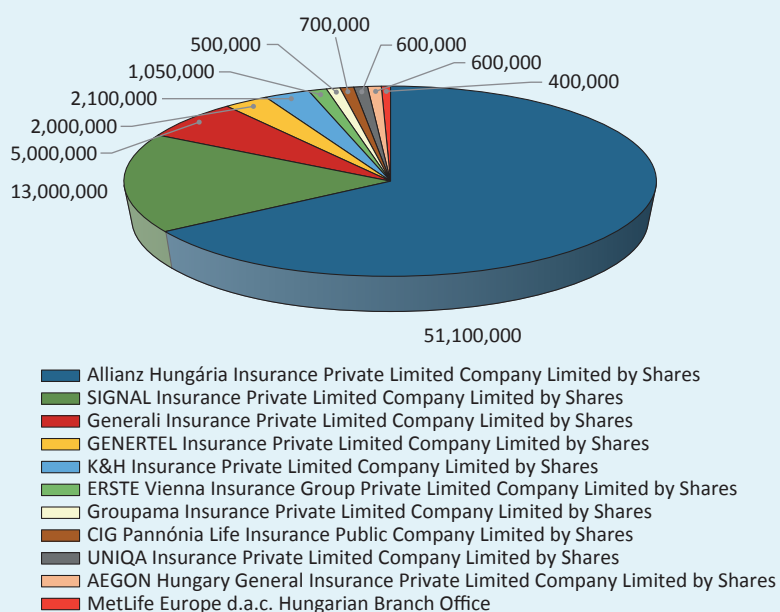
Table 4**Result of proceedings by sector**

| Institution type | Money market | Insurance market | Capital market | Funds market | Total |
|--|------------------------|------------------|----------------|--------------|-------|
| Total number of orders (pcs) | 391 | 120 | 21 | 4 | 536 |
| of these: substantive (pcs) | 101 | 35 | 7 | 2 | 145 |
| non-substantive (pcs) | 290 | 85 | 14 | 2 | 391 |
| Total number of resolutions (pcs) | 203 | 65 | 22 | 12 | 302 |
| of these: no infringement (pcs) | 68 | 24 | 13 | 5 | 110 |
| involve infringement (pcs) | 135 | 41 | 9 | 7 | 192 |
| Consumer protection penalty imposed | 249 200 000 HUF | | | | |

Source: MNB.

Chart 18**Amount of major consumer protection penalties imposed on the participants of the financial market (HUF)**

Source: MNB

Chart 19**Amount of major consumer protection penalties imposed on the participants of the insurance market (HUF)**

Source: MNB.

ANNEX 2 COMPLAINT STATISTICS

Features of consumer complaints identified on the basis of institutions' reports on complaints¹¹

In 2018, in the financial market, insurance and capital market sectors, altogether 401 thousand complaints were registered by the institutions, which means a 10% increase from the previous year. This primarily reflects the complaints related to bank card operations (financial fraud, settlement). It should be noted that this number includes all objections related to the activities of institutions, reported to them by consumers; the service providers did not find all of these complaints substantiated. At the end of 2018, the institutions had approximately 47.9 million household contracts, and considering the number of all complaints received during the year, on average 8,4 complaints were received per one-thousand household contracts in the financial sector.

Credit institutions

Based on the credit institutions' complaint statistics, it can be established that two-thirds of the complaints are related to bank card operations and account management. The most typical problems arose from settlement, the rate of commissions, costs and fees and the quality of service (52 percent). The number of complaints per one-thousand contracts was 12.2 in 2018, which exceeds the aggregate average of the financial sector.

Financial enterprises

Based on the complaint statistics of financial enterprises, it can be established that almost 85% of the complaints were received in connection with the management of receivables, which is a result of the fact that the factoring portfolio purchased for receivables management makes up about 71% of retail contracts in the sector. In the complaints most of the clients (89%) reported objections to the financial enterprises regarding administrative issues, rates of interests, debated account balances, settlements, unauthorised activities, the quality of service and the transfer of data to CCIS. The number of complaints per one-thousand contracts is 7.2, which is less than the aggregate average of the financial sector.

Insurers

The insurers' complaint statistics show that almost 85 percent of the complaints were related to the non-life business. Within this product group, more than 86% of the complaints affected household property insurances and third-party liability car insurances, and together with the casco insurances, their total share well exceeds 9/10.

The remaining, little more than 15 percent of the complaints were related to the life insurance business, and within that 43% of the reported problems concerned index-linked or unit-linked life insurances. The notifications related to traditional life insurances accounted for almost 40% of the life insurance business complaints. Compared to previous years, an increase in the number of complaints related to various pension insurances can be observed (27% of all the reports, within the previous categories, in total). Almost 41 percent all complaints related to insurance products concerned administrative issues and errors, but quite a few complaints were registered also in relation to the rejection of claims (14.7 percent), the degree of the compensation (10.5 percent), the lengthy claim settlement (11.8 percent) and information shortcomings (6.6 percent). The number of complaints per one-thousand contracts is 3.2, which is much less than the aggregate average of the financial sector.

Funds

The number of complaints affecting the funds market is negligible, the number of complaints per thousand contracts (0.6) is well below the aggregate average of the financial sector.

¹¹ The information is based on the status of 22 March 2019.

Investment firms

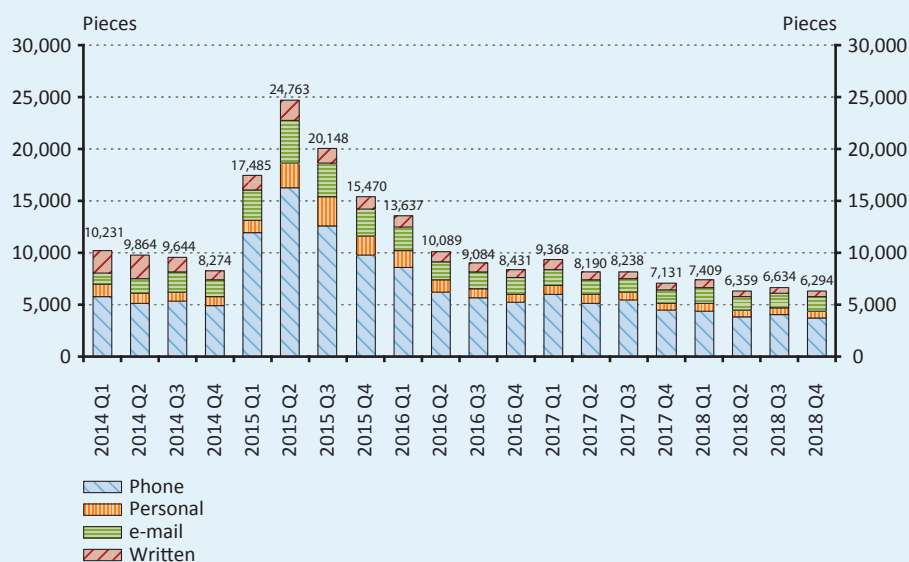
The complaint statistics of investment firms show that a significant portion of the registered complaints related to the management of customer accounts and securities accounts (41%), while more than one-third of the complaints concerned investment services and in particular the acceptance, finalisation and execution of orders. The most typical problems arose in connection with the rates of commissions, costs and fees (21%), performance of orders (13%), settlement (11%), electronic services (10%) and the quality of services (10%). The number of complaints per one thousand contracts is 4 pieces, which is well below the aggregate average of the financial sector and shows a decrease from the value of 5.12 identified in the previous year. In the subject of the typical problems and in their ratio, there is no significant difference from 2017.

Investment fund managers

The complaint statistics of investment fund managers show that almost 60% of registered complaints related to the management of investments, while one third of the complaints concerned the administrative part of collective portfolio management and the distribution of collective investment securities. The most typical objections affected the rates of interests and yields (40%), the use of electronic services (12%) and the exchange rates (12%). The number of complaints per one thousand contracts is 25 pieces, which is more than three times higher than the aggregate average of the financial sector, and exceeds the value of 10.6 of the indicator in 2017, which can be attributed to the effect of yield corrections in 2018. However, it should be noted that the number of active household investors is extremely low compared to the consumers of other sectors.

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

Chart 20
Distribution of petitions and customer service enquiries by the channel of submission (pcs)



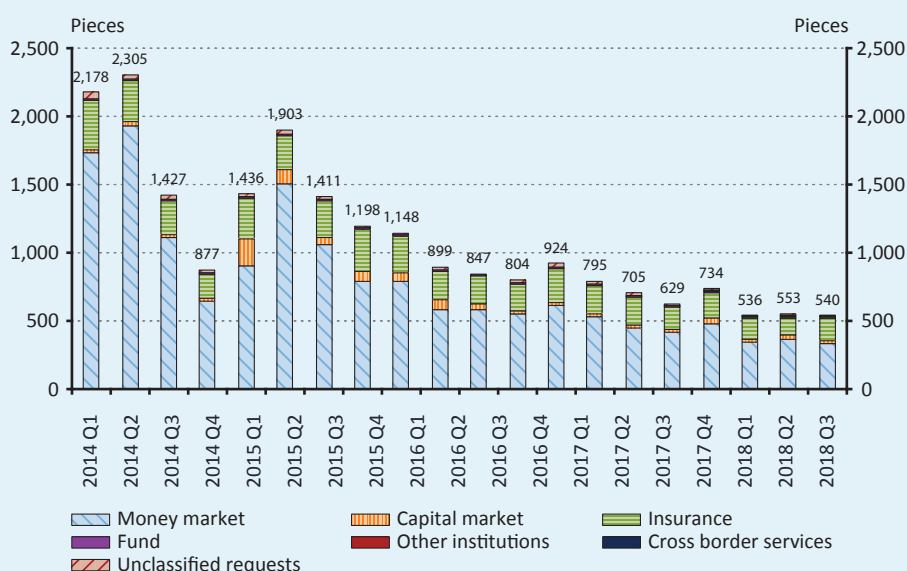
Source: MNB.

Compared to previous years, there were still no significant changes experienced in the breakdown of written and verbal customer notices received by the MNB Customer Service. Similarly, to previous years, the number of verbal contacts were dominant, but their rate dropped from 74 percent in 2017 to 70 percent (18,711 pieces). Within the verbal contacts, the number of feedbacks received over the phone was 86 percent (16,104 pieces), while the ratio of customers personally contacting the MNB Customer Service reached 14 percent. The ratio of e-mail customer contacts increased from 17 to 21 percent compared to 2017 (5,622 pcs). Petitions received by the MNB Customer Service by mail or through the customer portal still made up 9 percent of all customer feedbacks (2,363 pcs).

Most typical petition types

In 2018, the MNB Customer Service received 2,363 consumer petitions, representing a 23 percent decrease compared to the previous period. Compared to 2017, the breakdown of petitions by sector does not show an effective change, as the majority, i.e. 65 percent of petitions affected the financial market sector in 2018, too (1,526 pcs). The ratio of petitions affecting the insurance sector did not change from 2017, they still make up 27 percent of all petitions, but the number of incoming petitions dropped from 836 to 640. The ratio of the capital market petitions made up 5 percent (110 pcs) of all complaints, while in the funds sector it was 1 percent (29 pcs).

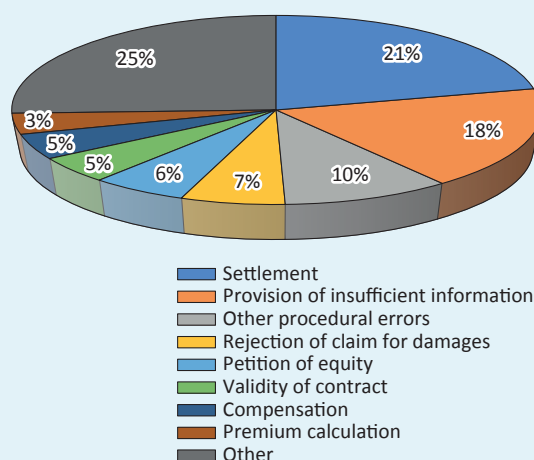
Chart 21
Developments in the number of petitions received by the MNB, by sectors (pcs)



Source: MNB.

Based on the types of petitions, and independently of the sector, it is possible to figure out what complaints emerged at the consumers, and what kind of issues were generated. In line with previous years, the majority of the complaints were related to settlements linked to various contracts (506 pcs) and to information shortcomings (424 pcs). The category of other administrative errors among others includes complaints that were raised in connection with errors made in the course of the management of issues and in administration, and were related to slow administration, the behaviour against customers, impolite service, or the difficulty of contacting administrators. The number of complaints in this category was high in 2018, too (239 pcs), but the number of petitions added to this category dropped significantly compared to 2017 (413 pcs).

Chart 22
Main petition types in 2018 (%)



Source: MNB.

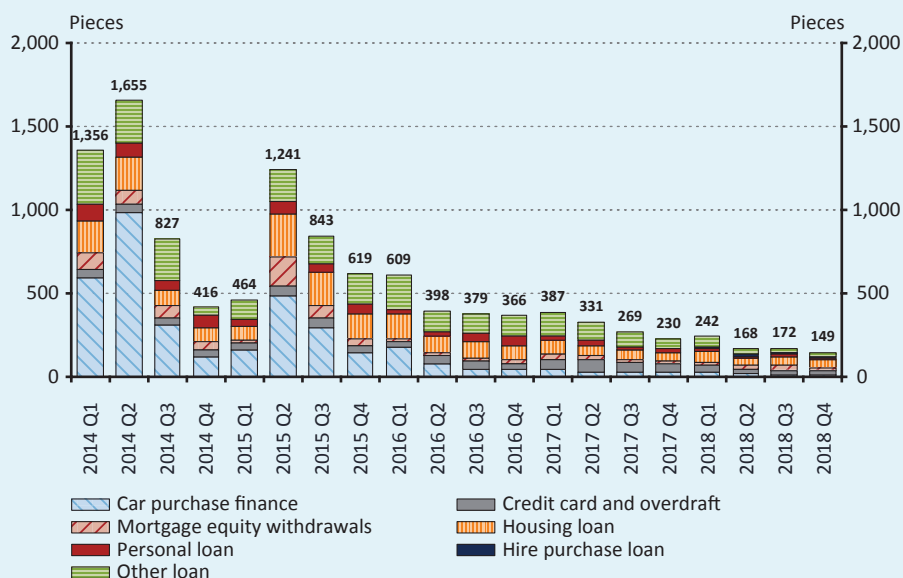
Financial market petitions

Financial market petitions include primarily but not exclusively the complaints related to consumer loans and mortgage loans, the management of receivables, payment accounts, deposit and savings products, as well as complaints related to individual payment services.

Similarly, to the past period, a high number (731 pcs) of petitions related to lending was received, but their ratio within the total number of financial market petitions dropped from 60 percent to 48 percent, compared to 2017. On the other hand, the number of petitions related to receivables management and collection activities has increased, as in 2018, 228 pieces of petitions were received in which consumers specified complaints about debts re-sold for receivables management.

Within complaints related to loan products, the ratio of petitions related to housing loans increased from 20 percent in 2017 to 27 percent, however, the number of petitions received dropped from 238 pieces to 194 pieces. Among complaints related to consumer loans, the number of petitions related to credit cards was still the highest figure, but their number dropped to less than half, to 98 pieces compared to 2017. The number of complaints related to car loans continued to decrease in the past period, from 133 to 71, but their ratio within the petitions related to all loans decreased by one percentage point only. The number of complaints related to mortgage-based multiple-use loans increased further compared to previous years (from 92 pcs to 101 pcs), while their ratio within loan-related petitions increased from 8 percent to 14 percent. Among the petitions related to lending activities, looking at their contents, the highest ratio was still represented by complaints about settlements (30%) and shortage of information (23%), but a large number of complaints were received about administrative errors (13%) and lots of leniency requests (12%) were submitted.

Chart 23
Number of petitions by main type of credit (pcs)



Source: MNB.

Based on the customer service experiences of the MNB – similarly to previous periods – a high ratio of petitions affecting the financial market sector are received from customers who failed to meet their payment obligations originating from lending, sometimes for reasons beyond their control. In their case, it happens more and more frequently that the outstanding debts are assigned by the lending institution to a company involved in receivables management.

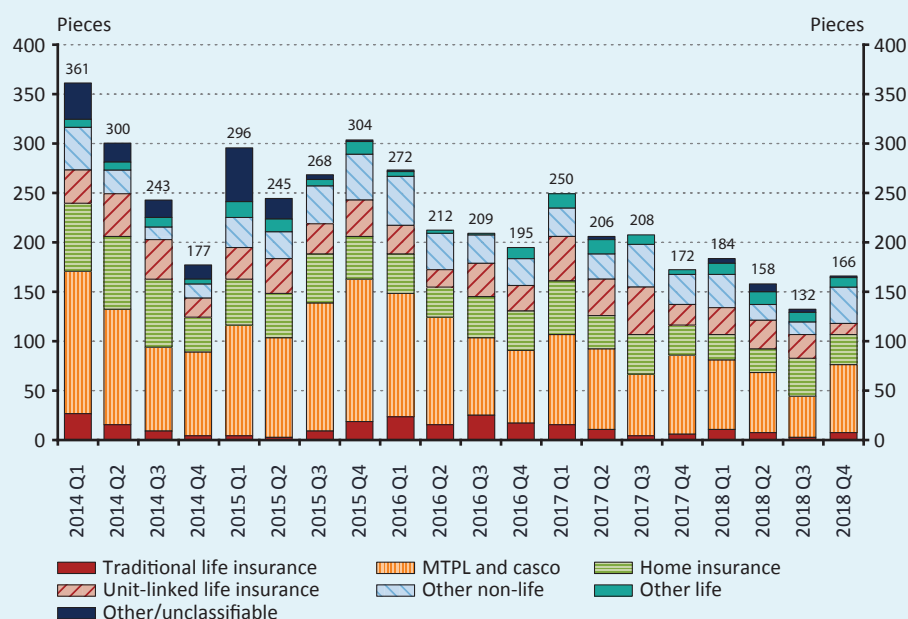
The composition of financial market petitions by institution type does not show a significant change from 2017, as most of the petitions, i.e. 63 percent of them affected the activities of banks, 21 percent affected financial enterprises, 4 percent affected specialized credit institutions, primarily building societies, 3 percent affected savings co-operatives, and 9 percent affected other financial market service providers – as dependant, independent or special financial intermediaries, payment institutions or other non-identifiable service providers.

Insurance market petitions

The products of the insurance market include life insurances and non-life insurances. The former category includes the so-called traditional life insurances, such as whole-life insurance, term life insurance and universal life insurance, index-linked and unit-linked life insurances, as well as health insurances and pension and annuity insurances. Non-life insurances include among other things property insurances, various liability insurances and travel insurances.

Corresponding to the experiences of previous years, most of the complaints received by the MNB Customer Service were related to third party liability car insurances, 226 pieces, which made up 35% of the petitions affecting the sector. This was followed by the number of complaints related to home insurances (118 pcs), which shows a decrease from the previous years (160 pcs). Similarly, to previous years, among life insurance products, most of the complaints received were about index-linked or unit-linked life insurances in 2018, their number dropped from 148 pcs to 90 pcs in this period. 5 percent of complaints affecting the insurance sector were made up by traditional life insurances, 4 percent was made up by general liability insurances, and 3 percent belonged to travel and casco insurances each. The breakdown of complaints – by type – received does not show a significant change from the previous year, as most complaints in 2018, too, were received about the rejection of claims for damages or services (24%), the rate of compensation (17%), shortages in information (15%) and the definition and the amount of the insurance premium (13%).

Chart 24
Breakdown of petitions related to the insurance sector, by service type (pcs)



Source: MNB.

A significant portion, almost two thirds of the complaints related to third party liability car insurances questioned the amount of the premium, the method of defining and calculating the premium, and 22 percent of the complaints were about the rate of compensation, and 13% were about the rejection of the required service. Based on the petitions received, and compared to the period of 2017, there was an increased ratio of complaints that questioned the increase in premium after the anniversary, according to the new tariff announced by the insurance company. However, individual insurance companies may define the tariffs determining the premium of third-party liability car insurances according to their own business policies, and the rate of modifications in the premium are not restricted by any legal regulations. The application of a correction multiplier that is freely defined by the insurance companies (in fact, it is a supplementary fee charged to the wrongdoer or a discount for not causing damage) has a legislative basis, and in addition to the bonus-malus system, this serves as a factor that evaluates the damage history of the customer and reflects it in the premium. The pricing defined on the basis of business policy considerations and individual customers' own damage history events may cause significant changes in premiums, therefore may generate complaints.

In the case of other non-life insurances, such as home insurances, travel insurances, general liability insurances and extended guarantee insurances, consumers usually complained about the rejection of claims for services or the extent of the service.

Among petitions related to index-linked or unit-linked life insurances, there was still a large number of complaints that affected the provision of information before signing the contract or during the existence of the contract, but in 2018, the majority of complaints (37%) were of settlement nature, related to the value of the account balance, the extent of the service and the size of the repurchase value. These complaints were typically caused by the costs of the insurance products and the enforcement of the price of additional insurance risk coverage specified in the contract.

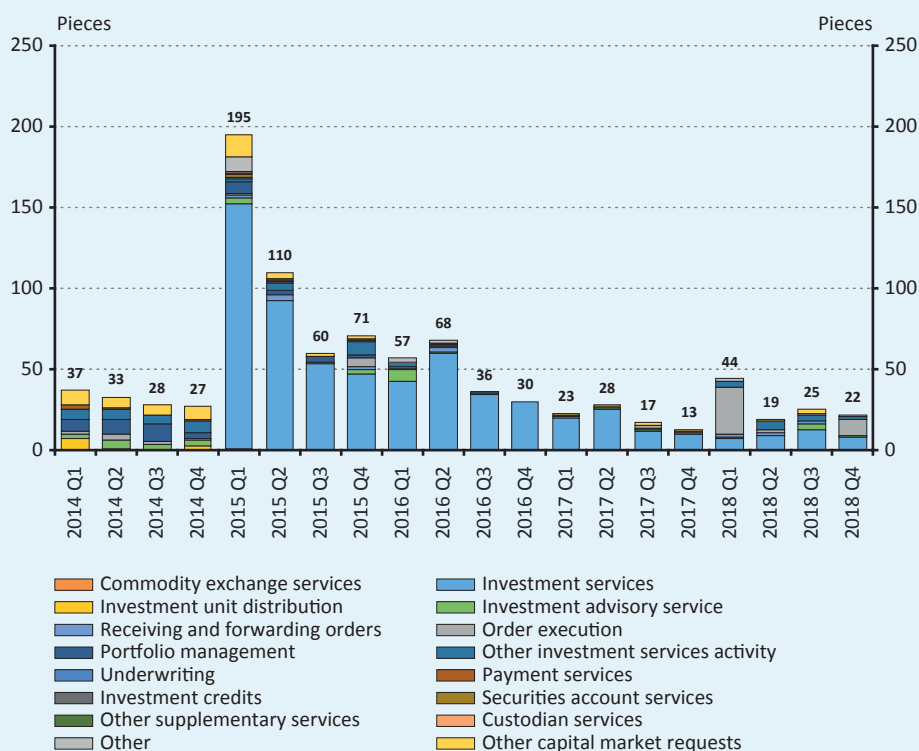
Capital market petitions

Capital market petitions include investment service activities, such as taking, forwarding and performing orders, and investment consultancy, investment and portfolio management and additional investment services like deposit management or securities account management.

Most of the consumer complaints were related to investment service activities in 2018, too, accounting for 90 percent of all complaints. Within that, mainly consumer petitions about the performance of orders regarding financial assets (41 pcs) and complaints of general subjects related to investment services (37pcs) were received. As to the types of petitions, no significant change can be experienced from the previous period, one third of the complaints were about the settlement between the consumer and the service provider, 26 percent were related to insufficient information, while in 9 percent of the cases, the consumers objected to the rate of commissions, costs and fees charged. The trend identified in the previous period continued in 2018, too, the number of complaints received because of suspected financial fraud or unauthorized financial activities continued to decrease, from five pieces to one.

Chart 25

Breakdown of the most typical petitions related to the capital market sector, by service type (pcs)



Source: MNB.

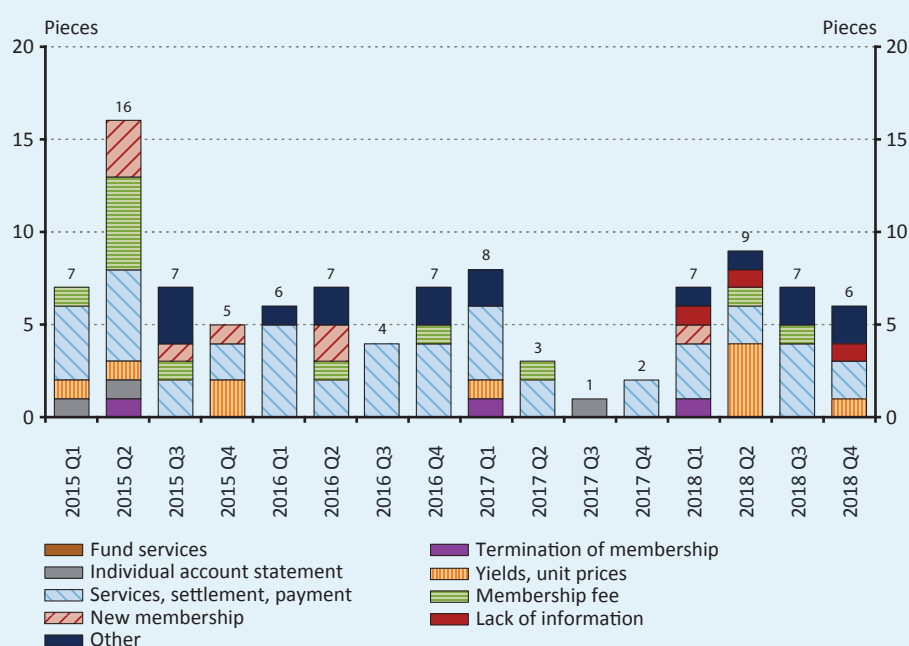
According to customer service experiences, 2018 also saw a high number of complaints that affected the definition and modification of fees applied on securities accounts managed by various market players. In order to avoid these types of problems, it is well advised to continuously monitor the website of the service provider for information and follow any changes that may affect the account.

The majority (60%) of petitions received by the Customer Service were raised in connection with the investment service activities of commercial banks, while 35 percent of the complaints affected the activities of capital market service providers as investment enterprises, fund managers and intermediaries, and multiple consumer complaints were received in connection with the activities of parties offering securities to the public, too, these made up 5 percent of the capital market petitions.

Petitions related to the funds market

The number of consumer complaints affecting the funds market is basically negligible, similarly to previous years, as 29 pieces of petitions were received in connection with fund services, which was slightly more than 1 percent of all complaints. There was no effective change in this sector in the examined period. Similarly, to the previous year, the most frequent consumer complaints concerned the settlement and the payment of the benefits of the various funds, but their ratio dropped from 57 percent to 38 percent. 17 percent of consumer petitions were raised because of the yields achieved by the funds and the unfavourable changes in the rates of settlement units, this means an increase of 10 percentage points compared to the previous year. One tenth of the complaints originated from the provision of insufficient information to fund members.

Chart 26
Breakdown of the most typical petitions related to the funds sector, by service type (pcs)



Source: MNB.

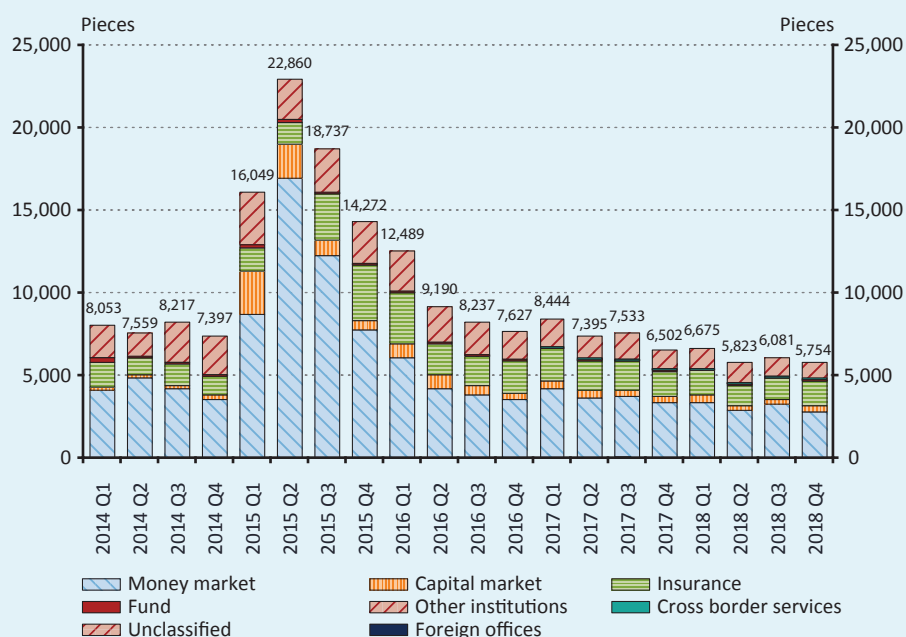
The majority, i.e. 69 percent of consumer petitions affected the activities of voluntary health and mutual assistance funds, almost one quarter of them affected the activities of voluntary pension funds, and 7 percent affected the activities of private pension funds.

Customer service enquiries

In 2018, the MNB's Customer Service received 24,333 enquiries requesting information. The majority of customer service enquiries (66%) were made on the phone, just like in previous periods, while the ratio of enquiries received in electronic mails increased to 23 percent, and 11 percent of the consumers visited the MNB Customer Service in person.

More than half of the enquiries received in 2018 (12,358 pcs) affected the financial market, and 23 percent (5,481 pcs) affected the insurance market. The ratio of enquiries affecting the capital market was almost unchanged, while their number dropped to 1,374 pieces. The number of funds market enquiries hardly changed, 234 pieces of such enquiries were received, which amounted to as little as one percent of all customer service enquiries. Enquiries that did not affect the sector supervised by the MNB and enquiries that were related to central bank activities still made up almost one fifth of all enquiries, 4,703 such enquiries were received in the discussed period.

Chart 27
Customer service enquiries by sector (pcs)



Source: MNB.

In 2018 – as experienced in previous years – enquiries related to the financial market sector had the highest ratio (51%). The number of enquiries related to lending and leasing activities was still the highest in this sector (4,665 pcs), followed by the number of enquiries related to collection, receivables management and factoring (1,785 pcs). A significant number of enquiries were received about payment issues (1,340 pcs), current account management (1,017 pcs) and bank card operations, too (588 pcs).

The number of enquiries affecting the insurance sector decreased further compared to 2017 (5,481 pcs), their share within all the customer service enquiries dropped by one percentage point, to 23 percent. Among non-life insurance products – similarly to previous years – most of the questions were asked in connection with third party liability car insurances (1,531 pcs), which amounted to almost half of the non-life sector enquiries. They were followed by enquiries regarding home insurances and other retail property insurances (804 pcs). The number of customer service enquiries regarding the products of the life insurance sector – similarly to previous years – is much lower than that of the enquiries regarding the non-life insurance sector, in 2018, 698 pcs of such enquiries were received. Among life insurances, similarly to petitions, most of the questions were related to index-linked or unit-linked insurances. Looking at the contents of the petitions, most requests for information were still in connection with complaints about rejections of claims for damages or services. These were followed by requests for general information about the services used and questions on the methods of the calculation of insurance premiums.

Compared to previous years, the number of customer enquiries regarding the capital market decreased again, as 1,374 pcs of enquiries were received in 2018. A large number of customers turned to the MNB Customer Service with questions about some kind of investment service, most of them were general questions about investment services, or issues related to the acceptance, forwarding or performance of orders regarding financial instruments.

The number of enquiries regarding the funds market did not change significantly from 2017. 44 percent of the 234 pcs of questions about the funds market were related to voluntary pension fund activities, 29 percent were concerned about voluntary health and mutual assistance funds, 9 percent about private pension funds and 18 percent requested other general information. Similarly, to the previous period, most of the questions were related to the settlement of the membership fees paid.

Ferenc Rákóczi II

(27 March 1676 – 8 April 1735)

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

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

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

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

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

FINANCIAL CONSUMER PROTECTION REPORT
2018

Print: Prospektus Kft.
H-8200 Veszprém, Tartu u. 6.

mnb.hu

©MAGYAR NEMZETI BANK

H-1054 BUDAPEST, SZABADSÁG SQUARE 9.