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# Acknowledgement

The college would like to thank the RMA for the confidence entrusted to take up this project and continued support and guidance for successful completion of the project. The college would also like to thank the focal persons of FSPs for their logistic support to enumerators during the survey time and their participation in the online survey.

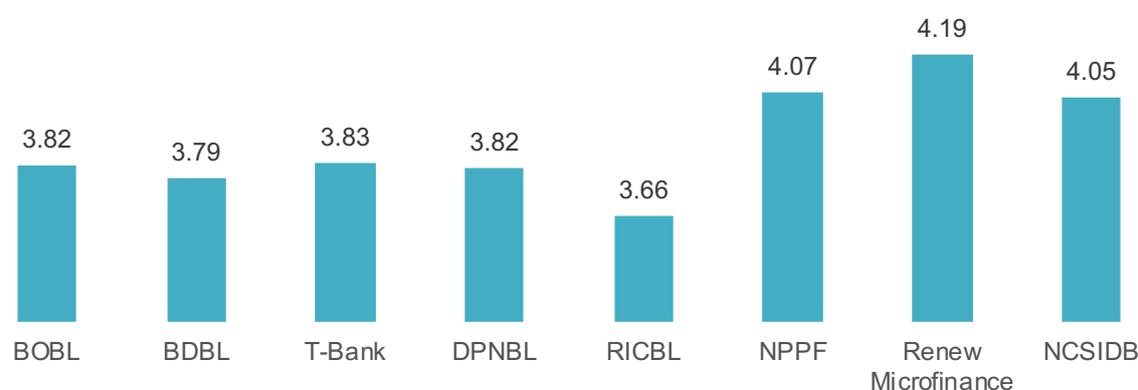
## Disclaimer

*Opinions and arguments presented in the report do not necessarily reflect the official views of the research centre/institute/organizations. The number of survey respondents were limited for instrument validation only.*

## Executive Overview

Given the growth of financial sector due to economic development of the country, financial access has increased through various platforms such as digital banking, agent-banking and private money lenders. At the same time, there is associated risk to financial consumers which would widen the financial capability gap. The consumers must be protected and treated fairly to develop sound financial business practices in the market. For this, the RMA has developed regulations for consumer protection for financial services in 2019 which requires financial service providers (FSPs) to ensure effective and fair consumer protection mechanisms are instituted. In absence of international standard instruments to measure satisfaction of financial consumer protection services, the pilot study was carried out to develop and validate the instruments developed based on the existing regulations and principles on financial consumer protection by OECD 2011.

For the instrument testing and validation, 50 respondents were selected from eight FSPs including banking, insurance, pension and microfinance. The respondents of Renew MF were all females mostly with no formal education and no fixed income, and 94% of the respondents of NCSIDB were self-employed. The consumer protection index for financial services was constructed as weighted composite index of all five key principles. The proposed survey instrument is assessed for validity through content validation (by RMA), factor analysis, and reliability tests on the data. The overall index is estimated as 3.90 (78%) with the highest score for Renew Microfinance.



Except for NCSIDB, rest of the FSPs were rated relatively better on protection of privacy of consumers' financial information. It was noted that Renew MF performed well in all five principles as compared to other FSPs. T-Bank and RICBL performed low in responsible market conduct and competition, BOBL in fair and equitable treatment, RICBL in education, disclosure and transparency, and complaint handling & redress mechanism, and for BDBL, in protection of privacy of consumers financial information.

	<b>Responsible Market Conduct &amp; Competition</b>	<b>Fair &amp; Equitable Treatment</b>	<b>Education, Disclosure &amp; Transparency</b>	<b>Complaints Handling &amp; Redress</b>	<b>Privacy of Consumers' Financial Information</b>
BOBL	3.79	3.64	3.76	3.69	4.10
BDBL	3.79	3.81	3.74	3.77	3.80
T-Bank	3.73	3.85	3.73	3.70	3.99
DPNBL	3.84	3.87	3.76	3.70	3.88
RICBL	3.73	3.65	3.52	3.26	3.89
NPPF	4.05	4.00	3.95	4.01	4.19
Renew MF	4.15	4.28	4.17	4.07	4.24
NCSIDB	4.10	4.14	4.00	3.96	4.03

### Key Areas for Action

1. The consumers of Renew MF, NPPF and NCSIDB were comparatively more satisfied than that of other financial institutions on all five principles. Therefore, the other FSPs need to work towards improving their performance on the principles with lower ratings. For instance, RICBL needs to work on three principles (market conduct & competition, education & disclosure, and complaint handling & redress) and BDBL on ensuring protection of privacy of consumers' financial information.
2. The FSPs should focus more on improving the debt recovery process system as approximately 32% of the respondents did not agree on having effective debt recovery practices in place. Further, FSPs are suggested to provide courteous customer services without discrimination and pay special attention to the needs of vulnerable consumers.
3. As more than 23% of the respondents did not agree to the indicators, the FSPs are suggested to conduct frequent financial education/awareness programmes including usage of financial products/services, disclosure of relevant information before execution of contract agreement, and improvement in marketing materials to avoid misunderstanding by the public.
4. Since the consumers have rated lowest on the complaint handling and redress principle, FSPs are expected to put an adequate measure to address grievances, resolve the complaints within reasonable time and make complaint channels more accessible, and create effective complaint handling process.
5. The consumers expect FSPs to provide adequate monitoring process to control the authorized agents and take accountability for their actions.
6. Except for Renew MF and BOBL, NPS ratings for rest of the FSPs were negative indicating consumers were not loyal to the companies and likely to cause harm to the company by not speaking favorable about the company to others. Therefore, better customer retention and loyalty programmes could be developed.

7. For better implementation of the regulations, and to meet the changing requirements of the markets and clients, it is recommended to train focal persons/relevant staff of FSPs from time to time. At the same time, FSPs/RMA are/is suggested to create awareness programmes and educate consumers on their rights and responsibilities as most of the consumers were not aware of it.



# 1. Background

Generally, there is a significant and positive effect of financial sector development on the developing countries as compared to developed countries, and thus, the financial sector in Bhutan plays a critical role in the country's economic development. With increased developmental activities in the country and rapid technological change around the globe, consumers standard of demand for varied financial services have changed, making the financial market more competitive than before. At the same time, most financial consumers are aware of financial products and services offered in the market due to the RMA's initiatives to promote financial literacy and inclusion in collaboration with stakeholders.

Despite improvement in consumers' experience, increased financial access through various platforms such as digital banking, agent-banking and private money lenders, poses a significant risk to consumers widening the financial capability gap. For this reason, financial consumers must be protected and treated fairly to develop sound financial business practices in the market. Therefore, the RMA has developed 'Consumer Protection for Financial Services (CPFS) Rules and Regulations 2019' which is effective from 1 September 2019. The regulation will ensure effective and fair consumer protection mechanisms instituted in the financial service providers (FSPs) to drive fair and equitable treatment, and act as platform for consumer grievance redressal.

Any financial inclusion and consumer protection law (Johnson, 2019) demands all consumers to have equal opportunities to access the available financial services, and the FSPs to ensure consumers have access to adequate and correct information about the financial services. It also requires preventing any unlawful practices by the market participants especially those that are deceptive and discriminatory. Formulation and implementation of such regulation improve the financial regulatory system and safeguard the financial stability in the country. The RMA has instituted a consumer protection cell, under the Legal Services Division to manage and implement the CPFC Rules and Regulations. Consumer Protection Cell (CPC) at RMA ensures consumers have access to accurate information about financial services in the market to foster competition and prevent unfair practices.

For any business, it must be understood that satisfying consumers, who are their lifeblood, is critical for increasing consumer loyalty and attracting new consumers. With time, consumer expectations of financial services change and FSPs are required to keep pace with changing requirements and deliver services to fulfil the needs of consumers. To assess financial consumers' changing needs, a study on consumer satisfaction and how fairly they are treated in the financial market is essential.

Main objectives of the pilot study are to:

1. Develop the instruments for measuring satisfaction/experience of financial consumer protection services of the FSPs in Bhutan (no international standard measurement instruments)
2. Test the instruments (pilot survey) and generate a summary report on level of consumer satisfaction in relation to financial consumer protection principles

## 2. Framework

To measure the satisfaction of financial consumer protection services provided by FSP, the framework based on five consumer protection principles adopted by the CPFS Rules and Regulations 2019 (CPFSRR2019), and general customer satisfaction and loyalty were used. The general perception of the consumers was categorized into six dimensions (five principles and one related to overall satisfaction & loyalty). Based on the key principles of financial consumer protection regulations, the survey questionnaire was developed and finalized after discussing with the CPC, RMA. The operational definition/ indicators of each dimension are described in the table below:

Table 1 Financial Consumer Protection Dimension/Principle

Principles	Operational Definition/Indicators
<b>Responsible Market Conduct and Competition **</b>	<ul style="list-style-type: none"> <li>FSPs acting in the best interest of consumers and being responsible for upholding financial consumer protection - such as financial advice, convenient information channel, responsible lender, trained staff, fair debt recovery process, ethical sales promotion to provide consumers with greater choice.</li> </ul>
<b>Fair and Equitable Treatment**</b>	<ul style="list-style-type: none"> <li>Financial consumers treated equitably, honestly and fairly at all stages of their relationship with FSP and inclusive financial service delivery (special attention to the needs of vulnerable groups).</li> </ul>
<b>Education, Disclosure and Transparency **</b>	<ul style="list-style-type: none"> <li>Adequate information in the contract documents, disclosure of financial information, explanation of technical terms, transparency in delivery of services – all financial promotional materials should be accurate, honest, understandable and not misleading.</li> <li>Providing key information such as benefits, risks and terms of product/services.</li> <li>Promotion of financial education and awareness on consumer protection, rights and responsibilities should be accessible (including specific programmes targeted for vulnerable groups).</li> <li>Consumers are made aware of the importance of providing FSP with relevant, accurate and available information.</li> </ul>
<b>Complaints Handling and Redress **</b>	<ul style="list-style-type: none"> <li>Access to adequate complaints handling and redress mechanisms (accessible, affordable, independent, fair, accountable, timely and efficient).</li> <li>It also includes procedures of how complaints are handled and resolved; and compensation policies.</li> </ul>

Principles	Operational Definition/Indicators
<b>Protection of Privacy of Consumers' Financial Information **</b>	<ul style="list-style-type: none"> <li>Relevant information, control and protection mechanism in place to protect consumer assets against fraud and misuse.</li> <li>Consumers' financial and personal information protection through appropriate control and mechanisms such as data collection, usage and data-sharing.</li> </ul>
<b>Overall Satisfaction and Loyalty</b>	<ul style="list-style-type: none"> <li>Overall satisfaction and loyalty of consumers to FSPs (likelihood of switching, repurchase/additional purchase and recommendation to others)</li> </ul>

\*\*adopted from Consumer Protection for Financial Services (CPFS) Rules and Regulations 2019 (RMA), and G20 High-Level Principles on Financial Consumer Protection (OECD, 2011)

## 3. Sample and Respondents

### 3.1 Sample

A pilot financial consumer protection survey was conducted in Thimphu Thromde and Paro covering consumers of different financial institutions. Around 399 consumers of eight companies including microfinance institution were interviewed for instrument validation (at least 30 from each FSP for statistical test). While conducting the survey, only the main branch offices of identified financial institutions were covered.

Table 2 Respondents by FSP

#	FSP	N
1	Bank of Bhutan Ltd, Thimphu	50
2	Bhutan Development Bank Ltd, Thimphu	50
3	Druk PNB Ltd, Thimphu	50
4	T-Bank Ltd, Thimphu	50
5	Royal Insurance Corporation of Bhutan Ltd, Thimphu	50
6	National Pension and Provident Fund (NPPF), Thimphu	49
7	National CSI Development Bank, Paro	50
8	Renew Microfinance, Thimphu	50
	Total N	399

### 3.2 Respondents Selection

According to the CPFS Rules and Regulation (2019), “consumer refers to a person or an entity that uses, has used or is a potential user of financial products or services”. However, given the difficulties to separate experience of individual from the entity, only an individual person who uses or has used the financial products or services was considered as respondent.

The respondents were chosen based on principles of convenient sampling. In order to make responses more reliable, diversity of respondents based on occupation, income, and educational background was maintained. A consumer qualified as a respondent based on their purchase/availing of financial products/services within a specified time period. The respondent should have:

1. Bank deposit account/insurance products, and
2. Availed the services or visited the FSP for services in the last six months.

### 3.3. Respondents' Profile

A total of 399 financial consumers (49-50 respondents from each company) were selected for the study through filter questions. Of the total respondents, 58.6% were males and 41.4% females. They largely belong to the age group of 26-45 years. Most of the consumers have completed formal education with 42.6% with bachelor's degree or above, and 29% of them with either vocational or secondary education. In terms of employment, majority of the respondents were self-employed (27.8%), followed by corporate (23.1%) and private (18.8%).

However, for Renew MF, all respondents were females, mostly with no formal education (78%) and no fixed income (66%), and for National CSI Development Bank, 94% of respondents were self-employed (Refer Table 10 in Annexure).

### 3.4 Financial Products and Services

Respondents of the banking service have mostly availed financial services related to deposits, loans and advances, ATM services and mobile banking. In terms of insurance policies of RICBL, the respondents generally availed life insurance policies followed by general insurance. For pension and provident fund, respondents mostly availed services related to pension, credit and retirement benefits.

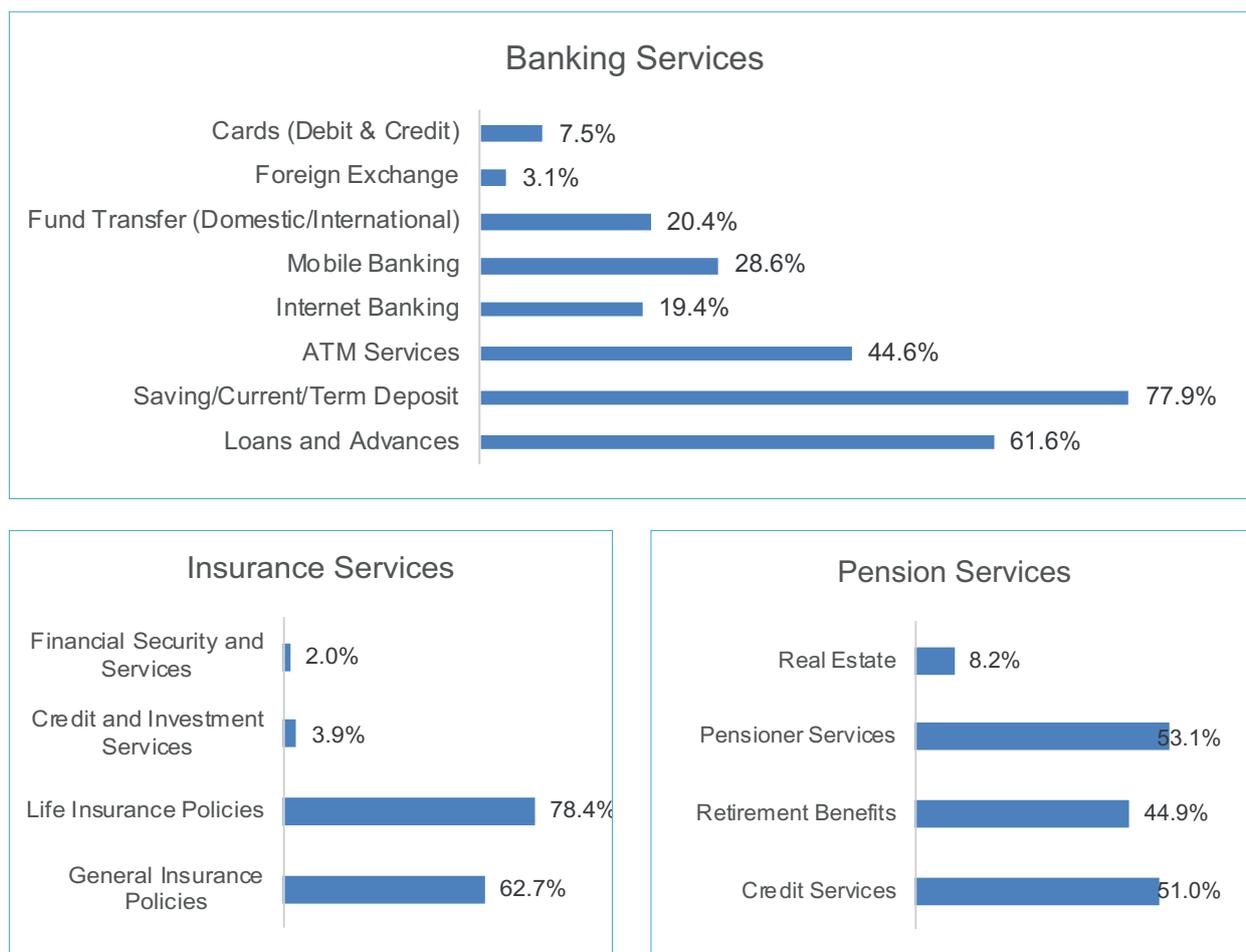


Figure 1 Financial Products and Services Available by Consumers

## 4. Consumer Protection Index for Financial Services

The Consumer Protection Index for Financial Services (CPIFS) is a weighted composite index of all five key principles of financial consumer protection. It is computed using the standard formula:  $=\sum_{k=1}^n S_k W_k$

Where  $S_k$  is the mean of a dimension, and  $W_k$  is the weight of each dimension.

The weight for each dimension was assigned based on the level of perceived importance of dimensions by FSPs. Alternatively, weights can be assigned based on consumers rating on level of perceived importance of each principle.

### 4.1. Instrument Reliability Test

The measurement instrument was developed, and its content validated by the RMA based on CPFSSR 2019 and G20 High-Level Principles on Financial Consumer Protection (OECD, 2011).

Prior to the construction of the index, factor analysis and reliability tests including inter-item correlation were conducted on the data. A factor analysis result shows that, with exception to two, all other items fit well to the five existing financial consumer protection principles. The 1st item under 1st principle was retained based on the regulations, however, 3rd item under 3rd principle was removed as it is not reflected in the regulation.

It was then followed by reliability test to measure an internal consistency of items measuring each dimension using Cronbach's alpha. The test result measured how different items were related as a group forming a single variable (dimension). Commonly, a dimension with coefficient of 0.70 or higher is considered as having good internal consistency. The reliability test result has shown all indicators (items) under each dimension as reliable and consistent. Further, the inter-item correlation coefficient ranges from 0.362 to 0.702 (within acceptable range of 0.35-0.70) shows good relationship of items with the dimension. It is also possible that overall test result may be affected by the higher missing values (Figure 15 in Annexure).

Table 3 Reliability Test Results

#	Principles	Inter-Item Correlation	Cronbach's Alpha	N of Items
Principle 1	Responsible Market Conduct and Competition	0.523-0.633	.87	9
Principle 2	Fair and Equitable Treatment	0.477-0.667	.86	5
Principle 3	Education, Disclosure and Transparency	0.362-0.647	.91	11
Principle 3	Complaints Handling and Redress	0.550-0.702	.90	5
Principle 5	Protection of Privacy of Consumers Financial Information	0.364-0.616	.87	7
	Overall satisfaction and loyalty	0.486-0.677	.90	6

## 4.2. Consumer Protection Index for Financial Services Construction

The Consumer Protection Index for Financial Services (CPIFS) was developed by aggregating the weighted mean of five financial consumer protection principles. The weight was assigned based on relative importance score on each principle (dimension) rated by the focal person of Consumer Protection Cell of the five companies (BOBL, RICBL, BIL, Microfinance and T-Bank). The index attempts to measure how satisfied the consumers were with the financial products and services provided by FSP. The weighted CPIFS is estimated as 3.90 (78%) and 3.88 through alternative approach of simple mean.

Table 4 Index Computation

Weighted Score of each Principle of Financial Consumer Protection						
	Responsible Market Conduct and Competition	Fair and Equitable Treatment	Education, Disclosure and Transparency	Complaints Handling and Redress	Protection of Privacy of Consumers' Financial Information	Index
Mean Score	3.90	3.91	3.83	3.77	4.01	3.88
Weight	0.147	0.187	0.267	0.133	0.267	
Weighted Score	0.573	0.730	1.022	0.501	1.072	3.90

**Note:** Complaint handling process experienced by consumers (9 items) were excluded in the index construction as only 14.3% of the respondents have complained. Respondents were allowed to rate these items only if they have complained to consumer protection cell of the FSP.

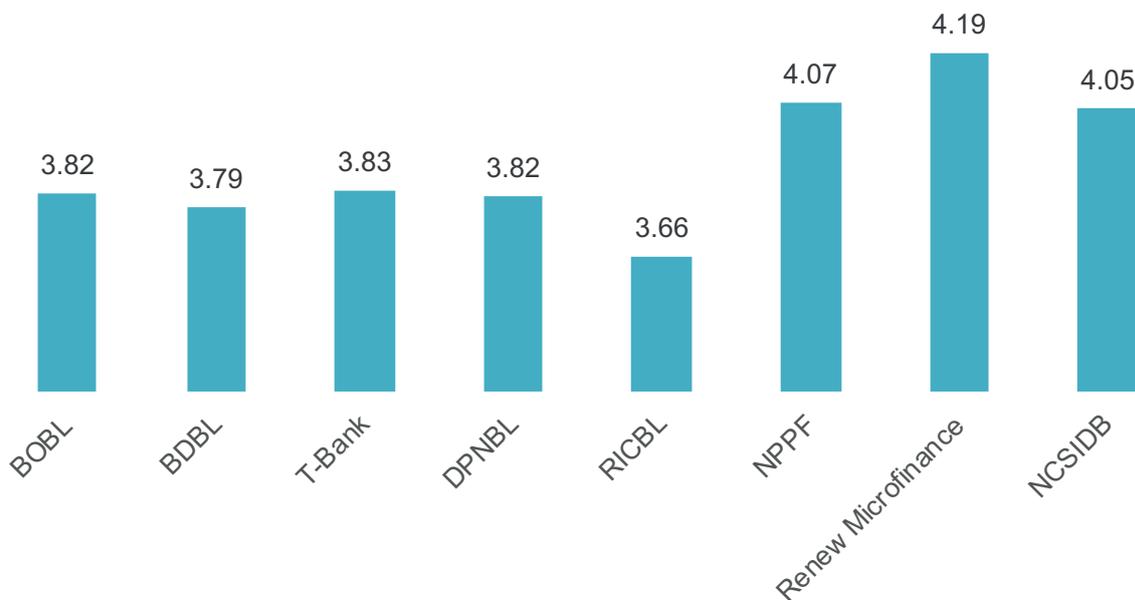


Figure 2 CPIFS (Index) by FSP

Of the eight FSPs covered in the study, Renew Microfinance was significantly rated higher by the respondents against four commercial banks and RICBL. The lowest rating was assigned to RICBL. However, there is no statistically significant difference in the scores among the commercial banks.

### 4.3. Financial Consumer Protection Principles

In this section, the score for each domain(principle) was calculated by taking the average of items forming the domains (principles). The items included under each domain were derived from the CPFS Rules and Regulations and G20 High-level principles on financial consumer

protection by OEDC (2011). Overall, the consumers were satisfied with the protection of consumer privacy and financial information (4.01), and least satisfied with complaints handling and redress mechanisms (3.77). The mean score for actual complaint handling process (14% of respondents) of FSP experienced by the financial consumer is 3.73.

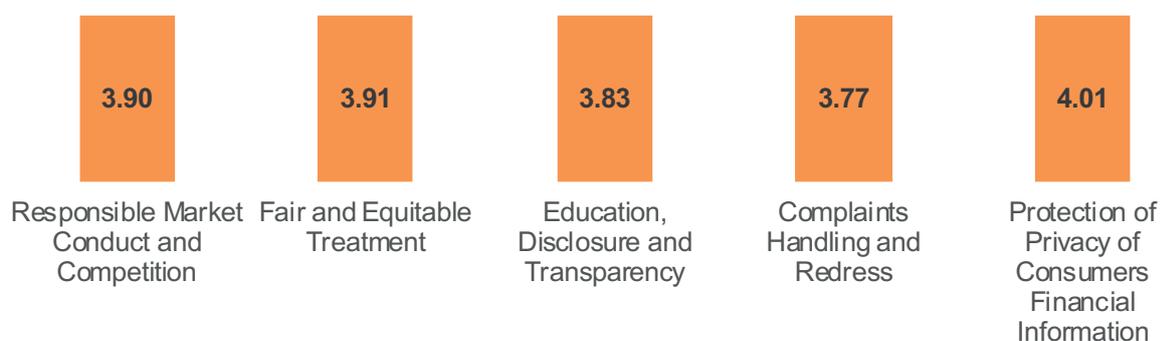


Figure 3 Score of Financial Consumer Protection Principles

With exception to NCSIDB (highest rating for fair and equitable treatment principle), rest of the FSPs were rated relatively better on protection of privacy of consumers' financial information. It was noted that Renew MF is performing well on all five principles as compared to rest of the FSPs. T-Bank and RICBL were rated lowest for responsible market conduct and competition, BOBL for fair and equitable treatment, RICBL for education, disclosure and transparency, and Complaint Handling & Redress mechanism, and it is the protection of privacy of consumers' financial information for BDBL.

Table 5 Score of Financial Consumer Protection Principles by FSP

FSP	Responsible Market Conduct and Competition	Fair and Equitable Treatment	Education, Disclosure and Transparency	Complaints Handling and Redress	Protection of Privacy of Consumers' Financial Information
BOBL	3.79	3.64	3.76	3.69	4.10
BDBL	3.79	3.81	3.74	3.77	3.80
T-Bank	3.73	3.85	3.73	3.70	3.99
DPNBL	3.84	3.87	3.76	3.70	3.88
RICBL	3.73	3.65	3.52	3.26	3.89
NPPF	4.05	4.00	3.95	4.01	4.19
Renew MF	4.15	4.28	4.17	4.07	4.24
NCSIDB	4.10	4.14	4.00	3.96	4.03

### 4.3.1. Responsible Market Conduct and Competition

The FSPs including their authorized agents are expected to act in the best interest of the financial consumers and be responsible for upholding financial consumer protection. The FSPs must also promote competitive financial markets to provide consumers with greater choices among financial products and services. Responsible market conduct of FSP was measured by five indicators and competitiveness of financial market by four indicators.

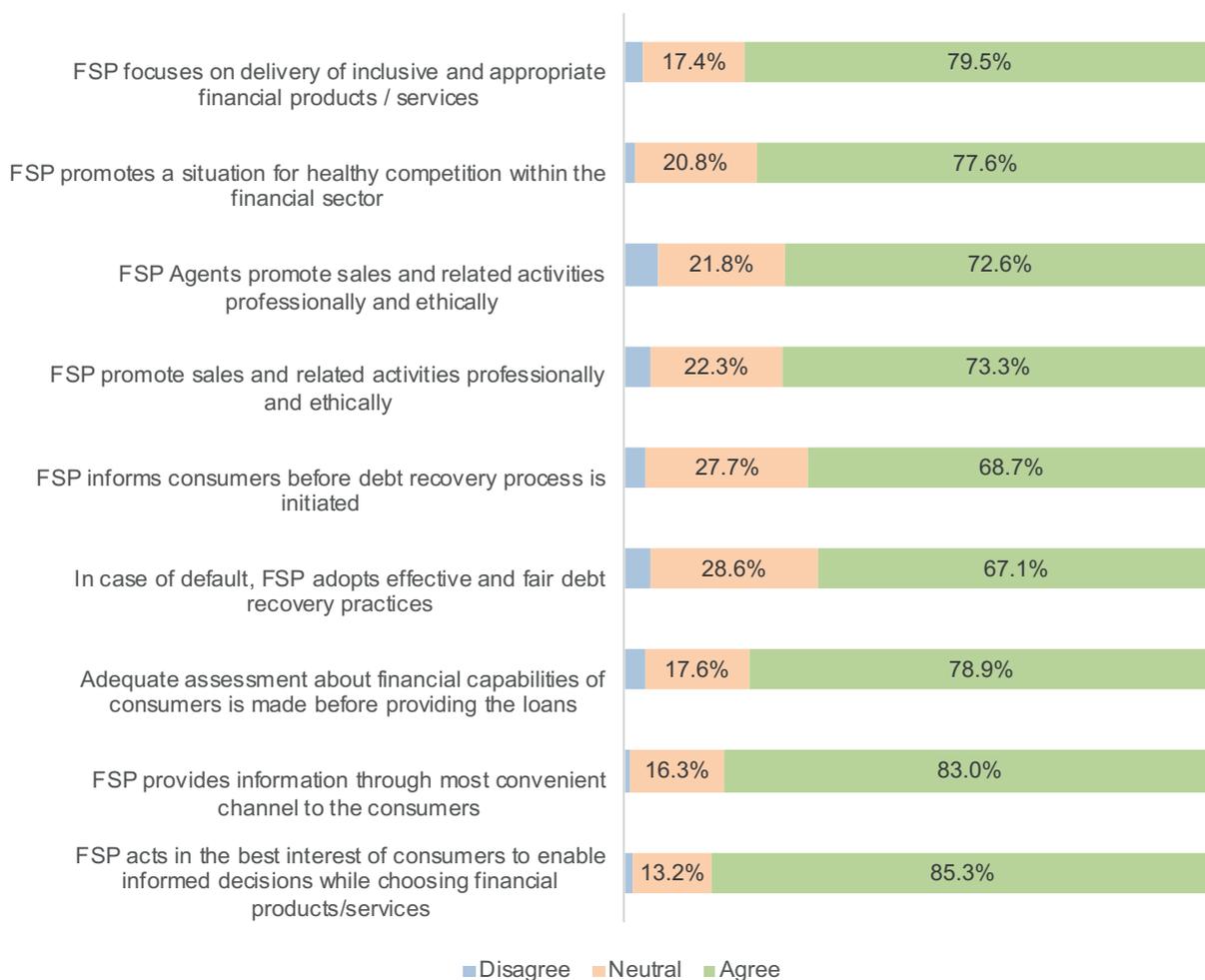


Figure 4 Level of Agreement Responsible Market Conduct and Competition

Of the financial consumers who responded, more than 80% of them reported that FSPs are acting in the best interest of the consumers, and provide relevant information through suitable channels to enable consumers to make better financial decisions. The respondents (about 78%) also believed that FSPs focus on delivery of inclusive financial products and services and promote healthy competition in the financial market. On other hand, consumers (25%) were either not sure or disagreed with whether FSPs promote sales and related activities ethically, and little more than 30% were not happy with debt recovery process.

### 4.3.2. Fair and Equitable Treatment

This principle requires all financial consumers to be treated equitably and fairly at all stages of their relationship with FSP. It should be considered as integral part of good governance and corporate culture. The principle of fair and equitable treatment is measured by five indicators. Most consumers were relatively satisfied with fair and equitable treatment at all stages, but least satisfied with sharing useful information by FSP when needed.

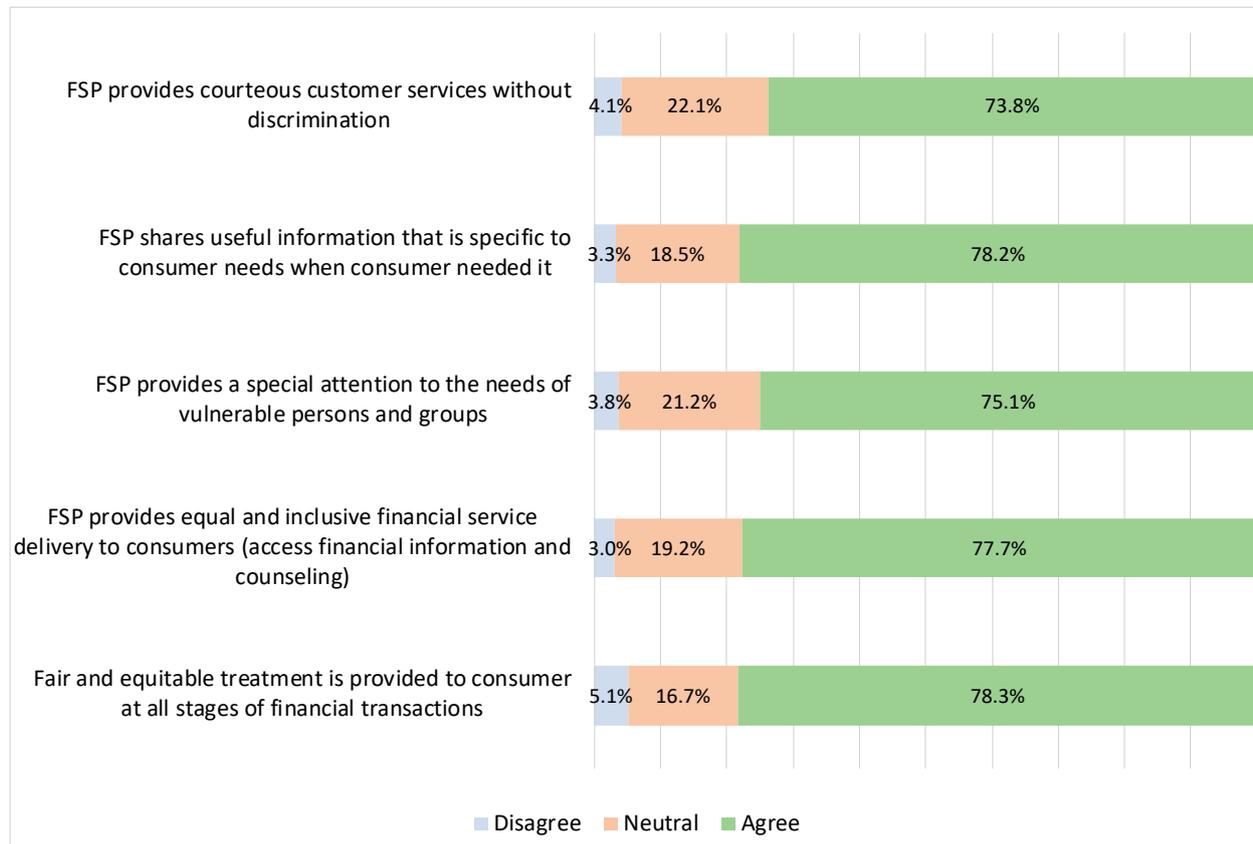


Figure 5 Level of Agreement on Fair and Equitable Treatment

### 4.3.3. Education, Disclosure and Transparency

Financial education and awareness should be promoted by all stakeholders, and FSP should provide consumers with key information about benefits, risks and terms of the product/services. The respondents were least satisfied with occurrence of financial education and awareness programs, and demonstration of using financial products and services to the public by FSP. Almost 30% of the respondents could not agree on disclosure of relevant information (risks, fees, charges and payments) and documents prior to execution of contract, and also failed to agree marketing materials as not misleading for consumers.

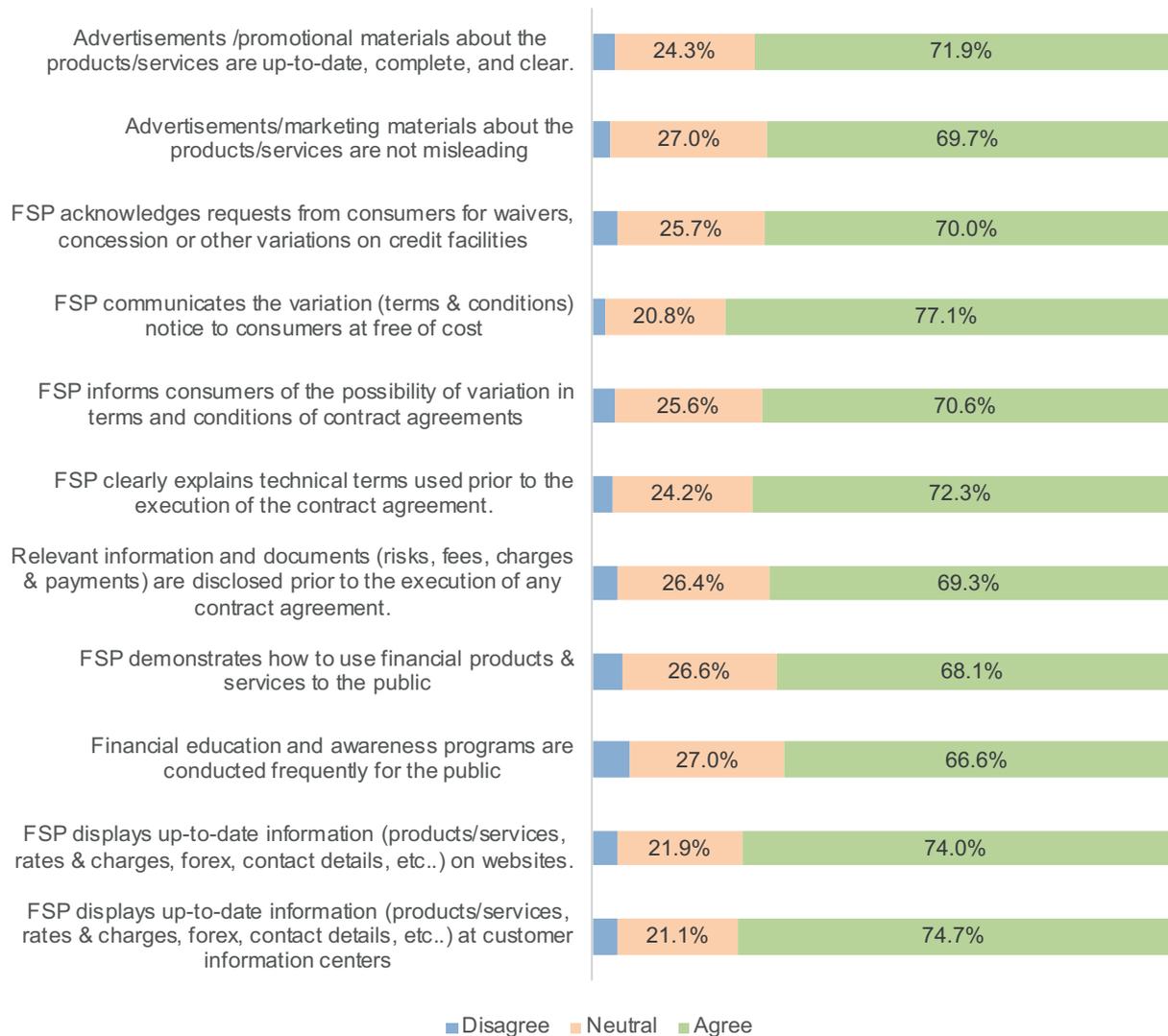


Figure 6 Level of Agreement on Education, Disclosure and Transparency

#### 4.3.4. Complaints Handling and Redress

The principle intends to ensure consumers have access to adequate complaints channel and related information, and complaints being resolved in timely manner. Additionally, recourse to an independent redress process (RMA) should be available for consumers. Of the five principles, the consumers have rated least on the domain regarding complaints handling and redress mechanism in FSP.

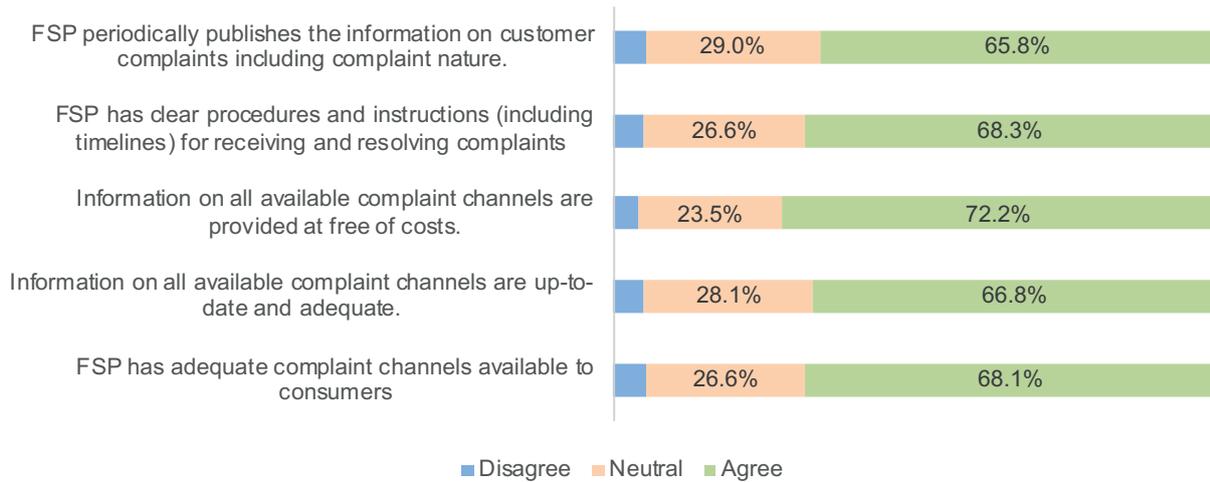


Figure 7 Level of Agreement on Complaints Handling and Redress (Information & Channels)

Around 14% of the respondents have lodged complaint with FSP and good number of them were not satisfied with the complaints handling process. For instance, consumers have indicated inadequate measures to address the grievances and dissatisfaction on how complaints were processed and handled.

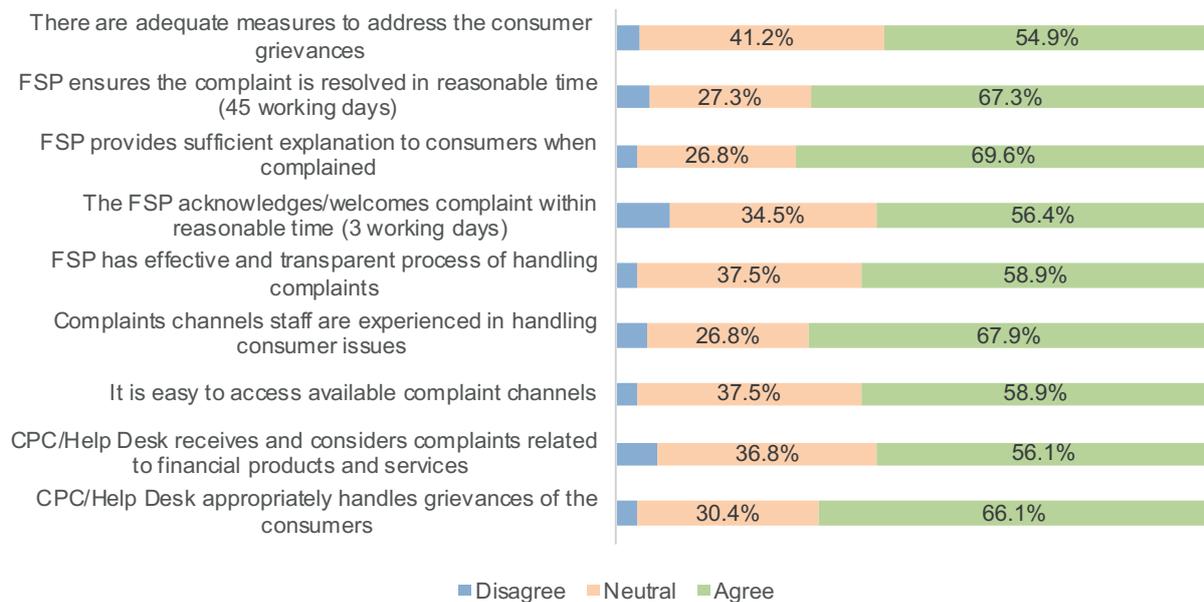


Figure 8 Level of Agreement on Complaint Handling & Redress (Process)

The reasons stated for complaining to the banking institutions were mainly due to issues related to ATM services, Mobile & Internet Banking, Transaction Failure and Credit Services. Few of the customers faced difficulties in insurance payment and supply of materials for their businesses. The complainants were mostly dissatisfied with complaint handling such as ‘complaints not welcomed adequately’.

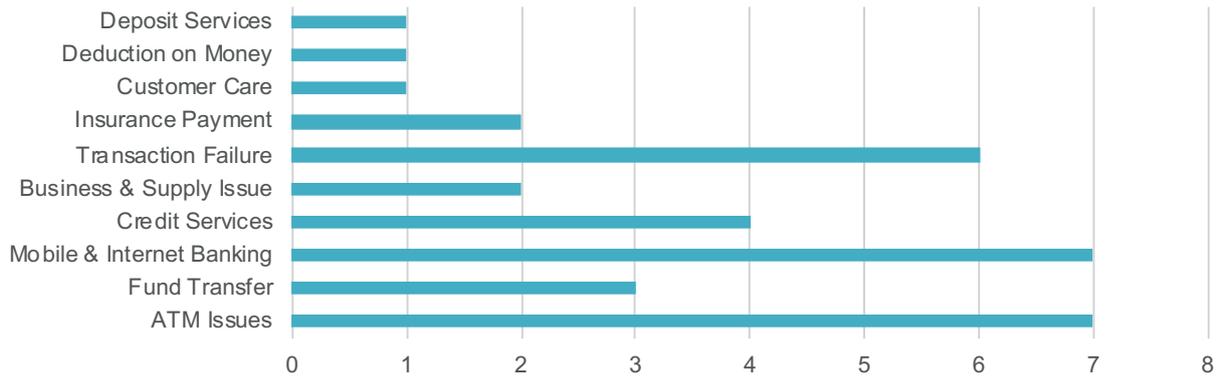


Figure 9 Complaint Type

The FSPs reported that they mostly received complaints from consumers related to insurance premium payment, claim settlements, alternative delivery channels and fund transfer. There are challenges which limits FSPs in resolving the grievances of consumers such as:

- Complaints that involve 3rd party agencies (Having to depend on third party digital channels like MBOB/Mpay and Standing instructions).
- Clients expecting redressal within a day or two which is not practically feasible.
- Failed fund transfer through mobile banking/internet banking and cash withdrawal from ATM terminals during weekends.

**4.3.5. Protection of Privacy of Consumers’ Financial Information**

The consumer financial and personal information should be protected through appropriate control and protection mechanisms. Further, FSP must protect consumer financial assets against fraud, misappropriation or other misuses. While protection of privacy of financial consumer was rated the highest, around 25% of the respondents could not agree, particularly on accountability of FSP on actions of their agents.

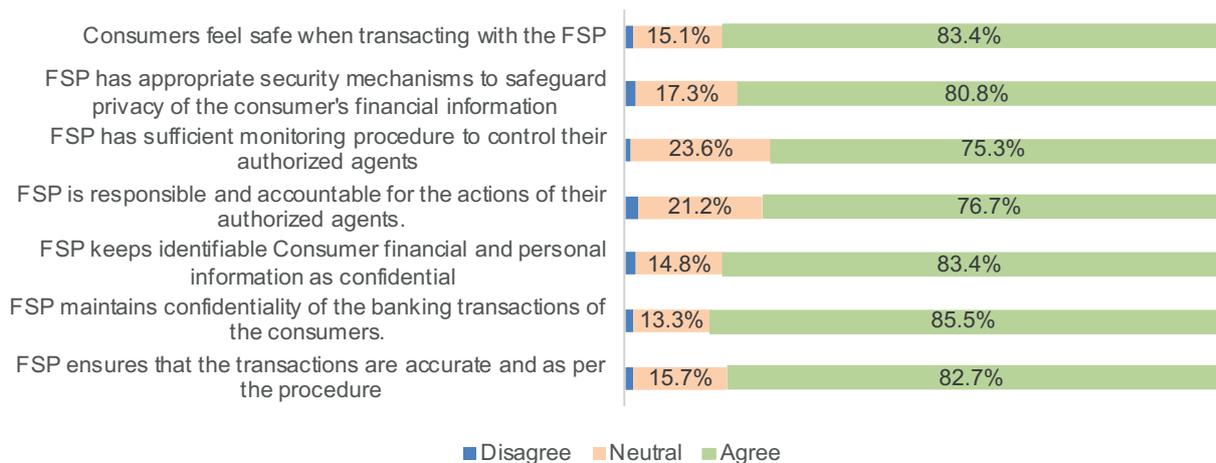


Figure 10 Level of Agreement on Privacy of Consumer Financial Information

### 4.7. Satisfaction and Loyalty

The study also assessed overall satisfaction with financial products and services, and loyalty to the FSP. Consumer satisfaction score (3.94) was measured using two indicators, and customer loyalty (3.84) using four indicators. Majority of the consumers (> 75%) have expressed their satisfaction with financial products and services. While most of the customers are loyal and would stay with the FSP, almost 30% of them may not speak favorably about the FSP to others.

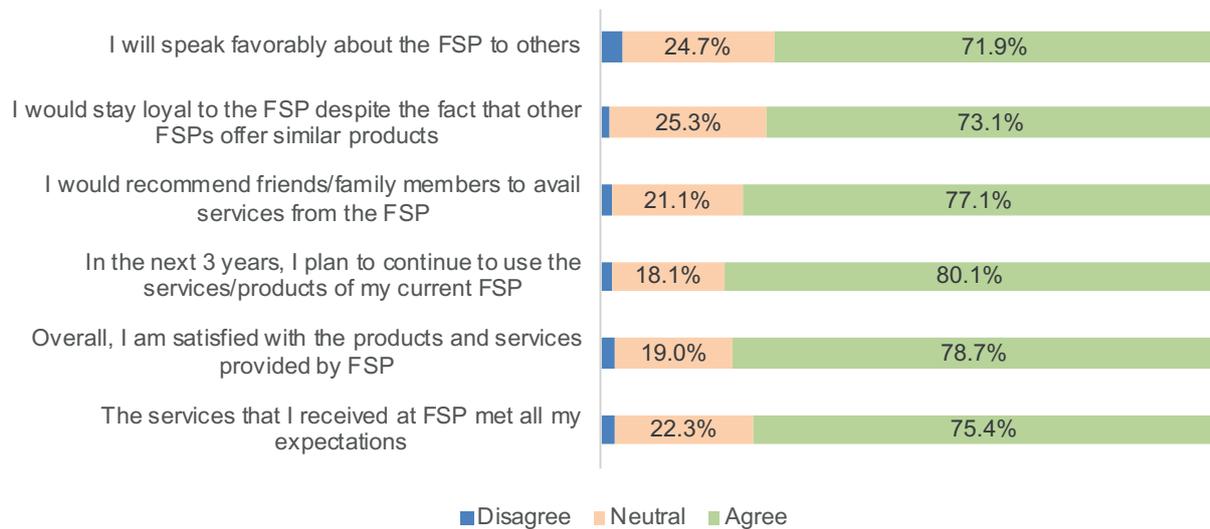


Figure 11 Level of Agreement on Overall Satisfaction and Loyalty

### 4.8. Analysis of Drivers of Satisfaction and Loyalty

In order to identify key drivers of financial consumers satisfaction and loyalty, linear regression analysis was run. A regression model was run to find the effects of principles of consumer protection (independent variables) on the overall satisfaction and loyalty (dependent variable) using model equation given below:

$$SL = \beta_0 + \beta_1RMC + \beta_2FET + \beta_3EDT + \beta_4CHR + \beta_4PFI + \epsilon_{it}.....Eqn.$$

Where *SL* is mean score of Satisfaction & Loyalty,  $\beta_0$  is a constant,  $\beta_1$  is a beta coefficient, RMC is mean score of Responsible Market Conduct and Competition, FET is mean of Fair and Equitable Treatment, EDT is mean score of Education, Disclosure and Transparency, CHR is mean score of Complaints Handling and Redress, and DFI is mean score of Privacy of Consumer Financial Information Protection. Result of the analysis is reported in the Table 6.

Since the effect of RMC on overall satisfaction and loyalty was not statistically significant, the regression model was rerun by excluding RMC as regressor (independent variable). The result showed slight improvement in the model to explain around 48.7% variations in the overall satisfaction and loyalty ratings of the consumers, and effects of other principles remained still positively significant. It means that, of the domains, the strongest effect on satisfaction and loyalty was shown by privacy protection of consumers’ financial information followed by education, disclosure and transparency. Therefore, it can be concluded that, the key drivers of satisfaction and loyalty of financial consumers are four principles: fair and equitable treatment;

education, disclosure and transparency; complaints handling and redress; and protection of privacy of consumers and financial information.

Table 6 Regression Models Summary

DV: SL	Model-I		Model-II	
	B Coeff.	t	B Coeff.	t
<i>Responsible Market Conduct and Competition (RMC)</i>	.050	.727		
<i>Fair and Equitable Treatment (FET)</i>	.159	2.947*	.170	3.297*
<i>Education, Disclosure and Transparency (EDT)</i>	.189	2.855*	.205	3.316*
<i>Complaints Handling and Redress (CHR)</i>	.086	1.975*	.088	2.071*
<i>Privacy of Consumers Financial Information (PFI)</i>	.434	8.279*	.445	8.50*
Constant	.331**	1.723	.359**	1.914
<b>R</b>	0.702		0.701	
<b>R sq.</b>	0.493		0.492	
<b>Adj R</b>	0.486		0.487	

\*p< 0.05, \*\*p<0.10

## 5. Implementation of CPFSSRR 2019 and Consumer Responsibilities

### 5.1 Implementation of CPFSSRR 2019

The FSPs reported that the consumer protection cell was established [2012 & 2017] even before the regulations came to existence, and in few FSPs it was operated as customer care unit. However, separate Consumer Protection Unit was established in 2019 and 2020 after the regulations. While they could implement the CPFSSRR 2019 as required, there are concerns of customers being hesitant to submit formal grievances to the cell. It was also stated that despite the awareness created through different channels (SMS and social media) for the protection and privacy, the consumers were found to be still sharing their personal information to third parties. The challenges specific to each principle is reported in the Table 7.

Overall, the implementation of the regulations has benefited both the FSPs and their clients. The positive impact of the regulations for FSPS are as follows:

- Staff interacting with the customers have become more cautious, however, there is need to train relevant staff for better implementation of regulations.
- The CPFSSRR2019 can be used as a guideline for internal process.

- Helped in consumers retention as the consumers are now better aware of the financial products and services and helped to gain the trust and confidence of consumers.
- Although the company has been addressing complaints, the new regulation helped the focal persons with a standard operating procedure (including TAT) to resolve matters in the best interest of the consumers and the company.

According to the FSPs, the CPFSSR 2019 has benefited even financial consumers as it has empowered consumers and made convenient for consumers to contact the consumer protection unit. They have seen more clients visiting the office as consumers were aware of grievance redressal cells in place to address their complaints in a timely manner. Furthermore, the consumers tend to become more observant and concerned of the quality services being offered.

Table 7 Challenges of the Regulation Implementation

Principle	Challenges
1 Responsible Market Conduct and Competition	<ul style="list-style-type: none"> <li>• Promoting responsible lending is challenging as it is difficult to accurately estimate clients' repayment capacities and income levels [particularly for clients with no/low level of educational attainment].</li> <li>• With only two insurance companies in the market, pricing of some products has a cutthroat competition. As a result, the focus tends to shift towards procuring business rather than looking into customer satisfaction.</li> </ul>
2 Fair and Equitable Treatment	<ul style="list-style-type: none"> <li>• Bhutanese culture of respecting elders and high position holders undermine this principle.</li> <li>• Despite the attempt to treat consumers in a fair and equitable manner, some clients are less educated [including literate ones] when it comes to consumer protection policies.</li> </ul>
3 Education, Disclosure and Transparency	<ul style="list-style-type: none"> <li>• Despite the practice of due diligence by FSP, consumers come in hurry and are unwilling to listen to detailed information. Therefore, with a minimum concern for consumers themselves, educating them is difficult as they are reluctant.</li> <li>• Repeated dissemination of the required information [awareness] is done through different channels such as social media, SMS, announcement in the websites, however, only partial information reach to the illiterate customers.</li> </ul>
4 Complaints Handling and Redress	<ul style="list-style-type: none"> <li>• Not much challenges experienced, all complaints are handled professionally and resolved within the TAT. However, it takes more time if the cases are complicated.</li> </ul>
5 Protection of Privacy of Consumers' Financial Information	<ul style="list-style-type: none"> <li>• FSP ensures that the customers' financial information is protected, however, there is no control over the customers sharing their personal financial details.</li> <li>• Despite educating customers on non-disclosure of personal banking information, they share and fall prey to scammers.</li> </ul>

## 5.2 Financial Consumer Responsibilities

The financial consumer protection rules and regulation requires FSPs to protect the consumer rights to maintain trust and confidence in the financial system. It also requires consumers to carry certain responsibilities such as careful reading of information provided by FSP, not disclosing any financial information to third-party, updating personal information, and reporting unauthorized transactions. Given this, the study also attempts to assess how responsible financial consumers were in availing financial services.

It was reported that not many of the consumers were aware of the Consumer Protection for Financial Services Rules and Regulation (2019), and their rights and responsibilities as financial consumer. However, the findings indicated that most consumers were carrying out their responsibilities as expected in the regulations.



Figure 12 Level of Awareness of Financial Consumer Responsibilities

About 88% of respondents stated that they do not disclose personal and financial information to any third-party to avoid any potential fraud. It was also reported consumers were honest with FSP by providing complete and accurate information, and using financial products or services in line with terms and conditions. However, there are close to 20% of respondents who do not file complaints on time to FSP, and do not talk to FSP when they encounter difficulties in meeting contractual obligations.

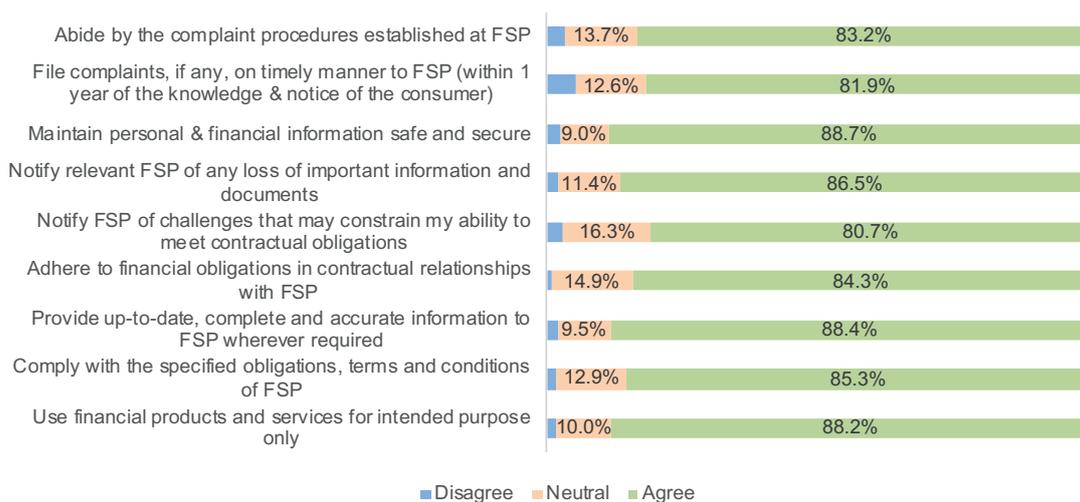


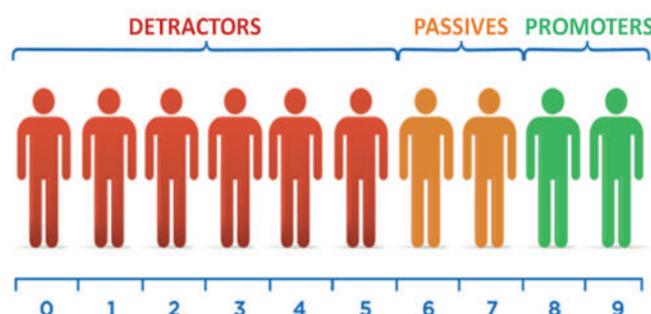
Figure 13 Discharge of Financial Consumer Responsibilities

According to the FSPs, most of the consumers are not responsible and not aware of their responsibilities and reluctant to provide their time to learn about it. Few FSPs have reported that most of the clients were responsible yet few of them failed to fulfil their obligations.

## 6. Net Promoter Score (NPS)

An alternative measure of consumer satisfaction and loyalty is Net Promoter Score (NPS), which is a powerful metric that companies use to improve their product or service. It determines customer loyalty (likelihood of recommendation to friends and family) and satisfaction. NPS has now become popular around the world in measuring customer satisfaction and is being adopted by many customer-centric companies in financial services, industries, services, retails and consumer sectors.

The NPS was calculated using information collected through a single question which assessed the loyalty of the customers to the FSP and its products / services 'based on 0 to 10 scale'. The loyalty was measured based on the customers' likelihood of recommending the product and service of FSP to friends and family. The ratings of 9 and 10 indicate 'Promoters'; 7 and 8 as 'Passives'; and 0 through 6 as 'Detractors'. The NPS is the difference between the percentage of promoters and the percentage of detractors. The NPS is calculated by taking the percentage of promoters and subtracting the percentage of detractors.



### 6.1. NPS Score

By FSP category, the NPS for Renew Microfinance is the highest (80%), followed by BOBL (24%). NPS rating for rest of the financial institutions is negative, indicating that their products/ services are not commendable from the perspective of the service users. The negative value of NPS would mean that consumers are not loyal to the company and more likely that they could cause harm to the company by not speaking favorable about the company to others.

Table 8 NPS Score by FSP

FSP	Detractors	Passives	Promoters	NPS
Bank of Bhutan Ltd	22%	32%	46%	24%
Bhutan Development Bank Ltd	50%	46%	4%	-46%
T-Bank Ltd	30%	48%	22%	-8%
Druk PNB Ltd	42%	38%	20%	-22%
Royal Insurance Corporation of Bhutan Ltd	30%	44%	26%	-4%
National Pension and Provident Fund (NPPF)	52%	34%	12%	-40%
Renew Microfinance	2%	16%	82%	80%
National CSI Development Bank	48%	34%	18%	-30%

## 6.2. Reasons for NPS Rating

The main reasons provided by most of the consumers for their NPS rating were good quality of services of FSPs, convenient services, trustworthy/safe/secure and fast services provided by FSPs. However, there are also areas in which the consumers were not satisfied: similar services of other companies [limited innovation], slow service delivery, unreliable alternative delivery channels such as ATM and Mobile/Internet banking services.

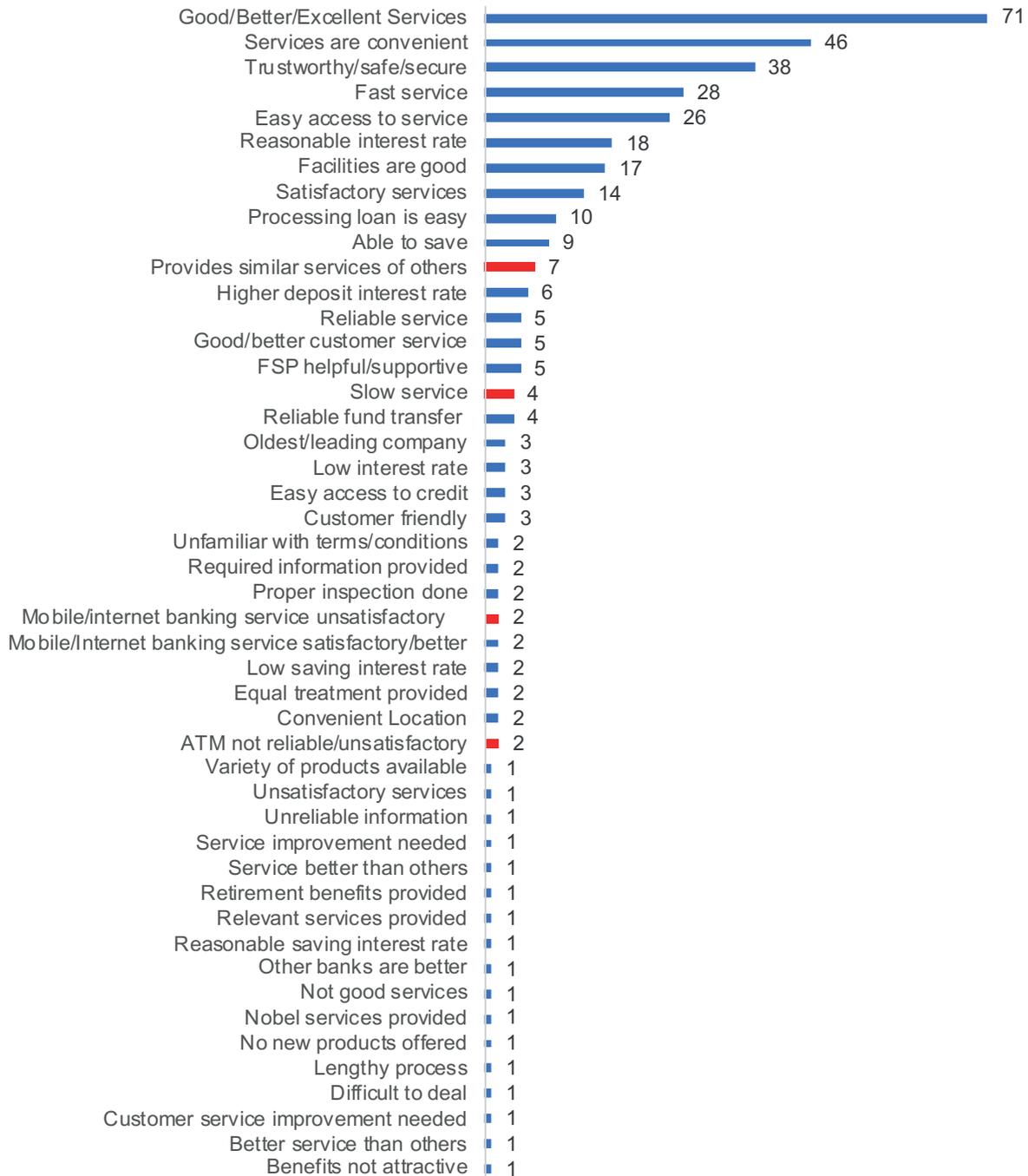


Figure 14 NPS Rating Reasons (N)

### 6.3. Comparison of Index and NPS

The comparative analysis of two models of Measurement of consumer satisfaction was conducted. It is evident that better performance in financial products or services would not necessarily lead to the consumers remaining loyal to and advocating the company and its products/services. Renew MF has higher rating in both the approaches, however, BOBL stands 2nd in NPS rating despite its 5th position in index, and NPPF and NCSIDB with higher index received negative in NPS rating. The result clearly indicates that Renew MF and BOBL have better customer loyalty programmes.

Table 9 Comparison of Index and NPS by FSP

FSP	Index	NPS
Bank of Bhutan Ltd	3.82	24%
Bhutan Development Bank Ltd	3.79	-46%
T-Bank Ltd	3.83	-80%
Druk PNB Ltd	3.82	-22%
Royal Insurance Corporation of Bhutan Ltd	3.66	-4%
National Pension and Provident Fund (NPPF)	4.07	-40.8%
Renew Microfinance	4.19	80%
National CSI Development Bank	4.05	-30%

## 7. Findings and Key Areas for Action

7.1. Overall, consumer protection index for financial services which measures how consumers were satisfied with financial products and services of FSPs stands at 3.90 (78.0%). Of eight FSPs, consumers of Renew MF, NPPF and NCSIDB were relatively more satisfied than other financial institutions on all five principles. In this regard, the FSPs are recommended to work towards improving in five principles with lower rating.

- a. Responsible market conduct and competition: *T-Bank* and *RICBL*
- b. Fair and equitable treatment: *BOBL* and *RICBL*
- c. Education, disclosure and transparency: *RICBL*
- d. Complaints handling and redress mechanism: *RICBL*
- e. Protection of privacy of consumers' financial information: *BDBL*

7.2. In terms of responsible market conduct and competition, the FSPs were doing well by acting in the best interest of consumers (85.3%) and providing required information through convenient channels (83.0%). However, the FSPs should focus more on improving the debt recovery process system (approx. 32% did not agree on effective debt recovery practices).

- 7.3. On the principle of fair and equitable treatment, most of the respondents agreed (78.3%) that they were provided fair and equitable treatment at all stages of the financial transaction and shared useful information specific to consumers when needed (78.2%). Nevertheless, FSPs are recommended to improve in other indicators (lower ratings) such as providing courteous customer services without discrimination and special attention to the needs of vulnerable consumers.
- 7.4. Less than or around 77% of the respondents have reported their agreement to the indicators of education, disclosure and transparency principle. In this regard, the FSPs are suggested to improve in the following areas:
- a. Frequent conduct of financial education and awareness programmes
  - b. Demonstrate how to use financial products and services
  - c. Disclose relevant information and documents including associated risks, fees, charges and payments prior to execution of the contract agreement
  - d. Improve in advertisements/marketing materials of the financial products and services to avoid any misleading
- 7.5. The financial consumers have rated lowest on complaints handling and redress principle. While 65-72% of respondents agreed on availability of relevant information on complaint handling procedures and channels, many did not agree on the complaint handling processes. Both the FSPs and consumers reported that complaints were mostly related to insurance premium payment and claim settlements, alternative banking delivery channels and fund transfer. The following specific areas for improvement are proposed:
- a. Put in place an adequate measure to address the consumer grievances
  - b. Receive and acknowledge the complaints within reasonable time
  - c. Make complaint channels more accessible to consumers
  - d. Make complaint handling process effective and transparent
- 7.6. Majority of the financial consumers acknowledged that FSPs provide protection of privacy of consumers' financial information, however FSPs are expected to improve mainly in areas related to authorized agents:
- a. provide adequate monitoring process to control the agents
  - b. take accountability for the actions of the agents
- 7.7. While most of the consumers agreed that they were satisfied with financial products and services and would continue to use the products/services of their current FSP for next three years, only 71.9% reported that they would speak favorably about the FSP to others. This finding is corroborated by NPS ratings. Except for Renew MF (80%) and BOBL (24%), the NPS ratings for rest of the FSPs were negative indicating they were not loyal to the company and more likely that consumers could cause harm to the company by not speaking favorable about the company to others. In this regard, more customer retention and loyalty programmes may be developed.
- 7.8. In the analysis of main drivers of financial consumer satisfaction and loyalty, it was discovered that, of the five principles, only four principles (fair and equitable treatment; education, disclosure & transparency; complaints handling & redress; privacy protection of consumers financial information) had significant influence on the satisfaction and loyalty of the consumers.

### 7.9. Implementation of CPFSRR 2019 and consumer responsibilities

#### a. Impact of Implementation of the Regulations

With implementation of the regulations, the FSPs reported positive impacts, however, they encountered challenges such as difficulty in estimation of client's payment capacity, difficulty in reaching information particularly to illiterate customers, higher expectation of customers, and breach of non-disclosure of personal financial information to third parties. To address the challenges, it is recommended to train focal persons/relevant staff from time to time to meet the changing requirements of the markets and clients.

#### b. Financial Consumers' Responsibilities

As most of the consumers were not aware of their rights and responsibilities, and existence of financial consumer protection regulations, it is suggested to create awareness programmes and educate consumers on their rights and responsibilities.

7.10. Comparative analysis of scores of the two approaches, NPS and protection index, shows that higher index will not necessarily result in positive NPS. For instance, BOBL NPS rating is positive (24%), however, its index stands lower than NPPF, NCSIDB and T-Bank (negative NPS).

# Annexure

Table 10 Details of Respondent Demographic Profile

Category		BOBL	BDBL	T-Bank	DPNBL	RICBL	NPPF	Renew MF	NCSIDB	Total
Gender	Male	22	22	21	22	20	30	0	28	165
	Female	28	28	29	28	30	19	50	22	234
Age	25 and below	6	8	7	12	1	6	1	7	48
	26 to 35	39	25	28	26	32	23	5	23	201
	36 to 45	4	13	14	5	15	13	25	12	101
	Above 46	1	4	1	7	2	7	19	6	47
Education Attainment	Bachelor degree or above	24	14	41	24	35	21	0	11	170
	Vocational Education/ Diploma	11	3	2	4	2	6	0	1	29
	Monastic Education	1	4	1	1	0	0	0	0	7
	Upto Class XII	11	23	4	10	11	12	0	16	87
	No Formal Education	1	4	1	5	1	6	39	15	72
	Others	2	2	1	6	1	4	11	7	34
Sector of Employment	Self-employed	7	15	5	17	3	5	12	47	111
	Private employee	18	13	17	14	9	4	0	0	75
	Corporate employee	19	6	20	4	30	13	0	0	92
	Civil/public service	1	6	6	8	3	21	0	0	45
	Student	0	2	1	2	0	2	0	0	7
Estimated Monthly Income	Others	5	8	1	5	5	4	38	3	69
	Less than Nu. 20,000	12	9	6	10	3	11	14	5	70
	Nu. 20,001 - Nu. 40,000	24	14	28	15	26	30	3	6	146
	Nu. 40,001 - Nu. 60,000	2	4	6	5	11	4	0	4	36
	Nu. 60,001 - Nu. 80,000	2	1	1	4	2	2	0	2	14
	Above Nu. 80,001	0	1	0	1	2	0	0	2	6
	No fixed Income	10	21	9	15	6	2	33	31	127

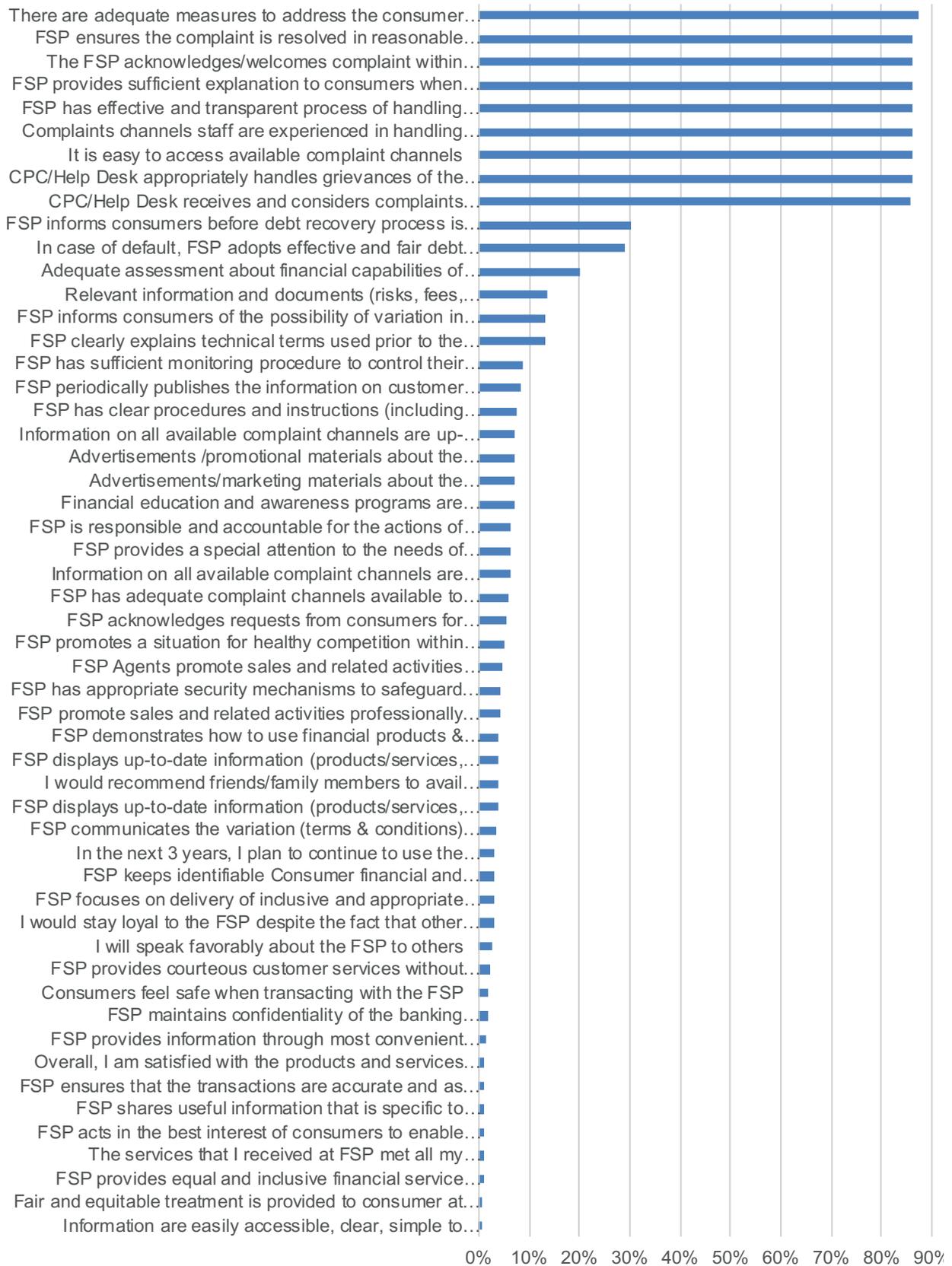


Figure 15 No. of Missing Data by Items

Table 11 Correlation Matrix (Principles and Overall Satisfaction & Loyalty)

Correlations					
	Responsible Market Conduct and Competition	Fair and Equitable Treatment	Education, Disclosure and Transparency	Complaints Handling and Redress	Protection of Privacy of Consumers' Financial Information
Fair and Equitable Treatment	.657**				
Education, Disclosure and Transparency	.694**	.675**			
Complaints Handling and Redress	.556**	.524**	.641**		
Protection of Privacy of Consumers' Financial Information	.587**	.520**	.520**	.424**	
Overall satisfaction and loyalty	.556**	.561**	.573**	.476**	.624**

\*\* . Correlation is significant at the 0.01 level (2-tailed).

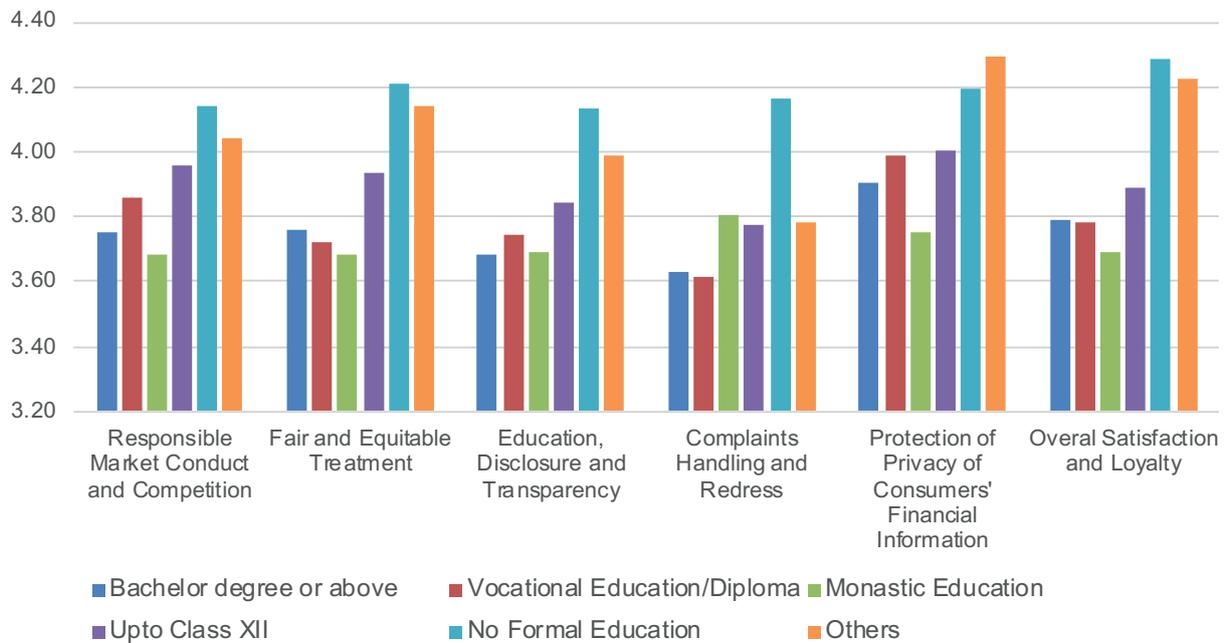


Figure 16 Principles Score by Educational Attainment

Table 12 NPS Rating Reasons (segregated)

Reasons for NPS Rating	Detractors	Passives	Promoters	N
Good/Better/Excellent Services	22	24	25	71
Services are convenient	13	12	21	46
Trustworthy/safe/secure	7	18	13	38
Fast service	9	11	8	28
Easy access to service	1	15	10	26
Reasonable interest rate	5	9	4	18
Facilities are good	9	8		17
Satisfactory services	3	8	3	14
Processing loan is easy	2	3	5	10
Able to save			9	9
Provides similar services of others	7			7
Higher deposit interest rate	2		4	6
FSP helpful/supportive	1	2	2	5
Good/better customer service	5			5
Reliable service	1	1	3	5
Reliable fund transfer	2	2		4
Slow service	2	2		4
Customer friendly	1	2		3
Easy access to credit		1	2	3
Low interest rate	1	2		3
Oldest/leading company		3		3
ATM not reliable/unsatisfactory	2			2
Convenient Location	1	1		2
Equal treatment provided		2		2
Low saving interest rate	2			2
Mobile/Internet banking service satisfactory/better		2		2
Mobile/internet banking service unsatisfactory	2			2
Proper inspection done		2		2
Required information provided		1	1	2
Unfamiliar with terms/conditions	2			2
Benefits not attractive	1			1
Better service than others			1	1
Customer service improvement needed	1			1
Difficult to deal	1			1
Lengthy process	1			1

Reasons for NPS Rating	Detractors	Passives	Promoters	N
No new products offered	1			1
Nobel services provided	1			1
Not good services	1			1
Other banks are better	1			1
reasonable saving interest rate			1	1
Relevant services provided		1		1
Retirement benefits provided	1			1
Service better than others			1	1
Service improvement needed	1			1
Unreliable information	1			1
Unsatisfactory services	1			1
Variety of products available		1		1



