

NEW WORK ITEM PROPOSED BY COPOLCO – STANDARDIZATION OF INFORMATION TEMPLATES FOR FINANCIAL SERVICES PRODUCTS

Title

Standardization of information templates for financial services products

Scope

This proposal is for an International Standard or set of International Standards that will establish a uniform structure for the disclosure of consumer information about selected financial services products. The uniform structure is known as an information template.

The financial services products for which information templates are needed are:

- life insurance
- private pensions
- mortgages
- consumer credit
- payment systems (credit / debit cards).

Purpose

The purpose of standardized information templates is:

- to improve consumers' access to understandable information on financial services products, particularly those that are widely and frequently used, which entail great financial risks, and which have long-lasting contractual obligations
- to clarify performance terms and conditions of the financial services product
- to enhance transparency and comparability of financial services products
- to provide consumers a basis for making informed choices
- to provide a structured approach to information disclosure that can be used in any environment: on-line, in print or broadcast media, or in a face-to-face consultation

Justification

The complex nature of financial services products, and the high financial risks and long-lasting contractual obligations that they entail for consumers, engender a compelling need for high quality of information.

For the consumer: While international guidelines (such as the OECD Guidelines or EU Directives for financial services) require provision of information, they do not specify details on how well-structured, consumer-friendly information should be designed. Correct selection and use depend on adequate knowledge and informed choice. For some financial services, there is little opportunity to gain this knowledge, as a contract may be signed only once in a lifetime. Furthermore, wrong decisions taken at the beginning of the life of a contract compound over time and can prove ruinous in the worst cases. This has major implications for society as well as individuals.

For the supplier: Relevant legislation in many regions of the world recognizes the need for information, and it requires suppliers of financial services to provide information which is "comprehensible", "understandable" and "clear". This requirement is largely left to the interpretation of the suppliers, and they tend to emphasize the positive features of their

services. Without clear guidelines, the provision of information tends to meet suppliers' rather than consumers' needs.

Aggressive individual consultation and advertising may lead to inadequate matching of the service with a client's needs, and therefore complaints, default or even litigation may result. In the latter case, legal recourse is difficult without evidence of the process or a framework showing how information is provided. Statistical evidence suggests that the majority of consumers are wrongly and/or too expensively advised or insured. In Germany alone, and depending on the financial service, cancellation rates exceed 50 %. Partly in response to this situation, standardization of insurance information (life insurance) began in Germany on 1 September 2003.

Standardized information templates for financial services products will help to mitigate such outcomes by providing suppliers with a uniform structure regarding the essential information that should be disclosed to a consumer. Using the template, it remains the task of the individual supplier to furnish the details of the particular financial service product being offered. This standardized approach will aid suppliers and enhance their credibility with consumers, while reducing consumers' search time for information and fostering more effective competition..

Conclusion: Poor transparency tends to be the rule rather than the exception. Moreover, the variety of types of information is a barrier to effective comparison between offers. High demand, high risk and poor information form a dangerous mixture for the consumer. The poor quality of information belies the increasing importance of financial services products that will meet consumers' personal needs and provide for their retirement.

Mutual benefits to consumers and suppliers of standardized information templates

Structured frameworks for presenting financial services information can benefit consumers and suppliers in the following ways:

- Harmonization and improvement of existing but disparate information schemes developed on a voluntary basis;
- Avoidance of onerous legislation specifying requirements for provision of information;
- Rationalization of structures for giving financial advice to clients;
- Tool for individual financial advisors using the information templates;
- Support for the development of new markets, including confidence building and certification issues;
- Enhanced ability for companies to communicate their offer of financial services effectively;
- Reduction of unfair and deceptive acts and practices in the marketing and provision of financial service products;
- Reduction of complaints and legal conflicts, due to increased consumer satisfaction;
- Facilitation of the ongoing process of "industrializing" certain mass-market financial services through easier outsourcing and automation;
- Underpinning and supplementing of general international guidelines and/or regional legal provisions;
- Provision of an orientation and framework in areas where no rules or recommendations exist.

Why International Standards?

A survey undertaken by COPOLCO clearly revealed that insufficient information on financial services is a common problem for consumers worldwide. Consumer organizations have also noticed that international financial service companies export to emerging markets, with the

risk of maladapted products and inadequate information. International Standards would help avoid disparities of information disclosure at all levels.

Adding to the international extent of the problem, financial services are increasingly being traded or used to transact business across borders, including through the Internet. There are widespread variations in rights and information for payment cards (credit cards, debit cards) and other forms of rapidly developing electronic payment mechanisms. Since these are used in cross-border electronic commerce transactions, International Standards for information disclosure would benefit consumers and bolster confidence in electronic commerce.

Case example – USA

The United States' Federal Trade Commission recently issued a study on the extent of fraud in the U.S. The FTC concluded that 11% of the U.S. adult population was the victim of fraud in the last year. The top categories involved financial products or services, mainly credit-related. The FTC also concluded that credit constrained consumers were most likely to be the victims of fraud, and minority consumers were more vulnerable as well. One would assume that consumers with better information would be less likely to be victims of fraud.

Other issues of concern in the U.S include the lack of federal rules for life insurance. There is no requirement for effective disclosure of information, no rate regulation, no effective consumer cost disclosure, no commission disclosure, and comparative information is lacking. Relative to consumer credit, predatory lending is a major problem. With respect to pensions, some 55 million workers (75% of those whose employers offer retirement plans, according to *Consumer Reports*) participate in 401(k) and other tax-deferred, defined contribution plans. Investors have full responsibility for their investments in these plans for which there is no safety net (unlike pension plans that are insured by the Pension Benefit Guaranty Corporation), to provide a specified amount to the beneficiary if an employer or its pension plan becomes insolvent. Employers can jeopardize the 401(k) plans, as in the case of Enron which put in stock that employees couldn't sell until age 50. Companies can also trim their matching and profit-sharing contributions. International Standards can help to provide consumers with much needed information about the terms and risks associated with their investments.

Case example – Germany

In Germany, and also for a large number of European countries, it is a frequently proven fact that consumers have little knowledge of financial services products and therefore depend highly on comprehensible information before contracting. In brief: Knowledge is assessed as consumer "illiteracy" in financial matters and paradoxically the information provided by suppliers is lacking or poor.

Consequently consumers in Germany are wrongly insured, invest in inadequate financial products, take unnecessary high risks and costs. All that leads to high rates of contract cancellations; this is well documented by studies and is the subject of press releases, consumer campaigns and initiatives to overcome the widely acknowledged situation – so far with little success. While adequate information and consultation are seen as key issues, and provision of information is demanded by legal regulations, this information lacks completeness, consistency, comparability and comprehensibility. It is the "How" of the information aspect which is unresolved. That matters all the more as in Germany people are increasingly forced to organize old age provision privately.

For more information, see the heading "Relevant documents/Sources of information" below.

Case example – Japan

There are 26,000 companies specialized in consumer loans, amounting to a total balance of 12 trillion Yen. These are loans without security or guarantee, making interest rates high. They are frequently advertised in newspapers, magazines and commercials on TV, and some people take these loans without serious consideration.

Furthermore, cases where repayment amounts have snowballed to unpredictable extents, causing insolvency and voluntary bankruptcy, have recently been increasing drastically. This is due to lack of information and is a problem for society.

Relationship to national / regional regulations

International Standards are voluntary, consensus-based agreements that can underpin existing regulation or provide an alternative to regulation being contemplated. For example, at the European regional level, a combination of regulation and standardization (co-regulation) has been adopted with the New Approach. The European standardization body, CEN, has a public mandate to develop certain standards of public interest. At the national level, supplementary initiatives for financial services can specify consumers' information needs for each relevant financial service. This act of co-regulation combines the force of law with consumer-driven standardization initiatives to address problems. International Standards provide an excellent supplement to legislation in a co-regulatory framework.

Macro-economic and societal implications

From a societal point of view, old age provision is an important issue due to ageing populations and macroeconomic problems associated with state pensions. An increasing portion of the population is forced to take additional private measures: private pensions, life insurance, and real estate investments, which have implications such as:

- Uncertainty about the future and adequate individual measures, lack of sovereignty and confidence, excessive market caution with regard to necessary action;
- Enormous expenses to obtain adequate information on an individual basis;
- Misallocation and macro-economic damage;
- Extreme high rate of withdrawals from contracts.

Old-age provision on a private basis is no longer a privilege of the wealthy, but a societal need for everyone – particularly the younger generations.

Conclusion

International Standards on information templates for financial services products can :

- Bring clarity to financial services products of great consumer interest (*life insurance, private pensions, mortgages, consumer credit, payment systems*);
- Specify information needs as well as structure and terms for the provision of information specifically designed for consumers and adapted to the relevant financial product;
- Highlight the core elements of a financial service product which are common internationally;
- Provide a general framework within which the actual substance of the product (which varies from country to country) can be accommodated;
- Enhance comparability of similar products;
- Help consumers to learn more easily and to ask the right questions;
- Facilitate cross-border transactions and foster consumer confidence;
- Enable financial service providers to adapt more easily to market trends;
- Be developed with consumer input

"Do it once, do it right, do it internationally" is the proven experience of international standardization work.

Target Date

It is important to establish work on standardized information templates at the earliest opportunity to give consumers a greater degree of confidence when purchasing financial services products and to give businesses greater guidance.

Relevant Documents / Sources of Information

Universal Consumer Credit Code (UCCC), Canada

Relevant documents / sources of information on consumer complaints relating to financial services products include:

www.ftc.gov/opa/2004/08/fraudsurvey.htm. The U.S. Federal Trade Commission fraud survey noted above.

www.consumer.gov/sentinel. The Consumer Sentinel database provided data on the top consumer complaint categories used in the FTC fraud survey.

www.econsumer.gov. This website handles complaint intake from consumers in many countries regarding cross border on-line transactions.

Relevant studies

- Study on Financial Products by: Consumer Institute for applied sciences
- Study on priorities in Services Standardization by: Consumer council of DIN
- Study on priorities in Services Standardization by ANEC
- Studies (2) on given regulatory paragraphs in current laws; compatibility between existing laws and voluntary standardization
- Study on the current provision of information for financial products in the internet
- countless number of press releases and political demands
- discussions and demanding conclusion on parliamentary level in Germany and Europe
- national standardization in Germany
- Discussion on ISO COPOLCO level confirming the internationality of the problem

Consumer initiatives and campaigns

Documented in newsclips, official statements, press releases (available from DIN)

Standardization

- DIN; PAS on life insurance, provision of information on annual contract progress (annual surplus information)
- EUROPEAN AGREEMENT ON A VOLUNTARY CODE OF CONDUCT ON PRE-CONTRACTUAL INFORMATION FOR HOME LOANS ("AGREEMENT")

This Agreement has been negotiated and adopted by European associations of consumers and the European Credit Sector Associations offering home loans (see below). The Agreement provides backing for a voluntary code of conduct ("Code") to be implemented by any institution offering home loans to the consumer.

- Part I: The terms of implementation and monitoring of the voluntary Code;
Part II: Contents of the voluntary Code regarding pre-contractual information to be provided to consumers:
- as general information about home loans on offer;
 - as personal information at a pre-contractual stage to be presented in a standardized "Information Template" (*future work*).

The aim of the Code is to ensure transparency of information and comparability.

www.europa.eu.int/comm/internal_market/finances-retail/docs/home-loans/agreement_en.pdf

Legislation

- revision of "Versicherungs-Vertragsgesetz" (VVG) including enhanced information and consultation rights
- amendment 62 concerning art.4 of the draft directive for consumer credits (April 2004)

EU- Initiatives

"FIN-USE" Stronger user voice in EU financial services policy-making

www.europa.eu.int/comm/internal_market/finances-retail/finuse_en.htm

Contact: Tobias Mackle: markt-f4@cec.int

Corporate initiatives

European-American co-operation: EFR - European Financial Services Round Table
www.fsround.org and www.efr.be (joint statement, statements on consumer disclosure and transparency)

Relevant institutions

- Market surveillance on financial services. Consumer complaints, conflict conciliation (governmental body) : www.bafin.de link: legal basics (Germany, European)
- Institute for financial services (scientific): www.iff-hamburg.de / www.money-advice.net
- Deutsches Aktieninstitut: www.dai.de (scientific, focussed on investments and the share market)
- Federal Consumer Association (vzbv) www.vzbv.de . Campaigning for Consumer information with current focus on private pension ("Riester Rente"). Initiation of an Parliamentary Motion for structured consumer information on financial services

Further relevant documents

- see all basic legal regulations (legal basics) on home page of www.bafin.de
- any other listed studies / documents and press collection on request

Cooperation and Liaison

ISO/TC 68, Financial Services
ISO/TC 222, Personal Financial Planning

Annexes

Additional explanations about information templates, with a case study showing a sample information template on life insurance with a linked savings feature appears at Annex 1.



Draft Information Template and case study on life insurance + savings

Introduction

The description of an information template given below and the case study for life insurance that follows are but one possible example of an information template. They are drafts intended solely to demonstrate the concept of information templates and the feasibility of increasing the transparency of information about financial services products.

It is recognized that there are a range of options for the formatting of an information template. For example, an information template in use in the United States is the “Schumer box” set of disclosures that goes with every credit card solicitation.¹ (Per U.S. Federal Law and Federal Reserve Bank regulations, all banks have to disclose the key cost terms and conditions for credit cards in their solicitations.)

Ultimately, it will be up to the ISO technical committee developing the standard(s) to determine the degree of specificity of any information template for a particular financial product.

The COPOLCO working group on financial services has developed all in all 5 case studies. The case study LIFE INSURANCE was selected as this product is one of the more complicated ones. Having demonstrated the feasibility of developing an information template for this product, the feasibility of others is also likely.

Studies and model structures for the following products are available upon request:

- private pensions
- mortgages
- consumer credit
- payment systems (Credit Cards / Debit Cards)

What is an information template?

A template is a structure designed in accordance with the relevant type of service (tourism, transport, financial service, etc). The content is related to the consumer needs for information with regard to the performance profile of the service in question. The systematic and logical structure ensures the needed amount of information and improves the clarity and comprehensibility. The uniform layout order and the defined terms simplify orientation and comparability. In summary, the template is the “fingerprint” of the service. It clarifies

¹ An example of the Schumer box is provided at: www.transparencybox.com

performance terms and conditions of the contract before contracting. In cases of complex services (performance profile), the provision of information can be divided into primary and secondary information. Primary information contains the essential performance criteria; secondary information gives further details.

The information template is a standardized framework (tool) by which the supplier provides the individual data (performance profile) for a service. The template should be widely used within a certain service sector (type of service). The information is provided by the service supplier together with the offered service. The provision can be preferably done through the Internet, but also by printed media and/or consultancy. The Internet provides new and unprecedented possibility for the provision of information.

The information template constitutes the factual core of information. This core substance might be part of the more individual and eye-catching advertising materials of service suppliers. It is the standardized information box with the hard facts, creating confidence based on reliable information. An example of an information template adapted to a capital-building life insurance is developed below.

Conceptual design of an information template

The templates are derived from the product analysis and product description. Primary information as demonstrated by the templates deals with the essentials and major problems of the relevant financial product. Further detailed and in depth information is available through the link box for secondary information.

Inside the template each box is dedicated to one problem the consumer should know about. The order of the boxes follows a didactic approach, which leads the reader step by step through the service. As the main media for provision of information will in future be the Internet, the layout of the template is designed as a virtual monitor. The scroll bar on the right hand side of each box would in reality give access to the full text information of each box. This information has to be provided by the supplier according to the standards to be developed. This information will also make the financial product transparent in the context of national conditions such as tax laws or other legal requirements. For the time being the text in the boxes highlights only the issues which have to be addressed. A future and final online information would contain the complete information in electronic format. The scroll bar indicates access to this underlying content.

Some of the boxes are purely linked to the relevant specific financial / insurance product; others are common to all templates, such as tax issues or links to further in-depth information.

The template is conceived to provide condensed primary information about one of the selected financial services. Primary information gives the consumer insight into the essential performance features of the service. The consumer may then investigate further details from the secondary information. It is also possible to implement a so-called "first glance" information box which provides even more condensed information.

The templates as presented are drafts. They demonstrate the concept and feasibility to increasing transparency of important financial services products. They serve as example and do not constitute a binding conception for future standardisation work. The detailed development of this conception remains to be done by another ISO committee.

Life Insurance + Savings²

Draft INFORMATION TEMPLATE

(Example to demonstrate feasibility and conceptual approach)

Box 1 shall be designed in a way to provide extremely condensed first glance information about the relevant financial product / service.

Boxes 1 to 7 are intended to give basic but sufficient knowledge. This acquired knowledge shall enable the consumer to become aware of overall performance of the financial product and to make reasonable decision before entering into contract.

Box 8 is intended to provide ways for further detailed information regarding the product and the actions on suppliers and client's end if the contract has once been settled.

Typical risks, problems, misunderstandings at consumer's end

- little knowledge about alternatives
- little to no knowledge about the product and its conditions and performance (e.g. belief that all payments will contribute to profit)
- inability to ask the right questions
- lack of experience about such "once in a lifetime decisions"
- long contractual ties versus life changes (high rate of cancellations).

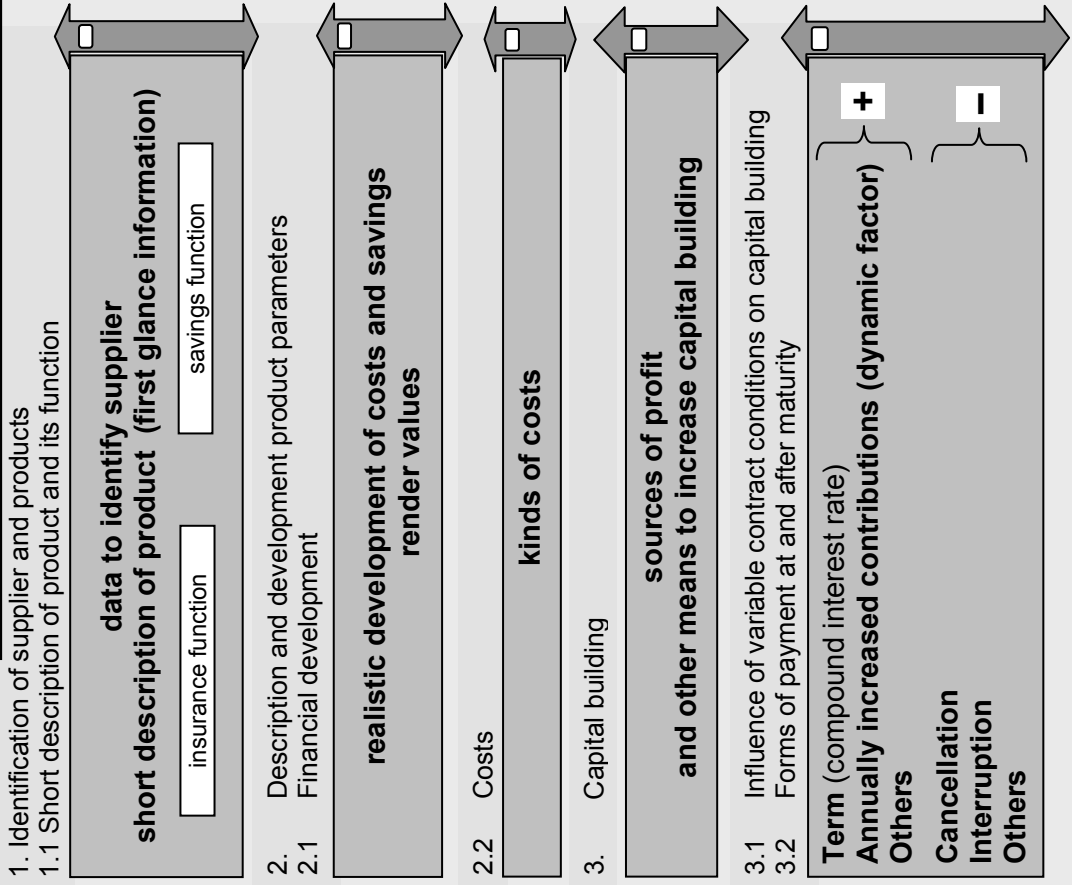
² Draft Templates on all other included financial products available

1 Draft **INFORMATION TEMPLATE** on Life Insurance with savings function

ISO-COPOLCO Group on financial services, Information Templates

Primary Information: Life Insurance + Savings Function

Example to demonstrate the idea of didactically structured information boxes inside the template. Each major problem of the financial product is addressed by one box



3. Risks

Risks

- reliability of product
- security of product / supplier
- credibility of supplier

4. Example. Model Case

depiction of model case according to standard conditions, unified data (comparability)

5. Tax and the product

Tax implications in the course of contract
 tax implications at and after maturity

6. On-line Consultation (interactive)

Individualised offer

7. Particularities (free declaration from suppliers end)

- with regard to supplier
- with regard to product (variants / combinations)
- others

8. Link to Source of in depth secondary information

secondary information in addition to the primary information contained in the template (link box)

Components of the INFORMATION TEMPLATE for life insurance and allocated substance

What belongs to which information box? The pages below summarise major features and data to be considered in the various information boxes. Completion and explanations according to the INFORMATION TEMPLATE will represent supplier's individual data and performance characteristics.

----- Numbering inside template above applied -----

1. Identification of supplier and products
1.1 Short description of product and its function



Suppliers identification

Company name, postal and e-address, kind of supplier, contact person

Product

full product name clear product identification

Aims and Function of product (horizontal transparency)

capital building through investment and saving / old age provision / death insurance / risk coverage)
 yield, payment in case of death, course of contract, main tax issues, possible alternatives

Safety of product (Security)

guaranteed performance(s) (interest rate), reliability of company / main risks

Reliability of product

Degree of confidence that the given parameter will develop in the predicted way

Preconditions

age, health, solvency of client (insured person)

tables giving scenarios and overview

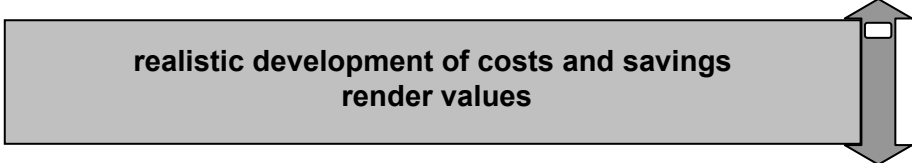
Course of contract

min. terms, form of client's payments, form of payment at maturity

Beneficiary (Substitute)

First glance, what does that mean?
Information box 1 shall be completed in a way to give a selection of the most essential data thus an first glance rough overall information can be already achieved before more detailed data are provided through the further info boxes.

2 Description and development product parameters
2.1 Financial development



Accumulation of capital in its course over terms of contract (savings function)

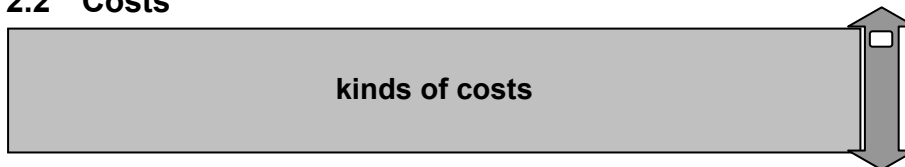
- regular payments
- regular surplus from the product
- scenarios covering alternative developments (best, medium, worst)
- render value in case of contract cancellation
- overall yield of return
- guaranteed rate of interest
- payment at maturity (lump sum, annuity)

GRAPH
visualising the
development

Risk coverage (insurance function)

- payment in case of death

2.2 Costs

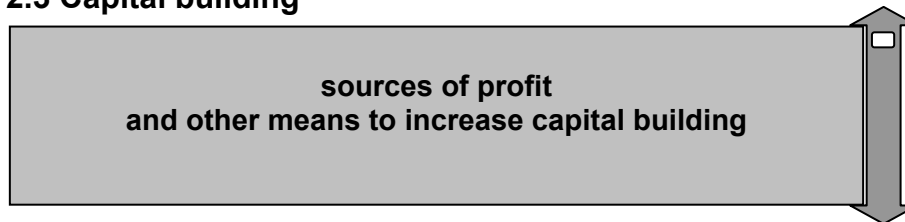


Costs

- risk coverage, commission costs, administration costs
- cancellation fees, annual payment sales discount
- others

GRAPH
visualising
contribution
allocation

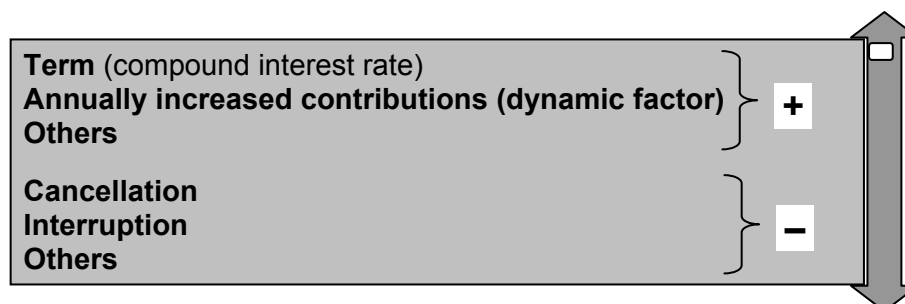
2.3 Capital building



2.3.1 Capital building from savings during terms of contract

- sources of profit (stocks, bonds, funds, others)
- profit increments (guaranteed interest, surplus, others)
- others

2.3.2 Influence of variable contract conditions on capital building



Explanation of above parameters with regard to the relevance and influence on capital building and overall yield

2.3.3 Forms of payment at and after maturity

- fixed sum per month

- dynamic course of payments
- partially dynamic course of payments
- variable sum in the course of time
- digressive course of payment
- guaranteed payments after death (beneficiary)
- others

see in depth
secondary
information

3 Risks

risks

- reliability of product
- security of product / supplier
- credibility of supplier

- reliability of product, performance factors (means to create confidence in prognoses)
- guaranteed payments
- security of product and supplier guaranties in case of bankruptcy
- credibility of supplier performance, reliability, security (solidarity funds, re-insurance etc.)

Supplier
Rating
Certificate

4 Example, Model Case

depiction of model case according to standard conditions,
unified data (comparability)

Quantified model case. Parameters according to standard, Calculator in relation to model case, individual options to be entered, diagram to show course of contract, scenarios

5 Tax and the product

Tax implications in the course of contract
tax implications at and after maturity

5.1 Tax implications during course of contract

- tax privileges / deduction at annual tax declaration
- subventions, benefits according to national conditions
- others

5.2 Tax implications during course of contract, at and after maturity

- subventions, benefits according to national conditions
- absence of tax
- reduced tax
- full tax
- others

according to
national rules
and
conditions

6 On-line Consultation (interactive)

Individualized offer

copolco financial group annexe 1, case study LIFE INSURANCE

- questionnaire for acquisition of data regarding individual client conditions and needs
- model calculator
- product variations
- product combinations
- others

Means should be provided to individualise the standard model case according to client's personal conditions and aims.

7 Particularities (free declaration from suppliers end)

- with regard to supplier
- with regard to product (variants / combinations)
- others

Gives supplier opportunity for self declaration of extra performances related to the product or special services for the client in addition to the core product.

8 Link to Source of in depth secondary information

secondary information in addition to the primary information contained in the template

In depth information to all parameters given in the template

in particular to:

- performance parameters
- measures concerning time and process related contract parameters
- concerning irregularities in course of contract
- general terms and conditions
- reference to legal rules and tax implications
- complaints handling
- glossary
- others

----- End of Template "Life Insurance" -----

Further Case Studies / Templates

Following a risk / frequency approach the COPOLCO working group on financial services developed all in all 5 case studies. The case study LIFE INSURANCE was selected as model case for the justification of an ISO standardisation application as this product belongs to the most complicated ones. Having proven feasibility for this product the feasibility of others is evident.

Studies and model structures for the following products are available:

- private pension
- mortgage
- consumer credits
- payment systems (Credit Cards / Debit Cards etc.)