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BOSNA I HERCEGOVINA  
FEDERACIJA BOSNE I HERCEGOVINE  
AGENCIJA ZA BANKARSTVO  
FEDERACIJE BOSNE I HERCEGOVINE

## **REPORT**

# **on Performance of the Ombudsman for the Banking System of the Federation of B&H for the period 01.01.2018 - 31.12.2018**

**Sarajevo, January 2019**

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## I INTRODUCTION

The Ombudsman for the Banking System of the Federation of Bosnia and Herzegovina (hereinafter: the Ombudsman) submitted the Performance Report for the period 01.01.2018 – 31.12.2018 to the Management Board of the Banking Agency of the Federation of Bosnia and Herzegovina in accordance with Article 36 of the Law on the Banking Agency of the Federation of B&H (FB&H Official Gazette No. 75/17).

Main competences and authorities of the Ombudsman have been determined by the Law on the Banking Agency of the Federation of Bosnia and Herzegovina and include the following:

- Providing information on rights and duties of users and providers of financial services,
- Monitoring and proposing activities to improve relations between financial service users and financial organisations within the banking system of the Federation of B&H,
- Formal investigation of financial market activities or investigation prompted by a complaint, all aimed to protect the financial service user rights,
- Analysis of complaints by financial service users, providing responses, recommendations and opinions, as well as proposing measures regarding complaint resolution,
- Mediation in a peaceful dispute resolution between financial service users and financial organisations within the FB&H banking system,
- Issuing guidelines or recommendations related to specific standard conditions or activities on implementation of sound business practices in operations of financial organisations within the FB&H banking system,
- Filing proposals to the Management Board of the Agency for adoption of documents within their competency – protection of financial service users rights,
- Cooperation with competent judicial, administrative and other bodies and organisations, as well as with supervision and control institutions in the country and abroad, all within their area of competency,
- Cooperation with other bodies and entities in charge of consumer rights protection,
- Taking other measures within the segment of protection of financial service rights.

Ombudsman performs activities in line with the processes defined in the Code of Conduct of the FB&H Banking System Ombudsman (FB&H Official Gazette Nos. 62/14, 93/15) and they rest on already established material and technical preconditions being provided for by the Banking Agency of the Federation of B&H (hereinafter: the Agency). As for the internal organisation of this department, in addition to the department head - Ombudsman, there is one other employee – legal officer (LLB).

The Report contains all activities performed by the Ombudsman regarding implementation of the 2018 Work Plan. It also denotes statistical data and indicators related to complaints/requests filed by financial service users regarding protection of their rights, complaint types and manner of their resolution, handling of out-of-court proceedings, as well as actions taken by financial institutions based on such complaints. The report provides an overview of recommendations, observations and opinions issued by the Ombudsman, type and predominance of complaints/requests, status of financial rights of customers and communication with financial institutions. In addition to activities related to user complaints/requests, the department also dealt with other issues of relevance for the protection of the financial service user rights. In



particular, this referred to the education segment – financial education and responsible financial behaviour of adults and youth.

The report also denotes cooperation with other institutions within the segment of customer and guarantor protection. The Ombudsman began operations in April 2014. The establishment of the Ombudsman as an autonomous and independent division introduced the protection of the rights of financial service users in the manner present in neighboring countries and the region. Hence the user as an important entity on the market received institutionalised protection.

Since the independent department of the Banking System Ombudsman started its operations and activities, it received more than 1,000 complaints and requests by financial service users and more than 500 different inquiries, pleas and requests to which it provided elaborated responses in written form, by phone or via e-mail.

## II WORK PLAN FOCUS AND FORMS OF OMBUDSMAN'S ACTIVITIES

### 2.1. Activities related to Implementation of the Ombudsman Work Plan for 2018

The 2018 Work Plan provides basic duties and defines main activities of the Ombudsman that primarily rest on implementation of laws in the segment of protection of financial services users and guarantors, as well as on conditions determined by the Law on the Banking Agency of the FB&H and relevant regulations.

During 2018, the Ombudsman conducted the following activities:

- Meeting with users and guarantors on its official premises and providing advice aimed at protection of their rights, as well as providing instructions and opinions;
- Responding to users' telephone calls;
- Receipt and recording of complaints/requests by users and guarantors;
- Conducting investigations and solving disputes related to complaints filed by users and guarantors;
- Cooperation with all organisational parts of the Banking Agency, exchange of information and improvements to relevant regulations;
- Monitoring the implementation of relevant legislation, the Law on Protection of Financial Service Users, Law on Protection of Guarantors, Law on Banks, other regulations, as well as insisting on alignment of legal regulations and banking practices of financial institutions related to the segment of protection and improvement of financial service user rights;
- Cooperation with other entities in the user protection segment (Ombudsman for the Banking System of the Republic of Srpska, Ombudsman for the Consumer Protection in B&H, judicial authorities, non-governmental sector) for purpose of improving the user rights protection;
- Analysing contents of complaints/requests and creating new educational and information materials at the Agency's web site;
- Educational activities for youth and adults, creating educational contents (presentations) adjusted to students, organising educational forums;
- Creating, publishing and distributing educational and information materials;



- Recommendations to financial institutions related to improvements of customer relations, implementation of sound business practices and resolution of individual disputes between users/guarantors and financial institutions;
- Analysis of requests for release from the guarantor's obligation, conducting investigations and issuing recommendations to the competent department of the Agency with an objective of reaching the final decision on the guarantors' requests.

## 2.2. Overview of Complaints, Requests and Other Filings by Financial Service Users

In the period from 01.01.2018 to 31.12.2018, the Department of the Ombudsman received 335 user complaints, requests and notices related to individual relations and communication with financial service users regarding actions and operations of financial institutions and communication with the users. The users and guarantors addressed the Ombudsman via regular and electronic mail, by phone and in person.

The Ombudsman Department maintained regular communication with users filing complaints/requests for protection of their rights, either in verbal or written form, in order to keep them informed of the course and the outcome of the proceedings.

Out of the total number of 335 complaints/requests received during this reporting year, 312 were finalised, including 273 cases from 2018 and 39 cases initiated during 2017 and finalised in this reporting period.

In 2019, activities are pending in relation to 23 cases (6.8%), most of which was formed in December 2018 and could not be objectively finalised.

The structure of the finalised 312 cases is shown below:

**58** founded complaints, had a positive outcome favour of the complaint submitter (of which 3 rested on the Ombudsman's recommendations),

**83** further handling in line with relevant area of competency, of which **14** positively solved cases through an internal procedure in particular banking system entity and **40** cases resubmitted to the Ombudsman due to user dissatisfaction with provided answers,

**74** unfounded user complaints,

**43** complaints related to which detailed response with instructions was provided to users regarding implementation of effective legislation, material and process/legal regulations related to their rights,

**3** complaints abandoned by complaint submitters,

**19** complaints referred to some other competent institution/department (12 complaints forwarded to the organisational parts of the Agency for further handling in line with their area of competency),

**7** complaints submitted for further handling by the competent Banking Agency of the Republic of Srpska / RS Banking System Ombudsman,

**8 recommendations** related to the request for release of the guarantor's obligation (5

unfounded and 3 founded requests), whereas the Agency's decision for 4 of such cases was to reject them as unfounded,

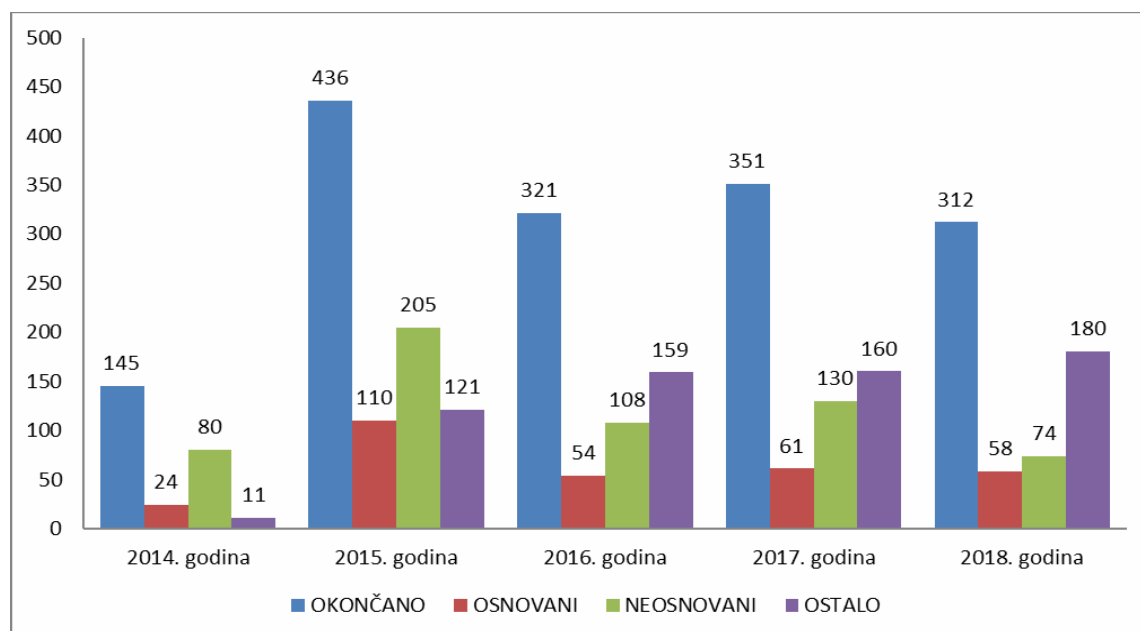
**24** complaints rejected due to untimely or incomplete case filing. (e.g. no additional documents were submitted, no authorization provided, anonymous complaint filed, etc.).

During the reporting period, 12 cases were referred to the mediation proceedings, of which there were two meetings in the mediation proceedings before the Ombudsman and one of them resulted in an agreement on settlement between a financial service user and a banking system entity. Other dispute resolution before the Ombudsman was achieved without a need for mediation meetings, i.e. they were resolved through written correspondence of both parties to the dispute.

### 2.3 Overview of Finalised Proceedings

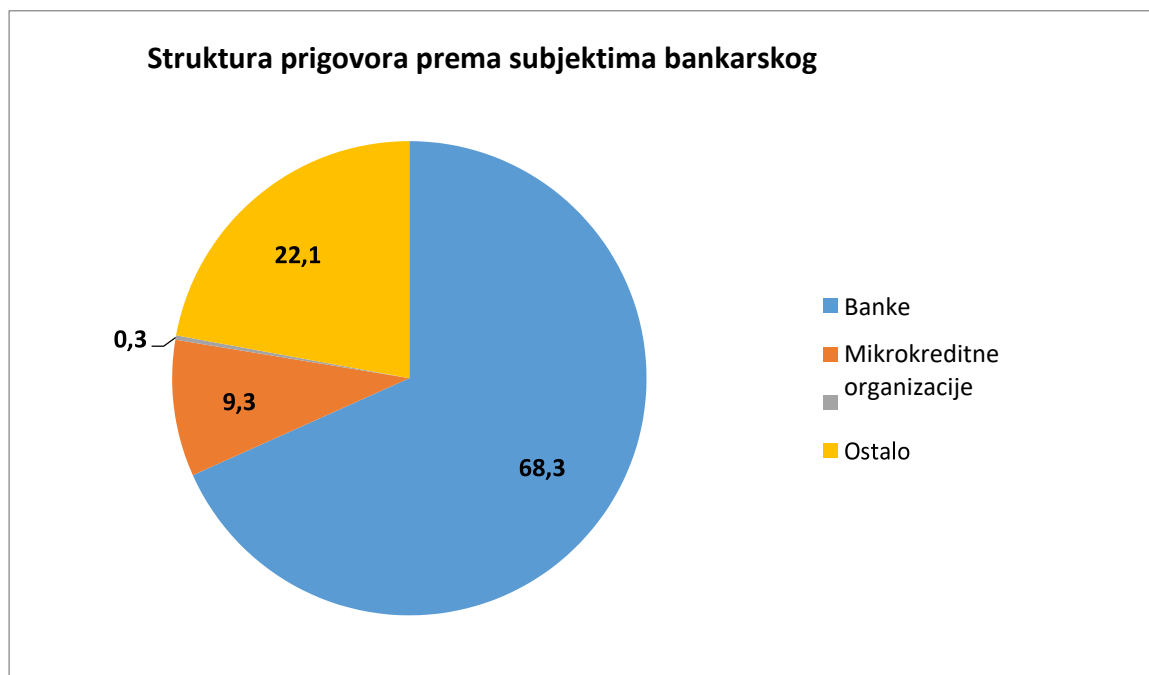
Chart No. 1 provides an overview of complaints/requests by users and guarantors handled by the Ombudsman Department since its very establishment. It shows a still high number of complaints marked as unfounded that, during the court proceedings, have been finalised through a first-instance court ruling or have been covered by decision-making by some other body or institution.

\* OKONČANO - FINALISED; OSNOVANI - FOUNDED; NEOSNOVANI - UNFOUNDED; OSTALO - OTHER



## 2.4. Structure of Complaints by Banking System Entities

Chart 2 – Structure of complaints by banking system entities



\*Banke – banks; mikrokreditne organizacije – micro credit organisations; ostalo - other

The biggest number of complaints, 89 out of 213 that involved banks, referred to two largest banks in the system. As for micro credit organisations, complaints received and processed during 2018 have dropped considerably compared to previous years. This is attributable to the new legislation in 2014, Agency's regulations and improved customer procedures.

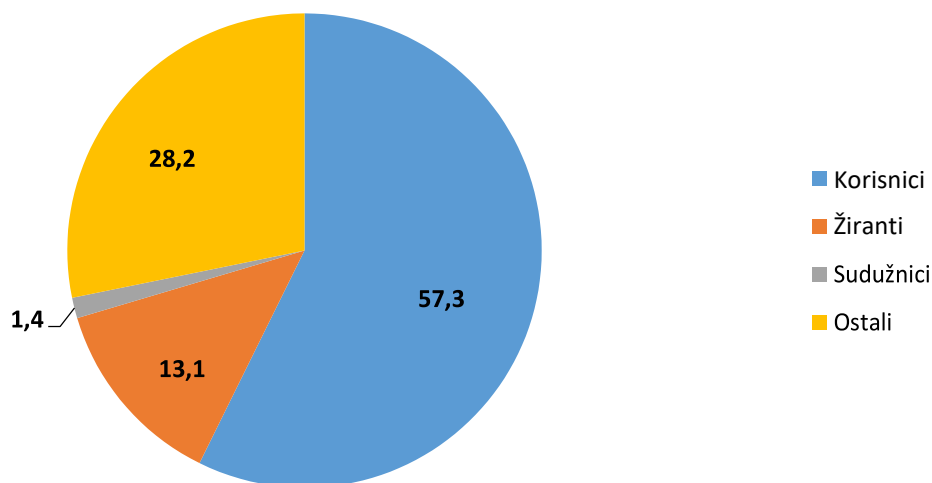
The table below provides information on the number and share of finalised cases in 2018 listed by individual banking system entities:

No.	Banking system entities	No. of finalised cases	Share in %
1.	Banks	213	68.3
2.	MCOs	29	9.3
3.	Leasing companies	1	0.3
4.	Other	69	22.1
	<b>Total</b>	<b>312</b>	<b>100</b>

## 2.5. Structure of Complaints/Requests by Complaint Submitters

Chart No. 3 illustrates a percentage relationship of user and guarantor complaints filed with the Ombudsman, as well as those filed by co-debtors, plus other filings mostly referring to advices and support in communicating with banking system entities regarding the payments segment (cards, accounts, deposits, fees).

### Struktura prigovora/zahitjeva prema podnositeljima



\* Korisnici – users; Žiranti – guarantors; Sudužnici – co-debtors, Ostali - others

The table below shows the number and share of complaints/requests by submitters:

No.	Complaint submitter	Number of complaints/requests	Share in %
1.	Users	201	57.3
2.	Guarantors	46	13.1
3.	Co-debtors	5	1.4
4.	Others	99	28.2
	<b>Total</b>	<b>351</b>	<b>100</b>

### 2.6. Number of Complaints/Requests per Financial Service Type

The following table provides an overview of complaints/requests by financial service type, where the most of complaints/requests refers to loans and only the minor part to leasing deals.

No.	Financial service type	Number of complaints /requests (finalised cases)	Share in %
1.	Loans	100	32.1
2.	Deposits	4	1.3
3.	Micro credits	29	9.3
4.	Fees	25	8
5.	Payments (accounts and cards)	42	13.5
6.	Electronic payment instruments	16	5.1
7.	Leasing	1	0.3
8.	Other	95	30.4
	<b>Total</b>	<b>312</b>	<b>100</b>

### 2.7. Recommendations to Banking System Entities

According to its authorities prescribed by the law, the Ombudsman provides recommendations, guidelines and opinions to financial institutions with an objective of improving relations between users/guarantors and banking system entities. This rests on knowledge and information collected in pending proceedings related to notices/complaints or requests.



Recommendations are primarily aimed towards ensuring better relations towards users, implementation of the law, sound business practices, internal regulations and dispute resolution between users/guarantors and banking system entities.

In 2018, after having conducted relevant investigation, we have identified breached rights of users (not being corrected during the very investigation) in 7 cases and have delivered opinions with recommendations to involved banking system entities.

Over the observed period, we have issued 5 recommendations to banks (of which one was general recommendation) and 2 recommendations towards micro credit organisations.

General recommendation was issued to a bank due to lack of promptness in the internal procedure regarding customer complaints handling, whereas the formed opinion was that the bank's decision as a result of such internal procedure must contain elaborations on all disputed facts from the complaint and a reference to relevant law or some other regulation. *“For purpose of protecting user rights and interests, Ombudsman underlines the bank's legal obligation to ensure efficient and fair resolving and overcoming of disputes and misunderstandings related to customer complaints. The bank is expected to improve its customer relationship management in line with sound business practices and business ethics by respecting user personality and integrity, as well as by fully and accurately informing the users about terms of use of its services. “*

This recommendation may also be interpreted in the context of achieving greater transparency in service rendering and improving the users negotiating position, considering therein applicable regulations.

Triggered by several identical inquiries by users for a clarification of legal grounds for banks' actions regarding account closing and service cancellation, i.e. use and storing of personal data of customers after the service cancellation, the following opinion was formed: with regards to Article 102 and with reference to Article 103 of the Law on Banks (FB&H Official Gazette No. 27/17) defining bank secrecy as a term (including, among other things, personal data of natural persons, their financial condition and transactions) and determining the requirement of keeping the bank secrecy, persons performing duties and responsibilities within their scope of competency in the bank shall maintain and keep such data in line with this law, resulting regulations and other regulations and shall not use them for their personal benefit or disclose them to third parties, thus also observing the defined exceptions from the bank secrecy requirement as denoted in Article 104 of the said Law.

Ombudsman acts towards guarantors' complaints in line with Article 24 of the FB&H Law on Protection of Guarantors, i.e. regulations of the Agency and Code of Conduct of the Ombudsman. This extends the scope of activities and competencies of the Ombudsman (not only as per Article 24 of the Law, but also in sense of conducting investigations based on filed requests for release of the guarantor's obligation, related to Article 30 of the Law).

During this reporting period, we have issued 8 recommendations based on requests for release from the guarantor's obligation and determined 3 founded and 5 unfounded requests as a result of conducted investigations.

### III OMBUDSMAN'S OBSERVATIONS AND OPINIONS



According to information provided in the charts and Tables 1, 2 and 3, most of complaints refer to banks. This came as no surprise considering their dominant position in the financial market and the number and groups of products they offer. The biggest number of complaints is linked with two banks dominating the banking system and posting an increase of their lending activity in the previous year. It should be specially noted that the number of complaints over the observed period shows an equal trend compared to the previous reporting periods, but also indicating to a higher degree of complexity of disputes resulting in lengthy proceedings.

Looking into delivered complaints, we have noticed many cases where banking system entities have finalised the proceedings after the Ombudsman's intervention. This means that there are number of cases where, during the investigation and after having received the request for a statement regarding complaint submitter's allegations, banking system entities have conceded to having committed certain omissions that have led to breached rights of users and have notified the Ombudsman of having corrected such omissions regarding breached rights.

### **3.1. Loans**

During 2018, as in previous reporting periods, majority of complaints came from the group of **loan products.**

Complaints by users – natural persons chiefly referred to:

- disputes concerning validity of contractual clauses on loan interest rate variability,
- interest rate changes performed by financial institutions during the term of a contractual relationship,
- loan restructuring,
- delivery of data to the Central Loan Registry,
- insurance premium on loans.

During the reporting period, there were 6 proceedings finalized related to no information on effected change of interest rate, high amount of calculated interest, as well as lack of understanding for their worsened economic and financial condition by banking system entities compared to the period of initial loan approval. These complaints refer to individual agreements concluded prior to the effect date of the Law on Financial Service User Protection, where the agreed interest rates were not precise enough or specific enough and the interest rate changes included only an interest rise reasoned by banks with changed circumstances in the market and, in some instances, by higher value of reference interest rates (Euribor, Libor). With this respect, we have given individual recommendations and major progress was made in sense of positive dispute resolution, whereas worth noting is that financial institutions have, to great extent, harmonised their operations with the Law on Protection of Financial Service Users in terms of arranging the variable interest rate. In this context, our office will continue to monitor the compliance level in business practice. According to the practice insofar, the users filing complaints and asking for identification of calculation method and possibly relevant damage compensations, were instructed to solve the matter before courts.

Many complaints filed during this reporting period referred to rejected rescheduling and



restructuring of existing loans or acceptance of this under unfavourable conditions compared to the initial agreement. The complaints included also lack of understanding by financial institutions for the economic and financial status of customers compared to the period when they initially took out loans, i.e. in sense of their loss of employment, long term illness, retirement, over indebtedness and reduced cash income. It is for different practice and actions in this segment that banking system entities were asked to improve their internal regulations in order to prescribe criteria for a grace period over debt repayments by customers, as defined in Article 31, Paragraph (2) of the Law on Protection of Financial Service Users.

There is certain number of complaints (evident also in the previous reporting periods) that refer to the reporting and delivery of data on customer loan classification to the Central Loan Registry with the Central Bank of B&H. The users were not presented with information or received incomplete information by financial institutions about regulations (i.e. laws and regulations) defining this area. In particular, financial institutions do not regularly update the records and report to the Central Bank of B&H on loans with recorded defaults that that have been classified to a lower category, but have been in fact repaid afterwards. This means that users have no information as to when their classification category would reflect the change or information on due repayment status.

Having conducted our investigations, we have found that reclassification practice (returning to a better category) varies and is not unified across all banks when it comes to the monitoring period over regular repayments by customers. Hence, in some banks this period lasts up to 3 months and in some 6 or 9 months subject to no further customer defaults. After this period, a customer classification will be upgraded by one category (e.g. from D to C category).

It should be specially mentioned that the group of loan products over the observed period showed considerable number of complaints by customers facing account blocking and seizure of their current account funds as measures initiated by banking system entities to collect their receivables outside the court proceedings, meaning outside enforcement proceedings. With this type of complaints, users were provided with explanations and instructions as to their rights, i.e. obligations of banking system entities to impose limitations over personal income blocking defined in the Law on Enforcement Proceedings (FB&H Official Gazette Nos. 32/03, 52/03, 33/06-corr., 39/09, 74/11, 35/12 and 46/16) and the FB&H Labour Law (FB&H Official Gazette No. 26/16).

As in previous reporting periods, there are still complaints concerning the level of domestic and international payment fees, loan repayment fees, fees for issued confirmations and consents and the length of time required for such service rendering to customers. This was left at the discretion of financial institutions noting therein that this was their method of keeping the customers. If taking into account information on the income structure in the FB&H banking system and the share of interest and fees in total income on quarterly level for the previous year and the first half of 2018, we find that these complaints can be seen as justified. Hence, our conclusion is that this year saw an increase of different fees, thus further raising prices of services and products for the customers.

The users complained about lengthy procedure regarding remaining debt calculation and non-



issuance of debt balance confirmations, as this prevented them from closing the loans, thus they find this harmful for them in sense of annuities and calculated interest due and payable in this period. Although all complaints of the sort have been resolved after the users have addressed the matter to the Ombudsman, banking system entities were issued with recommendations to be more responsive in handling such customer requests and without setting any preconditions possibly damaging the customers.

The users have also addressed the Ombudsman regarding loans secured with an insurance policy pledged favour of a bank over the lifetime of a loan, but where they have prepaid such loans. There were seven complaints related to issues such as that insurance companies refused to pay the unused portion of the insurance premium in case of loan prepayments. A review of these cases revealed that general conditions of an insurance company concluding a contract with a bank define the premium, but users have not been informed or not to sufficient extent about conditions and manner of use and refund of certain premium portions. Since banks, as a rule, appear here as a policy holder on behalf and for the account of users, as also determined in our review of several insurance contracts between banks and insurance companies, banks need to adequately solve any misunderstandings with users by informing them about the related service (insurance) at the time of loan approval and improve their activities in this segment. Most of users were instructed to address the matter to the Insurance Supervision Agency, i.e. the Insurance Ombudsman. Ex officio, we have informed the said institution of this significant number of complaints and asked for an analysis of operations and activities of insurance companies offering this form of insurance related to bank loans.

### 3.2. Deposits

Over the observed period, user complaints related to **deposits** have primarily referred to automatic extensions of term deposit agreements, i.e. so called repeated term depositing of cash, interest rate changes and irregular delivery of customer notifications. The financial institutions were asked to and recommendations were issued for them to ensure timely observance of deadlines defined by the Law on Protection of Financial Service Users (FB&H Official Gazette No. 31/14) for notifying the users of their right to agreement extensions and of the relevant timeline for an agreement termination upon an interest rate change.

### 3.3. Micro Credit Operations

As for operations and activities of micro credit organisations (MCOs), we would like to mention 4 complaints we received that referred to operations and (non-)performance by micro credit organisations related to correction of data on debts of the complaint submitters with the Central Loan Registry (CLR) – subject to legally effective court ruling rejecting the MCF's claim as unfounded. Having conducted relevant investigation, we have determined irregularities in MCF's operations subject to the competent court's ruling and have provided MCF with the recommendation where: *„we ask for the complaint/request resolution via elimination of relevant consequences in a way to sanction the consequences of the creditor's omission and that the complaint/request submitters cannot indefinitely suffer negative consequences of debt recording that has been determined as unfounded by the court ruling.“*



The recommendation was accepted and the case was solved in favour of the complaint submitter.

Out of the total number of users addressing the Ombudsman regarding operations and activities of micro credit organisations, 7 complaints referred to disputes with the MCO that is undergoing a bankruptcy proceedings, where elaborated responses were provided on the status and measures being implemented in the bankruptcy proceedings, as well as on their rights in such proceedings. Other complaints mostly referred to irregularities with calculation of receivables, regular and default interest or expenses and entries made to the CLR.

### 3.4. Payments

Moreover, we received significant number of complaints related to the **payment** services, i.e. type and level of fees that financial institutions charge from customers in this respect. The users complained about the level of fees for account maintenance and closure, loan accounts and confirmations and consents regarding outstanding debt balance. When processing and handling such cases, financial institutions arrange this right to the fee calculation and collection with their customers by referring to the standards from their internal regulations and general business terms that are subject to subsequent changes, but where they included a clause according to which customers consent with any subsequent changes. The financial institutions were asked to make all the costs to be borne by the customers readily presented to them at the time of the agreement conclusion, whereas the fee level must be objective and equal to actual costs the financial institutions holds in relation to such services.

### 3.5. Electronic Payment Instruments

Significant number of complaints referred also to **electronic payment instruments** and cards business, where this greatly referred to online payments for the goods and services, non-disbursed cash via ATMs, and unauthorised use and misuse of cards. This requires prior action and processing by competent investigative bodies, where users received instructions and notices of the outcome of the proceedings. User complaints regarding potential card misuse were subjected to a very complex investigation process since relevant checks had to be performed by banks as card issuers, process centres (VISA or International/MasterCard) and merchants where transactions were effected.

### 3.6. Other Complaints

During the observed reporting period, great number of complaints was noted regarding the overall banking business that, as a rule, cannot be classified to any other of the said activities of banking system entities. This refers to user complaints related to cases already being part of court proceedings on the same grounds or for which proceedings have been finalised through legally effective court rulings. The Ombudsman usually pause their proceedings until finalisation of a court dispute, but still provide users with instructions and advice as to how to achieve their rights as parties to the court proceedings.

### 3.7. Guarantors, Co-debtors



As in the previous reporting period, complaints by persons that directly secure the performance of relevant obligations (guarantors, co-debtors) mostly refer to the requests for release from the guarantor's obligation due to irregular procedure performed during the loan approval by financial institutions. The institutions were asked to determine responsibility of their officers for such omissions and negligent actions during the credit worthiness assessments of debtors, for lack of information to guarantors/co-debtors regarding possible payment defaults, as well as for lack of information on performed collection measures and the order of collection with respect to the guarantors. In all the cases, persons submitting such complaints were provided with relevant instructions and elaborated responses as to their rights. Also, in case of the requests for the release from the guarantor's obligation, relevant recommendations were formed and sent to the competent department of the Banking Agency for forming final decisions on the guarantors' requests.

During this reporting period, one complaint referred to the leasing business and referred to the calculation of receivables under financial lease agreement with a natural person. The dispute was solved positively after our intervention and the complaint submitter received a new correct calculation.

#### **IV RECORDS OF VISITS, INQUIRIES AND REQUESTS BY FINANCIAL SERVICE USERS**

In addition to written complaints and requests, the independent department of the Ombudsman was also addressed by financial service users and guarantors in verbal form, either by phone or in person. This entailed inquiries and pleas related to their rights and obligations, new legislation and different financial products. During the reporting period, **150** different inquiries, pleas and requests were received by the Ombudsman Department and responses were directed via regular communication in form of elaborated responses, instructions, advices and recommendations. The number of these interventions, as well as their duration, can never be objectively analysed since this depends on the number of users, reasons for contacting us, subject of particular complaint, ability to comprehend principles of the proceedings and substantive law being applied, as well as level of user knowledge about events surrounding the case being subjected to the Ombudsman's intervention.

In all previous cases where users and guarantors have contacted the Ombudsman, this department spent major part of its work on informing and responding to users, thus enabling them to reach better understanding of their position, rights and obligations arising from possible legal situations they have found themselves in, as well as issues arising from their contractual relationship, their negotiating position in the pre-contract stage, type and level of interest, as well as responsibilities of guarantors/co-debtors. Special attention was paid to informing the users about the types of protection measures, out-of-court process of mediation and the requirement that an internal proceeding needs to be conducted between the financial institution and the user as parties to a contractual relationship or related to which a difficulty has risen. The users have been informed that, prior to filing a complaint/request with the Ombudsman, they are required to file written complaints to the particular banking system entity and ask for protection of their rights and discussion about the issue at hand. In turn, banking system entities



are required by the Law on Protection of Financial Service Users and relevant regulations of the Agency, to provide their response within 30 days upon the complaint filing.

There were many complaints related to debt refinancing out of new loans due to better lending terms offered by other financial institutions, as well as related to debt records on the particular category with the Central Loan Registry and relevant data accuracy, as well as level of fees charged by banks.

The total number of users and guarantors directly addressing the Ombudsman (i.e. in person) during this reporting period is lower than in the same period last year. A reason for this reduction rests with effects of better information level achieved by the users as to their rights and obligations, forms of protection and out-of-court proceedings. However, there is still a need for better financial literacy and understanding of the principles of sound financial decision-making and responsibilities of the very users.

Based on all of the above, it turns out that citizens often do not have sufficient information and/or knowledge of financial products and services and their main features, thus indicating to importance of financial literacy of citizens as a key condition to responsible behaviour and protection of economic interests of an individual.

## **V EDUCATION – IMPORTANCE OF IMPROVING THE FINANCIAL LITERACY**

In addition to protection of individual rights, Ombudsman also promotes user rights and interests via public information and education of citizens. In that sense, as a part of the project of „Microfinance in B&H“ being implemented by the International Finance Corporation (IFC, a member of the World Bank Group) with a support of the Swiss Embassy in B&H, a cooperation has been initiated to improve capacities of the Ombudsman's office related to planning and implementation of financial education of citizens – financial service users. Training courses, lectures, study visits, creation and distribution of educational materials and other activities, this project will support the Office in implementing best practices and models in educating different categories of citizens and preventing irresponsible financial behaviour of users in the financial market. As a result of this cooperation, tje Ombudsman's Office has:

- organised two educational workshops in October for students and teachers of the High School of Commerce and Trade in Sarajevo. As a part of the workshop, the Ombudsmen's activities have been presented in a creative and interactive manner, where participants were educated about the main characteristics of financial institutions and their products, as well as relevant banks' duties and their customers' rights.
- issued a leaflet for financial service users in November titled „How to achieve and protect your rights?“ aimed at familiarising citizens about the competencies of the Ombudsman and protection mechanisms for rights of users and guarantors (complaints, notifications, mediation).
- held a workshop in December on the premises of the „Nahla“ Centre for Education and Research. The workshop was titled „ Rights and Obligations of Financial Institutions towards their Customers“ and this is where we informed the participants about basic operations of banking system entities, their obligations towards customers, individual risks inherent with particular financial service and requirements regarding protection of user rights.
- published an educational material on its web page in December containing information for users (and guarantors) as to how to achieve their rights and gain better understanding of loans (agreements, security instruments, protection method, etc.). Users and guarantors can follow



our web page and receive regular information on all the issues within the competence of the Ombudsman. Also, the „Questions & Answers“ section has been updated at the official web page of the Agency so that citizens can directly and quite simply receive answers to questions of their potential interest.

In addition to the above, at the request of news media „Večernji list“ and „Faktor“, we have published answers to questions concerning financial user protection, banking services and most frequent complaints related to such services.

## VI COOPERATION WITH THE BANKING AGENCY OF THE FB&H

### 6.1. Information

During the reporting period, Ombudsman cooperated continuously with competent departments of the Banking Agency of the FB&H related to examinations performed over the banking system entities and their compliance with the Law on the Protection of Financial Service Users and the Law on Protection of Guarantors.

The information exchange with the Agency's departments has been present since the very beginning of the Ombudsman's activities and includes also proposals for the regulatory framework improvements, whereas individual complaints/requests indicating to possible user rights breaches by banking system entities are being forwarded to relevant departments in the Agency for further checks and appropriate measures within their supervisory authorities. As for this reporting period, we would like to mention the following:

Based on user complaints, we have investigations and provided ex officio information that we had significant number of citizens' inquiries (i.e. financial service user's inquiries) over the past period regarding debt collection against accounts they have used with banks and that have been inactive for an extensive period of time, years even. In these cases, the debt incurred consisted merely of fees and commissions banks have been calculating, thus in most cases leading the accounts to an impermissible overdraft. The cases were submitted to competent Agency's departments with the following explanation:

*„The bank has not or has not fully aligned its operations or prescribed procedures for inactive account handling to which extent it is required to inform also the account holders in manner prescribed in clause 109 of the Law on Banks (FB&H Official Gazette No. 27/17) with regards to Article 2, Item jj), i.e. Article 13 of the Law on Domestic Payments (FB&H Official Gazette No., 48/15).“*

There was one bank where we received several complaints by credit card guarantors since such cards had no defined validity period nor did relevant agreement define such period. This is a bank to which the Agency has been issuing relevant orders for a number of years requesting updates to credit card files. In that sense, our Recommendation asked for the following: *„for the bank to establish adequate records related to conclusion and expiry dates of credit card agreements, i.e. to release the guarantors from their obligation if it fails to do so.“* At the same time, relevant cases and pertinent information was submitted to competent Agency's departments.

### 6.2 Improvements to the Regulatory Framework and Operations of the Banking





## System Entities

In September 2018, we have conducted an analysis of the fee tariff that all banks operating in the FB&H apply in their operations with natural persons. It was found that, according to applicable regulations, the fee level is in the domain of business policy of banks and market competition, but that there is also an exceptionally high share of service fees in operating income of banks in the FB&H (27.8% as of 30.09.2018) showing further growth trend. Moreover, this analysis revealed the following: current account opening, as a rule, is conditioned by additional products (thus increasing the number and type of customer fees), most banks offer no basic account for socially sensitive population categories, informative materials for special products have not been standardised (they differ among banks and provide insufficient information on fees and services for individuals accounts from the banks' offer). Resulting from this analysis was a proposal of guidelines for banks aimed at ensuring transparent, accurate and complete information to users resting on sound business practices and fair customer relationship.

*„Banks are expected to ensure socially responsible operations contributing adequately to financial involvement of different and specific groups of service users starting from the very understanding of needs and capacities of the general population in Bosnia and Herzegovina. Banks were recommended to designate within their offer accounts with basic service contents (basic functions). It is of special importance to make the financial service also available to the needs of socially sensitive categories of the population (students, youth, unemployed persons, users of disability payments, pensioners and other relevant groups).*

*An account offer with basic service contents intended to natural persons represents a responsible and acceptable approach contributing to promotion of cashless payments with wider effects to the economy and the risk profile related to cash flows outside the banking system.“*

Ombudsman's Office works continuously on improving regulations by adopting new and amending existing rules, procedures and actions.

During this reporting period, we have prepared a proposal of the Rulebook on the Ombudsman for the Banking System of the Federation of Bosnia and Herzegovina that was sent for review by the Management Board of the Agency and was adopted on **30.05.2018**. Resultantly, it was published in the FB&H Official Gazette No. 46/18.

## VII COOPERATION WITH OTHER INSTITUTIONS AND ORGANISATIONS

Since 2014, the Ombudsman has been a member of the International Network of Financial Ombudsman Schemes (INFO), which is an international organisation with over 40 member countries and financial service ombudsmen from all over the world. Through their daily communication with the Secretariat of this Network, members receive information of practices and experience of each ombudsman as this ensures a transfer of knowledge regarding their activities and decision-making process.



At the invitation by the Central Bank of Bosnia and Herzegovina, we have participated in a presentation of the project of upgrading the single registry of accounts of business entities and natural persons onto a new platform. On 06.02.2018, we have participated in a roundtable discussion – Improvement of Enforcement Proceedings in B&H that entailed selection of efficient enforcement means and establishment of a public dialog on identification of an optimal model of a systemic enforcement solution.

In November, the Banking Agency of FB&H (through the Banking Ombudsman's Office) and the International Financial Corporation (a member of the World Bank Group) have concluded a cooperation agreement aimed at supporting the Banking Ombudsman's Office in implementing its financial education activities.

On 19.02.2018 and 20.02.2018, at the invitation of TAIEX, we have attended a regional workshop in Sarajevo intended to promote EU regulations in the segment of payments by natural persons.

On 21.02.2018, a meeting was held on the Agency's premises with the World Bank representatives on the topic of financial education and activities, whereas the focus was on natural persons receiving remittances from abroad.

On 10.04.2018, at the invitation of the Municipality Court in Sarajevo, we have participated in a meeting to discuss the topic of evaluation of Guidelines on Civil Proceedings.

On 10.05.2018, we took part in the presentation „3rd Stage of the Microfinance Project in Bosnia and Herzegovina“. One of main objectives of this project stage was to enhance the financial advisory service for citizens of B&H and expand financial literacy in the country. Therein, the Project supports establishment of resource centres („hubs“) as central activity points in the segment of advising debtors and financial literacy on a local level.

On 29.10.2018, we attended focus group discussions within the project of „Remittances and Payments“ that is being implemented by the World Bank with a support of the Swiss Embassy in B&H subject to cooperation with the Gradačac Municipality. Therein, we have presented the Ombudsman's operations to this local community.

In line with the 2018 Work Plan and relevant legislation, Ombudsman continued to cooperate with banking system entities to ensure more efficient resolution of complaints/requests by users and guarantors, as well as resolution of problems and difficulties with fulfillment of their rights. A meeting was held with representatives of several banking system entities regarding complaint management and manner of reporting on received complaints, as well as regarding card operations and electronic payment instruments, all aimed at improving operations of banking system entities in this segment.

As a part of the Ombudsman's competencies and activities, relevant duties and tasks were performed and responses provided within the EU integration group regarding potential and subsequently delivered questions from Chapter 28 – consumer protection and soundness from the EC questionnaire required for forming an opinion on the B&H application for EU membership.



## CONCLUSION

Although the total number of received user complaints/requests saw no major change compared to the previous reporting periods, we find that the number of positively solved cases shows an improvement in sense of alignment of banking system entities' operations with the user protection legislation.

Ombudsman's recommendations issued over the course of this year were aimed at improvements to internal processes of customer complaints handling and resulted in greater number of positively solved complaints and more up-to-date handling of internal processes, thus large number of complaints was solved positively in this reporting period.

During the observed period, complexity of disputes increased, thus requiring longer investigative process, additional explanations by banking system entities, consultations with competent Agency's departments and, finally, extended period of the very proceedings. This shows that, among other things and considering changes and developments within the very market of products and services, the matter of timely information and education of citizens should be especially emphasized. Therein, Ombudsman has implemented series of activities aimed at ensuring financial literacy of citizens through visits and lectures at different locations (schools, associations, local communities) and by publishing educational materials on protection of financial service users' rights. Over the following period, more frequent visits and lectures are planned in schools, faculties and local communities in the Federation of B&H, as well as publication of new educational materials to get citizens better acquainted with the Ombudsman's operations, features of different financial products and services in the market and their individual risks, as well as user rights.

The Report shows that greater transparency is required in operations of banking system entities in all stages of the customer communication until very realization of concluded agreements. Considering extensive product offer of banking system entities it is not enough just to disclose relevant information on their premises and web page. Therefore, it is our general conclusion that banking system entities should pay more attention in their operations to more efficient and cost-effective handling of customer applications. Also, they should take all necessary measures and actions to eliminate obstacles, ensure conditions for lawful, timely, efficient and cost-effective performance of own decisions and organize their activities as to prevent and eliminate in timely manner the repeated or similar problems and deficiencies in operations leading to denied user rights.

Our experience so far has confirmed a need for having an institutionalized protection of user rights and interests as one of efficient protection methods, as well as a need for paying more attention in the future to informing and educating citizens and employees of banking system entities. Accordingly, the Ombudsman finds that banking system entities should continue to take measures to improve the quality of their customer services and relationship.

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