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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 01.01.2019 - 31.12.2019**

**Sarajevo, January 2020**

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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 01.01.2019 – 31.12.2019 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 the banking system entities of the Federation of B&H,
- Investigating activities in the financial market ex officio or based on complaints, all for purpose of protecting the rights of financial service users,
- 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 banking system entities in the Federation of B&H,
- 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 and 93/15) and the Rulebook on the Ombudsman for the Banking System of the Federation of B&H (FB&H Official Gazette No. 46/18) that 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 2019 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 banking system entities 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 banking system entities. 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. Establishment of Ombudsman in 2014, 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 1,950 complaints and requests by financial service users and considerable number of 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 2019

The 2019 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 2019, the Ombudsman conducted the following activities:

- Responding to users' inquiries 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 other 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 business practices of banking system entities 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 01.01.2019 to 31.12.2019, the Department of the Ombudsman received **376** 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 **376** complaints/requests received during this reporting year, **339** were finalised, including **316** cases from 2019 and **23** cases initiated during 2018 and finalised in this reporting period.

In 2020, activities are pending in relation to 37 cases, most of which was formed in December 2019 and could not be objectively finalised.

The structure of the finalised 339 cases is shown:

**69** founded complaints, had a positive outcome favour of the complaint submitter (of which 5 rested on the Ombudsman's recommendations),

**97** further handling in line with relevant area of competency, of which 32 positively solved cases through an internal procedure in particular banking system entity,

**83** unfounded user complaints,

**42** inquiries and other filings 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,

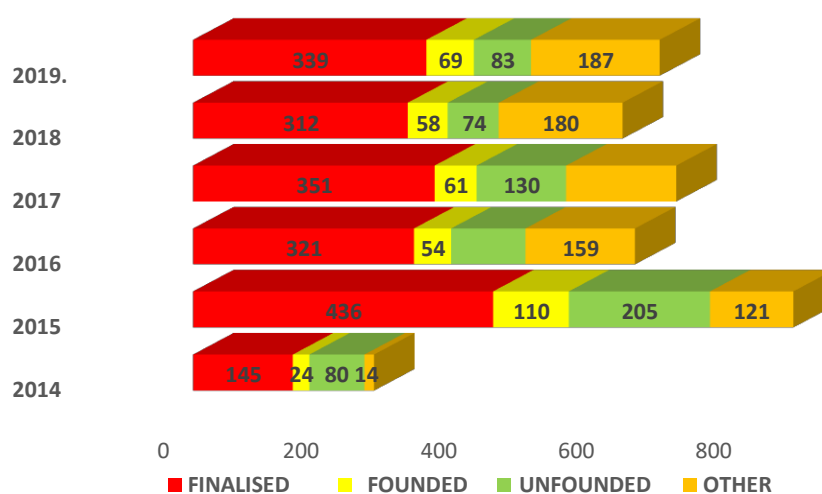
**32** complaints referred to some other competent institution/department (8 complaints forwarded to the organisational parts of the Agency for further handling in line with their area of competency, 6 complaints forwarded to the Banking Agency of the Republic of Srpska/RS Banking System Ombudsman for further handling, 3 cases to the Human Rights Ombudsman, 3 cases to the Insurance Ombudsman and 12 cases to other institutions),

**13** recommendations related to the request for release of the guarantor's obligation (9 unfounded and 4 founded requests), whereas the Agency's decision for 5 of such cases was to reject them as unfounded and 1 request was deemed as founded).

During the reporting period, there were no mediation proceedings since the dispute resolution discussed 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 total user complaints filed with the Ombudsman, but also a favourable trend of increase of positively solved cases, mostly achieved via agreements or activities of the Ombudsman.

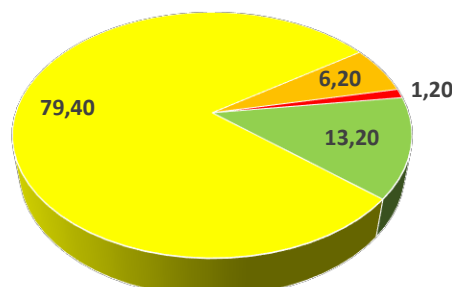


### 2.4. Structure of Complaints Towards Banking System Entities

Chart 2 – Structure of complaints towards banking system entities

Structure of complaints towards banking system entities

■ Banks ■ Micro credit organisations ■ Leasing comp. ■ Other



The biggest number of complaints, 118 out of 269 that involved banks, referred to two largest banks in the system. As for micro credit organisations, complaints received and processed during 2019 have dropped 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 2019 listed by individual banking system entities:

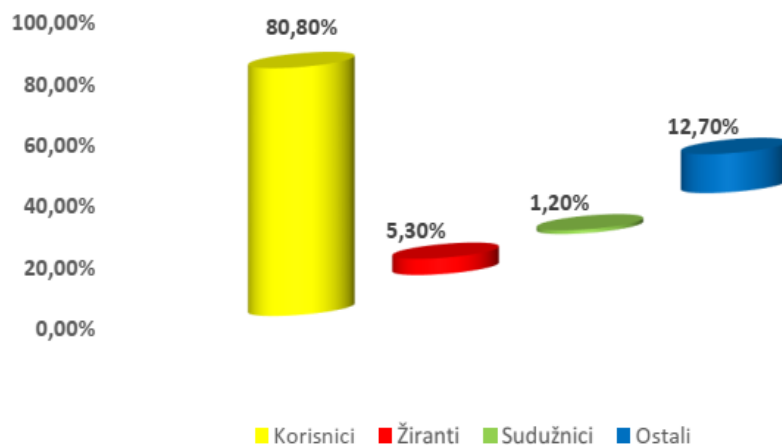
No.	Banking system entities	Number of finalised cases	Share in %
1.	Banks	269	79.4
2.	MCOs	21	6.2
3.	Leasing companies	4	1.2
4.	Other	45	13.2
	<b>Total:</b>	<b>339</b>	<b>100</b>

## 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).

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

### Struktura prigovora/zahitjeva prema podnosiocima prigovora



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

No.	Complaint submitters	No. of complaints/requests	Share in %
1.	Users	274	80.8
2.	Guarantors	18	5.3
3.	Co-debtors	4	1.2
4.	Others	43	12.7
	<b>Total</b>	<b>339</b>	<b>100</b>

The biggest number of complaints relates to loans, i.e. users of loans or micro loans as banking products. As for other products and user complaints, this mostly referred to current or deposit accounts, cards (debit and credit) or overdraft facilities. Other complaints were filed by natural persons not in a contractual relationship with banking system entities, but addressing the Ombudsman regarding the use of particular products or services. Such complaints mostly came from the segment of payments, implementation of court decisions, foreign currency exchange (purchase/sale), exchange rate differences, sending and receiving money from abroad, service fees, etc.

## 2.6. Number of Complaints/Requests by 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	No. of complaints / requests (finalised cases)	Share in %
1.	Loans	124	36.6
2.	Deposits	13	3.8
3.	Micro loans	12	3.5
4.	Fees	25	7.5
5.	Payments (accounts and cards)	50	14.7
6.	Electronic payment instruments	16	4.7
7.	Leasing	4	1.2
8.	Other	95	28
	<b>Total</b>	<b>339</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 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 2019, after having conducted relevant investigation, we have issued 14 recommendations to banking system entities and have delivered opinions with proposals for further actions.

Over the observed period, we have issued 11 recommendations to banks (of which one was general recommendation) and 3 recommendations towards micro credit organisations.

The general recommendation was issued in the context of achieving greater transparency in service rendering and improved negotiating position of users, subject to due consideration of applicable regulations.

The number of complaints by guarantors, as per Article 24 of the FB&H Law on Protection of Guarantors, has dropped since such guarantee as a form of security has becoming less and less used by banking system entities. A review of delivered agreements revealed that security instruments related to loans approved to natural persons mostly entail co-debtors or insurance policies.

During this reporting period, we have issued 13 recommendations based on requests for release from the guarantor's obligation and determined 3 founded and 10 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 having the biggest number of customers –users of products and services. It should be specially noted that the number of complaints over the observed period shows an upward trend compared to the previous years, 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 2019, 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,
- level of fees and commissions charged in relation to products and services,
- loan restructuring,



- delivery of data to the Central Loan Registry,
- loan insurance.

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 in sense of the obligations law 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 banking system entities 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.

As in previous reporting periods, there are still complaints regarding **high fees and commissions** (25) charged from users in relation to loans, loan repayments, confirmations and consents, as well as related to time required for such service rendering to customers. We find that these complaints are well founded and that banks and other banking system entities need to analyse their commissions and fees they charge from customers in order to ensure their reduction over the following period.

Many complaints filed during this reporting period referred to **rejected rescheduling and restructuring** (11) 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 (22). The users were not presented with information or received incomplete information by banking system entities about regulations (i.e. laws and regulations) defining this area. In particular, banking system entities do not regularly update the records and report to the Central Bank of B&H on loans with recorded defaults 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, i.e. users do not know the extent of responsibility of banking system entities for such data delivery and updates.

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** (13) pledged favour of a bank over the lifetime of a loan, but where they have prepaid such loans. Since previous reporting periods also saw complaints regarding refund of the undisbursed portion of an insurance premium in case of loan prepayments, we have exchange information with the Insurance Ombudsman, which resulted in a general recommendation being sent to all insurance companies. Therefore, over the following period, we expect insurance companies to align their operations with the said recommendation.

### 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 reduction on term deposits and irregular delivery of customer notifications. Some complaints referred to the process of a cash deposit disbursement in case of inheritance and collection of fees for early deposit withdrawal.

### 3.3. Micro Credit Operations

As for operations and activities of micro credit organisations, we would like to mention 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 rulings, release of the guarantor's obligation and level and method of interest calculation.

Out of the total number (12) of users addressing the Ombudsman regarding operations and activities of micro credit organisations, 7 complaints referred to disputes with the micro credit foundation that is undergoing 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.

### 3.4. Payments

Herewith we denote complaints related to domestic and international payment services, i.e. **type and level of fees** (25) that banking system entities charge from customers in this respect. The users complained about the level of fees for account maintenance and closure, sending and receiving money from abroad, foreign currency exchange, exchange rate differences and issuance of confirmations of outstanding debts. Most of complaints came from pensioners regarding high commission banks charge for payments from abroad. When processing and handling such cases, banking system entities 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.



As for processing and handling of such cases, we find that, according to effective legislation, the level of fees and other costs must be agreed with users, as well as that fees are a part of general business conditions or banking system entities and, as such, they can be changed twice a year, subject to user notification of any such change. Another issue refers to the method of notification, i.e. insufficient transparency in operations of banking system entities when changing the level or type of fees. This insufficient transparency reflects in voluminous information on general business conditions of banking system entities, where users cannot differentiate among all information received via distribution channels of a bank as to which part of relevant change refers to the specific product or service he/she uses. Several banking system entities were asked to ensure that users are informed at the time of the agreement conclusion about all costs to be borne by them, whereas the fee level (if being changed over the term of the agreement) must be objective and equal to actual costs about which users are to be duly informed in writing. Such notification should include the specific product and nominal amount of such fee change. We find that high fees for basic services (current account) pose a major burden to customers, especially when it comes to socially sensitive population categories.

It should be specially noted that the payments segment over the observed period saw significant number of complaints by customers facing **account blocking** (9) due to non-delivery and no updates to their personal information in the bank. With such complaints, we provided elaborated answers and users were instructed to request account and transactions checks and monitoring subject to the Law on Anti Money Laundering and Counter-Terrorism Financing (AML and CTF) and Agency's regulations.

Certain part of complaints involved **enforcement against customer accounts** (6) subject to court and other enforcement orders and irregularities identified in interest charging and accrual. Our instructions in such cases relate to users' rights, i.e. obligation of banking system entities to apply limitations to salary attachments denoted 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).

### 3.5. Electronic Payment Instruments

Significant number of complaints (increasing by 1.2% against the previous reporting period) referred also to electronic payment instruments and cards business, where this greatly referred to online payments for the goods and services, use of ATMs, and unauthorised use and misuse of cards. User complaints regarding potential card misuse were subjected to a very complex investigation process and, judging from processed cases, banks as service providers mostly make business decisions related to such dispute resolution based on their reputation risk (which is not imperative from the perspective of the user rights protection), but without any clear complaint procedures and conditions and depending on the type and method of performed transaction. Having implemented relevant processes, we find that the system of card transactions monitoring is not clear (lack of relevant standards), especially in the context of protection against technical deficiencies and misuse in case of illegal acquisition of card data and in situations of card-not-present transactions. It is often presumed that particular disputed transaction occurred due to a customer error, while relevant answers to Ombudsman show no proof or at least facts indicating to such a thing. Since this very process is not clear and there are no criteria for determining facts or responsibility regarding such complaints, we have prepared a special analysis with proposals for establishing relevant standards for this segment of the banks' operations.



### 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. Users often complain about the time required to issue different types of consents and confirmations, as well as about loan approvals, use of personal data, banking secrecy.

### 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 or non-observance of the sequence / order of enforcement collection by banking system entities. 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, 4 complaints referred to the leasing business and referred to the calculation of receivables under financial lease agreement, entries made to CLR and collection against lease assets.

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

In addition to written complaints and requests, the Ombudsman's Department 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, **100** different inquiries, pleas and requests were received by the Ombudsman Department and responses were directed 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 banking





system entity 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 existing debt refinancing out of new loans due to better lending terms offered by other banking system entities, 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**

Ombudsman, as one of parties to protection of rights and interests of financial service users, also performs activities of financial education of adults and youth for purpose of improving financial knowledge and skills of financial service users. 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 established to provide technical support related to planning and implementation of financial education of citizens – financial service users.

Financial education is an important source of information on the level of knowledge and problems at hand, as well as a source of information as to how much citizens actually understand the functioning of a commercial/financial sector. Accordingly, educational workshops were designed to ensure creative and interactive way of presenting the activities of the Ombudsman, familiarise users with main characteristics of financial institutions and their products and services, as well as relevant obligations of banks and protection of their rights as service users.

- In the period from 25.03.2019 to 29.03.2019, we have held series of lectures for students of the 3<sup>rd</sup> Grammar School from Sarajevo and "Ivan Goran Kovačić" High School from Kiseljak, as well as for students of the Faculty of Economics of the University in Sarajevo. For purpose of raising financial literacy of the young population, the lectures focused on key financial terms, as well as practical knowledge and information required for sound and independent management of personal finances.
- On 07.11.2019 in Sarajevo, the Ombudsman has attended a round table discussion on



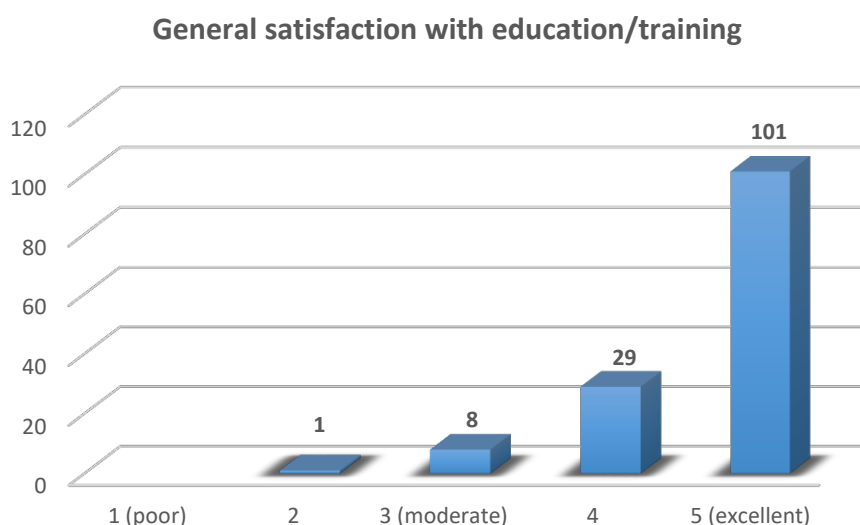
the topic of importance of advisory activity and financial education from the perspective of Ombudsman and financial advisors. The round table had more than 25 participants – advisors and state employees in charge of financial advisory and education roles with respect to citizens of different municipalities in the Federation of B&H and the RS.

- On 26.11.2019, a financial education session was organised for students of the Faculty of Economic and the Faculty of Law in Tuzla. On this occasion, we acquainted participants about protection mechanisms provided by the Ombudsman, as well as our role and competencies (with practical examples).

In the period from 04.10.2018 to 26.11.2019, we provided financial knowledge and ensured financial literacy to 146 citizens in the FB&H, i.e. to 100 young people. Through our financial education, citizens developed awareness of potential risks and gained skills for managing such risks. They have received complete and comprehensible information based on which they can run comparisons of products and services available in the market and have gained additional knowledge enabling them to select an appropriate product or service.

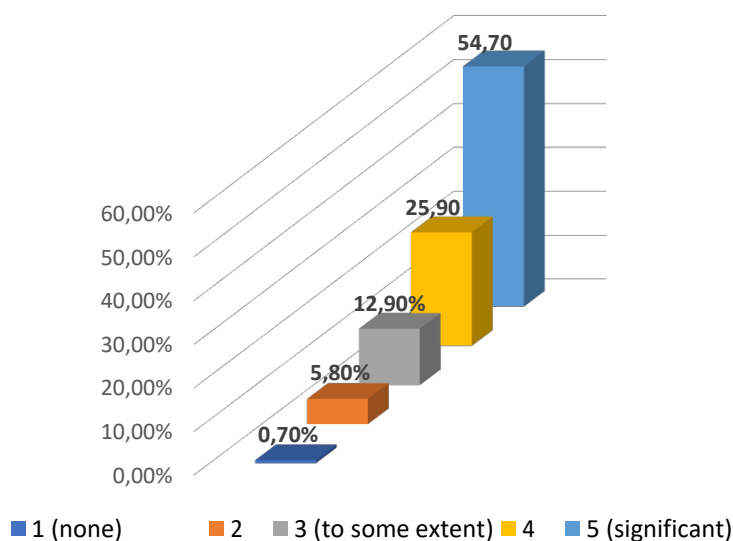
Out of the total number of participants in these education sessions, 139 completed an evaluation form where they listed their opinions, proposals and evaluated the quality of this financial education.

On a scale from 1 (poor) to 5 (excellent), 101 participants deemed their general satisfaction with the training as excellent. This refers to the training contents, interaction between participants and written materials/brochures.



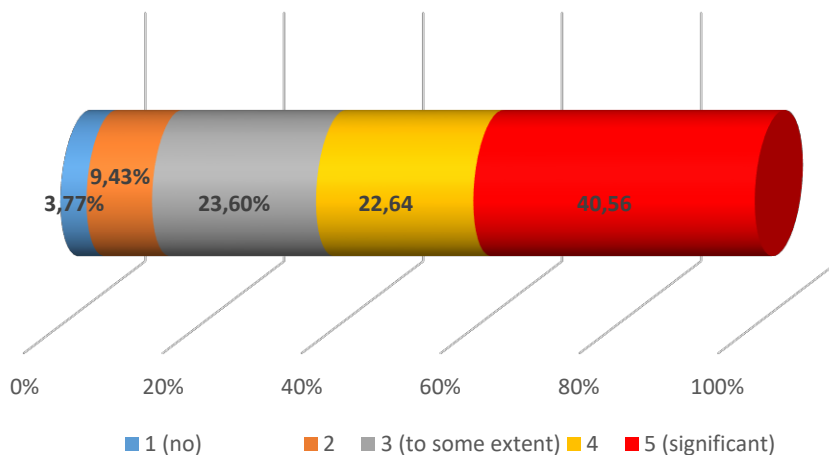
Citizens have insufficient understanding of the terminology, basic characteristics of financial products and relevant choices that would meet their needs. After relevant training session, 54.7% participants expressed significant satisfaction with having gained new knowledge and additional skills to assist them in, as they said, making correct decisions to use particular financial product and service, i.e. in ensuring responsible use of their money.

### Acquisition of new knowledge and skills during training



110 young people had an opportunity to inform themselves about main characteristics of banking system entities and their products, obligations of banks and their rights as service users. They said that this training was very instructive since some very useful information was received that they haven't had a chance to hear before. They gained additional knowledge on types of accounts, loans, savings and general manner of functioning of banking system entities. 86.80% of them intend to use the knowledge and skills acquired here on daily basis.

### Knowledge/skills acquired can be applied on daily basis



On our web page, users and guarantors can regularly follow up on information on all issues with the competence of the Ombudsman. Also, we have created an online form for filing complaints and updated the „Questions and Answers“ column on the official web page of the Agency, so that citizens can directly and simply obtain answers to questions of their potential interest.





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

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

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.

During this reporting period, after having conducted relevant processes and based on ex officio information, we have forwarded 2 cases to the competent departments of the Agency (together with our relevant opinion and proposal).

One case here included information on significant number of complaints by customers of a micro credit foundation that is undergoing bankruptcy proceedings, based on which the portfolio of natural persons was transferred to a company dealing with purchase of receivables, i.e. there were issues with category change in or deletion from the Central Loan Registry (regarding debts being allegedly repaid or not incurred at all), collection process, interest calculation and grounds for initiating court proceedings.

The second case referred to a recommendation for an analysis of activities and operations of a company regarding the legal framework regulating banking system entities, including also loan approval and activities and services this company provides to users based on issuance and use of payment cards.

## VII. COOPERATION WITH OTHER INSTITUTIONS AND ORGANISATIONS

The cooperation with other institutions and organisations entails, on one hand, the Ombudsman's cooperation with banking system entities with regards to user complaints/requests and, on the other, cooperation with other institutions in promoting financial rights and establishment of standards for their fulfillment.

- On 03.04.2019, we have participated in a training session discussing the topic of protection of financial service users and financial involvement that was organised by the Central Bank of Portugal in cooperation with the National Bank of Bulgaria, all as a part of the Program of Strengthening Capacities of Central Banks in West Balkans“ (funded by the European Union).
- In July 2019, as a part of the support to the Project of Alignment of the B&H Law on Consumer Protection with the EU Acquis, a meeting was held with representatives of the B&H Ministry of Trade and Economic Relations and the Project leaders for purpose of mapping parts of this law to the FB&H Law on Protection of Financial Service Users.
- Within the Project of Microfinance in Bosnia and Herzegovina, in the period from 16.09.2019 to 20.09.2019, we had a study tour to Vienna where we had a chance to hear lectures and practical experience of financial advisory centres in Austria, as well



as to hear financial institutions and their experience in the microfinance segment. We have also visited the Supreme Court of Austria.

- On 11.09.2019, we attended the 4<sup>th</sup> regular meeting of the House of Representatives of the FB&H Parliament, i.e. its part discussing the 2018 Performance Report of the Banking System Ombudsman.
- On 19.11.2019, the Ombudsman participated as a panelist at the conference discussing the role and importance of micro financing that was organised by the B&H Association of Micro Credit Organisations (AMFI). It included four panel discussions on the microfinance sector with a special emphasis on the regulatory framework, protection of financial service users, entrepreneurial impulses, social effects of micro financing and new horizons.
- On 21.11.2019, we have held a meeting with a representative of the Swiss Secretariat for Economic Relations, Ms. Brigitte Bruhin. Topics discussed at the meeting were: overindebtedness of citizens, role and importance of financial literacy, building capacities to strengthen activities of financial education and general cooperation between the FB&H Banking System Ombudsman and IFC.
- On 18.12.2019, we have participated in a round table discussion of the topic of improvement of legislative framework of the micro credit sector in B&H that was held in Banja Luka and was organised by the RS Ministry of Finance.

In line with the 2019 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 for competencies and activities of the Ombudsman's Department, we have performed duties and obligations as a part of measures for implementation of the Action Plan for performance of priorities listed in the Analytical Report of the European Commission – Chapter 28 (Consumer and Health Protection).

## 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 resulted in greater number of positively solved complaints and more up-to-date handling of internal processes by banking system entities.

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. Our experience insofar has confirmed a need for continued education over the following period 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. Also, by implementing the educational activities, we contribute to stability of the very financial sector. By promoting the knowledge on mechanisms of user protection and financial products and services, we also promote and contribute to better financial inclusion of the young population into the financial sector.

It is important to note that a financially educated person contributes to an economic growth, self-employment and creation of new jobs and encourages financial inclusion and affects the environment in sense of creating a long term stable and sound financial market.

The Report also 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. Therein, since business relations between banking system entities and their customers are regulated by agreements and since they mostly refer to general business conditions that get constantly changed and amended and contain many different and complex products and services, the banking system entities need to improve visibility, comprehensibility and availability of their internal regulations. General business conditions of banking system entities that contain fee tariffs and all their changes or amendments must make a reference to which products they refer to and the user must be informed about the nominal increase of such product price, i.e. he/she must be given an opportunity to cancel use of any such service if being dissatisfied with it. It is not transparent enough just to post general business conditions in branches of a particular banking system entity and on its 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 actions regarding customer requests, to take all necessary measures and actions to eliminate obstacles and ensure conditions for lawful, timely, efficient and cost-effective performance of own decisions, as well as to organize their activities in such manner to prevent repeating the same or similar problems and to duly eliminate operating deficiencies causing denial of user rights.

Our experience so far has confirmed a need for having an institutionalised 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 transparency of its products and services and their customer relations.

#### BANKING SYSTEM OMBUDSMAN:

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Lejla Smajović

