

PRACE NAUKOWE

Uniwersytetu Ekonomicznego we Wrocławiu

RESEARCH PAPERS

of Wrocław University of Economics

302

Finance and Accountancy for Sustainable Development – Sustainable Finance



edited by

Grażyna Borys

Małgorzata Solarz



Publishing House of Wrocław University of Economics
Wrocław 2013

Copy-editing: Agnieszka Flasińska

Layout: Barbara Łopusiewicz

Proof-reading: Barbara Łopusiewicz

Typesetting: Beata Mazur

Cover design: Beata Dębska

This publication is available at www.ibuk.pl, www.ebscohost.com,
and in The Central and Eastern European Online Library www.ceeol.com
as well as in the annotated bibliography of economic issues of BazEkon
http://kangur.uek.krakow.pl/bazy_ae/bazekon/nowy/index.php

Information on submitting and reviewing papers is available on
the Publishing House's website
www.wydawnictwo.ue.wroc.pl

All rights reserved. No part of this book may be reproduced in any form
or in any means without the prior written permission of the Publisher

© Copyright by Wrocław University of Economics
Wrocław 2013

ISSN 1899-3192

ISBN 978-83-7695-354-0

The original version: printed

Printing: Printing House TOTEM

Table of contents

Introduction	7
Melania Bąk: Corporate Social Responsibility from the accounting perspective	9
Grażyna Borys: Selected problems of auctioning the greenhouse gas emission allowances.....	18
Jarosław Dziuba: The concept of sustainable development in tax policy of cities with county rights referring to property tax in Poland	26
Tomasz Gabrusewicz: Sustainability accounting – definition and trends.....	37
Elżbieta Hajduga: The system of cost account in agricultural accounting.....	47
Olga Hasprová, David Pur: Going concern assumption and financial analysis	57
Alicja Janusz: Safety of the capital invested in the structured products available at the financial market in Poland	73
Joanna Kogut: Audit committee functioning in public interest entities – current status and future perspectives.....	82
Andrzej Koza: Grants for employment of people with disabilities as the form of state aid and <i>de minimis</i> aid.....	91
Wojciech Krawiec: Polish Socially Responsible Investment Funds – investment policy and efficiency	101
Robert Kurek: Regulatory arbitrage at the EU insurance market – the phenomenon identification	110
Teresa Orzeszko: Activities focused on society education and implemented within the framework of Corporate Social Responsibility by domestic listed banks in Poland	118
Agnieszka Ostalecka: Consumer protection as a tool for building safe and consumer-friendly financial services market	129
Adriana Przybyszewska: Entrepreneurship determinants vs. motives underlying women’s entrepreneurship.....	137
Bożena Ryszawska: Financing the transition to green economy in Europe....	146
Małgorzata Solarz: Financial capability development as the responsible finance instrument counteracting financial exclusion.....	156
Magdalena Swacha-Lech: Social aspects of banks’ activity in context of undersaving problem of Polish society.....	167
Marta Wiśniewska: Arbitrage in equity markets.....	177
Joanna Zuchewicz: Financial reporting as the instrument presenting entities’ responsibility for their economic and social performance.....	187

Streszczenia

Melania Bąk: Odpowiedzialność społeczna przedsiębiorstw z perspektywy rachunkowości	17
Grażyna Borys: Wybrane problemy aukcji uprawnień do emisji gazów cieplarnianych	25
Jarosław Dziuba: Koncepcja zrównoważonego rozwoju w polityce podatkowej miast na prawach powiatu w zakresie podatku od nieruchomości w Polsce	36
Tomasz Gabrusewicz: Zrównoważona rachunkowość – definicja i trendy	46
Elżbieta Hajduga: System rachunku kosztów w rachunkowości rolnej	56
Olga Hasprová, David Pur: Zasada kontynuacji działalności a analiza finansowa	72
Alicja Janusz: Bezpieczeństwo kapitałów lokowanych w produktach strukturyzowanych dostępnych na rynku finansowym w Polsce	81
Joanna Kogut: Funkcjonowanie komitetu audytu w jednostkach zainteresowania publicznego – stan obecny i perspektywy	90
Andrzej Koza: Dotacje do zatrudnienia osób niepełnosprawnych jako forma pomocy publicznej i pomocy <i>de minimis</i>	100
Wojciech Krawiec: Polskie fundusze inwestycyjne odpowiedzialne społecznie – polityka inwestycyjna i efektywność	109
Robert Kurek: Arbitraż regulacyjny na rynku ubezpieczeniowym UE – identyfikacja zjawiska.....	117
Teresa Orzeszko: Działania na rzecz edukacji społeczeństwa realizowane w ramach społecznej odpowiedzialności biznesu przez krajowe banki giełdowe w Polsce	128
Agnieszka Ostalecka: Ochrona konsumenta jako narzędzie budowania bezpiecznego i przyjaznego konsumentowi rynku usług finansowych.....	136
Adriana Przybyszewska: Determinanty przedsiębiorczości a motywy przedsiębiorczości kobiet	145
Bożena Ryszawska: Finansowanie transformacji do zielonej gospodarki w Europie.....	155
Małgorzata Solarz: Kształtowanie zdolności finansowych jako instrument odpowiedzialnych finansów przeciwdziałający wykluczeniu finansowemu	166
Magdalena Swacha-Lech: Społeczne aspekty działalności banków komercyjnych w kontekście problemu zbyt niskiego poziomu oszczędności Polaków	176
Marta Wiśniewska: Arbitraż na rynku akcji.....	186
Joanna Zuchewicz: Sprawozdawczość finansowa jako instrument prezentacji odpowiedzialności jednostek za ich gospodarcze i społeczne dokonania ...	195

Agnieszka Ostalecka

Wrocław University of Economics

CUSTOMER PROTECTION AS A TOOL FOR BUILDING SAFE AND CONSUMER-FRIENDLY FINANCIAL SERVICES MARKET

Abstract: One of the most important lessons to be drawn from the recent financial and economic crisis is the need to strengthen consumer protection and restore public confidence in financial system. The events on financial markets show that abusing and deceptive practices in connection with financial illiteracy and weak customer protection can lead in some cases to severe financial turbulences. The main objective of the article is to discuss the idea of consumer protection and indicate its role in building safer and more consumer-friendly financial services market, by pointing out its potential positive, multidirectional influence on financial markets.

Keywords: financial consumer protection, financial services market safety, sustainable development.

1. Introduction

The experiences of recent financial crisis show, with strong severity, how financial problems of retail consumers as well as dissatisfied level of their protection, can affect financial system and the whole economy. Using securitization by banks to transfer credit risk connected with subprime credits on market participants (including individuals) resulted in spreading the weaknesses of household finances on the entire global financial system.

One of the most important lessons to be drawn from the recent financial and economic crisis is the need to strengthen consumer protection and restore public confidence in financial system. The events on financial markets show that abusing and deceptive practices in connection with financial illiteracy and weak customer protection can lead in some cases to severe financial turbulences. Moreover, recent crisis highlighted the necessity of strengthening consumer protection in order to maintain long-term financial stability and enable sustainable development of financial markets.

The main objective of the article is to discuss the idea of consumer protection and indicate its role in building more safe and consumer-friendly financial system, by pointing out its potential positive, multidirectional influence on financial markets.

2. The idea of consumer protection on the financial services market

Financial consumer protection includes several initiatives undertaken by governmental institutions and consumer organization, which were established in order to protect consumer interests as well as initiatives undertaken at the international level. According to the World Bank [Ardic et al. 2011, p. 8], consumer protection framework generally includes the introduction of greater transparency and awareness about the goods and services, promotion of competition in the marketplace, fraud prevention, customer education, and elimination of unfair practices.

It involves rules of conduct for financial services providers in regard to their retail clients. Financial consumer protection is expressed in creating consumer-friendly financial system where interests of consumers are protected in contacts with banks and other financial institutions.

In most financial systems, regulatory and supervisory framework has already had the aim of consumer protection, along with maintaining financial stability, but in the light of recent events on financial markets, expanding regulations seem to be necessary in order to keep up with the pace of market changes and development. Rapid development of market and financial innovations in combination with inadequate regulations and supervision of financial institutions, as well as regulations concerning consumer protection, in environment of insufficient market transparency, create huge threats for consumer safety.

The necessity of ensuring consumer protection derives from the following disruptions occurring on the market [Rokicka 1998]:

- constraints of competition and disruptions of free competition rules,
- constraints in the access of consumers to reliable information, enhanced by aggressive marketing of financial products and services,
- lack of real influence of consumers on the terms of contracts made with financial institutions,
- limitations in the access of consumers to judicature resulting from financial, psychological and culture barriers.

Consumer protection becomes indispensable element of contemporary financial markets because of existing imbalances in access to knowledge, power, information and resources between consumers and their financial service providers, placing consumers at a disadvantage [Rutledge 2010, p. 9]. This situation creates asymmetric information problem causing consumers to make financial decisions in the conditions of insufficient knowledge and information, while a bank knows its product and has comprehensive information about real profits and costs of using it. This means that in the relation: a bank and its customer, a bank can take an advantage of its under-

informed client, what constitutes a serious problem, especially in the context of some financial institutions' practice of intentional providing their customers with insufficient information. It leads to making the customers vulnerable to unfair and abusive practices by financial institutions.

In some cases, even full information about a product or service is insufficient, if customers come across a complex product and do not have sufficient knowledge and experience to assess the risk connected with it. That is why financial literacy should be an essential element of activities connected with strengthening consumer protection. As it is noticed in OECD Report [OECD 2009, p. 8], the growing complexity of financial products over the past decade, coupled with financial innovations and increasing transfer of financial risks to households, has put enormous pressure and responsibilities on financial consumers.

That means that consumer situation has been more risky recently, because of the constant trend of growing complexity of modern products and services, which they do not understand. However, as indicated in BIAC publication, financial consumer protection should boost understanding by consumers of the risks and potential results of products, rather than simply aim at reducing the complexity of products. It is because some of the complexities of modern financial instruments are designed to reduce risks for consumers, and it must accordingly be clear that complex financial products do not necessarily imply that they are more risky [BIAC 2011, p. 3]. The bigger problem is when complex products or services are of weak transparency, which does not give any possibilities to make aware decision, rather than existing complex products on the market.

Apart from the existence of complex products, World Bank Report indicates that imbalances which create the asymmetric information problem are also present in the following cases [Rutledge 2010, p. 9]:

- transactions are idiosyncratic or rare (for example, when providing a mortgage on a personal residence),
- entry or exit costs are low (such as for financial intermediaries), thus allowing disreputable firms to emerge, or
- the payoff to the consumer is postponed or very high (for example, long-term investment products, where performance cannot be evaluated for many years and expenses may consume a large part of profits).

In order to limit asymmetric information problem there should exit regulations directed to reducing these imbalances and protecting consumers on financial markets, providing them with information which they need in order to make a right decision. As A. Hannig and S. Jansen [2011, p. 306] appropriately noticed, consumer protection is generally considered to be a regulatory response to a market failure.

Without easy-available and credible information, it is difficult to make up rational choices. Thus, the main idea of customer protection is providing information to make the informed decision rather than securing from making bad financial decision. Review of literature allows for distinguishing main objectives of financial consumer protection, which are as follows [The World Bank 2011; Rutledge 2010]:

- ensuring that consumers receive accurate information in simple, plain and comparable language before they buy financial product (to allow them to make informed decision) as well as during the life of the product,
- ensuring that consumers are not subject to unfair or deceptive practices,
- providing consumers with access to fast, inexpensive and efficient mechanism for resolving disputes with financial institutions,
- enabling consumers to obtain financial knowledge when they want and in the form they want,
- maintaining privacy of consumers' personal information (personal data protection).

Analysing these goals, it can be noticed that providing information seems to be essential to create opportunity to make good choices, but there emerges another problem – the quality of information, which also constitutes the issue of significant importance. In consumer protection literature there are some statements which say that information overload is also unfavourable. For example Ebers [2004, pp. 8–10] suggests that information overload reduces the usefulness of disclosure. He sustains that if overloaded with information, the average customer is often incapable to process information properly, what can lead to make a wrong decision. That confirms the importance of appropriate information which should be concise, clear and precise.

Taking into account the main goals of customer protection, it can be defined as attempts to redress the imbalance, by giving individuals clear and complete information provided in simple form to make well informed decisions, by prohibiting financial institutions from engaging in unfair or deceptive practices, and by providing adequate mechanisms to resolve disputes between individuals and financial institutions [Rutledge 2010, p. 10].

However, the consumer protection is a shared responsibility of governments, business and consumers, and it would be erroneous to imply that financial service providers should shoulder all of the responsibility [BIAC 2011, p. 2]. They are responsible for compliance with the law and regulations concerning consumer protection, but consumer protection does not mean protection from all investment risks. If consumers, basing on provided information, make aware choice and buy product of higher potential rate of return, they should be ready to take on higher investment risk. Thus, regulations concerning consumer protection should not forbid selling product of higher investment risk but rather provide consumers with full information, which allows them to evaluate benefits and costs connected with this product. It is possible under the condition of simultaneous supporting financial literacy.

3. The role of consumer protection in increasing financial services market safety

As indicated in the World Bank's *Good Practices* [The World Bank 2011, p. 1], in order to create conditions for the customers to make informed and aware decisions, there should be support for activities connected with the idea of promoting financial literacy which gives customer knowledge and skills to understand and evaluate information they receive. It enables them to purchase those financial products and services which best meet their needs, and to avoid unsuitable or unnecessary ones. Well-informed, experienced and aware of their rights customers force financial institutions to **offer better products** and compete, apart from prices, also in the quality of their products and services. It results in creating the environment of social responsibility, which, in the light of recent confidence crisis, has become indispensable condition for deepening and development of the banking system and creating conditions to sustainable growth of financial markets.

Better informed consumers making their aware decisions influence the market and financial institutions, conducting some kind of market supervision. As the World Bank Report underlines, consumers who are empowered with information and basic rights—and who are aware of their responsibilities—provide an important source of **market discipline** to the financial sector, encouraging financial institutions to compete by products and services rather than by taking advantage of poorly informed consumers [Rutledge 2010, p. 10]. It gives a chance to create conditions of better transparency, efficiency and equal opportunities for both parts of transactions.

Besides, consumer protection also improves **governance of financial institutions**. By strengthening transparency in the delivery of financial services and accountability of financial firms, consumer protection helps to build demand for good governance of the sector and the strengthening of business standards in the financial sector [Rutledge 2010, p. 10].

It is beyond any doubt that efficient framework of consumer protection **supports financial stability**. It enhances sound competition among financial institutions offering aware customers better products and services, thus promoting innovations, growth and efficiency of financial markets. Moreover, well-functioning consumer protection along with financial literacy is an indispensable condition for supporting confidence to financial markets, which is essential for its sustainable development and stability. In long-term, all participants of financial system take benefits from effective consumer protection framework.

The strong influence and direct inter-connections between customer protection and financial stability confirm the statement of the Chair of the U.S. Federal Deposit Insurance Corporation, Sheila Bair, that “there can no longer be any doubt about the link between protecting consumers from abusive products and practices and the safety and soundness of the financial system” [*Consumers International...*, p. 1].

Consumer protection is an essential instrument of **reducing financial exclusion**. It constitutes an indispensable condition for maintaining confidence to financial system. That is why it is important not only because of protecting existing consumers in banking systems but also for creating confidence to banking system, thus enhancing future consumers to use banking products and services. It is particularly important for low-income clients with limited knowledge and experience in banking services, for whom effective consumer protection constitutes a condition for joining financial system. In this meaning, financial consumer protection becomes a crucial instrument for building an inclusive financial system. As M. Iwanicz-Drozdowska indicates, a wide availability of products and services (which is important not only for existing consumers but also for underbanked and unbanked clients) is one of the main determinant of financial services market safety taking into account client's perspectives [Iwanicz-Drozdowska 2008, p. 148].

According to Alliance for Financial Inclusion, without an adequate consumer protection, the benefits of financial inclusion can be lost [Alliance for Financial Inclusion 2010, p. 2]. It means that in the conditions of ineffective consumer protection scheme and financial illiteracy, consumers can be harmed as a result of financial access and found themselves overindebted, underinsured or without an expected return of their investment. Such a situation creates the environment of mutual distrust and brings down the confidence to financial system.

The direct influence of customer protection on financial inclusion can be observed in following interconnections [The World Bank 2012, p. 14]:

- customer protection and financial literacy help to build public confidence, and raise demand for financial services,
- disclosure and transparency promote financial inclusion, lower risks, and can stimulate competition,
- financial literacy enables consumers to benefit from financial decisions.

The importance of consumer protection in building an inclusive financial system was confirmed in the World Bank Financial Inclusion Strategy [The World Bank 2012, pp. 13, 14], where consumer protection is understood as an indispensable element of the responsible financial inclusion strategy. According to this report, measures to strengthen consumer protection framework and to raise financial consumer awareness and capability need to be introduced alongside or as a part of financial inclusion strategy.

4. Conclusions

Recent financial crisis shows the necessity of strengthening consumer protection and supporting initiatives leading to restoring confidence to financial market. In the light of massive abusive practices highlighted by the crisis, consumers are in a strong need to equal their opportunities in contact with financial institutions. Financial consumer protection becomes more important because of growing pace of financial

innovation and launching on the market more complicated financial products and services, which are not understood by an average consumer. Improved consumer protection and financial literacy cannot be a “magic bullet” to solve all problems in consumer finance but they can identify preventive measures to help to avoid some of the worst financial consumer abuses [Rutledge 2010, p. 8].

Effective consumer protection has multidirectional influence on financial markets. First of all, it equals opportunities for consumers in relations with financial services providers in terms of access to information, decreasing asymmetric information problem. Well-informed and aware customers constitute an important source of market discipline, because they force banks to offer better, safer products and services better fitted to their needs and opportunities. Financial consumer protection plays a significant role in creating and maintaining public confidence, which is in turn a condition for financial markets safety and stability. Last, but not least, it constitutes an essential instrument of reducing financial exclusion.

In order to ensure the best effects of consumer protection, in the process of enhancing its framework, several entities should be engaged, not only government and financial institutions, but also consumers of financial products and services.

Consumers should be aware that in spite of existing effective framework of consumer protection, they should bear responsibility for undertaken financial decisions. A key for understanding this need is a constant increase of their financial education and engaging into initiatives of strengthening financial literacy. That is why, in order to strengthen the positive impact of customer protection on safety, stability and sustainable development of financial markets, consumer protection should be integrated with financial education and financial inclusion policy.

References

- Alliance for Financial Inclusion, *Consumer protection. Leveling the playing field in financial inclusion*, “Policy Note”, Bangkok 2010.
- Ardic O.P., Ibrahim J.A., Mylenko N., Customer protection laws and regulations in deposit and loan services. A cross-country analysis with a new data set, *Policy Research Working Paper* no. 5536, Financial and Private Sector Development, World Bank, Washington, DC, 2011.
- BIAC, Financial consumer protection, *The Voice of OECD Business*, Paris 2011.
- Consumers International Campaign for G20 Action on Financial Consumer Protection*, Briefing: the development of a permanent organisation for international standard setting and coordination with regard to financial consumer protection, www.consumerinternational.org.
- Ebers M., Information and advising requirements in the financial services sector: Principles and peculiarities in EC Law, *Electronic Journal of Comparative Law* 2004, vol. 8.2, <http://www.ejcl.org/82/art82-2.html>.
- Hannig A., Jansen S., Financial inclusion and financial stability: Current policy issues, [in:] M. Kawai, E.S. Prasad, *Financial Market Regulation and Reforms in Emerging Markets*, Asian Development Bank Institute, The Brookings Institution, Tokyo, Washington 2011.
- Iwanicz-Drozdowska M., *Bezpieczeństwo rynku usług finansowych. Perspektywa Unii Europejskiej*, Szkoła Główna Handlowa, Warszawa 2008.

- OECD, *Financial Literacy and Consumer Protection: Overlooked Aspects of the Crisis. OECD Recommendation on Good Practices on Financial Education and Awareness Relating to Credit*, Paris 2009.
- Rokicka G., Ustawodawstwo konsumenckie Unii Europejskiej (wybrane aspekty), [in:] K. Gutowska, I. Ozimek (Eds.), *Socjoekonomiczna i prawna sytuacja konsumentów w Polsce w obliczu integracji z Unią Europejską*, Wydawnictwo SGGW, Warszawa 1998.
- Rutledge S.L., Consumer protection and financial literacy. Lessons from nine country studies, *Policy Research Working Paper* no. 5326, World Bank, Washington, DC, 2010.
- The World Bank, *Good Practices for Financial Consumer Protection, March 2011, Consultative Draft*, Washington, DC, 2011.
- The World Bank, *Financial Inclusion Strategies. Reference Framework*, Washington, DC, 2012.

OCHRONA KONSUMENTA JAKO NARZĘDZIE BUDOWANIA BEZPIECZNEGO I PRZYJAZNEGO KONSUMENTOWI RYNKU USŁUG FINANSOWYCH

Streszczenie: Jedną z najważniejszych lekcji, jaką można wyciągnąć z ostatniego kryzysu finansowego i ekonomicznego, jest potrzeba wzmocnienia ochrony konsumenta oraz przywrócenia zaufania do systemu finansowego. Wydarzenia, które nastąpiły na rynku finansowym, ukazują, jak nieuczciwe praktyki banków w połączeniu z niską świadomością finansową i niskim poziomem ochrony konsumenta mogą prowadzić do głębokich zaburzeń na rynkach finansowych. Głównym celem artykułu jest przedstawienie idei ochrony konsumenta oraz wskazanie jej roli w budowaniu bardziej bezpiecznego i przyjaznego konsumentowi systemu finansowego poprzez wskazanie jej pozytywnego, wielokierunkowego wpływu na rynki finansowe.

Słowa kluczowe: ochrona konsumenta, bezpieczeństwo systemu finansowego, zrównoważony rozwój.