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19/10/2023

There are several bottlenecks in Estonian laws that prevent the financial supervisors from testing compliance with the principles of responsible lending, said Kilvar Kessler, chair of the board of Finantsinspektsioon, at a public session of the State Budget Control Select Committee of the Riigikogu. He argued that it is time for Estonia to follow other countries in Europe by introducing administrative fines in the financial sector and allowing consumers to resolve disputes about financial services out of court.

The session at the Riigikogu was discussing the results of the National Audit Office's report on responsible and informed lending and consumer protection for consumer loans from non-bank lenders. There are more problems with non-bank creditors, as one consumer in four who signs a credit contract with them is unable to repay their loan on time.

Banks and credit institutions in Estonia had signed over 1.1 million credit contracts with consumers as at the end of June. It is not the job of Finantsinspektsioon to inspect each individual contract. It monitors rather whether the organisational solutions used by the creditors protect the interests of consumers by lending responsibly and adhering to the upper limit on the APR cost of credit and to the requirements for informing consumers. Head of Finantsinspektsioon Kilvar Kessler said that the supervisors need an appropriate toolbox if they are to protect the interests of consumers and direct the activities of creditors.

"It is good to note that the levels of fines in the financial sector will rise in autumn, but we should take another further step in Estonia and introduce administrative fines like those in most other European countries to cut down on breaches of the financial sector regulations. Such fines would let us react more quickly to breaches than we can at present, and to be more of a deterrent. Consumers would also benefit very much from having recourse to a body that can resolve disputes around financial services in Estonia in the form of a financial ombudsman", he said.

Finantsinspektsioon can currently react to breaches of the regulations using inspections, precepts and inquiries as the tools in law. It has already made 43 inquiries to creditors and credit intermediaries this year in connection with credit services, where last year it made only 39 in total. Finantsinspektsioon has also issued more precepts for breaches of the rules around credit services this year, as it has already issued five of them having only issued four last year.

Fines for breaches of the financial services regulations are rare though, because the misdemeanour procedure that Finantsinspektsioon currently uses is clumsy and time-consuming. Resolving disputes around financial services is also time-consuming for consumers. Consumers in many other countries in Europe can resolve their disputes through a financial ombudsman, but in Estonia they have to go to court.

Finantsinspektsioon has proposed to the Ministry of Finance that the ratio of the principal and interest

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payments of credit to the income of consumers could be fixed for creditors and a positive credit register could be set up where both creditors and borrowers could check their liabilities. It considers that these two changes would make lending more responsible.