

# THE ROLE OF CENTRAL BANKS IN THE PROTECTION OF THE BANKING CLIENTS: A LAW AND REGULATION PERSPECTIVE

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## Abstract

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Customer protection remains a challenge, even in highly developed democracies, reflecting the overall socio-economic development of a region. This paper focuses on the protection of customer rights in the banking sector within selected Western Balkan countries, emphasizing the roles and legal competencies of central banks. The research aims to identify best practices and areas for improvement, particularly in Kosovo. Using qualitative research methodology, the study analyzes primary data from central banks and secondary data from various sources, comparing regulatory practices and the number of complaints across the selected countries. The findings suggest that while strides have been made in customer protection, further regulatory improvements and financial literacy initiatives are needed. The paper concludes by highlighting the importance of enhanced regulatory frameworks and customer education to ensure financial stability and protect customer rights, making a significant contribution to the ongoing discourse on consumer protection in the financial sector.

**Keywords:** Central Banks, Banking Client Protection, Western Balkans, EU Integration, Financial Regulation

**Authors' individual contribution:** Conceptualization — B.P. and F.G.; Methodology — B.P. and F.G.; Validation — B.P. and F.G.; Formal Analysis — B.P. and F.G.; Investigation — B.P. and F.G.; Resources — B.P. and F.G.; Data Curation — B.P. and F.G.; Writing — Original Draft — B.P. and F.G.; Writing — Review & Editing — B.P. and F.G.; Visualization — B.P. and F.G.; Supervision — B.P. and F.G.; Project Administration — B.P. and F.G.

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## 1. INTRODUCTION

The global financial crisis of 2008 exposed significant flaws in existing financial supervision models, prompting many countries to enhance regulatory frameworks and improve the structural organization of supervisory entities (European Commission, Directorate-General for Communication, 2019). This paper examines how central banks in selected Western Balkan countries — Albania, Montenegro, Serbia, and Kosovo — protect banking

clients, with a focus on their legal competencies and regulatory frameworks. The study aims to identify best practices and areas for improvement, particularly for Kosovo.

Traditionally, the primary goals of central banks include maintaining price stability and ensuring financial system stability. However, the increasing complexity of global economies has expanded their roles to encompass broader financial regulation and market oversight (Teixeira de Toledo, 2015).

This paper explores how these objectives intersect with the mandate to protect banking clients. From the perspective of central banks, maintaining financial stability is crucial for ensuring price stability. In most countries, these are the two main objectives of central banks. This paper will analyze how the central banks of Albania, Montenegro, Serbia, and Kosovo protect banking clients and what their legal competencies are in this area.

Central banks' actions in the field of customer protection in the financial market indirectly pursue macroprudential policies — identifying and mitigating systemic risks, such as economically significant systemic imbalances, over-concentration of exposures and financing between financial institutions, and interdependencies and links between financial market units (Gaganis et al., 2020).

Directly, through micro-prudential policy, the primary purpose is to prevent the bankruptcy of individual financial institutions. This paper will examine how these objectives intertwine with another crucial aspect of maintaining a stable financial system: customer protection. It will compare the selected case-study countries with the Central Bank of Kosovo.

The rest of this paper is structured as follows. Section 2 reviews the relevant literature. Section 3 analyzes the methodology that has been used to conduct empirical research on the role of central banks in safeguarding bank clients in various Western Balkan countries, while Section 4 analyzes the central banks' role in protecting the banking clients in the case of Albania, Montenegro, Serbia, and Kosovo. At the end, Section 5 concludes the paper.

## 2. LITERATURE REVIEW

The protection of banking clients has gained increasing attention following the 2008 financial crisis, prompting global regulatory bodies to enhance their oversight frameworks. In the United Kingdom, the Financial Conduct Authority (FCA) oversees the conduct and protects consumers, while the United States established the Consumer Financial Protection Bureau (CFPB) to address these concerns (Teixeira de Toledo, 2015). Similarly, countries such as Australia, Canada, and Singapore have adopted best practices to bolster financial consumer protection (Al Qataweh et al., 2022).

In response to the financial crisis, the U.S. introduced the Dodd-Frank Wall Street Reform and Consumer Protection Act, aiming to improve financial stability and safeguard consumers from abusive practices. This legislative effort was paralleled by initiatives from the G20, the World Bank, and the European Union, which sought to strengthen consumer protection globally (Gaganis et al., 2020).

The Hong Kong Monetary Authority has emphasized the need for consumers to adapt to new delivery channels like ATMs and online banking, highlighting the benefits of competition and transparent pricing structures (Yam, 2001). The G20/OECD and the World Bank Group have issued several high-level principles and good practices on financial consumer protection, particularly for electronic payment services (World Bank, 2021).

The Federal Reserve Board of Governors, alongside the 12 Reserve Banks operating under delegated authority, holds the responsibility for supervising consumer compliance in organizations under the Federal Reserve's purview. The Board crafts policies for consumer compliance supervision identifies emerging trends, provides extensive training for examiners, and ensures the enforcement of fair lending laws, Unfair, Deceptive, or Abusive Acts or Practices (UDAP) rules, and flood insurance regulations. Moreover, the Board assesses applications from bank or thrift holding companies and state member banks that pose Community Reinvestment Act (CRA) or consumer compliance issues or attract adverse comments from external entities. The Board also collaborates with other regulatory bodies to maintain uniformity in examination principles, standards, and procedures. The Division of Consumer and Community Affairs (DCCA) within the Board aids in carrying out the Board's supervisory activities centered on consumer protection (Federal Reserve System, 2023).

Central banks have increasingly realized that, despite their primary responsibility being the execution of monetary policy, they must also prioritize the financial stability of the banking sector and, more broadly, the entire financial system. In many countries, central banks have been traditionally entrusted with supervisory and regulatory roles over commercial banks. Conversely, in countries where central banks do not possess these supervisory or regulatory powers, they can still play a role in maintaining financial stability, though to a lesser extent, by serving as lenders of last resort (International Monetary Fund [IMF], 2020).

Consumers also need to react to the changing environment, for example, by making use of delivery channels such as ATMs, telephone banking, or the Internet that reduce the cost of using banking services. Cost minimization also provides the incentive for consumers to shop around, and new technology in the form of the Internet enhances the means of doing so. With the shopping around comes awareness of what else is on offer, and greater expectations on the part of the consumer. Less positively, there has been disruption and anxiety, which has been reflected in the steadily growing number of complaints and protests, and the greater political attention being paid to this subject (Yam, 2001).

Over time, the G20/OECD and the World Bank Group have established several key principles and best practices for financial consumer protection. For instance, in the realm of retail payment services, the World Bank Group (2017) outlines six essential areas that a comprehensive consumer protection framework for electronic payments should address. Additionally, these areas should be supplemented by initiatives aimed at improving customers' financial literacy, thereby encouraging the responsible adoption of services from the consumer's perspective (World Bank, 2021).

Recent studies highlight the evolving role of central banks in consumer protection. Agnese et al. (2022) investigate the impact of unconventional monetary policy on the European banking sector, focusing on how this policy is influenced by banks' liquidity and solvency ratios. Al-Matari et al. (2023) investigate the impact of fintech on financial sector

performance in Saudi Arabia, while Bani Atta et al. (2023) examine the effects of macroprudential regulation on bank profitability during financial crises. These studies underscore the diverse approaches central banks take in regulating financial systems and protecting consumers.

In Kosovo, the Central Bank has implemented several regulations to enhance transparency and consumer protection, but the lack of explicit mention of customer protection in its mandate indicates room for improvement (Central Bank of the Republic of Kosovo [CBK], 2021). The increasing number of complaints suggests growing awareness among banking customers about their rights, highlighting the need for continued efforts in financial literacy and regulatory enforcement.

The literature further suggests a continued evolution in the approach of central banks towards consumer protection. For example, Fanta and Mutsonziwa (2021) discuss the role of financial literacy in enhancing consumer protection in developing countries. Klapper and Lusardi (2020) emphasize the importance of financial education programs in promoting consumer protection globally. Meanwhile, recent reports by the European Banking Authority (EBA) in 2021 highlight the need for improved regulatory frameworks to address emerging challenges in digital finance and consumer protection.

In 2024, new initiatives further exemplify this evolution. The CFPB's recent proposal aims to eliminate certain "junk fees" that impose unfair costs on consumers, such as non-sufficient funds (NSF) fees on instantaneously declined transactions, reflecting a proactive stance in consumer protection (Doorley & Webb, 2024). The *Bangko Sentral ng Philippines*, BSP (Central Bank of Philippines) is also implementing a comprehensive consumer protection supervisory framework to monitor and mitigate risks to financial consumers, emphasizing good market conduct and customer-centric business practices (Jocson, 2024). Furthermore, the FCA's<sup>1</sup> Consumer Duty initiative raises the bar for consumer protection in the financial services sector, mandating that firms prioritize the needs of their customers.

### 3. RESEARCH METHODOLOGY

This study seeks to examine the pivotal role of central banks in safeguarding bank clients in various Western Balkan countries, including Kosovo. To systematically investigate relevant case studies, this research employs a qualitative methodology (Busetto et al., 2020).

This study adopts a qualitative research methodology, drawing on primary data obtained from central banks and secondary data from a range of sources such as books, government websites, and research journals. To evaluate the number of complaints and the regulatory practices in the chosen countries, the research employs both qualitative and quantitative comparative techniques.

This research focuses on evaluating the role of central banks in safeguarding banking clients in specific Western Balkan countries and Kosovo. To systematically explore these case studies, a qualitative research methodology is adopted

(Busetto et al., 2020). The study incorporates primary data sourced from central banks and secondary data drawn from a variety of sources, such as books, government websites, and research journals.

We apply both qualitative and quantitative comparison methods to examine the number of complaints and regulatory practices across the selected countries. Alternative methods, such as surveys and interviews, could also be employed to gather more in-depth data from stakeholders and banking clients. The comparison method allows us to identify best practices and areas for improvement in customer protection. We will see how the protection of the banking client is regulated and managed by each central bank and in conclusion, we will give the findings for each country separately.

## 4. DISCUSSIONS ON THE CENTRAL ROLE IN PROTECTING THE BANKING CLIENTS

### 4.1. The Albania case

Following the banking system restructuring in Albania in 1992, a two-tier banking system was established. At the first level, the Bank of Albania<sup>2</sup> (BoA) was positioned, while the second level comprised other banks operating within the Republic of Albania. This restructuring placed the Bank of Albania at the apex of the banking hierarchy, granting it the authority to draft significant policies in the monetary and banking sectors and to make decisions aimed at the development of Albania's banking system (Bank of Albania, 2020).

The BoA serves as the central bank of the Republic of Albania, operating autonomously and independently, a status enshrined in the nation's constitution (Constitution of the Republic of Albania, 1998). This status is further detailed in the special law governing the BoA, which outlines its objectives, duties, relationships with the banking market and state, organizational structure, management, ownership, financial reporting, and profit distribution (Law no. 8269, dated 23.12.1997 on the Bank of Albania, 1997; Law no. 8384, dated 29.07.1998 on adding a transitory provision in the Law no. 8269, dated 23.12.1997 on the Bank of Albania, 1998). The primary goal of the BoA is to maintain price stability, with its other responsibilities also aligned to support this main objective.

Customer protection, meanwhile, is realized by the BoA (Bank of Albania, 2010) through its competence for banking supervision in the country. The BoA exercises this function through:

- Establishing and refining the supervisory framework continuously to ensure compliance with European directives, adapting to national specifics, and incorporating best practices for effective oversight.
- Regulating the market entry of potential banks, shareholders, and administrators, ensuring they have a good reputation using verifiable and reliable information sources.
- Implementing an effective and proactive supervisory approach by utilizing risk-based supervision principles, conducting on-site

<sup>1</sup> <https://www.fca.org.uk/about>

<sup>2</sup> <https://www.bankofalbania.org/>

inspections, ongoing remote analysis of licensed entities' indicators, and taking corrective actions to resolve various issues.

- Engaging in cooperation with supervised entities, domestic financial institutions, foreign supervisory authorities, and international banks with branches or subsidiaries within the Republic of Albania.

In the framework of banking supervision, the BoA ensures that all banks are operating following applicable laws and regulations issued by the BoA itself. In this context, the BoA has issued a portfolio of regulations and guidelines which also affect the protection of customers in the banking market (Regulation 59/2008 "On Transparency for banking and financial products and services", Regulation 51/2019 "On out-of-court treatment of distressed borrowers by banks", Regulation 48/2015 "On consumer credit and mortgage credit", integrated version, Regulation 32/2006 "On the use of information and communication technology in entities licensed by the Bank of Albania", Regulation 60/2008 "On the minimum requirements of disclosing information from banks and foreign bank branches"). The BoA is constantly trying to harmonize banking regulations and thus during the review of supervisory regulations has further advanced the banking legal requirements to align with the European Union (EU) regulations and Basel documents. In this context, the BoA has adopted Regulation 48/2015 "On consumer credit and mortgage credit" (2015a) to align with the "EU Mortgage Credit Directive", aiming to enhance customer protection. This regulation grants customers the right to substitute collateral, request loan conversion into the currency in which they earn income, and provides an illustrative example of loan risk. It also ensures customers receive pre-contractual information, among other protections.

Regulation 59/2008 "On Transparency for banking and financial products and services" (2008a) has been updated to enhance customer protection. Under the new changes, banks are now

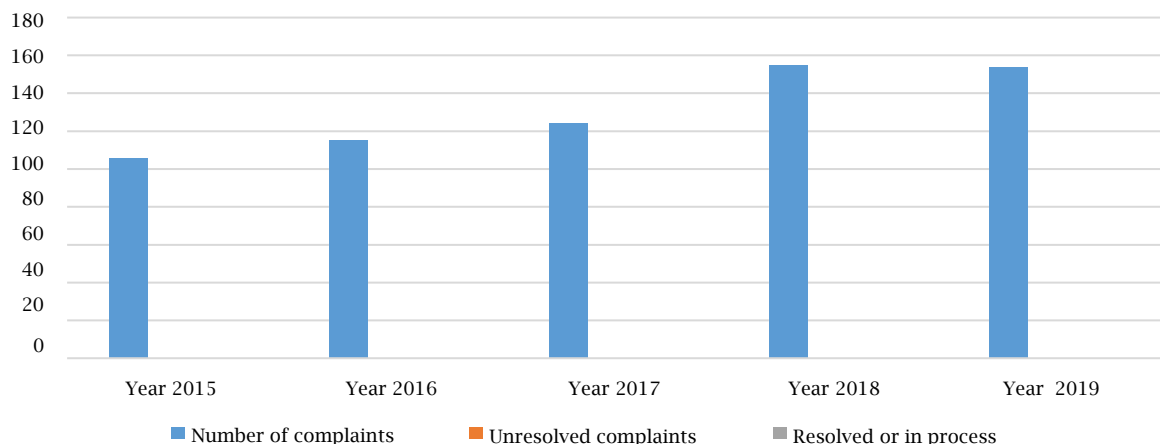
required to provide an alternative and comparable loan option in the currency in which the client earns income. This applies to clients seeking loans in different currencies, especially if the bank determines that the client cannot adequately hedge against exchange rate risk. Furthermore, banks must present an illustrative example to the borrower during the loan application process. The primary goal of this regulation is to inform clients about the risks associated with borrowing in foreign currencies.

Regulation 51/2019 "On out-of-court treatment of distressed borrowers by banks" (2019) offers a mechanism for banks and their clients to resolve issues without resorting to the congested judicial system. As part of efforts to enhance the legal framework, the Bank of Albania has played a pivotal role in the approval of the draft Law no. 55/2020 "On Payment Services" (2020). The enactment and enforcement of this law are expected to significantly boost competition and innovation in the domain of low-value payments. This will, in turn, enhance efficiency and reduce the costs associated with these transactions, thereby encouraging their wider use.

The draft law creates an equitable environment for the provision of payment services by both banks and non-bank financial institutions, permitting the latter to open payment accounts and issue electronic payment instruments. This law is anticipated to enhance service transparency and establish a robust framework for customer protection.

It is evident that the legislation concerning the BoA does not specifically address its responsibility for customer protection, but within the BoA there is a Banking Supervision Department, where clients of the financial market, including the banking market, can file complaints. Complaints can be filed by any customer of a bank in person or through an authorized representative. The complaint is addressed to the Banking Supervision Department which handles the complaint in cooperation with the Legal Department.

**Figure 1.** Number of customer complaints in the banking sector in Albania and their status



Source: Bank of Albania, Supervisory Department (2020).

As we can see from Figure 1, customer complaints have a constant range, i.e., over the years, there has not been much change in the number of complaints. This is due to several

reasons and one of the main ones is the lack of information by the clients of the banking sector regarding their right to appeal.

In addition to complaints, the BoA plays a major role in protecting the banking client during the banking supervision process (Bank of Albania, Supervisory Department, 2020). During this process, several challenges faced by commercial banks have been identified as follows:

- Developing and implementing an internal regulatory framework, focusing on methodologies for commission calculations and procedures for handling complaints.
- Ensuring pre-contractual and contractual loan information meets regulatory standards.
- Incorporating and adapting regulatory requirements in account and deposit contracts.
- Informing customers about changes to product terms and ensuring compliance with regulatory standards during the notification process.
- Implementing new working conditions (e.g., changes in loan interest rates, commission applications) that may not align with the signed contract provisions and regulatory requirements.
- Ensuring the completeness and accuracy of published information.
- Enhancing internal control to improve transparency.

From this summary of the BoA and its supervisory regulations on complaint handling, we can conclude that the BoA plays a crucial role in protecting banking customers. This is evident through its responsibilities in licensing, supervising banks, and issuing mandatory banking regulations for all banks in Albania. However, there is a noticeable absence of a specific regulation for handling complaints, which could significantly impact customer protection. Unfortunately, the BoA has neither adopted nor is in the process of adopting such a regulation, which would be mandatory for all licensed banking entities and guide customers in protecting their rights.

In the annual report, the part of complaints mentions only the number of complaints in the banking sector without specifying the type of these complaints and banking institutions. The more complete the publication of the handling of complaints, including the type, status, and institutions against which legal measures have been taken, the greater the effect on the banks in their handling process of complaints, which would also improve the remarks/penalties that commercial banks receive by the BoA.

We can conclude that the BoA is active in the protection of banking customers. As we saw from the regulatory portfolio, which plays a major role in advancing the protection of the banking customer, BoA has undertaken and constantly undertakes new regulatory initiatives which are requirements for EU integration but also the mission of a central bank as the chief institution of the entire financial system of the country. However, its performance can be increased by promoting customer rights and financial literacy through the Albanian Association of Banks, which knowledge is vital for the advancement of customer rights in the banking sector. In the strategy approved by the BoA, unfortunately, there is no paragraph dedicated to the protection of clients in the financial sector. This may need to change in the future, while in the formulation of strategies and development policies, a special space should be given to

the protection of financial customers knowing that the advancement of customer protection guarantees a stable bank system.

#### 4.2. The Serbia case

In Serbia, customer protection is regulated by a special law that was constantly amended initially in 2005, 2010, and 2014. The latest law aims to be in line with Directive 2011/83/EU on consumer rights (Consumer Protection Act, 2014). However, a special law has been adopted in Serbia regarding the protection of the banking customer, known as the Law on Consumer Protection in Financial Services. This law regulates a number of issues such as marketing rules in financial products and services, contracting, general conditions, pre-contract, and customer information, the content of the loan contract, the effective interest rate, the right to withdraw from banking contracts, bank card contract, deposit agreement, and other important elements for the banking customer (Law on Consumer Protection in Financial Services, 2014). This law, among others, regulates the right to appeal for clients of financial services, including banking services, where a client dissatisfied with the response from the banking institution can address a complaint to the Central Bank of Serbia (Law on Consumer Protection in Financial Services, 2014, Article 4).

The Bank of Serbia is now known as the National Bank of Serbia<sup>4</sup> (NBS) where the status, organization, mandate, and functions of the NBS, as well as its relations with other bodies of the Republic of Serbia, international organizations, and institutions, are regulated by the Constitution of the Republic of Serbia (Constitution of the Republic of Serbia, 2006; Decision on the Monetary Policy Programme of the National Bank of Serbia in 2019, 2018).

The NBS operates independently and autonomously in carrying out its responsibilities as defined by the Law on the National Bank of Serbia (2003). It is accountable to the National Assembly of the Republic of Serbia for its performance. The primary goal of the NBS is to achieve and sustain price stability. Additionally, without compromising this primary objective, the NBS works to support and enhance the stability of the financial system (Law on Banks and its amendments No. 91/2010 and 14/2015, 2015).

The NBS is responsible for the protection of banking customers. To fulfill this responsibility, the NBS has internally established the Center for Customer Protection and Financial Literacy. As outlined in the Law on the National Bank of Serbia (2003), this Center is tasked with safeguarding the rights and interests of customers who use services provided by banks and other financial institutions (Law on the National Bank of Serbia, 2003, Article 4, para. 11). The activities carried out in this center are the notification of the client, the provision of intermediation services, a service which is performed by employees who are licensed in mediation for resolving disputes between banks and clients. The mediation procedure is provided at no additional cost to the costs that the parties may have (travel, accommodation, representation). This

<sup>4</sup> [https://www.nbs.rs/en/o\\_nbs/polozej/](https://www.nbs.rs/en/o_nbs/polozej/)

center is organized into the following divisions: the Division for Financial Customer Protection, the Division for Financial Literacy, and the Information Center are part of the project "Further Development of Consumer Protection in Serbia", funded by the Instrument for Pre-Accession Assistance (IPA) 2013 under the Europe Aid program (Grant number: 138-267/IH/ACT/RS, Indirect Management mode 2013/023-321).

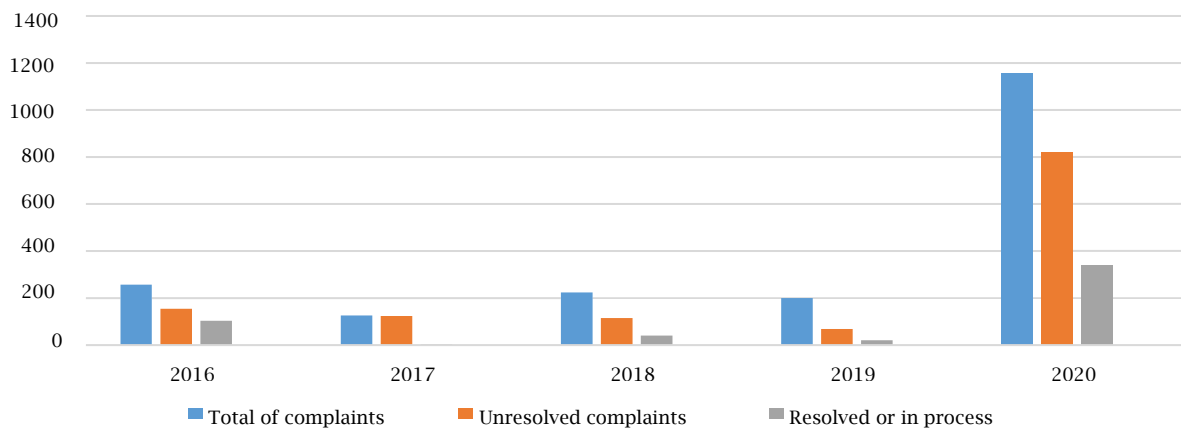
The legal regulation of the protection of the banking client with a special law and the institutional definition for the protection of financial customers undoubtedly establishes the role of the NBS as the key institution in the protection of the banking clients.

The NBS on its website has a dedicated complaints corner and an explanation of how a complaint should be filed by the financial customer. What is very important here is the publication of statistics by the bank regarding all the complaints submitted by customers over the years. In addition, the NBS regularly publishes

a report on financial sector complaints, including those of the banking market consisting of the number, type, and status of complaints. The report outlines the NBS's dedication to safeguarding clients of financial services and offers detailed guidance on the procedures and timelines for lodging complaints against any financial institution in Serbia's banking sector. The procedure for customer protection by the NBS is completely free of charge and no financial institution or NBS can charge fees or any costs related to the complaint or mediation procedure. Additionally, customers can resolve disputes through the NBS, avoiding the time-consuming and expensive process of court litigation.

Using the NBS complaint or mediation process is not required before going to court and does not prevent starting legal action (National Bank of Serbia, Department for Financial Consumer Protection, 2021). Below we can see a detailed overview of customer complaints in the banking sector for the years 2016 to 2020 and their status.

**Figure 2.** Number of customer complaints in the banking sector in Serbia and their status



Sources: National Bank of Serbia, Department for Financial Consumer Protection (2021).

From the number of complaints over the years, we can see an increasing trend, especially in the last year, where the number is higher. This is due to the continuous efforts of the NBS to promote the rights of the financial customer through financial literacy, but also through the legal and institutional framework created by the state of Serbia which provides favorable conditions for the protection of banking customers. A strong reason for exponential growth, especially in 2020, we think is the outbreak of the COVID-19 pandemic where the numerous measures taken by the central banks of countries including Serbia, such as the possibility of delaying installments made many customers raise complaints about future payments.

We can conclude that the NBS plays an active role in the protection of banking customers and is their main address for complaints. In addition to its objective of price stability and maintaining financial stability, the NBS has undertaken this obligation to create a more favorable climate for banking customers. Even in relation to the legal regulations but also to the number of complaints, it can be seen that NBS has advanced in the protection of banking customers.

The NBS has classified its regulations for a certain area, e.g., regulations on monetary policy, financial stability, international transfers, money conversion, payment system, and so on, and among others the portfolio of regulations related to customer protection (Decision on Handling Complaints of Financial Service Consumers, 2019; Decision on the Manner of Protecting the Rights and Interests of Consumers of Services Provided by Voluntary Pension Fund Management Companies, 2015).

Within this portfolio, a good framework of regulations has been adopted that provide effective customer protection, such as regulations related to complaints, marketing of financial services, effective interest rate, indexation of foreign currency loans, and instruction regarding the electronic submission of data, thus forming a set of regulations and guidelines on the protection of the financial customer complaints, marketing of financial services, effective interest rate, indexation of foreign currency loans and the instruction regarding the electronic submission of data, thus forming a set of regulations and guidelines on the protection of the financial customer (Decision on Detailed Conditions of Financial Services Advertising, 2019; Decision on Terms and Method of Calculating

the Effective Interest Rate and on the Layout and Content of Forms Handed out to Consumers, 2018; Decision on Measures for Preserving Stability of the Financial System in the Context of Foreign Currency-Indexed Loans, 2015; Guidelines on Electronic Submission of Data on Consumer Complaints to the National Bank of Serbia, 2019).

In addition, customer education has proven that it can affect the stability of the financial system and the advancement of the customer position. Thus, NBS has adopted a strategy for educating the financial customer, which undoubtedly includes the banking client, which strategy aims to advance financial knowledge, protect the rights of financial customers, and strengthen public confidence in NBS. Knowing that this is one of the obligations of the NBS, we think that this has given a lot to the protection of the bank client (National Bank of Serbia, 2016).

It is worth mentioning the mediation procedure developed by the NBS which has helped resolve many disputes in the financial sector in general but also in the banking sector in particular which procedure has further advanced the protection of the interests and rights of banking customers. This way of resolving out-of-court client complaints has also received the highest ratings in EU reports (European Commission, 2011).

#### 4.3. The Montenegro case

The Central Bank of Montenegro<sup>5</sup> (CBMN) was established by the Law on the Central Bank adopted by the Parliament of Montenegro in 2000 following which the CBMN was established in March 2001 as an independent institution of the Republic of Montenegro responsible for monetary policy, the establishment and maintenance of a sound banking system and an efficient payment system. The establishment and functions of the CBMN are also specified in the Constitution of the country where Article 143 specifies that: "The Central Bank of Montenegro shall be an independent organization, responsible for monetary and financial stability and banking system operations" (Montenegro's Constitution of 2007 with Amendments through 2013 Constitution of Montenegro, 2013).

In line with the provisions of Montenegro's first Constitution as an independent nation in 2007, the new Law of the Central Bank of Montenegro was adopted in 2010 and was amended in 2013 and 2017 (Article 143, Montenegro's Constitution of 2007 with Amendments through 2013 Constitution of Montenegro, 2013).

Customer protection, meanwhile, is established as a state obligation in the country's constitution, while the protection of banking customers' rights is the responsibility of the CBMN, which within its functions must: perform activities that include the protection of the rights and interests of customer credit beneficiaries, users of payment services, and holders of funds under applicable (Central Bank of Montenegro Law, 2023, Article 14, para. 11a).

The protection of the bank client is generally regulated within the banking supervision that the CBMN is obliged to do, while a basic document that protects the bank client in a special product

such as credit, is regulated by the Consumer Credit Law (2017) which created a strong basis for customer service as a customer credit user and as one of the most important products for both the bank and the client.

The CBMN oversees the enforcement of this law by ensuring banks and other financial institutions adhere to its regulations and by addressing customer complaints.

Consequently, during the direct control process, the CBMN identified that five banks need to enhance the alignment of their business operations with the provisions of the Customer Credit Law concerning the following areas:

- the extent of details provided during the pre-contractual stage;
- critical components of the agreement;
- determination of charges for early loan repayment;
- details of the report regarding the authorized overdraft;
- computation and display of the annual percentage rate for loans and deposits (Božović & Đukanović, 2018).

CBMN continuously monitors the advertising of customer credit by all creditors either in the media or on the websites of financial institutions. During this inspection of advertising messages, it was found that one creditor was violating the Customer Credit Law against whom the misdemeanor procedure was initiated. Advertising of banking products is an important moment of the distance meeting between a customer and a bank, and often the urge starts from an ad that a customer decides to address to a certain bank based on these ads (Central Bank of Montenegro, 2020).

To protect the client in financial services and products, according to banking legislation, the banking ombudsman has been established, which has legal powers to protect the rights and interests of financial customers, including banking clients. By banking law, the banking ombudsman has these powers.

A client of a bank or financial institution who is dissatisfied (Božović & Đukanović, 2018) with any document, action, or lack of action by the institution, may turn to the client ombudsman (hereinafter) referred to as the banking ombudsman, as an independent party which participates in out-of-court settlements to resolve contentious issues between clients and banks and/or microfinance financial institutions and credit unions (Central Bank of Montenegro Law, 2023, Article 92).

The banking ombudsman is elected by the State Parliament and appointed for a five-year term and exercises his powers within the CBMN.

The banking ombudsman shall exercise his or her client protection duties as follows:

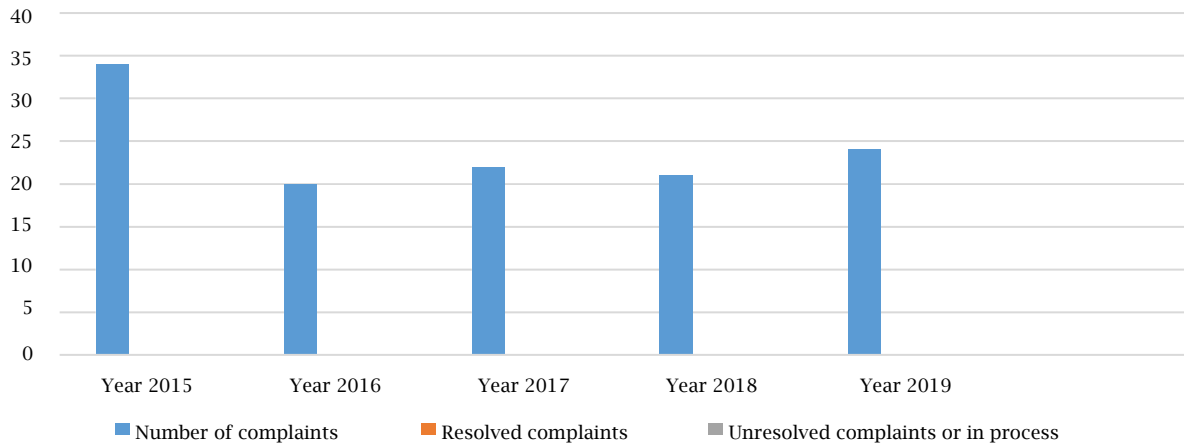
- reviews clients' objections and proposes to the disputed parties a solution or other ways of concluding a dispute;
- gives recommendations to banks microcredit financial institutions and credit unions to improve their relations with customers;
- advises clients regarding the further development of the dispute;
- performs other operations that contribute to the fulfillment of the protection of clients' rights.

<sup>5</sup> <https://www.cbeg.me/en>

A bank customer can appeal to the banking ombudsman only if he has previously used all the legal possibilities of protecting his rights in the proceedings against the bank and/or the microcredit financial institution and the credit union. Proceedings before the banking ombudsman do not prevent the client from initiating a lawsuit

on the same issue before the competent court. The CBMN describes in more detail its regulations, the conditions that the banking ombudsman must meet, the principles based on which he operates, the way of providing material and technical conditions for his operations, and the procedure of protection of clients' rights at banks.

**Figure 3.** Number of customer complaints in the banking sector in Montenegro



Source: Central Bank of Montenegro (2016, 2017, 2018, 2019, 2020).

Examining the complaint graph (Figure 3) reveals a consistent pattern in the number of grievances within the financial sector. It is important to note that CBMN's reports do not extensively delve into the specific types or statuses of complaints lacking data; rather, the focus lies on detailing the institution's efforts in safeguarding customer interests. The annual reports from the CBMN highlight observations such as unfair commercial practices and insufficient customer information.

The CBMN works closely with the National Customer Protection Council to jointly draft the Action Plan and establish deadlines for implementing the National Customer Protection Program in financial services (Central Bank of Montenegro, 2020).

In the framework of banking supervision, the CBMN has approved a series of regulations and guidelines that indirectly affect customer protection. It is important to specify that CBMN has also approved a regulation that has an impact on consumer protection in the banking sector related to consumer loans. The regulation concerning the Banking Ombudsman is crucial. As a sub-legal act, it outlines aspects of the election process, functions, and powers of the banking ombudsman. These regulations help protect the rights of financial sector customers in general, and banking sector customers in particular (Regulations of the CBMN; Decision on the Calculation and Reporting of the Effective Interest Rate on Loans and Deposits, 2021).

Montenegro has adopted a very interesting system in terms of handling complaints of customers of the banking system by forming an institute such as the banking ombudsman which is an institute within the CBMN. This institute is a very important address for all clients of the banking sector to exercise their right of appeal and protection of their rights.

#### 4.4. The Kosovo case

Following Article 141 of the Constitution of the Republic of Kosovo "The Central Bank of the Republic of Kosovo is an independent institution which is accountable only to the Assembly of Kosovo. The Central Bank of the Republic of Kosovo exercises its competencies and powers only in accordance with this Constitution and other applicable legal instruments" (Constitution of the Republic of Kosovo, 2008).

The functioning and all competencies of the Central Bank of Kosovo<sup>6</sup> (CBK) are governed by the specific Law no. 03/L-209 on the Central Bank of the Republic of Kosovo. This law was recently amended by Law no. 05/L-150, which updates and supplements Law no. 03/L-209.

The CBK serves as the regulator of Kosovo's banking market, with the authority to oversee and supervise the banking sector following legal and constitutional mandates.

The CBK has played a very important role in the formation and consolidation of the country's banking market when considering the transition from a centralized economy to a market economy after the end of the war in 1999. As for any other public institution, consolidating CBK as a central banking institution with limited and very special competencies was a challenge in itself.

If we look at the Law on CBK, customer protection is nowhere mentioned explicitly, but this does not mean CBK is indulged from this competence or the impact it has on the protection of the customer.

Moreover, since the licensing phase, CBK can indirectly influence customer protection, and this is intensified mainly in its regulatory and supervisory phases. When at the regulatory portfolio of CBK, we can say that in recent years there has been

<sup>6</sup> <https://bqk-kos.org/>



an increase in the regulatory portfolio, which has affected the operation of banking practices which is related to the protection of the customer. The CBK oversees the entire financial system of the country, which includes 11 commercial banks, 11 microfinance institutions (MFIs), 21 non-bank financial institutions (NBFIs), 48 NBFIs with money exchange activities, 14 insurers, 26 insurance intermediaries and two pension funds. As can be seen, the CBK has many institutions under its supervision. The role of CBK is to ensure order, quality, and financial credibility to promote financial stability, protect customers, and establish a financial system in support of economic development (Central Bank of the Republic of Kosovo, 2024).

The primary goal of the CBK is to ensure a stable financial system and maintain price stability. However, do these aims conflict with CBK's responsibility to safeguard the clients of the entire financial system, particularly within the banking sector?

The CBK has approved a series of regulations that are within its supervisory function, while hereby we will focus on some regulations that have a more direct impact on the protection of the banking customer (Law no. 03/L-209 on the Central Bank of the Republic of Kosovo, 2010, Article 7).

With the adoption of Regulation on Effective Interest Rate and Disclosure Requirements (2012a), banks in Kosovo are required to publish the effective interest rate (EIR) as an indicator of the total cost of credit. Also, according to this regulation, banks must have published all prices in their branches which must be clear and complete (see in more detail Article 7, Regulation on Effective Interest Rate and Disclosure Requirements, 2012). The regulation obliges also commercial banks in terms of pre-contractual information where all information must be given to the client before signing the loan agreement but the same applies to the deposit contract. The regulation obliges all banks to provide this information to the client in written form, i.e., before the conclusion of the contract, even though the pre-contract is not explicitly mentioned as a legal document. It is worth mentioning that before this regulation entered into force, the EIR was not disclosed in the loan and deposit contracts which resulted in bank customers' lack of knowledge of this basic information (Regulation on Effective Interest Rate and Disclosure Requirements, 2012a, Article 3).

Also, the above-mentioned regulation obliges banks in relation to all the constituent elements in consuming credit contracts but also in relation to deposit contracts. Eventual changes to banking contracts including loans and deposits, as well as other banking products and services, are allowed only in writing with the consent of both parties and the bank's obligation to notify the customer at least one month before this change. The other part of this important regulation is the method of calculating the EIR which should be specified in the form of an example in both loan and deposit contracts where the client can see for himself how to calculate the rate of interest. We think that an important part consists of advertising products and financial services which should be accurate and include all costs (Regulation on Effective Interest Rate and Disclosure Requirements, 2012a, Article 3).

Transparency on the part of commercial banks is an important component for the client who will receive a banking service, but also to trust them their deposits that can be as a result of life savings. In this regard, CBK has approved the "Regulation on the Disclosure of Information by Banks" which obliges all banks to publish information regarding their financial statements and operating activities on a quarterly and annual basis (see in more detail Articles 4 and 5, Regulation on Publication of Information by Banks, 2012b).

Banks must publish information on the activities for which they are licensed, general information about the bank, information on the structure of shareholders, the structure of governing bodies, and their organizational structure. The information published by banks adhering to this regulation must be clear, reliable, and easily accessible (Regulation on Publication of Information by Banks, 2012b, Article 3).

#### *4.4.1. Complaints of financial services clients at CBK and its role in protecting client's rights in the banking sector*

The CBK, acting as a licensor, regulator, and supervisor of financial institutions following applicable laws, plays a vital role in safeguarding the interests of financial service users in Kosovo. Within the framework of financial supervision, the complaints division is tasked with receiving, organizing, and assessing complaints about the compliance of financial institutions' activities with prevailing laws and regulations. This division addresses complaints from users of services and products overseen by the CBK, including those related to banking. Furthermore, the complaints division offers specific recommendations to the financial supervision and regulatory bodies regarding practices that may be detrimental to customers and advises on potential future measures. In line with fulfilling its designated responsibilities, this division supports the following activities:

- Daily complaint review: the complaints division has consistently received, organized, and assessed complaints from financial service users every day. Each complaint was promptly evaluated, with the response time varying based on its complexity. Additionally, the complaint review process has prompted on-site examinations within the Financial Supervision framework at financial institutions. These examinations have occasionally led to administrative actions against financial institutions and have influenced the regulation of financial service/product practices in the country.

- Complaint records and reporting: the complaints division keeps a comprehensive database of the complaints received and reviewed, categorizing them by type and volume. It prepares detailed reports on this data upon request. Furthermore, the division has initiated weekly updates, specifically reporting on the number of complaints by sector and individual institutions.

- Enhancing financial literacy and consumer protection: this division, representing the CBK, actively engages in promoting financial literacy across the country. For example, in 2016, the CBK, in collaboration with International Youth and the Kosovo Banking Association (KBA), conducted

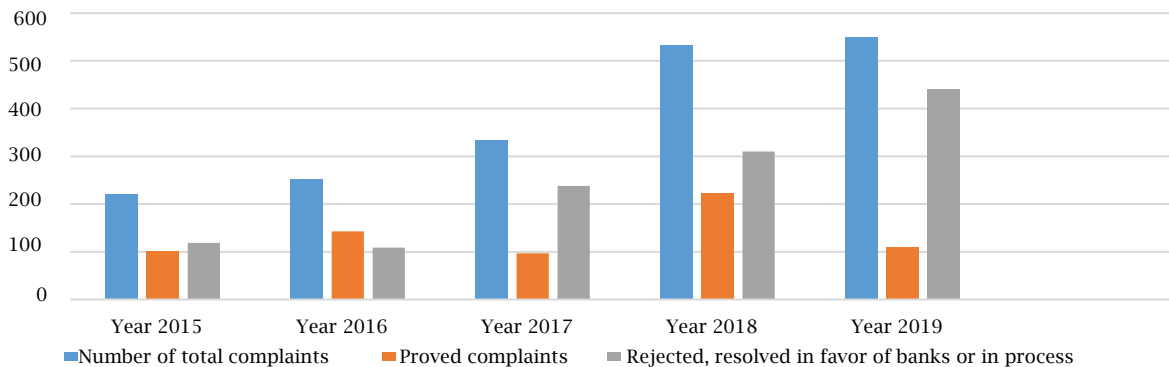
a two-day workshop titled “Workshop on the Possibility of Involving Stakeholders in Financial Education”, which also included participants from the complaints division. Following a memorandum with the Ministry of Trade and Industry (MTI), the division took part in a roundtable on “Customer Rights in Practice” and another on “Receiving and Forwarding Customer Complaints through Website”. Additionally, the complaints division contributed to the working group responsible for drafting the new Law no. 06/L-034 on consumer protection (2018), addressing all questions and concerns raised by stakeholders regarding financial matters.

- Contribution to the Stabilization and Association Agreement (SAA): throughout 2016, the division continued its quarterly reporting of activities related to handling complaints from financial service clients. These reports, detailing the number and status of complaints, were regularly

submitted to the Office for Integration at the CBK. Additionally, the CBK’s efforts in managing complaints were reported to the MTI upon request, as part of their regular updates to the European Commission regarding the Action Plan for implementing the requirements of the SAA.

The CBK has continuously contributed and continues to contribute to customer protection in the financial market in the country. Starting from the process of licensing, regulation, and financial supervision, as stipulated obligations by law, the CBK, daily, is in direct contact with all concerns of banking customers through the complaints division regarding banking products and services in the country, accepting these concerns also in the form of complaints. The number of complaints over the years gives us an indication that clients have begun to become aware of their right to appeal, complain, and have their rights protected.

**Figure 4.** Number of complaints to the CBK over the years and their status



Source: Central Bank of the Republic of Kosovo (2016, 2017, 2018, 2019, 2020).

#### 4.4.2. Banking supervision and customer protection in Kosovo

As part of its legal mandate, the CBK conducts ongoing banking supervision through two primary methods: comprehensive and targeted examinations. On-site examinations, which are a critical component of the supervision process, are designed to thoroughly evaluate the risk profiles of banks and to ensure that previous recommendations and decisions made by the CBK are being properly implemented.

Between 2015 and 2019, the CBK conducted a total of eight bank examinations, including three full examinations and five focused examinations, each involving a site visit. These on-site examinations aimed to evaluate banks’ risk profiles, verify the implementation status of recommendations from previous CBK examinations, and provide relevant recommendations for further action (Central Bank of the Republic of Kosovo, 2020).

Examination reports are structured around various banking risks, including credit risk, liquidity risk, market risk, and operational risk. These examinations also involve evaluating internal controls, adherence to the CBK’s legal framework and banking regulations, best banking practices, capital adequacy, policies and procedures, management quality, profitability, and information technology systems. Between 2015 and 2019, credit risk remained the primary concern within

the banking sector. The examinations concluded that banks are generally sound and stable, with a high level of compliance with the CBK’s legal framework. Through its supervisory function, CBK exerts a great influence in ensuring that all commercial banks are legally compliance. In this context, we believe that examinations, regardless of their type, should emphasize client complaints, their resolution, and all relevant data to gain a clearer understanding of this process. We think this would be a proper “pressure” on all commercial banks regarding their approach to customer complaints and their status.

## 5. CONCLUSION

This paper is important for future research as it provides a comparative analysis of how central banks in the Western Balkans protect banking clients. By highlighting the strengths and weaknesses of each central bank’s approach, this study offers valuable insights into best practices and areas that require improvement. Future research can build on these findings by exploring the effectiveness of specific regulatory measures and financial literacy programs in enhancing customer protection. Additionally, comparative studies involving central banks from other regions could provide a broader perspective on effective customer protection strategies.

One limitation of this study is the reliance on available secondary data, which may not capture

the full scope of customer protection issues in each country. Future research could benefit from primary data collection methods such as surveys and interviews with banking clients, regulators, and industry experts to gain a more comprehensive understanding of the challenges and successes in customer protection. Additionally, this study focuses on selected Western Balkan countries, and the findings may not be fully generalizable to other regions. Further research involving a wider range of countries would provide a more holistic view of global best practices in central bank customer protection.

The analysis of central banks' roles in protecting banking clients in the Western Balkans reveals significant differences and commonalities in their regulatory frameworks and practices. In Albania, the low number of customer complaints suggests a lack of awareness or trust among banking clients. Enhancing financial literacy and establishing a dedicated complaints department within the Bank of Albania could improve customer protection. The National Bank of Serbia has made considerable

strides with a robust legal framework and active financial literacy programs. The establishment of a banking ombudsman could further enhance consumer protection. Central Bank of Montenegro has taken significant steps by establishing a banking ombudsman, but the lack of detailed complaint statistics limits transparency. Improving the publication of these statistics and enhancing financial literacy programs are recommended. In Kosovo, while the Central Bank of the Republic of Kosovo has a comprehensive regulatory framework, the explicit mention of customer protection in its mandate is lacking. Establishing a banking ombudsman and improving transparency in complaint reporting could strengthen customer protection. Overall, central banks in the Western Balkans have made progress in protecting banking clients, but further regulatory improvements and financial literacy initiatives are necessary. Future research should focus on the effectiveness of these initiatives and explore additional methods for enhancing customer protection.

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