

DOI: <https://doi.org/10.24818/cike2024.45>

UDC: [366.5:336.717.117](478)

## **CONSUMER PROTECTION OF PAYMENT SERVICES IN THE REPUBLIC OF MOLDOVA - BETWEEN REALITY AND PERCEPTION**

**VICTORIA COCIUG**

Associate Prof., PhD

Department Investment and Banking

Academy of Economic Studies of Moldova (ASEM)

Chisinau, Republic of Moldova

v\_cociug@ase.md

ORCID ID: 0000-0001-8114-4644

**NATALIA ȚURCAN-MUNTEANU**

PhD student

Academy of Economic Studies of Moldova (ASEM)

Chisinau, Republic of Moldova

natalia.turcan.st@gmail.com

**Abstract:** Payment services are an essential component of the modern economy, facilitating commercial transactions and allowing consumers to make fast and secure payments through bank accounts or mobile devices. The considerable growth in payment service users, especially digital ones, implies a need for deep knowledge of specific processes. The large volume of information can lead to user confusion and create conditions for the violation of consumer rights, stemming from ignorance of certain aspects of payments. Ensuring transparency and user education is crucial for building trust in these systems. As technology continues to evolve, ongoing adaptation and regulation will be necessary to protect consumers and enhance their experience. This article will present the results of a survey reflecting the perceptions of payment service consumers regarding their perceived protection. These data will be compared with reality, particularly through the lens of legal norms. The conclusions of the article show that consumer protection in the Republic of Moldova is regulated well enough, and the situations of abuse perceived by users are mostly due to a lack of financial knowledge. Thus, the direct relationship between financial literacy and the protection of consumer rights in payment services is highlighted.

**Keywords:** payment services, consumer rights protection, financial risks, financial literacy, financial inclusion

**JEL Classification:** G21, G20, K29

### **1. Introduction**

Payment services have evolved rapidly in recent years, driven by technological advances and the digitization of the financial sector. At the same time, the types of services, payment methods and platforms accessed have diversified. Thus, the volume of electronic payment transactions during 2023 in the European Union increased by 6.6%, and in the Republic of Moldova - in number by 3.5%, and in value by 40.1%. As consumers adopt new payment technologies, it becomes imperative to ensure effective protection of their rights. Especially, because consumer protection in the financial sector is

essential for maintaining confidence in the banking system and payment services (Ramsay, 2012) At the same time, the complexity of the payment services offered and the evolution of their digitization level generate a number of risks and challenges, such as the protection of personal data, information asymmetry and difficulty in claiming rights. Information asymmetry is generated, to a large extent, not only by the specifics of the payment service, but also by the lack of knowledge needed to understand or learn about these specifics. At the same time, in the digital economy, consumers have limited access to information about how their data is used, which puts them at a disadvantage. This is accentuated in the case of digital payment services, where payments are often made through third-party platforms that are not always transparent. Consumers thus face significant difficulties in asserting their rights, especially in cases where the amounts involved are small but numerous. The process of gathering the evidence and access to the data needed to prove a breach can be costly, and this reduces consumers' motivation to take legal action, and consequently to accept that their rights are being violated.

The issue of payment consumers' perception of how their rights are protected is a very important one, with a crucial impact on the evolution of the financial market. Thus, according to Soderstrom and Björklund (2017), lack of trust in the financial market can lead to consumer reluctance to use new payment services. At the same time, previous studies on consumers' perceptions of payment services have mainly focused on issues related to transaction security and provider transparency. Ramsay (2012) argues that consumer protection in a digital environment is directly related to two dimensions: perceived security and trust in service providers. These two elements significantly influence consumers' decision whether or not to adopt a particular payment service. In this context, Anderson and Murdoch (2014) identified that cyber-attacks on payment systems pose a major challenge to consumer security, especially in the context of the growth of online transactions. These fears can be overcome by promoting financial education in shaping consumer perceptions. Thus, Lusardi and Mitchell (2014) assert that the level of financial literacy plays an important role in how consumers perceive the protection of their financial rights. More financially literate consumers are more aware of their rights and the protection mechanisms available to them, which increases their confidence in using payment services.

## **2. Legal framework regulating the protection of banking consumer rights**

The European Union (EU) has developed a robust framework to protect consumers of payment services through the Payment Services Directive (EU) 2015/2366 (PSD2), which promotes strengthening consumer rights by regulating payment services, boosting competition and reducing the risks associated with electronic transactions. The main focus is on mitigating the risk of fraud on consumer accounts through the Strict User Authentication Authorization (SCA) procedure, on keeping consumers informed about the level and conditions of use of different payment methods at all times through Enhanced Dispute Resolution Procedures. As a result, in the case of unauthorized or fraudulent transactions, consumers have the right to a prompt refund and the responsibility lies largely with the service providers. The study by Soderstrom and colleagues (2017) emphasizes the importance of PSD2 in creating a more secure and competitive ecosystem for payment services, but also mentions the need for further adjustments to keep pace with rapid technological innovations such as cryptocurrency payments.

In the Republic of Moldova, the legislative framework on the protection of payment services consumers' rights is regulated by a series of normative acts that aim to align with European and international standards in the field. With the accelerated digitization of the financial sector and the widespread adoption of electronic payment services, the protection of consumer rights has become a priority for the authorities, and specific measures have been implemented to ensure safety and transparency in the use of these services. One of the main pieces of legislation regulating the protection of the rights of consumers of payment services in the Republic of Moldova is Law No. 114/2012 on payment services and electronic money. This is an essential framework for regulating activities related to electronic payments and e-money, establishing the rights and obligations of both payment service providers and users, such as: access to clear and transparent information, which is essential to ensure transparency and avoid abuse, protection against unauthorized transactions, strict authorization and authentication of transactions, similar to the European PSD2 Directive, and involving the use of multiple security methods to authorize payments.

The Consumer Protection Act (Act No. 105/2003) is a regulatory act that sets out general consumer rights that also apply to payment services. The Act defines the consumer's right to clear information and fair conditions, as well as protection against unfair commercial practices and abuse by service providers. In the case of abuses by payment service providers, the Act provides mechanisms for resolving disputes between consumers and payment service providers, either through the courts or through alternative dispute resolution, including through the State Inspectorate for Supervision of Non-Food Products and Consumer Protection (ISSPNPC).

Another relevant act for the protection of the rights of consumers of payment services is Law No 133/2011 on the protection of personal data, which regulates the collection, processing and storage of consumers' personal data. In the context of payment services, data protection is essential to prevent abuses and risks associated with online financial transactions.

The protection of payment consumers' rights is a complex and dynamic area, influenced by technological innovations and emerging risks. Regulations at international and national level provide a solid framework for consumer protection, but there are still major challenges, such as cyber fraud or lack of financial education, which distort the perception of payment consumers about the efforts of supervisors to protect their rights.

However, there is another side to the problem. Even if there is a robust legal framework in place to protect consumer rights, the perception of consumer rights may differ between payment service providers and their beneficiaries. The dissonance between the reality and the perception of the reality of payment service consumer rights in the Republic of Moldova will be presented in the rest of this article as a result of a consumer survey.

### **3. Theoretical Approach**

Designing a survey to research consumer preferences for payment services requires a structured approach based on scientific methods that allow the collection of reliable and relevant data. In this context, the accuracy of the survey data, the credibility of the results obtained is in a direct relationship between a robust theoretical approach and the correct application of consumer preference research methods. According to the authors Churchill and Iacobucci (2018), it is essential for any survey to start from the clear identification of the research problem, i.e., consumer preferences in financial services. This involves establishing the variables of interest, such as: preferred types of financial

services (credit, savings, insurance), preferred channels of access (online, branches), or selection criteria (price, transparency, reputation). At the same time, to understand consumer preferences, a theoretical framework must be developed that integrates the relevant concepts. Malhotra (2010) suggests the use of a conceptual framework that incorporates factors such as risk perception, trust in financial institutions, and past consumption behaviours. Parasuraman, Zeithaml, and Berry (1988) developed the SERVQUAL model, which measures perceived service quality and can be integrated into surveys of consumer preferences for financial services, analysing dimensions such as reliability, responsiveness.

Another component of the consumer behaviour research process is the correct approach to the concept of preference, or, a quality survey is the one that seeks to understand the consumer's psychology in relation to certain services. In the research of consumer preferences, sociology brings a number of theoretical models and methodologies that help to understand their behaviour.

One of the best known models of consumer preference research is the behavioural model, originally developed within the behaviourist paradigm by authors such as B.F. Skinner (1938). This model suggests that consumer preferences and decisions are the result of a stimulus-response learning process. In this context, consumer behaviour is seen as determined by rewards and punishments received from the environment. It is an applicable model for researching consumer behaviour of payment services, as it allows understanding how certain stimuli such as commission, advertising or characteristics of the payment instrument influence decisions to apply it. Herbert Simon (1955) introduced the concept of bounded rationality in the analysis of consumer behaviour, suggesting that individuals do not make perfectly rational decisions, but are limited by the information they have, their cognitive capacity and the time available. Instead of searching for the optimal solution, consumers often settle for a "satisfying" solution. This theory is particularly useful in the analysis of consumer preferences for payment services, as it recognizes the complexity of purchasing decisions and the contextual influences on their behaviour in relation to their understanding of the service itself. In modern approaches, Edward Deci and Richard Ryan (1985) proposed self-determination theory, which explores intrinsic and extrinsic motivations in human behaviour, including consumer preferences. According to this theory, consumer behaviour is influenced by fundamental needs for autonomy, competence and relatedness. Consumers may develop preferences based on the desire to satisfy these needs, and research has shown that electronic payment products and services that fulfil these needs are more likely to be preferred.

The contributions of researchers Skinner, Simon, Fishbein and Ajzen, Deci and Ryan, as well as lifestyle and psychographic approaches, provide a comprehensive framework for understanding the complexities of consumer preferences and formed the basis for the survey questions. An essential part of survey design is question design. Fowler (1995) recommends that the questions should be clearly and simply worded, avoiding academic or technical wording specific to the financial industry that may not be understood by all respondents.

In this survey the proposed questions were structured according to the variables previously defined in the demographic questions, such as age, gender, education, income, questions about consumer behaviour, such as types of payment services used in the past, frequency of use, questions about attitudes and perceptions, such as level of trust in different financial institutions, preferences for digital or traditional services, questions about consumer motivations and values, for example, what

factors determine the choice of a particular payment instrument (commission, speed of transfer, reputation of the institution).

A crucial aspect of surveys is sample selection. Bryman and Bell (2015) emphasize the importance of using a representative sampling method to ensure that the data collected accurately reflect the target population. In the context of researching payment service preferences the sample can be considered representative if it includes different categories of consumers: from young people who prefer online services to senior citizens who rely on traditional branch-based services. These criteria were also the basis for the selection of the sample in the research on consumers' preferences for payment services in the financial system of the Republic of Moldova.

Ethical aspects were taken into account in the development of the survey by protecting the confidentiality of respondents and obtaining their informed consent prior to data collection, taking into account the legal rules in force, such as the General Data Protection Regulation (GDPR) in the European Union.

#### **4. Research results**

In order to investigate the perception of consumers of payment services as to how their rights are respected, a questionnaire was developed, addressed to all people using payment services and financial products related to the use of cashless payment instruments. This questionnaire was distributed on various platforms, including media resources, with the aim of collecting data and information on the behaviour and perception of the financial consumer when making payments. After collecting and processing the responses from the questionnaire, the following results were obtained: When asked whether they use non-cash payment instruments (payment card, payment orders (credit transfer), electronic money, etc.), the results still show a higher prevalence of cards within the circle of respondents, 86%, compared to 14% who do not use non-cash payment instruments.

At the same time, it should also be taken into account that the questionnaire was published on portals that select the audience that is familiar with the use of the online environment, thus not covering people who do not have access to this environment.

We observe that of the non-cash payment instruments, payment cards and credit transfers are predominantly used. After analysing the purpose of use of Cashless Payment Instruments, we observe that the first place goes to online payments for goods and services, the second place goes to payments in shops and restaurants and the second place with a significant share of 60.9% goes to cash withdrawals. So, cash withdrawals are still one of the most common card transactions. There is a lack of conditions or insufficient information held by payment service users on their motivation to use the card for making payments and not for cash withdrawals.

About 40% of respondents said they use cashless payment instruments daily, while 23% prefer to use them weekly. Only 14% use these methods once a month or other frequency. Although a significant percentage use cashless payments daily, we note that over 60% of cash withdrawals suggest a strong link between these behaviours. Given that the promotion of cashless payments is a priority, it is essential to identify and analyse the practical, technical or legal impediments that may affect their uptake.



In an effort to understand the reasons why part of the population avoids the use of cashless payment instruments, the data collected indicates that 29.5% of respondents do not use these methods. Of these, 10.1% cited fear of fraud, a concern which, according to the Payment System Infrastructure Report for 2021 published by the NBM, is not supported by the actual incidence of fraud in Moldova. This unjustified fear is often linked to cases of disclosure of personal data by users, which reflects a lack of information and education on the security of the use of payment instruments and the protection of related data. In addition, 18.4% of respondents indicated that they do not know how to use cashless payment instruments or do not have sufficient knowledge about the rights, benefits and legal framework associated with them. These findings suggest that the main barriers to the take-up of cashless payments are of an informational nature, reflecting an increased need to educate the public on this issue.

Although 46.4 percent report the lack of difficulties in using cashless payment instruments, 14.5 percent object to the lack of an authority responsible for the control of the resolution of petitions/complaints of users, another 14 percent report the insufficient legal protection framework and the following 25.6 percent emphasize the lack of mechanisms for amicable resolution of petitions and the unwillingness of the authorities to resolve petitions.

We note that the options of informing the payment service user consumer through the payment service provider's website, or the total lack of communication between the payment service provider and the payment service user also weakens the protection of the rights of the financial consumer - payment service user. These options do not represent transparent, accessible information for the purposes of claiming rights and detailed and may have significant implications on the protection of their rights, such as:

- Incomplete and ambiguous presentation of information- may lead to misunderstanding of the terms of the services offered, including fees, terms of use or associated risks. This can impair the user's ability to make informed decisions and expose consumers to unexpected financial risks;
- Confusion about claiming rights - the burden of proof is the payment service provider's legal obligation;
- Infringement of consumer protection legislation - payment service providers have a legal obligation to provide clear and complete information in accordance with consumer protection legislation. Poor information may attract legal sanctions and damage the reputation of the provider.

In cases where a user of flat-rate services is confronted with a situation of fraud or other circumstance of improper execution of a payment, it is observed that only 25 percent of them address a complaint or complaint to the issuing provider or the supervisory body.

In the context of the use of cashless payment instruments, the study highlights a major concern related to the management of fraud and scams by financial consumers. According to the collected data, 74.4% of respondents did not file a complaint with the supervisory body in case of fraud. About 20% of them consider that the settlement process is purely formal and does not provide concrete results. In addition, 12.6% do not trust that the bank or payment service provider will solve the problem, while another 10% expressed distrust in the supervisory body's ability to intervene effectively.

These data suggest the need to strengthen institutional surveillance capacities, as well as to strengthen efforts to inform and educate consumers about the available protection mechanisms. The low level of consumer satisfaction following referrals, which is only 16%, clearly underlines the need to improve dispute resolution processes and restore trust in financial and supervisory institutions. These conclusions suggest that further education and institutional reform measures are essential to ensure better consumer protection in the use of cashless payment instruments.

Strengthening institutional capacities in the field of cashless payments is a multidimensional process that involves improvements in regulation, supervision, security, public education and international collaboration. Only through an integrated and coordinated approach will financial institutions and supervisors be able to respond effectively to today's challenges, thereby protecting consumer rights and encouraging wider uptake of digital payments.

In the research on the use of cashless payment instruments, it was observed that the frequency of addresses to consumers who feel legally unprotected is only 13%. This relatively low percentage suggests a low perception of the effectiveness of legal protection mechanisms or a lack of confidence in their ability to solve the problems encountered by users. This finding underlines the need to improve both public information and available protection mechanisms to ensure an increased level of perceived security in the use of digital payments.

Of the 207 respondents, 39 of them consider that there is no single authority, which demonstrates the lack of information on the possibilities of claiming the rights of the financial consumer-user of payment services.

In the study on the use of cashless payment instruments, 43% of respondents said they were not familiar with the rules, regulations and measures aimed at consumer protection. This again reflects a significant lack of information among users, underlining the need for increased education and communication efforts on the rights and safeguards available in the context of the use of digital payments.

In the study, participants were asked what are the most effective information measures. Respondents indicated that these include public information campaigns, controls carried out by supervisory authorities and consumer education through educational institutions. These results underline the importance of a multidimensional approach in educating and protecting users, with a particular focus on collaboration between authorities and the education system.

The lack of clarity on financial education responsibilities, followed by the lack of allocation of financial resources in the field of financial education are the main limitations in the field of financial education. 94% of respondents stressed the need to adopt a national financial education strategy. This high percentage highlights the widespread public perception of the importance of a nationally coordinated initiative to increase financial literacy in order to support a more secure and informed use of digital payments.

Following the analysis of the results of the questionnaire of the study on the use of cashless payment instruments, it was highlighted the need for joint actions between the actors in the payment services market (banks and non-bank payment service providers) to inform consumers about the advantages of these instruments, how they can be used, their rights, as well as the mechanisms for resolving complaints and complaints. The analysis highlighted problems related to financial education and misinformation or misperceptions of users, as well as deficiencies in the clarity of the supervisory and consumer protection authorities' tasks. The results also suggest a limited awareness of the

advantages of cashless payments and a weak financial culture among the population. These findings underline the need for further efforts in educating and informing the public to facilitate wider and more secure adoption of digital payments.

## 5. Conclusion

The analysis of the perceptions of consumers of payment services in the Republic of Moldova highlighted several major challenges in terms of protecting their rights. Although there is a relatively high level of trust in the security of these services, transparency and financial education remain problematic issues that affect the general perception of consumers.

In order to improve the protection of consumer rights, the following is recommended:

- Improving financial education: Financial authorities and institutions need to develop accessible educational programs to increase consumers' awareness of their rights and obligations in payment services. This can also be done by early education of financial skills by introducing separate topics in school, high school, university curricula and strengthening cooperation with university institutions, but also by structurally promoting financial skills in university environments, among employees.
- Increasing transparency for service providers: Payment service operators need to adopt a clearer and more accessible policy on contract costs and conditions to make it easier for consumers to understand.
- Strengthening dispute resolution mechanisms: It is essential to promote and facilitate access to efficient and swift dispute resolution procedures for consumers. The results of the survey show that consumers do not turn to protection institutions either because they consider that the effort to defend their rights is great, or because they are not well-informed about their existence and activity.

The image obtained from the survey clearly shows that there is a major problem of informing the consumer-payment user. Without information-education of the consumer, there can be no protection of the consumer. The first effort to defend the rights in the use of payment services is made by the consumer, first addressing the bank that serves him, then to the supervisory body in case of improper settlement of the complaint.

## References

1. Annamaria Lusardi and Olivia S. Mitchell, *The Economic Importance of Financial Literacy: Theory and Evidence*, Journal of Economic Literature, 2014.
2. B.F. Skinner, *The behavior of organisms: an experimental analysis*. Appleton-Centur, 1938.
3. Dawn Iacobucci, Gilbert A. Churchill, Jr., *Marketing Research: Methodological Foundations 12 th ed*, Vanderbilt University, University of Wisconsin–Madison, Nashville, TN: Earlie Lite Books, Inc., 2018.
4. Herbert A. Simon, A Behavioral Model of Rational Choice, *The Quarterly Journal of Economics*, Vol. 69, No. 1 (Feb., 1955), pp. 99-118 (20 pages), Oxford University Press.
5. Malhotra, N. K., *Marketing Research: An Applied Orientation (6th ed.)*. Upper Saddle River, NJ: Pearson Prentice Hall, 2010.
6. Parasuraman A., Zeithaml V., and Berry L., SERVQUAL A Multiple-item Scale for Measuring Consumer Perceptions of Service Quality, *Journal of Retailing*, 1988.
7. Ramsay I., *Consumer Law and Policy: Text and Materials on Regulating Consumer Markets*, 3rd ed., Bloomsbury Publishing Plc, 2012
8. Steven J. Murdoch, Ross Anderson, *Security Protocols and Evidence: Where Many Payment Systems Fail*, University of Cambridge, Barbados, 2014.