

September 14th, 2020

Financial Portability Law comes into effect

Santiago, September 14th, 2020.

The Financial Portability Law (Law N° 21.236) came into effect on September, 8th. This law facilitates changes between financial institutions on behalf of individuals and micro-small businesses. Access to financial services and products is expected to improve materially, mainly due to greater financial market competition, which should reduce costs, and lower the amount of time required to follow through with changes between financial providers.

Financial entities that are considered within the Financial Portability Law include banks, insurance companies, managers of endorsable mortgage loans, savings and loan cooperatives, among others. All financial products will be objects of portability, including checking accounts, lines of credit, credit and debit cards, consumer loans, mortgage loans, and automotive loans.

Prior to the approval of this law, although firms and households could change between financial institutions, the process tended to be long, as there was no delimitation of terms for each of the stages of portability. Separately, the law reduces transaction costs of the process, improving efficiency in terms of deadlines and costs.

Data suggests that there are more than 5.5 million banking clients in Chile, of which 18.8% have a high financial burden. On average, these individuals 19.9% of their monthly income on debt installments. As a result, debt payments represent an important share of household expenses and firms.

A practical example reflects the impact of these changes. For example, currently refinancing a mortgage loan totaling 1,000UF implies a monthly cost of approximately CLP700,000. Portability is expected to reduce this cost to approximately CLP280,000, which implies a reduction of 60% compared to the current costs. With respect to the expected duration of the processes, these are estimated to decrease from 75 to 45 days, on average.

Settlement Certificate

Any person interested in changing its financial institution or refinance his credits, could ask for a settlement certificate free of charge. This document contains the details of each of his financial products, along with the rate and applicable commissions and the amount to be paid in case of pre-paying his credits.

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Financial Portability Request

The users could show the Financial Portability Request to other financial entities to obtain the most favorable conditions and services. In the Request, they may also ask for new financial products, refinance credits and ask, if the user wishes, the end of his financial products contracted with his current financial entity.

