

RETAIL MARKETS AND CONSUMERS
A JOINT EVENT OF THE EFR AND THE EPFSForum

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Good evening ladies and gentlemen, Members of the European Parliament. I am very happy to have the opportunity to share the views of the European Financial Services Round Table about the unsolved issue of retail markets and consumers with you tonight. The Final report by the Expert Group on Banking stated that a big step forwards has been taken on the way towards the integration of the wholesale markets. On the contrary, for the retail financial markets a lot of work still has to be done.

This is becoming a real blockage for large financial institutions as well as for consumers and for potential economic growth. The lack of integration of the retail market constitutes one of the major obstacles to the consolidation of the European banking sector which put large institutions, such as the one that I manage, at risk as they face their larger American counterparts. As for consumers, this situation simultaneously deprives them of the opportunity of a larger supply and lower prices due to economies of scale and competition between financial institutions. On the contrary the benefits for consumers of a single market will be large: the economies of scales will be echoed for them through reduced prices. The choice of products will be enlarged and innovation encouraged. Consumers often complain about the lack of personalization of financial products and services. If they could have access to a range of products as large as possible, they could find the product which perfectly fulfills their personal needs. Today they don't have this opportunity, in part due to consumer protection regulations which have grown in an uncoordinated fashion across Europe. Last but not least, the global impact of a single market of retail financial services has been estimated to bring an increase of between 0.5 to 0.7 % to the European GDP.

These are the reasons that lead the EFR to publish its report about consumer protection and consumer choice: its main objective was to kick-start the debate on consumer protection.

Because of the complex nature of many financial service products there is a broad agreement on the need for measures to protect the consumer. But the lack of coordination between the domestic rules has led to a patchwork of consumer protection regimes which makes cross-border transactions almost impossible. Besides the traditional barriers, like the cultural and linguistic differences, the trust in the reliability of a local supplier or the different rules in supervision, we consider that the diversity of the rules of consumer protection represents one of two main obstacles, to a single market of the retail financial services, the other being taxation.

We must point out that the respect of consumer protection rules is key in the design and the sale of a financial product: the more complex these rules, the more costly for the industry their application and, at the end of the day, the more costly the products for the customers. We have 25 compartmentalized markets today with low possibilities for a consumer credit to be sold cross-border from Germany to Poland. These 25 countries have their specific rules. If we take the example of consumer credit, the calculation of the APR¹ is different, within the different countries; the withdrawal periods, when they exist, can be different; some of those countries have a rate of usury... A European financial institution doesn't have the possibility of using a single IT system for cross-border distribution of financial products. Several functions such as marketing or back-office tasks cannot be centralized what would significantly reduce costs, which in turn would mean lower prices for consumers. Consequently there is no European company which provides several European countries with the same retail financial service products in a cross-border way.

We think that the European Authorities should address that issue. The Lisbon Summit set as a strategic goal for the European Union to become the most competitive economy in the world for the next decade. It recalls that an efficient, competitive financial service sector was part of the task. However, in spite of the large efforts developed by the European Commission, we are far from this goal. Several sectors still need to be harmonized: housing credit, consumer credit, savings products... The recent experience of the Directive on Consumer Credit gave a good example of the limits of an excess harmonization. The European Parliament during its first reading identified some key points for the consumer protection needing to be harmonized. We will see what will come up from the European Commission's new proposal.

Once again, it is necessary for the consumer to benefit from an appropriate protection. But the consequences of the accumulation of the most restrictive provisions, which can exist in each of the Member States are:

- on the one hand to discourage innovation and reduce consumer choice
- and on the other hand to trigger higher costs for the industry and higher prices for the consumer.

¹ Annual Percentage Rate

Consequently, it is necessary to find the right balance. A first equilibrium must be found between appropriate consumer protection on the one hand, whatever the circumstances, opportunity of taking risks and access to a large range of innovating products on the other hand. A second equilibrium must also be found between the expectations of the large majority of the consumers and the needs of the most vulnerable ones. The respect of these two equilibriums relies on 3 leading concepts.

- Firstly, appropriate information which allows the consumer to take his decision knowingly.
- Secondly the reference to the concept of average consumer as defined by the European Court of Justice.
- Finally, the access to more information and pedagogy for those who want or need it, because they are more vulnerable.

We think that the consumer has a right to expect the 5 following principles from the industry and the regulator, to be reassured by an appropriate protection:

1 – the guarantee that he will receive an appropriate information to enable him to take an informed decision on whether the product suits its own personal needs and circumstances : there is an emphasis on the quality of information rather than its quantity.

2 – the time or opportunity of reflection, either before it commits himself or through specific measures such as a right of withdrawal.

3 – the opportunity for the customer to receive advice tailored to its personal circumstances, but only if he wishes to have it.

4 – the security of a cheap and easy scheme granted by the regulators for consumers to obtain redress where they are sold wrong or inappropriate products or where they are improperly advised.

5 – Finally, in order to encourage innovation and to adapt to the needs of customer, a true flexibility in product design left by Regulators to the financial services providers.

Rather than seeking a “big bang” approach to harmonization, the EFR proposes a multi-track approach:

- Firstly, the 5 principles exposed above could form the basis of the Common Core Standards which both national and European legislators could adopt.
- Secondly, as the Common Core Standards are adopted, attention should shift to the implementation of these standards through detailed case-by-case rules. These principles should be transposed into regulations harmonized at the European level, as regards the essential aspects of consumer protection.
- Thirdly a concerted effort will be needed by both the European Commission and national authorities to deal with those regulations which already exist at national level but are not covered by the Common Standards and therefore fall outside the agreed EU definition of what is essential to guarantee an adequate level of protection for consumers. The principle of “comply or explain” should be applied. Member States should be able to examine whether national exceptions are justified by real needs, and if so, explain the justification for them. If these exceptions cannot be justified or if the explanation is felt to be inadequate, the Member States will be asked to remove them.

In any case, we think that the acceleration of the decision-making process is a necessity. The 5 principles proposed by the EFR in its report are a contribution to the debate: Consumer Groups should also be consulted. At the end of the day, as representatives of European Citizens you will decide what the most suitable principles are, on the one hand to assure an appropriate protection to a European consumer and, on the other hand to allow a development of the business which every expert is convinced is highly helpful for economic growth. Consequently as major stakeholders of this debate, I will enjoy hearing your reactions concerning the methodology proposed by the Round Table.