

**Debriefing on
EC priorities on Retail Financial Services as resulted from the public
hearing on Retail Financial Services
September 26, 2007, InfoEuropa Center, 9 - 12**

The SPI Secretariat representative participated at the Public Hearing on Retail Financial Services hosted by the European Commission on September 19 with the objective to gain first-hand knowledge on the priorities for the EC on retail financial services resulted from the public consultations organized on the basis of the EC Green Paper.

I. Summary of the interventions in the public hearing on Retail Financial Services

A. Summary of the results of the public consultation on Green Paper

The European Commission (EC) representatives expressed their satisfaction on the large participation at the public consultations on the Green Paper – 190 submissions from the full spectrum of stakeholders - Governments, regulators, users, service providers, and other interested stakeholders.

The improved participation of the consumers was noted, 18% of the submissions were provided by users of the financial services. The results of this initiative are considered very good, fact which is confirmed by the large audience of the public hearing – more than 300 participants.

The respondents appreciated the wide-ranging set of topics addressed by the public consultation, covering many different but interconnected sectors from payments to life and non-life insurance, long term savings, pension provision and credit intermediaries.

• **Conclusions of the public consultations on the market integration**

The market integration, meaning the creation of a Single Market in financial services where everybody can access or offer products and services irrespective of their physical location in the European Union, is a key objective for the EU financial services policy.

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Almost all respondents believe that retail markets will remain essentially local for the foreseeable future, due mainly to language, culture and familiarity of consumers with local providers and rules.

Further integration will be a gradual process that will grow naturally and based on the consumers demand for cross border services.

- **Conclusions of the public consultations on the main objectives of the EC and the main obstacles in creating a single market for retail services**

Among the **main obstacles** for the accomplishment of the single European market for retail financial services, stakeholders identified domestic taxation and consumer protection regulation, along with the poor quality of information and advice to consumers¹.

B. Empowering European consumers

Information to be provided to consumers

Information to consumers should be smart, meaning necessary, relevant and enough. The simplified prospectus should contain key information, similar and comparable for similar products, in an accurate and understandable language. MiFID requirements could be a benchmark in this respect, although its implementation is not satisfactory, but a good start. The information requirements should maintain a focus on consumers and the outcome should be tested with customers in order to reach the balance between quantity and quality of the information. European Commission believes that a revision of all financial directives is necessary in order to see whether there are proper information requirements. Pre-contractual information requirements are especially important in distance service.

Advice to consumers

*The financial industry's point of view is that advice should be provided only on request and should not be mandatory (shared by the Romanian financial industry also). There is a potential conflict between sales and advice activities, and, when the distributor is the same as the provider, there is no reference product for comparison and advice. At the same time, by imposing provision of advice, the number of intermediaries could be reduced and, thus, the consumers' access would be limited. Providing advice to consumers could also increase the costs of the products because of the additional spending with training and with controlling the compliance with the requirements. There is a negative direct impact on consumers from advisory activities: while the providers' commission is tax deductible, the advice fee is charged on the consumers and it is not tax deductible. **In respect of regulating the advice provision, it seems that the MiFID can be taken as a benchmark, but its implementation is difficult; the right balance between disclosure and conduct rules has to be reached through Codes of conduct developed by the industry.** The EC could develop practice rules and case studies to help industry's initiatives.*

¹ Taxation and the poor financial education were perceived as the main obstacles by the Romanian stakeholders too.

Financial education and literacy

Financial education has the potential to provide customers with choice. Every financial education initiative should start from assessing the actual level of consumers' knowledge. All the participants agreed that financial education should start in school. EC is going to issue in November a communication on the best practices in the European member states in financial education (Romanian stakeholders suggested also that a guideline or best practice should be in the EC attention). The studies conducted in this area outlined the considerable level of functional and financial illiteracy and the Commission intends to expand voluntary financial education in schools. Financial education has to be structured in coherent programs, starting from schools, and ensuring a balance between regulation and information requirements.

Questions for discussion:

How should information to consumers be tailored?

Should be advice to consumers strictly regulated or industry-established?

Should be the industry involved in financial education for consumers and in which ways?

Are you aware of studies on the level of financial literacy in Romania?

How do you appreciate the current level of consumer protection offered by the Romanian regulations as compared to other EU member states?

C. Enhancing consumer confidence

Financial market response to the consumers' needs

Products have to ensure financial access for all the clients and the information on products should be structured and clear, avoiding the overload and in an understandable language. While simplification cannot apply to all products, minimum standards could be established for all the products. Long term products should be flexible in order to allow adjustments. As for the intermediaries, rules for their professional conduct should be in place, ensuring a level of protection for consumers. High quality information to consumers could prevent the over indebtedness and financial crisis.

Internet services and confidence of clients

Internet banking is increasingly used, but more for bank transactions than for selling. The high use of internet is an indication of the consumers' confidence and trustful systems will bring more confidence. Consumers' concerns regarding data protection have to be addressed. As regards the domestic versus cross border use of internet banking, there are differences that prevent a more extensive international use, such as harmonization of rules and of the different guarantee schemes. In internet services, participants noted that there is a potential for a single market, but the integration process will be very slow.

Alternative Dispute Resolution schemes and the improvement of the cross border resolution of conflicts

The key issues that have to lead the efforts to create the cross border ADR are: enhancing the market-led schemes, the interoperability of the national ADR schemes (their harmonization), data protection, technical issues, legal issues, and costs of the solution, raising consumers' awareness on the topic.

Questions for discussion:

What is your opinion on regulating the intermediaries' activity?

What do you think on the opportunity to prepare a plan for expanding the activities of the Banking Ombudsman to the financial industry level?

Do you think that internet banking should be used increasingly for sales activities?

What barriers do you perceive in distance provision of financial services and products?

D. Price, quality and choice for consumers

Access to basic service

Services should be available and affordable, especially accounts, cash machines, credits, etc. AML legislation could prevent distance offers of products and services, but micro-credits and the establishment of the niche banks (such as Islamic banks) could improve access to financial services.

Role of the credit databases in empowering consumers' choice

The cross border transfer of credit records has to become a reality by removing the roadblocks pertaining to different ownership (private, public and dual), and to different content (positive/negative credit information, to legal barriers related to national regulations on data protection.

28th regime for pensions

Comparison between the 28th regime and the national schemes is difficult. In respect of insurance, it seems that there is low appetite for cross border insurance products and that the market players would expect the availability of tax incentives for life and non-life insurance products (in line with the Romanian stakeholders' opinions).

Standardization of products

Industry representatives are for standardized information allowing a good understanding and the comparability, while the standardization of products would affect competition and consumers' choice. A possible solution could be the creation of simplified, "certified products".

Questions for discussion:

How do you appreciate the availability and affordability of the basic banking services to the Romanian consumers?

In your opinion the standardization of information for products would be feasible? Through which means – regulation or industry standards?

II. Conclusions on the EU priorities for the retail financial market

Priorities

The following priorities in the financial retail market area have been highlighted by the representatives of the European Parliament and European Commission:

- **development of the 28th regime for pension as a pan-European pilot projects, with simplified rules;**
- **SEPA and PSD (Payment Service Directive) implementation;**
- **new Consumer Credit Directive;**
- **revision of the Mortgage Directive;**
- **MiFID implementation;**
- **creation of an expert group on consumer mobility;**
- **financial education and literacy;**
- **reinforcing the inputs of consumers: expertise building in consumers' organizations through financing and support;**
- **setting up standards for consumers protection in respect of information provided;**
- **harmonization of national standards in consumer protection;**
- **affordability and availability of basic financial services;**
- **harmonization of national ADRs and raising awareness on the cross border facility.**

Implications for Romania:

- What should be the priorities?
- What are the most pressing issues?