

Public Debriefing on EC priorities on Retail Financial Services as resulted from the Public Hearing on Retail Financial Services

Minutes of the roundtable held on September 26, 2007, at InfoEuropa Center, Bucharest

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 thematic interventions in the public hearing on Retail Financial Services

A. Empowering European consumers

Summary of Bucharest de-briefing

How should information to consumers be tailored?

Consumers' representatives (National Association for Consumers' Protection and Promotion of Programs and Strategies and National Authority for Consumer Protection) outlined that consumers' complaints on financial products generally refer to a lack of knowledge and/or information or of clarity of the contractual terms. The terminology used by the financial industry should be simpler and understandable for all consumers and the consumers' capabilities should be enhanced through financial education.

Industry representatives stated that clients get enough information from their officers on request or from the leaflets and brochures. They also agreed that the low level of financial literacy prevents consumers to understand better the financial products. An obstacle in the achievement of a relevant, clear and simplified content of the information provided to consumers could be, in some cases, the regulatory requirements such as in the case of the prospectus for the investment funds. Therefore, **the idea outlined in the EC public hearing regarding the industry initiative in establishing standards for information was appreciated.**

The industry's representatives noted the indication given by EC of MiFID as a benchmark in respect of information requirements as well as the EC priority in reviewing all the directives referring to the internal market in this respect.

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

The conclusion of the discussions was that in Romania a mixed solution, public and private, would be more suitable than a pure private one, meaning a regulation stemming from industry's opinions on the matter. The argument brought in support of this idea referred to the possible low level of application of the industry standards in lack of enforcing measures coming from authorities, level influenced also by the costs attached to advising activities.

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

While on a short term financial providers could see the consumers' low level of financial education as an advantage and no incentive to contribute to its increase, on a long term they could see benefits arising from a high level of financial education due to the decrease in their costs with solving complaints and recovering bad debts.

Participants stressed that in some cases the private sector provides more and more useful information to consumers than the public sector. An illustration of this idea is the case of the private mandatory pension system that was little advertised by the authorities

All participants agreed that financial education should be far-sighted and should begin in schools. There are already two initiatives in this respect: NACP proposed the introduction in the school curricula of the Consumer Education, containing also some elements of financial education; NACPPPS initiated a program tailored for high school students in the eleventh grade, "Agenda Europa". NAPC representatives announced that Consumer Education will be part of the school curricula and in this way elements of financial education will be introduced in schools. Banks gave also an example of a bank initiative for educating teenagers on the savings issue.

NAPC representative outlined that the newly adopted Consumption Code contains provisions under which a company may become involved with consumer education and that current legislation contains fiscal and other incentives for companies which do so.

Participants agreed that financial education for consumers should be a concerted and structured initiative, gathering both public and private sectors' contributions, but coagulating it could be a difficult task.

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

NACPPPS representative mentioned that a study conducted at the European level on the level of understanding of messages coming from financial institutions indicated worrying figures for Romania.

Participants were unaware of any studies on the level of financial literacy performed in Romania and they stated the need to assess it as the first step in conceiving a long term strategy and programs.

The initiative of performing a national study on financial literacy is therefore a must and the industry could help this by providing expertise for formulating a relevant questionnaire and by using their networks for supporting a country – wide survey.

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

NAPC representative mentioned that the laws governing consumer protection will be updated as soon as the EC Consumer Services Directive will be reviewed. Romanian legislation has generally followed the spirit of European regulations in terms of the levels of sanctions, which need to be “dissuasive”. NAPC representative expressed the opinion according to which consumer protection regulations will become less restrictive in the future than it is at present.

Participants noted that EC intends to harmonize better the national legislation on consumer protection and to reach a common level of consumer protection for EU member states.

Background - Summary of Public Hearing

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.*

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.

B. Enhancing consumer confidence

Summary of Bucharest de-briefing

What is your opinion on regulating the sales intermediaries' activity?

The sales intermediaries' activity is generally regulated only by the contracts concluded with the financial providers. The risks related to their activity would require a better regulating framework than what is presently available in Romania.

Insurance Supervisory Commission representatives outlined that following the transposition of the Insurance Mediation Directive into Romanian legislation, the current Romanian regulation provides requirements for the industry intermediaries in terms of professional expertise and other professional requirements. Participants agreed that the insurance industry regulatory framework for intermediaries could be a benchmark for the other financial areas.

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

Romania is one of the few EU members that have no financial Ombudsman. The Bank Mediator that is to be established will cover only individuals and bank services and products. Its independence will be under the consumers' attention.

In lack of other public and/or private initiatives, the uncovered areas could be handled by the mediators licensed by the newly established Mediation Council, but in this case the mediation service may not be free of charge for consumers.

Insurance Supervisory Commission (ISC) representative confirmed their public relations office receives a large number of complaints and a mediation institution to handle them would be highly desirable.

As for the cross – border ADR schemes, participants noted the existence of the EU initiative for receiving consumers' complaints - Solvit program.

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

Internet banking could be used increasingly for sales activities in case there are no legal obstacles preventing this.

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

While some of the financial providers base largely on distance provision of financial products and services, others prefer to develop their branches network and others combine both sales channels.

Those financial providers planning to rely more or quasi totally on distance provision of financial products and services should identify the legal obstacles and take initiative to remove them.

Background - Summary of Public Hearing

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.

C. Price, quality and choice for consumers

Summary of Bucharest de-briefing

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

Participants appreciated that basic banking services are accessible and affordable to Romanian consumers. However, although some of the banks do not charge any fees for opening a current account or for issuing a credit card, these products bear costs such as management fee and operation charges that could be considerable as compared to their salaries. Furthermore, banks have the possibility of changing unilaterally the terms under which they provide the services, sometimes without being obliged to notify the modifications to their clients (as for example by charging a new type of charge).

A solution to improve financial industry ethical behavior would be to provide standards through the Industry Code of Conduct.

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

The standardization of information for financial products is one of the provisions of the Consumer Credit Directive, to be adopted soon by EU. The draft Directive provides a set of minimal pre-contractual information to be provided to consumers (such as effective annual interest, the commissions for anticipated repayment of loans).

It was noted that **the Romanian financial industry's voice wasn't heard in the consultation process on the draft Consumer Credit Directive or in the discussions held by the Social and Economic Council (SEC) on this issue.**

Besides submitting their opinions on draft EU and/or Romanian regulations under the public consultation process (including through the newly available SPI Romania channel), financial providers could also work on settling the standard information to be provided to consumers in order to facilitate comparison and choice, having as reference the respective provisions in MiFiD and in the draft Consumer Credit Directive.

Background - Summary of Public Hearing

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".

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

Summary of Bucharest de-briefing

All European priorities are also priorities for Romania:

- **The 28th pensions system** – On one hand, the new Romanian pensions system is quite a difficult task for regulatory bodies and private institutions, therefore the European initiative could not be seen as a priority. On the other hand, the European project is of high importance because of the large number of Romanian citizens working throughout EU and should be one of Romania's top priorities.
- **Revision of the Mortgage Directive** – Romanian stakeholders should follow the EU initiative and provide their input under the public consultation process.
- **Creation of an expert group on consumer mobility** – the National Supervision Commission for Private Pensions considers that due to the link of this issue to the 28th pensions system they should participate to this initiative.
- **MiFID implementation** – its importance to all the financial industry resides in the indications given by EC representatives for using MiFID as a benchmark in respect of information and advice to consumers. Therefore, the implementation solutions would be highly relevant for the industry and authorities.
- **Financial education** – is ranked as Romania's first priority, as the other issues as information and advice are highly influenced by the level of financial literacy. Two immediate initiatives could be taken in this respect: designing and planning a broad national study in order to assess the current level of financial literacy and preparing the Romanian version of the Dolceta website.
- **Expertise building in consumers' associations and reinforcing the input of consumers** - consumer association representative stressed that Romania has very few consumer associations, partly due to the underdeveloped associative system. The efforts to educate consumers would be more fruitful if more consumer organizations

were in place and if associations specialized in dealing with financial products and services would be established.

What are the most pressing issues?

The representatives of the non-banking financial institutions raised the issue of the unfair competition due to the different level of regulation applicable to them. They suggested that Romania follows the best practices at the European level, reducing thus the hiatus between domestic and foreign providers of financial services in terms of regulatory requirements.

Another issue raised relates to **NBR approval procedures of the banks' internal norms.** The industry representatives consider as necessary to have NBR guidelines in preparing their norms in order to prevent delays in the approval process and to improve its transparency.

The Ministry of Economy and Finance representative suggested a **project-based collaboration with SPI Romania as to the Clearing and Settlement Code of Conduct and the implementation of TARGET 2 Securities payment system in Romania.**

Improving the transparency is also considered as a very important issue in respect of the distribution criteria used by the Pension Commission for those who didn't express their choices for one of the pension funds. Another issue of real concern is the management of the personal data by the pension funds and the reconciliation with the National Electronic Register of the Employees.

Background - Summary of Public Hearing

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.**

III. Proposed Romania Retail Financial Services Action Plan

Based on Brussels public hearing and Bucharest public consultation, SPI Romania has identified the following possible public – private projects to help align the Romania financial sector to the EU Single Financial Market:

a. Empowering consumers

- standardizing the minimal information for basic bank products and services;
- setting up standards for banking advice on selected products and services;
- a specific project on consumer financial education, under the implementation phase of the national strategy (a SPI 2007 project);

b. Enhancing consumer confidence

- support to other financial sector's initiatives for establishing ADR (the insurance industry, for example), based on the knowledge acquired on the 2007 Banking Ombudsman project;

c. Price, quality and consumer choice

- preparing a banking code of conduct;
- designing a simplified basket of banking products and services to be made available to consumers.

It is anticipated that the SPI Committee will consider these proposals in its November meeting.

**List of Participants
to the roundtable on EC priorities on Retail Financial Services**

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