



**Eurofi 2008 -
Thursday 11/09/08**

**Session [3D] PROSPECTS
FOR CROSS-BORDER RETAIL
FINANCIAL SERVICES AND
POTENTIAL BENEFITS FOR
RETAIL CUSTOMERS.**

Where is Europe in the construction of the single retail financial market? What has been achieved? What are consumer expectations? What is the agenda of the Commission, and the European Parliament? What are the priorities for the next ten to fifteen years? What are the best tools for greater integration and better harmonisation in retail financial services?

The Panel

Moderator: **Daniel Lebègue**, Co-Chairman, Eurofi

Panellists: **Elemer Terták**, Director, Financial Institutions, DG Internal Market & Services, European Commission

Giuseppe Zadra, Director General, Italian Banking Association

Ieke van den Burg, MEP, Member of the Committee on Economic and Monetary Affairs, European Parliament

The Debate

Elemer Terták, Director, Financial Institutions, DG Internal Market & Services, European Commission, said there was much to do in terms of integration in retail financial services.

"Progress is not as good as we would hope. As we can see it has not reached its potential and competition in certain markets is suffering, particularly in areas such as payments and retail banking. European consumers are unable to take full advantage of the benefits of the single market."

Very often services would be consumed at site, so it was not always likely that people would be interested in buying financial services from a far distant country. However, Mr Terták reminded the session that more than a third of the 500m consumers living in Europe live near the internal borders. Therefore, using very conservative estimates, at least 50m people would have the opportunity to use services across the border.

Only 1% of the European Union consumers bought financial services cross-border, when 26% of consumers bought domestic products over the internet. Although prices for retail financial products had converged to some extent, due to largely economic and global agents and the introduction of the euro, substantial differences remained. "For example, euro credit transfers are free in some member states, and cost more than €10 in others.

The average cost of a current account in the European Union in 2004 was €119, from €15 in Lithuania to €265 in Luxembourg. That difference reflected a bigger difference than even the per capita GDP of these countries. You may conclude there might be some difference in content, but nevertheless I think this is critical."

Product availability was often very restricted. For example, in some member states long-term fixed mortgages, or newer products such as equity release mortgages were difficult to obtain, limiting consumer demand. A fragmented legal landscape across the European Union meant that it was not possible to sell certain products via an establishment in another country. Mr Terták said: "I'm not saying that is bad, because of course it is good that consumer protection has a history and therefore there are divergences between the different countries. What is not good is that the progress in aligning these rules is not moving ahead quickly enough."

Taxation policies were also creating problems in the cross-border trade of financial services. "Again this has historical roots. For example, in the new member states there are no taxes on insurance, whereas there are taxes in older member states. Tax incentives for pensions are quite different in the different countries, so it is very difficult to decide what products you can sell cross-border. This makes the market more problematic and creates economic barriers to enter the market."

European retail financial markets were likely to remain fragmented if nothing happened, he said. "In the short-term we cannot expect a miracle. We have to recognise that consumers will realistically remain locally focussed and factors such as language will continue to play an important role. But that shouldn't mean we shouldn't make an effort. Sometimes we are co-operating with the banking industry, sometimes we are battling, sometimes we are in harmony with Parliament, but nevertheless we do our best."

The European Commission was working to improve customer mobility, to make it easier to change bank accounts. This would be a major step forward, he said. In the eurozone, when SEPA was in place it would not matter whether you had your bank account in Germany or in Italy because you could use it anywhere in the eurozone. But it was very difficult to change an account.

"Another thing that we would like to facilitate is the supply of mortgages. Across Europe we have several very interesting, fascinating models, which are, due to the legal constraints, not always possible to buy." He cited the legal barriers to selling Dutch solutions in Germany, for example. The Commission did not believe that one size fitted all, but rather would like to achieve an increase in consumer choice.

The Commission was also working to improve the information consumers were getting. "We have to focus more on financial education," he said.

Nice, September 2008

“Only people with good knowledge are able to make good decisions and to decide what kind of product they really need.”

Ieke van den Burg, MEP, Member of the Committee on Economic and Monetary Affairs, European Parliament, said that opening up the markets to give consumers the opportunity to shop around is not the right ambition.

She warned that the less well educated would not be able to shop around for the best deals by using the internet. There was a danger that the range of products on offer locally would shrink as a result of increased competition. “In local provision of services you need richer clients to make it possible to give services to people who are on a lower income.”

“For mobile consumers and those in the border regions, I’ve been pushing the idea of a 28th regime with a simple structure of consumer protection, which is clear and transparent for those who need it.” She did not propose this system as a competitive element for consumers to shop around, but rather for it to be focused on those customers that had problems dealing with consumer protection and legal rules in member states they were not familiar with. “We have invited and challenged the industry to present us with, for instance, pan-European pension products or other investment products that might serve this purpose, to deal with people who are mobile or who live and work in different member states.”

She welcomed the debate on taxation. “This is also my experience that when you speak about pan-European products it is always the taxation issue that is the most complicated, and which makes it rather impossible to work with this 28th regime product.

“It’s the same with several other issues where we try to overcome the barriers within the legal system, it’s often the taxation which is the barrier that remains difficult to solve. We are pretty empty-handed when it comes to solving these types of issues, for instance with respect to pensions. It makes a huge difference whether you tax contributions or benefits paid after retirement, which gives room for a lot of distortion.”

She pushed for an active role of the European Commission on the issue of financial education. Financial education never could replace thorough and solid consumer protection because you could not assume that if you have this information that every citizen would be able to use it. “There are shocking results from investigations that the average citizen has no clue about financial parameters and calculations, so it is really dangerous if they are confronted with enormous campaigns to sell products with beautiful slogans without being able to read what’s in the disclaimers. We should do more to protect people against the harm that could be done.”

She hoped Parliament would support an amendment to support consumer organisations that are hardly able to give input into these financial legislative dossiers. “We think the Commission and perhaps the industry should provide them with a budget because they are really under-represented in all the consultations that, for instance the Level 3 Committees take on SEPA, or other important discussions we are working on for new European legislation. It is important to make it possible for consumer organisations to take part because they are often really under-represented.”

Giuseppe Zadra, Director General, Italian Banking Association, said that he would like to broach the issue of cross-border retail services. He recalled the Ecofin conference of 2005 in which three major bankers warned the participants that the financial industry in Europe was too small and would have severe international problems with global competitors if the political authorities did not help the industry to grow.

He said the banking industry was at a critical point. “If the financial industry is not growing at the same level [as other economies] we will be wiped out by other continents’ financial systems. So we need to grow. How do industries, companies grow? They grow through competition.”

The problem of the retail market had to be conceived in this light. “The retail market is, in terms of banking size and banking activities, more than 50% of the banking industry. It is the largest service group of this industry. Investment banking can do enormous amounts of funds, but in terms of activity they are infinitely smaller. So the goal of reaching full competition at European level of the retail banking is an essential need. It is necessary for the banking industry to survive.”

Mr Zadra wanted to be sure that this urgency was recognised by all players, including the regulators. Industry needed to use all possible means to reach its goal.

“So why is the result so poor?” he asked. “There are two schools of thought. The Commission says it is [the industry’s] fault because you block customers’ mobility, creating or maintaining exit barriers; you have enormously expensive switching fees; your lack of transparency makes obstacles for customers to make the right choices; your electronic services are organised on a national basis and they rely on very high interchange fees to make a lot of profit, so services are essentially too expensive; and you refuse, or you are not quick in building SEPA, because you are short-sighted.” In short, he said the Commission seemed to believe that the banking industry was not interested in improving cross-border retail financial services.”

Nice, September 2008

As a representative of the banking industry, Mr Zadra refuted this school of thought. He said some of these arguments might be true at a local level, or for specific cases. "What we don't like is when the Commission says this is an average situation, average development, average behaviour. There is nothing like that.

"What was said in the retail services report is something that we have always contested on this basis. The average in some situations does not explain anything. In terms of customer mobility, some countries already have a fully operational switching system. For basic payment services and even for mortgage services, they have full mobility.

"I hope that we are very close to producing self-regulation in customer mobility, which will have the merit of indicating to 31 countries what is an appropriate level." He said he did not expect it to increase the cost of mobility.

On transparency, he said some countries had websites that compared services, content, pricing, etc, making it very simple to choose between banks. But, he could not envisage a similar service on a European level at present.

On education, he said there were countries that had been running educational programmes for a long time because they realised that an educated customer could make better choices.

Mr Zadra then turned to the issue of multilateral interchange fees (MIF), and the payments systems. He said he understood that MIFs could be seen as a way of paying a monopolist organisation. However, he argued that the transaction always involved two service providers, the bank of the company that set up the credit, and the customer's bank. These banks in many countries could be the same, meaning it was a flow of fees that balanced out.

"Probably the large majority of European countries have a few large banks and many small banks. The large banks are the creditors, and the small banks are the banks of the consumers," he said. "If you don't have the interchange fee and the consumers don't have to pay, who is going to pay?" He called for a competitive economic environment and regulation based on incentives that work. "They should be incentives that excite our wish and need to grow and to make money."

The only way to gain market share in a different country was to go into another market and buy a bank, he said. "But that is not very efficient. It means only that you go into another market, you behave like the other market, and your potential competitive advantages are practically nil. I have an example of a bank, which bought a large bank in another country, with a 20-year old IT system. They thought they could conquer the market through the quality of their IT systems, but it was illegal. This is the problem.

"We are living in a very strong contradiction of the European Union. We have a political authority that states that market integration is the primary goal. The fact is that we are not able to get over the real barrier of the old national regulation. From the civil system, the tax system, now we discover that banking supervision, banking bankruptcy or crisis management legislation is not made equal. This is the problem, not bank competition."

He said you could improve the level of customer protection in 27 markets, but that had nothing to do with integration. "The progress is in action but the progress and the action of the Commission and Parliament is more in the direction of improving the quality of these services than in improving cross-border market integration.

"Concepts like customer mobility, transparency and clarity of information, good relationships with customer associations have increased in the last four or five years enormously. But please don't forget that we need integration. Integration does not have anything against these goals and objectives, because to compete you need to provide better services. How can I get customers in a village? Only if I provide a much better service than the small local bank."

There was an advantage for smaller banks in a fully competitive environment. "Even a small bank lost in a mountain valley, if the market is integrated, can buy services from the big banks and sell it to the customers because they have a much better relationship with their customers. And the problem for the banks who are integrating is to be able to compete with the small banks at a customer level."

Mr Terták responded to Mr Zadra's complaint that the Commission was too focused on competition, and not enough on integration. "It was very clear from my contribution that we know there are problems of similarities in regulation and we would like to address it. On the other hand, I must ask you to read the results of the sectoral inquiry, which showed for the same service huge differences in price in different markets." He asked how it could be that the same service cost six or eight times more in one market from another, with no additional labour cost to explain it? Both competition and convergence of legislation were important.

Ms van den Burg added that Europe had solved the problem of cross-border takeovers of banks. "On this the European legislator has delivered the adaptation of article 16 of the Banking Directive and you have seen the result for ABN Amro."

Mr Lebègue summed up. "We have to restore the confidence of European consumers in the safety and in the stability of their financial system. In 2008 after a major financial crisis there is clearly doubt about the solidarity of the system.

Nice, September 2008

Secondly, the Commission is right on this point, we need competitive financial providers, banks, insurance companies, and asset managers. That means producers offering good products, good services, at the best possible prices. That's clearly an important objective. But in my view generally speaking we have in Europe a retail industry, which is competitive. We have certainly made progress on payments, credits, and transparency.

"And thirdly, we – the professionals of industry and public actors – have to respect the demand of consumers to be considered more and more as partners and to be associated to the elaboration of regulatory tools, products directly influencing their day-to-day life."

He raised the issue of access to basic banking services. In the 10 new members states, 47% of citizens had no access to banking services. In all the Western countries of Europe, the figure was around 12%.

Mr Lebègue asked about protection for consumers buying financial services or products over the internet. He called for consultation between the industry, the Commission and Parliament, on regulation or a code for best practice.

Meglana Kuneva, European Commissioner for Consumer Protection, joined the debate. She said the integration of Europe was not just about the accession of countries, it was something much wider and much more important. "We need to face the reality and use the cohesion to achieve these goals of full integration of 27 markets. We need to believe in what we are doing, and it's about change. If not we will lag behind and this is not the Europe we dream for."

She said the Commission needed political support for its policies on climate change, integration, and other issues. "We know that if [the citizens] do not feel the result of our policies in their pockets they will not support the European agenda."

Since 2003 no legislation had been passed without an impact assessment, taking into account social impact, economic impact, on different consumers, and in different constituencies. "Our consumer rights legislation is based on so-called full harmonisation; everywhere the same set of rules. For big or small banks, there will be no need to pay [several different] legal departments. It is not just a coincidence that I receive a lot of support from businesses and especially the financial sector."

Enforcement and representation were big problems in Europe. Ms Kuneva was focused on how to implement the legislation. "We have implementation tables about transposing legislation, which is a good first step. But we need to see how we enforce this legislation. I hope that consumer markets could make an input."

The new marketplace was a good ground to start. The Commission had made sweeps on ringtones, and would continue to do so. It would make checks on banks and retail financial services. "There will be no average. There will be country by country. We are competitive by nature. We need to use this competition, to see who is the best, who is not so good, how we can improve. And let the best man win." There was a need for more investigations into market killers, and a need for more transparency.

Ultimately, she hoped to find a balance. "I don't believe that the market of the 21st century is capital versus labour, consumer versus business. We need to take into account that there are some discrepancies in knowledge, we need to support consumers.

"Fifty-eight percent of GDP in Europe is made by consumers. We've got the power. This is the modern economy. It's about knowledge, it's about modern tools like IT and it's a lot about competition. I only hope that we can give answers through integration."

Nice, September 2008

THE THINK TANK DEDICATED TO FINANCIAL SERVICES IN EUROPE

11 bis, rue Mansart - 75 009 Paris - FRANCE - Tel.: +33 1 40 82 96 03 - Fax: +33 1 40 82 96 03 - www.eurofi.net