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Regulatory Affairs in Europe

German Presidency hard at work on SEPA

The German Presidency is determined to find an agreement on the proposed Payment Services Directive before the end of March for the advancement of the Single European Payments Area (SEPA). This would enable an agreement of Council and Parliament in the first reading. The German Permanent Representation is holding weekly meetings in an attempt to break the current deadlock. Ideally, it would like to achieve an agreement at the EcoFin meeting on 27 February 2007.

The European Commission proposed this new Directive in December 2005, to set a single legal system for electronic payments between EU Member States. Its aim is to create a Single European Payments Area and to make payments across borders cheaper and faster. The main issues addressed by the directive include the creation of common rules and standards for payments; making the different national infrastructures and technologies compatible; bank and other charges; dispute resolution and the transition from old payment methods (cash, cheques) to new electronic methods.

Finance Ministers had already discussed the proposal at an EcoFin meeting in November 2006, but no agreement had been reached. The main stumbling blocks in the negotiations of the Directive are provisions on supervision as well as some outstanding legal issues. At a conference organised by the banking sector in Brussels in November 2006, several participants said that they supported the objective of SEPA, but were concerned about the costs and operational challenges involved, and about the current regulatory uncertainty.

In parallel, DG Competition is continuing its investigation into credit card payments. These efforts also fit into the objectives of SEPA, as the Commission's aim is to bring down the costs of using credit cards. The Commission believes that the profits are too high in this sector, which increases the costs for consumers. The purpose of this investigation is to find whether there are anti-competitive practices in this industry. If so, the Commission will launch antitrust action. DG Competition has already issued a first *Interim Report on Payment Cards* in April 2006, followed by an *Interim Report on Current Accounts and Related Services* in July 2006. The final results of the investigation are now expected on 31 January. The officials are particularly worried about the 'interchange fees' associated with credit card payments, which they say are an unnecessary

'tax' on card users. In a recent statement, Visa Europe defended the interchange fees, saying that abolishing them would lead to a rise in the cost of cards, and would therefore ultimately go against the interests of consumers. Mastercard has already announced that it will cut its interchange fee by almost half from 2008 onwards, following the launch of antitrust proceedings against the company by DG Competition.

Further information:

The proposal for a directive on payment services is downloadable at:

http://ec.europa.eu/internal_market/payments/docs/framework/com_2005_603_en.pdf

More information on the DG Competition enquiries into card payments is available from:

http://ec.europa.eu/comm/competition/antitrust/others/sector_inquiries/financial_services/

Still no agreement on the Consumer Credit Directive

At the Competitiveness Council meeting in December 2006, EU Member States attempted to find an agreement on the revision of the Consumer Credit Directive, but without success. The European Commission has been trying since 2002 to revise the existing Consumer Credit Directive, which dates from 1987. It feels that it no longer addresses the needs of the market for consumer credit, which has changed dramatically since the 1980s. Moreover, the current directive has not led to the creation of a single market in consumer credit, as this remains a nationally fragmented market. The first proposal for the new Consumer Credit Directive was issued in 2002, but it was heavily criticised by the European Parliament, the Member States, consumer advocates, experts and industry officials. The Commission therefore issued an amended proposal in 2004. Faced again with strong resistance, it issued yet another one in October 2005, which is the text being negotiated at present.

The overall objective of this directive is to create a harmonised legal framework for credit to consumers throughout the EU. For that purpose, the Commission has chosen the approach of "full harmonisation", whereby Member States are not allowed to impose any additional national laws in the areas regulated by the directive. However, not all types of consumer credit are covered by the directive: mortgage credits, credit agreements exceeding €50,000, financial leasing agreements and short-term credits of less than three months are not covered by the proposed legislation.

Despite the fact that the Commission has amended its proposal twice, it remains controversial. The points of contention include the issue of 'responsible lending' (the obligation for the creditor to provide pre-contractual information and the obligation to assess the consumer's creditworthiness) and the 'duty to advise' the consumer

on the advantages and drawbacks of a loan. The task of reaching an agreement on the Consumer Credit Directive is now in the hands of the German Presidency of the EU, which will try to reach an agreement at the Competitiveness Council on 21-22 May 2007.

Further information:

The second draft consumer credit directive is downloadable from the website of DG Health and Consumer Affairs:

http://europa.eu.int/comm/consumers/cons_int/fina_serv/cons_directive/2ndproposal_en.pdf

International News

EU mortgage markets booming - UK approvals leap

The Bank of England has recently reported strong approval rates for mortgages in Great Britain. Alone in November 2006 roughly 129,000 mortgages were approved (approximately €9.8 billion). This is the biggest increase since September 2003, despite two interest rate hikes during the second half of 2006. Increasing inflation risk in the housing market could lead to another interest rate hike in February 2007. Mortgage markets across Europe have been booming in the past 10 years with especially strong price increases in the period 1999-2004 in Spain (15.4%), Ireland (13.6%) and Luxemburg (11%). The European Central Bank usually cites as reasons for this boom strong demand matched with slow supply growth in housing markets, favourable mortgage conditions as well as demographical changes.

There is also some movement on the European level as the Commission is currently finalising a White Paper on Mortgages. In 2001, the industry agreed to make the same information available to consumers by binding themselves in a voluntary agreement (Code of Conduct). Mortgage lenders who signed up to the Code agreed to give the borrower general information about products, including the type of interest rates offered. In April 2006, the Commission launched the Mortgage Industry and Consumers Expert Group (the so-called 'Mortgage Dialogue'). This group brings together consumer and industry representatives. Another such body is the Mortgage Funding Expert Group. The reports of these two expert groups were published only recently. In the first half of 2007, it is planned to publish the White Paper on the integration of EU mortgage credit markets.

Further information:

DG Internal Market:

http://ec.europa.eu/internal_market/finservices-retail/home-loans/integration_en.htm



G8 holds conference on financial literacy

On 29-30 November 2006, the Minister of Finance of the Russian Federation and the OECD held a major “G8 International Conference on Improving Financial Literacy” in Moscow. The main purpose of this conference was to highlight the need for financial education. The participants put a spotlight on their countries’ experiences, progress and good practices in consumer financial education. There is a need for such education in developing as well as developed countries. The sessions at this conference covered the impact of financial literacy on economic development, vulnerable groups of consumers and the role of stakeholders in financial education and awareness campaigns. The discussion also revolved around best practices and next steps to improve financial literacy.

Consumer financial literacy is attracting more and more interest, also in Europe. For instance, in 2006, the European Credit Research Institute together with Visa Europe organised two workshops on the topic of consumer financial literacy. The issue will be also discussed at a workshop of the DG Internal Policies of the European Parliament in January. The European Commission plans to hold a conference in 2007 to gather information and to promote different views on the European level.

Further information:

European Credit Research Institute: www.ecri.be
 OECD: http://www.oecd.org/document/15/0,2340,en_2649_37467_37583951_1_1_1_37467,00.html

Events and Ongoing Projects

ECRI teams up with DAI and ECIAfrica

The European Credit Research Institute is teaming up with ECIAfrica and Development Alternatives, Incorporated (DAI) to do a project in development aid. Although research on the economics and regulations of European credit markets will continue to be the primary focus of work, ECRI will also offer knowledge to developing country governments, with a special emphasis on Africa. For this venture, the institute has teamed up with two other major providers of advice to the developing world. ECIAfrica is an international economic development consultancy and capacity-building organisation working principally in the fields of enterprise development, development finance, governance and public sector management, agribusiness and rural development in the economic context.

DAI traces its origins back to 1970 and was founded as a consulting firm in Washington, D.C. focusing on market-based approaches to economic development. It was

named Development Alternatives, Inc. to emphasise the commitment to innovation and new ways of solving problems in developing countries. Today, 300 DAI staff work at the head office in Washington, and more staff work abroad on assigned projects in more than 60 countries. The company covers numerous technical areas across economic and institutional development.

Further information:

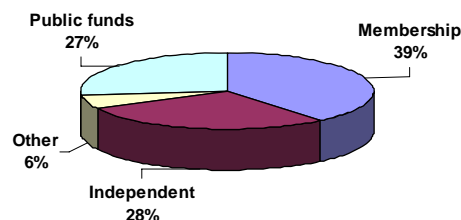
DAI: <http://www.dai.com/>
 ECRI website: <http://www.eciafrica.co.za/>

News about ECRI

ECRI increases budget and expands research

ECRI is about to enter the most successful year since its founding in 1999. Apart from being contracted by public institutions, obtaining an independent research grant (supporting research on consumer perceptions) and participating in several tenders, the institute will also expand its research to topics such as credit risk, consumer psychology and consumer over-commitment. The figure below shows the latest numbers for ECRI.

Source of gross income of ECRI (2007)



It is estimated that non-membership income in 2007 will encompass: 27% from public institutions, 6% from publication sales and events and 28% from independent research funds. 39% are membership contributions. In 2006, the institute expanded its services by creating several databases and making them available to members. In 2007, it is planned to advance these services by providing up-to-date information on regulatory changes. A new development is the increasing interest and funding from international institutions. This is a sign of trust in the quality and reliability of economic research conducted at ECRI. The institute has also strengthened its institutional relationship with the Personal Finance Research Centre at the University of Bristol and the European Savings Institute in Paris.

Activities in the Consumer Finance Network have been expanded by involving some of the network members in our current international research projects. We also plan to organise several events (workshops and roundtables) to bring together the whole range of interested parties in retail financial services in Europe.

ECRI recruits new researcher

Filipa Figueira joined the European Credit Research Institute in December, where she will be working in the areas of retail finance, banking and market integration. Ms Figueira has previously worked as a consultant in the financial services department of an EU public affairs agency. She holds a Masters degree in European Economic Studies from the College of Europe (Bruges) and a BA degree from the London School of Economics. She is currently a PhD candidate at the Utrecht School of Economics of the University of Utrecht.



ECRI launches consumer credit law database

ECRI has launched a new database on consumer credit laws in the EU-25 countries. It reflects the legal status of these laws as of 2006. It also gives the year of enactment, the title and the online source where the law can be found. The database is only open to ECRI members which also have access to other databases on credit reporting laws, banking laws and data protection laws.

ECRI offers internship

ECRI has announced a internship position for a research assistant. The internship is paid 500 Euro/month. This is a 3-month position starting during the month of February 2007. The intern will be working in an exciting international environment in the ‘capital of Europe’. Students of Economics, Finance or Econometrics/Statistics, in particular, are invited to apply their knowledge directly in practice and to participate in challenging international research projects.

Further information:

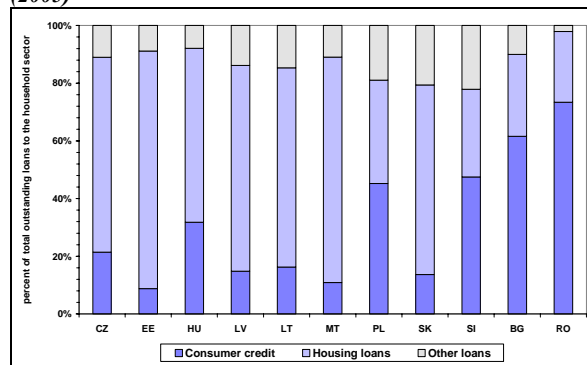
ECRI website: <http://www.ecri.be/>

Publications

ECRI publishes Statistical Package 2006

The ECRI Statistical Package is a collection of statistical information on consumer credit and lending to households. It covers 30 countries: the 27 EU member countries, one of the candidate countries (Turkey), the US and Japan. The purpose of the ECRI Statistical Package is to provide reliable statistical information allowing for comparisons between countries.

Composition of outstanding loans to the household sector in new EU and accession countries (type of loan), (2005)



Source: *Consumer Credit in Europe (1990-2005): ECRI Statistical Package 2006*, compiled by Camille Salosse, November 2006.

Accordingly, definitions of concepts and aggregates from national authorities are also provided. This publication contains series of nominal data on major variables, such as outstanding consumer credit (see figure above), annual final consumption of the household sector and annual disposable income. Data are presented in euro and in national currencies. Statistics are also provided on outstanding consumer credit in real terms and the corresponding growth rates. In addition, ratios of household indebtedness are calculated and illustrated by graphs. For some countries, tables presenting the composition of consumer credit stocks by lender and by instrument are also available. The data were collected and annotated by Camille Selosse for ECRI.

Further information:

ECRI website: <http://www.ecri.be/ecri/statistics.php>