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Editors:

European Credit Research Institute (ECRI)
at the Centre for European Policy Studies (CEPS)
Editors: Nicola Jentzsch, Filipa Figueira, Marc Rothemund,
Wolf Mueller
E-mail: info@ecri.be
Place du Congrès 1 – 1000 Brussels
www.ecri.eu



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Regulatory Affairs in Europe

Communication on Single Market adopted

The European Commission recently adopted a Communication entitled “A single market for the 21st century – A contribution to the Single Market Review”, whose aim is to transform the Single Market ‘vision paper’ of February 2007 into a set of initiatives to reposition the single market. The Communication comes with five staff working papers addressing certain important issues in greater detail– among them also retail financial services.

According to the document, banks could face regulatory action if they fail to adopt a “set of common rules to the benefit of all consumers”. The aim is to facilitate the act of closing down one bank account and opening another with a different bank. In addition, banks should “abolish existing discriminations, either based on nationality or residence, which abusively prevent individuals from opening accounts on a cross-border basis”, the Commission announced.

The issue of the mobility of bank accounts is just one part of the broader attempt to unlock the benefits a more integrated Single Market could generate. In the area of *payments*, the Commission will continue to direct its efforts towards the development of the Single Euro Payment Area (SEPA) in order to improve the efficiency of payments markets.

Concerning the practice of *product tying* and its (potentially) negative impacts (i.e. impeding price transparency and raising switching costs), the Commission is tackling the issue with a two-stage approach: tying practices in financial services areas such as credit, payments and bank accounts and their impact on mobility on the one hand as well as the “merits of a regulatory approach” on the other, both of which will be assessed.

In addition, the issue of the *collection and provision of accurate credit data* constitutes “an important factor in promoting competitive retail financial services”. This was also stressed by Mr. Elemer Tertak, Director of the DG Internal Market and Services at the Annual Conference of the European Mortgage Federation on 21 November. Mr. Tertak – in accordance with the Commission’s Communication – pointed out that both the (foreign) lenders’ lack of access to accurate credit information as well as the borrowers’ need to make his credit history portable across member states raise concerns about the competitiveness of the internal financial market. The Commission announced the

creation of an Expert Group in early 2008 on this subject, including all relevant stakeholders, to assess the issue of the circulation of credit data and any regulatory action that may prove necessary.

Further information:

The Communication of 20 November can be found at http://ec.europa.eu/citizens_agenda/docs/com_2007_0724_en.pdf,

The Single Market 'vision paper' can be downloaded from http://ec.europa.eu/citizens_agenda/single_market_review/docs/interim_report_com_2007_60_en.pdf

Priorities in retail financial services policies

The Commission received 190 responses to its *Green Paper on Retail Financial Services* and emerging topics in the field. Experts mostly agreed with the objectives set out by the Commission and with the need for new actions. All believed that the volume of cross-border financial activities will grow in the future. There was a striking consensus on the view that retail financial markets will mostly remain national for the time being due to language, and cultural differences and customers' familiarity with local providers in the individual member states. However, the Commission aims to facilitate cross-border activities in order to support interested customers.

The European Commission invited policy-makers, industry experts and consumer experts to a public hearing on the Green Paper on Retail Financial Services on 19 September in Brussels. At this hearing, industry representatives mainly asked for the harmonisation of taxation regimes and consumer protection rules, as in their view these are major obstacles to cross-border financial activities. It was also said that the Commission should aim to create a framework that allows and supports consumers and banks to increasingly operate across borders and that a better quality of information and advice would facilitate comparisons between products would ease this cross-border activity.

Further, an agreement between the European credit bureaus was said to be the best way to regulate discrimination-free access between credit bureaus. This industry-led approach, in the form of a Memorandum of Understanding, was seen as the most flexible solution.

The member state authorities and consumer experts disagreed on certain points and claimed that the financial education and literacy of consumers is an important issue in this context. The industry also warned of a 'one-size-fits-all' harmonisation regarding consumer protection and other legal regulations, as this might lead to an agreement on the least common denominator and a reduction of protection levels. These views are supported by the European Parliament, adding that basic services should be accessible to all consumers. The European Commission's DG for Consumer Protection also points

to the importance of transparency of prices, quality and choice in the retail financial market.

The results of the hearing and the consultation will be included in the *Single Market Review* to be published in late November. The Commission will publish a Communication on Financial Education this autumn.

Further information:

More information and all the presentations from the Hearing on the Green Paper on Retail Financial Services can be found at the homepage of DG Internal Market:

http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm

SEPA on track: PSD accepted by Council

With just over a month to go before its official launch, the creation of a 'Single Euro Payments Area' (SEPA) has almost become a reality. But before being able to reap all the benefits of this measure to further deepen the integration of the European Single Market, continued efforts on the part of all stakeholders (banks, corporate entities, public administrations, trade, consumers) are essential.

In light of this necessary concerted action, 30 banks and 12 clearing and settlement systems operators officially committed to ensure the operability of SEPA credit transfers during a signing ceremony on 2 October 2007 at the SIBOS, an annual financial industry fair.

The agreement to make SEPA credit transfer available from 28 January on could be seen as (yet another) delay in implementing SEPA, since it was initially scheduled for 1 January. This date was chosen, however in order to avoid the technical problems linked to the change of year and end-of-year routines in banks and industry, as well as other mandatory changes (for example the introduction of the Euro in Malta and Cyprus).

At the level of EU legislation, a further key step has been taken to pave the way for an easier and more cost-efficient operation of trans-national electronic (cashless) payments in Europe. More than half a year after having been approved by the European Parliament with amendments, the Payment Services Directive (PSD) was adopted by the Council on October 15. This is important insofar as the PSD constitutes the legislative basis on which one of the SEPA instruments – the SEPA Direct Debit – will be built. The provisions set out by the Directive will need to be transposed into national law in the 27 Member States, a process that, according to the European Payment Council, needs to be completed in order to allow for the launch of the Direct Debit scheme by banks on a Euro-area wide basis. In order to bring about the SEPA, both banks and the public sector will start to move towards the new integrated environment. And despite the fact that individual countries were given some flexibility to set the pace of the introduction of

SEPA instruments (mirrored in the national migration plans), deadlines must still be in accordance with the broad SEPA timetable, which has scheduled the launch of the Single Euro Payment Area for January 2008.

Further information:

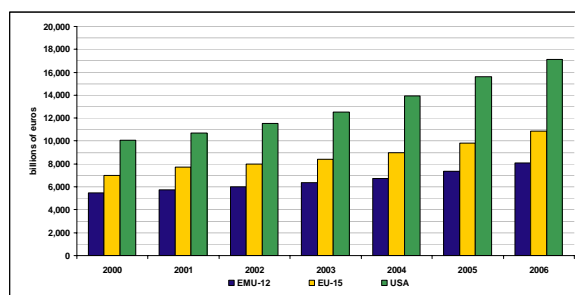
The proposal and its amendments can be downloaded from: http://ec.europa.eu/internal_market/payments/framework/index_en.htm

See the new SEPA link directory at: www.sepa.eu

Jentzsch, N., Rothemund, M. and Lepistö, P. (2007). *One step closer to harmonised European payment systems*. ECR Policy Briefs, No. 1, June 2007, www.ecri.eu

European and US News

Further growth in private sector credit in Europe



Credit to the private sector in Europe grew further in 2006, continuing the trend of recent years. The nominal stock of loans from Monetary Financial Institutions to the private sector in the EU-15 countries exceeded its growth rate of the previous year for the fourth time in a row. Rising from €9,827.320 billion in 2005 to €10,858.139 billion in 2006, the €1,030.819 billion increase translates into a growth rate of 10.49% (10.5%), almost one percentage point higher than in 2005 (9.6%).

A glance at the stock of outstanding consumer credit to the household sector in the EU also shows a continued upward trend, but consumer credit grew at a slower pace than in 2005. In the EMU-12 countries, the 6.60% increase in 2005 was followed by a growth rate of 4.87% in 2006. The same holds for the EU-15 and EU-27 members, when weighted growth rates are calculated for respective country groups. The EU-15 group saw a growth rate of consumer credit stock that went down almost two percentage points during the year, from 5.86% in 2005 to 4.00% in 2006, similar to the decline in growth for the EU-27 group, where a deceleration from 6.90% to 5.03% took place in 2006.

Further information:

European Credit Research Institute (2007). *Consumer Credit in Europe (1995-2006)*, by Wolf Müller and Marc Rothemund (Centre for European Policy Studies, Brussels).

The Statistical Package 2007 can be ordered on the CEPS bookshop <http://shop.ceps.eu>

US: The sub-prime credit debacle and consumer credit recession

The Federal Reserve cut interest rates twice in the past 6 weeks - probably from fear of a declining economy - which has enjoyed almost 4 % growth in the past two quarters. There is currently a general slowdown in the economy, coupled with a high level of uncertainty about the US sub-prime lending debacle. It is unclear when the credit market will regain its strength, as not just the financial institutions but also consumers are facing credit problems: Capital One Financial reports that credit card delinquencies could result in losses of \$5 billion next year. According to a survey conducted by the Federal Reserve, even borrowers with sound credit are now encountering difficulties in obtaining a loan due to the ongoing liquidity crisis. Given the tightening of banks' lending standards, some market analysts see a contagion from sub-prime housing to card loans, potentially resulting in a consumer credit recession. The fact that October sales were the lowest for 12 years provides further evidence of consumer problems.



Events

First expert roundtable on the harmonisation of credit reporting systems in Europe

A recent Expert Roundtable at CEPS/ECRI in Brussels brought together key stakeholders – policy-makers, consumer advocates, central banks and industry officials – to discuss the state of the harmonisation of credit reporting systems in Europe, the origins of fragmentation and possible policy solutions. This was the first workshop on the subject matter to be held in Europe. The debate centred on the importance of the collection of financial information on individuals and companies (so-called credit reporting) for the sound functioning of credit markets in Europe. According to ECRI Head of Research, Dr. Nicola Jentzsch, credit reporting reduces information asymmetries, increases the volume of lending and allows more effective risk-monitoring.

Mike Bradford, President of the Association of Consumer Credit Information Suppliers (ACCIS), pointed to the varying national legal data protection restrictions as barriers hampering cross-border credit reporting and the creation of a single credit market. He expressed ACCIS's support of the Memorandum of Understanding among private credit reporting agencies as this would provide a more flexible solution than a Directive.

Representing the Commission's view on the subject, Christine Hauner, National Seconded Expert for DG Internal Market & Services, Retail Issues, Consumer Policy and Payment Systems, referred to the results of a sector inquiry of DG Competition that showed that unfair or discriminatory access conditions to data and regulatory barriers to data sharing still existed in some European countries. Partial data sharing, she continued, inhibited banking competition. On the consumer side, the increased mobility of borrowers called for giving these citizens the possibility of taking their credit history with them. Mrs. Hauner expressed the Commission's belief that credit market integration would bring benefits to lenders and consumers and that it could be anticipated that the Commission would establish an expert group on the subject in early 2008. Phil Jones, Assistant Information Commissioner and Head of Data Protection Practice, stated that his institution, the UK Information Commissioner, worked together with the industry in three important areas: transparency (the quality of explanation of credit reporting to consumers); quality of

identification (to avoid misattribution of personal data) and quality of data (accuracy and consistency). Mr. Jones pointed out that consistency in reporting was important in an increasingly diverse credit market with lenders who are aware of individual circumstances. He stated that data protection regulation would help to ensure appropriate quality and use of credit data.

Didier Muraille, Head of the Credit Registers Unit of the Banque Nationale de Belgique assessed the issue of cross-border data sharing, pointing out that despite the possibility of data transfer between Belgium, Germany and the Netherlands, file-sharing had not reached high volumes. He asked whether there was a need for cross-border data-exchange given that according to him this would not solve the harmonisation problem. Further, he pointed out the possibility to only pass on raw data to partners, without interpretation. In this case, harmonisation would probably not be necessary at all. Given the importance of the matter and a variety of open technical questions, the establishment of an expert group by the Commission should prove beneficial.

Further information:

Programme, minutes and other workshop material can be found on ECRI's website www.ecri.eu

New technologies in retail banking: A route to more integration?

In February 2008, CEPS/ECRI in Brussels will bring together academics, policy-makers, consumer advocates and industry officials to discuss the latest developments in new technologies for retail banking across Europe. The main focus will be whether technology will bring about further integration of European retail financial services. For consumers, such technology allows financial transactions, regardless of location. For banks, information technology improves productivity as well as revenues. The technological developments of recent decades have opened the way for wholly new services and distribution channels. Mobile and online banking are recording rising numbers of users across European member states. Innovations such as e-money and electronic wallets could pose new problems for regulators and open opportunities for non-bank institutions to offer financial services. These developments will affect competition in banking as well as the integration of the European consumer credit markets.

Further information:

Programme and other workshop material can be found on ECRI's website www.ecri.eu in due course



Commission conference on the EU definition of over-indebtedness

The European Commission's DG Employment and Social Affairs is organising a conference on 11 December, together with ECRI, the Personal Finance Research Centre (University of Bristol) and the European Savings Institute to disseminate the results of a large-scale research project aiming to lay the basis for a future operational definition of over-indebtedness in Europe. This project was awarded to CEPS (in cooperation with ECRI) and its consortium partners in December 2006.

Although over-commitment of consumers and financial exclusion are growing problems in Europe, there is no standard definition of over-indebtedness at present. It is thus currently not possible to collect comparable statistics and compare the extent of the phenomenon across different member states. This study aims to fill that gap, by proposing a common definition of over-indebtedness that can be used to collect comparable statistics across the EU. The conference will allow experts from all over Europe to discuss and comment on the preliminary results of the study. Attendance is by invitation only.

Further information:

Programme and other conference material can be found at:
http://ec.europa.eu/employment_social/social_inclusion/events_en.htm

News about ECRI

New ECRI homepage

The ECRI website has moved to a new address. All information and news can now be found at www.ecri.eu. To reflect the 'corporate identity' of CEPS, the layout has been changed and navigation through the homepage has been improved. Information about ongoing events and announcements of all news can be found under 'Latest News'. The ECRI team is currently moving all information from the old page to this new address.



Publications

ECRI Statistical Package 2007



The ECRI Statistical Package 2007 is now available in the CEPS bookshop. The package is a unique collection of statistical data on consumer credit and lending to households in Europe. It covers 32 countries: the 27 EU member states, one candidate country (Turkey), the US, Australia, Canada and Japan. The purpose of the ECRI

Statistical Package is to provide reliable statistical information for comparisons between countries. Accordingly, definitions of concepts and aggregates from national authorities are provided. ECRI does not comment on the data or related trends. The data were collected and annotated by Wolf Müller and Marc Rothemund, reviewed by Dr. Nicola Jentzsch.

The price for the printed PDF version is 350 Euro and for the Excel document 400 Euro. Both versions together will be available for EUR 500.

Further information:

The Statistical Package 2007 can be ordered on the CEPS bookshop <http://shop.ceps.eu>

European retail banking market integration

The CEPS Financial Institution Programme, together with ECRI, has published a research report entitled *Integrating Europe's Retail Banking Market: Where Do We Stand?*, by Stefanie Kleimeier and Harald Sander. This report surveys recent empirical research on the state and development of retail banking integration in Europe. It finds a broad consensus that retail banking integration is still limited, although it seems to have gained momentum more recently. At the same time, the survey finds less agreement on how to measure integration. Evidence from various types of integration measures is discussed in detail, highlighting the shortcomings of

these measures. The authors conclude that recent accelerations in integration have mostly been driven by integration in the wholesale financial market and financial developments in general. This underscores the need for integration policies to be supplemented by policies in the areas of competition, financial development and financial stability. Such an approach is considered vital to reaching the aims of the European integration project in the retail banking market – to provide consumers with the best savings opportunities and to give investors access to deep and liquid markets in order to raise capital.

Further information:

The Research Report can be ordered on the CEPS bookshop
<http://shop.ceps.eu>