ECRI/CEPS Seminar: Integration of EU retail financial market. A challenge for Europe?

The ECRI seminar on integration of EU retail financial market was held at CEPS on 28 October 2004.
High level speakers, ranging from policy and law makers to representatives from consumer and industry groups as well as national representatives to the Council on the Draft consumer credit directive and Karel Lannoo, CEPS CEO discussed on the different aspects related to the integration of retail financial markets in the EU and the currently interesting example drawn by the consumer credit directive.

Two main issues were discussed:
1) The absence of retail financial market integration, the related obstacles and the strategies in order to achieve higher integration.
2) The Draft Consumer Credit Directive (Draft CCD)

1) The retail financial market integration

The current market situation in the field of EU retail finance was analysed during the morning session by Nick Page, Pierantonio Rumignani and Eric Spielrein. The three speakers discussed on the level of integration of the EU retail financial market and the need for integration, obstacles and prospects.

Mr. Nick Page (PWC) remarked that retail financial markets are less integrated than wholesale financial markets. He emphasized that the first ones are still very localized, cross border trade is nearly non existing and evidence shows that banks prefer to enter foreign markets through M&A rather than on a cross border basis. In fact, major banks, as Barclays and JP Morgan, state that cross-border deals are still very difficult and they do not see a value added in the latter.
Mr. Page concluded by previewing gradual integration during the next five years and a very slow start of cross border services activity only once domestic consolidation has progressed.

Mr. Pierantionio Rumignani (Santander Consumer) started by referring to Santander Consumer recent expansion in several European countries, due to the positive development of the activity and also the favorable outlook in consumer banking. Santander Consumer assets are at the present time tenfold the assets at the beginning of 1998.
Concerning retail financial market integration, Mr. Rumignani expressed similar concerns and underlined that lack of integration is mainly due to obstacles, as taxation, regulations and different economic frameworks and structures. However, Mr. Rumignani argues that obstacles to integration are not a major problem, since consumer business is and will remain a local business due to economic reasons. In his view larger problems are related to the absence of a level playing field in Europe and he remarks that the latter is of greater importance and it is at the basis of fair competition.

Mr. Eric Spielrein (RCI Banque) confirmed the previous views, by restating that there is lack of financial market integration and that there are and will be limited cross-border synergies and cross-border service provision. The reason lies in poor economic incentives for banks to engage in such operations, unless there is total legal and tax harmonization. Thus, the approach pursued by RCI bank is local, based on local operations and optimization.
Mr. Spielrein expressed more concerns in relation to the lack of a level playing field than in relation to the low degree of retail financial market integration. Finally, he also questioned the worthiness of retail financial market integration which in his view depends strongly on consumer benefits, degree of consumer confidence and adequate security for credit institutions.

The second morning session was devoted to the regulatory needs in order to achieve market integration in the field of retail finance.

Mr. Eric Ducoulombier (DG Internal Market) agrees that retail financial markets are characterized by lack of integration and the main obstacles are found in language barriers, culture, divergence in consumer protection rules as well as in policy induced obstacles, as taxation. However, despite many argue that retail financial market integration is not worthwhile he underlines the need of a coherent strategy for retail financial market integration. This strategy should be based on four major principles:

- the existing *acquis*,
- the identification of areas where obstacles remain and where integration is realistic and needed,
- the proof that there are economic benefits for consumers and business and
- the internal market fundamentals, thus home country control and mutual recognition.

Finally, Mr. Ducoulombier stressed that in order to achieve an integrated financial market further harmonization should be pursued where a high level of protection is necessary. Soft law can be considered as an alternative, but it must prove to be worth in terms of timing, scope, enforcement and geographical coverage.

Mrs. Rosa-Maria Gelpi (Cetelem) started by referring to the benefits of retail financial market integration in terms of efficiency (cost reduction and lower consumer rates of interest). She explained the obstacles to retail financial market integration by referring to natural and legal obstacles and by stressing that legal obstacles as consumer protection regulations could be removed by political will. Mrs. Gelpi took as example the proposed consumer credit directive. She referred to the maximum harmonization approach introduced in the proposal by the EU Commission remarking that it ended up in excessive consumer protection rules which penalized industry and force consumers facing unworkable legislation and consequently higher costs. Mrs. Gelpi sustained a targeted harmonization

approach, as proposed by MEP Mr. Joachim Wuermeling. Once common core principles have been adopted, mutual recognition should follow as a solution. However, as common core rules are not possible in all areas, for those areas the host country principle should continue to apply. This will prevent also consumers to be confused.
Concerning responsible lending Mrs. Gelpi underlined that regulations should not focus to narrowly on lenders' responsibility, but should encourage responsibility of consumers. It is also important to avoid the overburdening of consumers with too much information.

Mr. Donal Walshe (Eurocoop) remarked the positive effects that an integrated market would have for consumers. He appointed the way towards maximum harmonization as the right one as long as the maximum possible consumer protection is guaranteed.
He also made reference to the importance of guaranteeing clear and complete information to consumers.

2) The Draft consumer credit directive

The afternoon session focused on the draft consumer credit directive. The British and German national representatives to the Council in this issue presented their views and discussed with Stefan Huber, representing MEP Joachim Würmeling and Karel Lannoo, CEO of CEPS.

Mr. Hergen Haye (DTI, UK) intervened on the draft CCD and referred to three main issues: harmonization, mortgages and responsible lending.
Mr. Haye started by outlining the inadequacy of the total harmonization approach adopted by the EU Commission. He argued that the total harmonization approach does not take into account the differences between national credit markets in Europe. He brought up the example of the UK consumer credit market which is the most vibrant in the EU and therefore also characterized by its own specificities. At the present time the UK is undergoing a national review of consumer credit aimed at tackling related issues at the UK national level. Mr. Haye underlined the importance of respecting the need of different lending practices as well as of different consumer protection rules in relation to the different credit markets characteristics.
The UK supports the maximum harmonization approach only in areas as data sharing, licensing of operations, right of withdrawal, APR.
Concerning mortgages the UK supports the exclusion from the CCD, by stating that mortgages cannot be compared to other forms of consumer credit due to the different risks which they imply.

Mr. Peter Horne (Ministry of Justice, Germany) referred to four main issues related to the draft CCD: the principle of maximum harmonization, mortgage secured credit, the scope of the directive, responsible lending;

Concerning the EU Commission's maximum harmonization approach he argues that Germany fears loosing the current high level of consumer protection and that it supports maximum harmonization only in relation to minor technicalities, as e.g defining the annual percentage rate.
Mr. Horne also referred to mortgage backed loans by underlining that there should not be a distinction in the purpose as proposed by the EU Commission. Thus, mortgage backed loans should be included in the directive regardless of their purpose since it is in the interest of consumer protection.
Concerning the scope of the directive Mr. Horne stresses that Germany supports a reduction in the latter, by welcoming the exclusion of settlements reached in court, pawnbrokers as well as overdrafts and small credits.
With regard to responsible lending, he stated that the German government recognizes its importance, but it underlines the need to leave the consumer free to choose the most appropriate loan.

Mr. Stephan Hueber (Assistant to MEP Joachim Wuermeling) opposes the Commission's maximum harmonization approach by supporting the targeted harmonization approach. He refers to the problems maximum harmonization creates by limiting the national freedom to legislate at national level in the field of consumer protection.
He remarks that harmonization is desirable in areas as: access to databases, right of withdrawal, information systems and exclusion of mortgages.
Similar concerns were expressed in relation to responsible lending. The latter should not gravitate only on lenders, but also on borrowers. In other words there should be responsible lending and borrowing, by providing appropriate information to the consumer, but at the same time by leaving him free to take the final decision.

Mr. Karel Lannoo (CEPS) presented the results of a forthcoming CEPS Working Paper (Lannoo/de la Mata Muñoz, Integration of the EU consumer credit market. State of play and proposal for a more efficient regulatory model). Based on the fact that legal diversity in the field of consumer credit is one of the main obstacles to market integration and higher harmonization would allow more integration. However, the application of the maximum harmonization approach creates numerous difficulties in the filed of consumer credit. Firstly, it implies too long and rigid legislative procedures. Secondly, the area of consumer credit involves different economic, financial and social aspects on which Member States want to retain regulatory power. Thus, Mr. Lanoo proposes an alternative smoother harmonization approach based on the application of comitology to the field of consumer credit. This approach improves the regulatory process also by allowing a greater involvement of Member States in the regulatory procedure.