

Retail Banking – Regulatory Challenges

Eric DUCOULOMBIER
Deputy Head of Unit
DG Internal Market and Services

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Immediate focus and priorities have evolved

- With the current financial crisis, the integration of retail banking markets is, understandably, perhaps not the highest political priority right now.
- Banks, consumers and regulators have other priorities in mind: banks struggle to survive, consumers stick more than ever to familiar, local providers and regulators are desperately trying to restore market conditions and reform the financial system. Retail integration, which was already struggling, has suffered a significant set-back.
- This is a normal consequence of the current market conditions, but that does not affect our long term objectives of retail markets integration, which remain perfectly valid.

Is it business as usual in the retail area ?

- Initiatives announced in the Single Market review (end 2007) are all still underway: mortgage credit, mobility of bank accounts, SEPA, financial education and inclusion, redress etc.
- But some initiatives have definitely been affected by the crisis. Two examples:
 - In the payments area, the current market conditions have led some banks (especially the smaller and/or local ones) to question their dedication to SEPA, which involves significant investments. We were however reassured when EU banks decided on 31 March to launch, as planned, the SEPA Direct Debit in spite of the sensitive economic climate.
 - In the mortgage credit file, the focus is nowadays not so much on ‘pure’ integration concerns, but more on:
 - the prevention of similar future crisis, hence our strong political focus on responsible lending and borrowing
 - the management of the impact of the current crisis on citizens: e.g. we are preparing a report on best practices in the field of foreclosure procedures.

Why responsible lending ?

- Irresponsible lending (and borrowing) is at the very source of the current turmoil.
- The Commission has initiated a reflection on whether what happened in the US could take place in the EU.
- Initial results show that there are some safeguards in many Member States (information, LTV/LTI rules, regulation of intermediaries, compulsory creditworthiness checks etc.) but that the situation differs from one country to the other.
- There have been some misselling of credit in most EU countries, albeit not on the same scale.

What is meant by responsible lending ?

- Our reflection covers a lot of issues, some of which are already part of EU law (consumer credit directive):
 - Information/advice
 - Suitability/affordability
 - Access to credit data
 - Self-certification
 - Credit Intermediaries
 - Non-bank lenders
- We are about to launch a written consultation before deciding whether EU rules are needed. There will be a hearing on 3 September. Decisions will probably be taken by the next Commission

What are the main regulatory challenges ?

- The Retail policy will obviously benefit, directly and indirectly, from the key policy initiatives which have been taken to restore confidence, improve the management of risk, revisit the supervision regime etc.
- But the preparation and adoption of retail measures will certainly, in the short to medium term, be more difficult than before. In particular, in the current economic context, policy makers like ourselves but also at national level will, more than ever before, have to apply strict costs/benefits assessments. Indeed, banks, with their impaired balance sheets, do not need to be imposed additional and potentially costly measures where these are not strictly necessary and proportionate.

Conclusion

- **The main challenge is therefore the following:**
- **How to pursue retail integration in a political and economical climate where companies and consumers are moving back to secure territory and activity rather than looking beyond their borders ? and**
- **How to convince policy makers and stakeholders to pursue, in such adverse conditions, a policy which has not borne substantial fruits at times when money was cheaper and more plentiful ?**
- **I am however optimistic. Tomorrow's financial markets will be more stable, safe and attractive than ever before. And the business case is still there. But it will take time to restore confidence. Confidence is more important in the retail area than elsewhere. Mortgages, life-assurances, private pension funds are products which cannot thrive without trust. And trust is not something one cannot design with directives. Building trust is a complex and "Sisyphus" type of business. But I am pleased to report that our relationship with European consumer associations have (this is my perception and I hope theirs too...), never been so close. Giving users voice the importance and visibility that it merits will be one of the next Commission's biggest challenges. Yet another one...**