

# **Retail Finance**

**Rethinking Regulation and Consumer Protection in  
the Shadow of the Financial Crisis**

**Roman Inderst**

University of Frankfurt (IMFS), ICL

# Baseline Remarks

- Present crisis offers chance to rethink legislation and regulation in the area of retail finance.
- Consistent approach, building on „first principles“.  
E.g., to
  - Early-repayment clauses
  - Commissions (and disclosure)
  - Financial advice
- Sound economics is key.

# Putting Consumer Protection and Regulation on a Sound Basis

- Advice aspect is often key:
  - „Trilateral Agency Problem“
- Multiple functions of agents
  - Multiple roles of commissions.
  - Unintended consequences of intervention likely!
- Example: Mandatory disclosure of commissions
  - Inderst/Ottaviani „Misselling through agents“, AER 09
  - Inderst/Ottaviani „Commissions and Kickbacks“, 09
- Example: Paying for Advice
  - Inderst/Hoffman „How to Sell Information to Customers“, 09

# Principles of Consumer Protection

- Two views? Protect consumers from whom?
- „Behavioural perspective“  
→ Robust policy recommendations?
- Example: Minimum cancellation rights.  
Inderst/Ottaviani „Sales Talk, Cancellation Rights, and Consumer Protection“, 08

# Competition and Innovation

- Trade-off?
  - Competition vs. Consumer Protection?
  - Competition vs. Financial Stability?
- Miller 1986:  
*“The major impulses to successful innovations over the past 20 years have come, I am saddened to have to say, from regulation and taxes”.*
- **But:** Retail financial innovations arguably complete market, address agency problems, minimize transaction costs etc.
- Who are the innovators?

# Concluding Remarks

- Competition and Consumer Protection interact.
- Past and recent progress in EC's competition policy:
  - Sound economic principles and analysis
  - Motivating/disciplining force for national agencies.
- „Masterplan“ for approach in consumer protection policy and retail finance regulation?

# **Retail Finance**

**Rethinking Regulation and Consumer Protection in  
the Shadow of the Financial Crisis**

**Roman Inderst**

University of Frankfurt (IMFS), ICL