Message to European Council

The Single Market for Financial Services - Breaking The Gridlock
European Financial Services Round Table  
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The Single Market for Financial Services – Breaking The Gridlock

1. Summary

The Single Market is a simple and powerful concept. It has produced great benefits since 1992, as the Commission has recently reminded us. However, Financial Services is still the missing link. National Governments and the European Union’s institutions have made painfully slow progress in agreeing how this Market should work, let alone making it a reality. We therefore urge strongly that the European Council and the Council of Ministers should decide, at the Spring Summit, to agree the vision and implementation strategy for the Single Market in Financial Services by 30th June 2004. The Council should further resolve that the Greek, Italian and Irish Presidencies will commit to delivering this specific objective.

There are major economic gains to be achieved for Europe’s citizens, as we discuss in Section 3 below, but we now need to move much faster. It will be even more difficult to agree a new vision in a larger and more heterogeneous EU after 2004. There is also great urgency to accelerate Europe’s response to the imminent pension funding crisis. A single European market for privately funded pensions could make an important contribution.

There is a clear political will to make Europe more competitive, as was evident in the Lisbon Strategy and the adoption of the Financial Services Action Plan. We warmly welcome the recent declaration by the Netherlands and Ireland that they will give the internal market for services a high priority during their 2004 Presidencies. Sustained political focus is now required to translate this determination into detailed agreements on the way forward. All Member States must look beyond their short term “national interests” which, in fact, cost Europe’s citizens so much.

Achieving rapid progress will also require institutional clarity, in particular sufficient executive powers for the European Commission and a streamlined comitology procedure. We will therefore also urge the European Convention to define the Internal Market as an exclusive competency of the Union.

2. Key Areas For Change
We identify four critical areas where changes will have the greatest impact in creating a single market:

2.1 **Supervision**

The framework for Supervision is completely fragmented in the Union, which frustrates the creation of a level playing field. There are fifteen different national regimes. Some members have combined Banking and Insurance regulators. Others have them separate. There are thus many excuses for arguments back and forth about the best solution. The practical way to make rapid progress on Supervision is to agree on mutual recognition of all the other EU regimes. This can only be done when Member States have agreed on common principles setting minimum standards for good supervision. Coordination of supervision must also be improved and better institutional infrastructures for this are needed. Differences in application and interpretation will then be corrected by the market’s supervisors and participants.

The avoidance of over regulation must be a continuing objective. Streamlined reporting requirements, electronic filing and other process initiatives should be pursued. Careful management by the Commission is necessary in respect of the interactions between major new initiatives on international accounting standards, solvency measures and the architecture of supervision.

The European Financial Services Round Table will publish more detailed recommendations on Supervision and Regulation in the summer of 2003.

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<td>Definition of agreed common standards for supervision, based on Basel 2, ‘Solvency 1/2’, Conglomerates Directive</td>
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<td>Resolution with IASB of the outstanding major IAS deficiencies for banks and insurers, to permit implementation of IAS based reporting</td>
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<td>Mutual recognition of home country prudential supervision, with rapid removal of additional host country requirements</td>
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2.2 Consumer Protection

The European debate on Consumer Protection has historically been a snake pit, with less emphasis on protection for the Consumer than on protection for national market structures. Today, the Member States of the European Union all seek to protect their consumers. It is fruitless to pretend that any one set of national legislation is superior to all the others. On the contrary, such arguments are an excuse for doing nothing. The Member States should instead work with the Commission to identify appropriate common standards at EU level. It is recognised that some areas, such as national contract law, cannot be easily harmonised but this should not prevent the creation of the consistent framework which is essential for a single market. It is also clear that harmonisation should not result in the adoption of the most complex rules existing today, but instead provides an opportunity to agree on the most effective solutions, which do not create unnecessary costs for consumers.

The European Financial Services Round Table will publish more detailed recommendations on Consumer Protection in the summer of 2003.

Key Steps on Consumer Protection

Define urgently the future vision for retail consumer protection e.g.

- Common principles for all Member States, consistently implemented
- Implemented through information requirements, not restrictions on product design or pricing
- Clearly defined responsibilities for product providers, purchasers and salespersons
- Defined principles for applicable contract law, availability of redress
- Consistent approach across all product types and distribution methods

Continue to implement harmonisation for selected products including the removal of superfluous national restrictions

Plan to achieve longer term goal of the fullest possible harmonisation, supplemented where necessary by mutual recognition.
2.3 One Capital Market

A single capital market is fundamental. The recent compromises on the Prospectus Directive, however, have illustrated again the continuing resistance to progress, and even national protectionist attitudes. Issuers and investors should be free to act across the Union and in any Member State. Intermediaries should only be supervised in their Home State and recognized elsewhere. We need to improve the efficiency of cross border Clearing and Settlement systems to strengthen Europe’s competitiveness. Consistent principles of taxation should also be progressed.

The Financial Services Action Plan addresses many of the key issues for capital markets. We believe the immediate priority is to complete the current agenda, including the Prospectus Directive and Investment Services Directive in 2003. We emphasise in particular the need to conclude rapidly the current discussions on the revised Takeover Directive in order to ensure that this important measure can be approved on schedule in 2004.

2.4 Pensions

Demographic developments in Europe represent a time bomb, threatening the security of our citizens’ pensions. This is an urgent and major issue. Political leaders will have to take more decisive action soon, or face justified criticism for destroying the well being of generations of Europeans. The impending emergency must be acknowledged and addressed. Last year, the European Financial Services Round Table published a report on the pensions challenges facing Europe, and the potential role of private savings in supplementing state sponsored schemes. We have summarised the key issues again in our recent message to Ecofin (which is attached). Private savings must be stimulated, in addition to the reform of State pension systems. Important tax incentives must be introduced. No modest compromises will do. Massive education and information campaigns should be launched to alert young people to the new challenge, and the need to begin saving earlier in their working lives. There is no time to lose.

For adequate private pensions to be provided, we also need an open, competitive and transparent single market. Costs and charges must come down while choice and quality are improved. Only greater competition, and not regulation alone, can achieve this. We have argued in more detail elsewhere that it is perfectly practicable to create a single European market for private pensions, whilst respecting fully the continuing differences between Member States in welfare provision and national rates of taxation.
Both the Commission (in driving the Single Market) and National Governments, with responsibility for welfare and taxation policies, have crucial roles to play in creating pension solutions.
Key Steps on Private Pensions

Finalise Occupational Pensions Directive

Create a Single Market for privately funded pensions:

All Member States should adopt the same E/E/T principles for taxing pensions savings in working life and retirement.

Remove tax discrimination against non-domestic providers and restrictive rules on product design

Make portability a reality, during and after working life (also for State pensions)

‘Externalise’ the management of private pension funds through fully supervised specialist institutions – private pension funds should not be controlled by employers, unions or government agencies

Powerful tax incentives must be introduced by Member States to encourage greater savings for pensions.

Clearer, personalised information must be provided on future pension entitlements, to help consumers to plan for their futures.
3. Why Greater Urgency Is Needed

3.1 Major Economic Benefits

In February 2002, the European Financial Services Roundtable published research demonstrating that a Single Market would bring big benefits to the European Economy and to the European Consumer:

- Economic growth would increase by between 0.5% and 0.7% of GDP annually.
- Costs for savings products could be reduced by at least 10 billion per year.
- The cost of capital would be reduced significantly, benefiting Member States’ consumers and companies.

More recent research for the Commission has further reinforced this argument.

3.2 Benefits For Consumers Are Also Politically Important

Progress is being made on the wholesale sector through the Financial Services Action Plan. However, progress in the retail area – so vital to Europe’s consumers – has become very slow. This is a politically crucial issue.

Why are Financial Services so important to citizens? Because they meet their needs to finance their home, their car, their education, their consumption, their savings and their retirement pension. In all walks of life, access to cost-effective and high quality financial services is of the utmost importance. The total amount spent on these services is a significant part of total household spending. Progress here would demonstrate powerfully the relevance of the Union to individual citizens.

3.3 Market Forces Promote Efficiency and Innovation

We emphasise the importance of establishing and maintaining good regulation of financial markets to maintain financial stability and to protect customers. We also emphasise however that, within this framework, market forces are the catalyst to stimulate innovation and to drive down costs.
The essence of the market economy is that the force of competition drives benchmarks, comparisons and accessible consumer information. Product specifications can be compared, as can quality and prices. Consumer protection standards have become a competitive tool for manufacturers, for example, in the automobile sector. Warranties and guarantees have been extended well beyond the limits that existed before the Market opened.

4. How Can We Accelerate Progress?

We recognise that it is very difficult to harmonise rules across Europe. For example, the interconnection between legal systems and consumer protection rules is complex. To establish the Single Market for Financial Services should not require, however, an enormous corpus of new legislation.

We must also emphasise that it remains vital to think each piece of legislation through properly: no one benefits from hastily drafted proposals and unrealistic deadlines.

4.1 Accelerate Mutual Recognition Where Appropriate

In some areas, we should be able to accelerate progress by implementing mutual recognition more effectively. This will require rapid agreement of minimum common standards and the key national rules which must be removed. A radical new process may be required to reach this rapid agreement.

Full harmonisation of rules will provide a better ultimate solution for some areas, but is inevitably more complex and will take longer.

4.2 Use Enforcement Powers

Given the very slow pace at which the European legislative process moves today, it is crucial to make the best use of the existing regulatory framework. We therefore strongly welcome recent Commission initiatives to remove discrimination against non-domestic investors:

- Tax treatment of pension and investment products
- Restrictions on shareholdings and voting rights

The other key requirement is that European regulations must be fully and consistently implemented in national law, with clear wording giving less scope for national regulators to exercise discretion.

4.3 Strengthen Consultation Processes
Consultation with industry is essential to produce workable solutions, but must be managed more effectively. The implementation of the Lamfalussy process will facilitate this, and we do see clear signs that better consultation is evolving. We in turn recognise the industry’s responsibility to engage more effectively in this process.

5. Conclusion

Despite general recognition of the potential economic and political gains for Europe through a single market for financial services, stronger and focused action is still needed to make it happen. We have outlined above some of the key priorities.

We therefore urge strongly that the European Council and the Council of Ministers should decide urgently, at the Spring Summit, to agree the vision and implementation strategy for the Single Market in Financial Services by 30th June 2004. The Council should further resolve that the Greek, Italian and Irish Presidencies will commit to delivering this specific objective.

The European Financial Services Roundtable.
Pehr G Gyllenhammar, Chairman.
March 2003
Members and Mission of the EFR

A group of leading European banks and insurers formed the European Financial Services Round Table (EFR) in 2001. The purpose of the EFR is to provide a strong industry voice on European policy issues relating to financial services. The initial objective is to support the completion of the single market in financial services. Members of the EFR believe that a single market will bring substantial benefits to customers including increased competition and greater innovation. These benefits will help to drive down prices and deliver a wider and better choice of financial products to customers.

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