



European Financial Services  
Round Table

**Response of the European Financial Services Round Table (EFR)  
to the  
Green Paper of the European Commission on Retail Financial  
Services in the Single Market  
COM (2007) 226 final**

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The Members of the European Financial Services Round Table (EFR), Chairmen or Chief Executive Officers of leading European banks and insurers, welcome the initiative of the European Commission to conduct a consultation with a view to improve the functioning of retail financial services markets and the opportunity to comment on the Green Paper (COM (2007) 226 final).

We believe that integration of retail financial markets requires measures to strengthen financial industry competitiveness on one hand, and a high level of consumer protection on the other hand. Competition is the motor to cut costs, allowing providers to offer lower prices to consumers, and functions hand in hand with innovation.

The EFR welcomes ongoing initiatives contributing to the building of an integrated market for retail financial services. While taken individually regulatory initiatives such as the Payment Services Directive and particularly the proposal for a Directive on Consumer Credit leave room for further improvement, the EFR considers that taken cumulatively, they have as a common objective the creation of a single market for retail financial services, which carries our support.

The EFR welcomes the fact that the present reflection on possible measures to boost customers' confidence and empower them goes in the direction of a more educated, hence more responsible customer, equipped with a set of rights but also obligations.

## **I. Introduction**

1. The EFR believes that the single market for retail financial services is far from completed and welcomes this consultation. With specific regards to financial services, as there are different ways to view the concept of cross-border, a clarification is needed. Primarily, cross-border transactions do not mean that consumers have to shop around different Member States to compare offers but imply that providers from other Member States are enabled to enter national markets to offer their products directly to consumers. To that end, it is essential to enable providers to distribute their products throughout the EU on the basis of similar rules to sell products through various distribution channels. Indeed, future policy initiatives must anticipate and integrate consumers' behaviour in the next ten to 15 years, bearing in mind that new technologies and communication means will continue to impact consumption patterns.
2. The EFR supports a balanced approach reconciling a level playing field

for the industry and providing consumers with a high level of consumer protection. The financial services industry is a key driver of the European economy: the financial intermediation sector in 2005 accounted for 4.4% of overall EU-25 employees<sup>1</sup>, and merely the banking sector's contribution to overall EU GDP is estimated to be 5%<sup>2</sup>. Successful integration of retail financial markets will benefit consumers by offering greater choice and lower prices. In order to achieve this, and to enhance EU banks' ability to compete both within the EU and globally, the Commission should strive towards implementing a well-balanced approach between consumer protection and industry's competitiveness.

3. As regards legislative means, we would have welcomed more precise references to the tools envisaged to achieve integration of retail markets. For instance, we note Commissioner Kuneva's expressed support for full harmonisation in selected key issues at European level as an efficient way to empower consumers and derive benefits from efficient European markets. The EFR supports this approach complemented by mutual recognition. The following approach to further integration of retail financial markets should be pursued:

- distinction between key and non-key requirements
- targeted full harmonisation of key requirements by means of EU legislation
- and application of mutual recognition of existing rules for non-key requirements.

4. The failed attempt to introduce mutual recognition in the modified ConsumerCredit Directive proposal was, to a very large extent, due to the complex model proposed. It did not sufficiently define borderlines between full harmonisation, mutual recognition and nationally regulated issues. The EFR would warmly welcome initiatives from the European Institutions to reopen the discussion on how to enshrine in EU legislation the mutual recognition principle combined with full harmonisation.

5. Whilst the EFR favours a "targeted full harmonisation" approach, parallel routes should also be considered. In this context the so-called "28<sup>th</sup> regime" which we label "optional pan-European regime" would offer an optional and additional regime coexisting with national and EU regulation. It would be fully compatible with cross-border activity for retail financial services, offer robust consumer protection and confidence. In the spirit of already existing pan-European solutions (e.g.

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<sup>1</sup> Eurostat estimates, Statistics in Focus 47/2007

<sup>2</sup> Estimates provided by the European Banking Federation, [www.fbe.be](http://www.fbe.be)

Societas Europae), such a method would provide a minimal and workable synthesis. In its recently published report on Pan-European Pension Plans<sup>3</sup>, the EFR studies in depth the legal and technical feasibility of third pillar pension products (see comments under 4). Beyond the debate between legal experts on technical aspects, such a harmonisation method is discrete from existing legislation and almost starts from a blank page, hence opening new paths to European markets' integration.

In the following the EFR is pleased to present its views on this Green Paper<sup>4</sup>.

## **II. Lower prices and more choice for consumers in a competitive financial services environment**

6. The EFR strongly supports initiatives aimed at bringing down costs. Competition will be the main driver to reduce costs and eventually prices. Competition exerts a continuous pressure on companies, which obliges them to maximize synergy effects and reorganise their existing structures. In this way, cost structures are also revised and gains are passed onto consumers who enjoy lower prices. In this context, full harmonisation on selected key-issues will create a level-playing field which will enable genuine competition at EU level.
7. On access to databases, the EFR supports measures aimed at ensuring non-discriminatory and reciprocal access to existing databases, which are in general accessible to national providers under certain terms and conditions<sup>5</sup>. Eventually, further efforts will be necessary to implement common definitions or criteria to reduce existing discrepancies. Whilst measures facilitating customer mobility and preventing consumers' overindebtedness are welcome, we highlight that banks' and insurers' internal databases contain the core of their business, and added-value type of information remains their own property. The EFR would strongly oppose future initiatives regarding the opening of the financial institutions' internal databases as these contain sensitive information derived amongst others from the financial institutions' own credit and risk assessment models.
8. Competition is a driver for innovation and increased choice of quality products. The EFR believes that standardisation of products on legal

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<sup>3</sup> See EFR Report "Pan-European Pension Plan - from Concept to Action", 26 June 2007, [www.efr.be](http://www.efr.be)

<sup>4</sup> The numbering of the answers does not necessarily relate to the order of the questionnaire of the Green Paper.

<sup>5</sup> See EFR Report "Consumer Protection – Consumer Choice", January 2006, pp 25 and 26

grounds would restrict innovation and choice of products offered to customers without necessarily serving their individual needs. Standardisation of information, as opposed to standardisation of products, carries the long-standing support of the EFR, which proposed the idea of a compulsory Pan-European Info Box (PEIB), to facilitate products' comparison at a glance with transparent and clear information. We welcome the introduction of the concept of the PEIB in the modified proposal for a Directive on Consumer Credit with a Standard European Credit Information (SECI). We would support further efforts so that SECI information requirements are reduced to essential information.

9. The EFR shares the view that *“the EU framework needs to lay strong foundations for enabling a competitive, open and effective market for long-term savings, retirement and pension solutions that meet European consumers' needs”*<sup>6</sup>. Given that, at this stage, full harmonisation or mutual recognition are neither feasible nor politically acceptable options in the field of pensions, and as IORP and life-insurance directive leave almost unchanged the former fragmented regulatory frameworks, the EFR strongly encourages the Commission to investigate alternative routes to achieve further integration of financial services in the field of pensions. To develop a pragmatic and operational approach, the EFR Pensions Steering Group has developed an “Optional Pan-European Regime” which defines a minimal set of governing rules for the management of a Pan European Pension Plan (EPP). Prior to publication of the report<sup>7</sup>, orientations and findings have been presented to various national and European interlocutors, where they received a good level of acceptance.
10. On “basic bank accounts”, the EFR seeks a clarification between the concept evoked in this green paper, described as an *“optional, simplified and standardised product”* and the concept of a *“universal service obligation”* presented in the recent report<sup>8</sup> of the expert group on customer mobility. Future initiatives regarding basic bank accounts should respond to an identified market need and pass a cost/benefits test. Given that SEPA will make cross-border direct debits, credit transfers and debit cards possible on the same conditions as domestically, mobile customers will be enabled to use their home account abroad for day-to-day operations. Indeed a business case evidencing the need for further integration beyond the scope of the PSD should be prepared before further regulatory action is taken.

11. With regards to the announcement to examine the role of non-banks in

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<sup>6</sup> See Green Paper on Retail Financial Services, ongoing and planned initiatives, p 11

<sup>7</sup> See EFR paper “Pan-European Pension Plans - from Concept to Action”, 26 June 2007

<sup>8</sup> See Report of the Expert Group on Customer Mobility in relation to Bank Accounts, p 38

the forthcoming White Paper on mortgage credit, the EFR strongly believes that the rule “*same business, same risks, same rules*” should fully apply in retail financial markets to ensure a level-playing field.

### III. Enhancing consumers' and businesses' confidence

12. This Green Paper rightly indicates that “*an equivalent level of protection throughout the EU gives consumers the confidence to choose from a range of providers wherever they are in Europe*”<sup>9</sup>. The EFR welcomes the view expressed by Commissioner Kuneva in her recent speech<sup>10</sup> which made clear that to offer a better consumer protection regulatory framework, “*it is necessary to review and modernise the current consumer protection framework*”, and to “*empower citizens to play their full role in, and to derive a maximum benefit from efficient markets, full harmonisation in selected key issues at European level is needed*”. It is noteworthy remembering that in the sphere of goods, integration took place through a process where supply triggered demand. With regards to financial services, future policies and economic projections underlying cost/benefits analyses should take this element into account.
13. The EFR supports initiatives aimed at increasing legal certainty for providers and consumers. The EFR expressed concerns in a recent statement<sup>11</sup> with the proposed regulation on Rome I. The EFR generally supports the transformation of Rome I into community law. However, the current draft, when proposing to submit nearly all cross-border contracts fully to the law of residence of the customer, is likely to lead to less cross-border business and deter further Internal Market integration.
14. Ensuring adequate access to redress is of high importance. A number of measures have already been set up by Member States, federations and companies. A good starting point for the Commission would be to produce an inventory of existing measures and promote best practices. Further, the Commission should promote FIN-NET and find an efficient way to raise awareness amongst the public about initiatives taken by central banks, trade associations and companies in the sphere of redress. It is particularly important for cross-border transactions that simple and affordable redress tools are easily accessible (e.g.

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<sup>9</sup> See Green Paper on Retail Financial Services in the Single Market, p 12

<sup>10</sup> See SPEECH/07/331, Commissioner Kuneva, “Consumer Policy has come of age”, London 24 May 2007

<sup>11</sup> EFR Statement “Rome I proposals will deter further integration of financial services”, 5 March 2007

ombudsman procedure for financial services or mediation<sup>12)</sup> and awareness raising efforts are deployed.

15. The Commission rightly stresses that consumers need to be confident in the soundness of financial institutions and highlights that the current EU prudential framework should be kept under constant review and adapted to market and financial developments, in particular with the modernisation of the insurance prudential framework and the proposal for “Solvency II”. This new Solvency II should assess the capital requirements of the Insurance Company upon a genuine market consistent basis with a full recognition of risk diversification. Furthermore, it will ensure an optimal pricing of options and guarantees. It will make more rational the risks transferred from the consumers and the businesses to the insurance industry. It will maximise the capacity of risk absorption for a given amount of capital. It will give more appetite for product innovation in particular to meet consumer and social needs. Another important aspect is to have a coherent approach of all the different supervisors and requirements across Europe so that a real level playing field can be established. Also for group issues, a strong cooperation between the supervisors as well as the appointment of a group supervisor is essential. A process aiming at reaching mutual recognition of non-EEA supervisory systems should be started within the Solvency II approach.

#### **IV. Empowering consumers through education and quality of information**

16. Initiatives aimed at developing consumers’ financial literacy are of paramount importance. As a starting point, the Commission should identify existing measures implemented by Member States, federations or companies, with a view to share and promote best practices. To shape future debate, the EFR supports Member States to take a leading role in providing financial education.
17. The EFR ranked among the first supporters of initiatives improving the quality of information, by way of increased transparency and comparability of information with a “Pan-European Info Box”<sup>13)</sup>. To make an informed decision, it is paramount for customers to easily compare products without unnecessary information.
18. The EFR welcomes the launch of customer testing to evaluate relevance and usefulness of pre-contractual information. Focus groups

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<sup>12</sup> Proposal for a Directive on Mediation COM (2004) 718 final, SEC (2004) 1314, text adopted by the European Parliament in first reading on 29 March 2007, see P6 TA (2007) 0088.

<sup>13</sup> See EFR Report “Consumer Protection – Consumer Choice”, January 2006

are an excellent tool to obtain qualitative information. However, to be indisputable, such tests would need to be complemented by quantitative surveys. Furthermore, customer testing should be extended to other topics such as other key-requirements. Further, the results of surveys on the desired level of pre-contractual information requirements should be taken into account when devising future retail financial services policy measures.

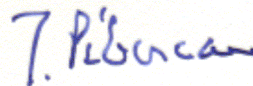
19. Information and advice are two different functions. Whilst we believe clear and concise information must be systematically supplied, advice should be considered differently. A focus on quality of information should lead to avoiding overburdening customers with information and should also lead to reduce duplication of information. For instance, when a customer has entered into a contractual relationship with a financial institution, ways should be further explored to reduce duplication of information for subsequent specific transactions. Advice should be optional in any case, but obtainable on request<sup>14</sup>. In addition, the more sophisticated the products, the more likely customers are to require advice. On a more general view, we support a longer-term strategy based on developing consumers' financial capability.

**Francisco González**



**Chairman of the EFR  
Chairman and CEO  
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The Members of the European Financial Services Round Table (EFR) are Chairmen or Chief Executives of leading European banks and insurance companies. The objective and purpose of EFR is to provide a strong industry voice concerning the further integration of the EU single market in financial services.

Chairman of the EFR is Francisco González, Chairman and Chief Executive Officer of BBVA.

[www.efr.be](http://www.efr.be)

<sup>14</sup> See EFR Report "Consumer Protection – Consumer Choice", January 2006, pp 18 and 19