



European Banking Industry Committee

European Banking Federation (EBF) • European Savings Banks Group (ESBG) • European Association of Cooperative Banks (EACB) European Mortgage Federation (EMF) • European Federation of Building Societies (EFBS)
European Federation of Finance House Associations (Eurofinas)/European Federation of Leasing Company Associations (Leaseurope)
European Association of Public Banks (EAPB)

Mr. Dirk Staudenmayer
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To: Dirk.Staudenmayer@ec.europa.eu
Cc: Angela.Black@ec.europa.eu

Brussels, 22 April 2010

Re: CCD Benchmark study

Dear Mr. Staudenmayer,

The European Banking Industry Committee (EBIC) welcomes the publication of GHK's final report on the *Establishment of a benchmark on the economic impact of the Consumer Credit Directive on the functioning of the internal market in this sector and on the level of consumer protection* (hereafter referred to as the CCD Benchmark study).

In this context, EBIC members wish to reiterate their commitment towards full cooperation with the European Commission in the field of financial services and consumer protection.

As acknowledged by the consultant, survey based evidence on consumers satisfaction with retail banking services in general suggests an acceptable level of consumers satisfaction with retail banking services in the EU25 (average satisfaction score of 7.8 on a scale from 1 to 10). It is one of the services of general interest with which consumers are the most satisfied¹.

EBIC members share GHK's views that, in principle, indicators on the state of the Internal Market and, the level of consumer protection exist and could be used to benchmark the CCD.

However, most indicators identified in the consultant's final report remain incomplete due to the lack of reliable data. The availability and congruence of data would depend on the improvement of local reporting systems.

¹ See. IPSA INRA for the European Commission, Health & Consumer Protection Directorate, *Consumer Satisfaction Survey*, May 2007

EBiC members recognise the inherent difficulty in conducting this study due to the lack or incomparability of data. Difficulty in comparing data is reinforced by divergences in market characteristics and local regulatory frameworks such as, for example, the existence of tax deductions, local subsidies for specific purchases, interest rates restrictions or, development of microcredit.

Against this backdrop, EBiC members wish to highlight some key issues for consumer credit providers:

1. Size and Structure of the Market

The final report provides a snapshot of the market which in the opinion of EBiC contains a high number of statistical limitations which ought to be further clarified.

1.1 Definition of consumer credit

The term “consumer credit” is used invariably where in reality this definition may include numerous different items depending on the country in question and also on the statistical institution reporting the figures. These divergences in terms of how consumer credit itself is defined, classified and data summed across countries and reporting institutions obviously lead to inconsistencies when statistics are compiled and compared on a European basis. In this context, it is worth highlighting the complexity of local breakdowns.

For example, the figure presented in the report for consumer credit outstanding in Belgium in December 2008 (with “the National Central Bank” indicated as a source), encompassed the entire category of “Loans at up to one year” while such a breakdown does not only include loans related to consumer credit but also other types of short-term loans.

The figure presented for consumer credit outstanding in Sweden in December 2008 (with “the National Central Bank” indicated as a source) is much superior to the European Central Bank estimates. It seems that this figure has not been reported by the Swedish Central Bank. Therefore the difference with the European Central Bank estimates cannot be explained.

Without further clarifications on sources and explanations of all the segments that any aggregate figure covers in each case, the analysis is misleading.

1.2 Estimation of consumer credit

The estimation of consumer credit relies on local data collection processes. In this context, not all credit issuing institutions may be required to report to their central bank authority. The statistics collected typically only include the institutions which are required to report. Thus, there is little or no information available with respect to certain areas, in particular as regards what are referred to as “Other Financial Institutions” which include a wide range of financial corporations which do not receive deposits except from “Monetary Financial Institutions” only. Still, the scale of these “Other Financial Institutions” is important in several countries. However, it should be possible for all national regulators to provide such data in full.

1.3 Selection of variables

EBiC acknowledges the difficulty inherent in collecting information on lending institutions' new business. In this context, EBiC members therefore understand the use of credit outstanding as a benchmarking indicator.

However, it is clear that as far as the size of the market is concerned, figures showing consumer credit in terms of new business are those that are the most relevant. This is the only way to provide a true picture of consumer credit market developments over the last few years.

In parallel, we wish to stress the importance of interpreting variables in light of market characteristics. For example, the decrease of credits granted in France in 2009 was caused by a decrease in demand. This data should therefore not be used to demonstrate consumers' difficulties in accessing credit.

2. Product Offering

EBiC members agree with the consultant's conclusions that differences in consumer needs between countries and market characteristics influence the diversity of products on offer. As a result, consumers demand for a specific product might be extremely high in country A while remaining limited in neighbouring country B. Credit cards are a good example of this situation.

The industry therefore suggests that the benchmark provides penetration rates for a sample of products (i.e. the benchmark should not be limited to credit cards).

3. Switching

EBiC members are committed to promoting a competitive environment for Europe's retail banking and financial institutions in the full recognition that competition improves banks and financial institutions' efficiency, lowers prices and drives product diversity and innovation. As an important condition for competitive retail banking and financial markets, consumers have to be able to seize the best offers on the market.

The industry strongly believes that although the ease with which consumers can change financial services provider is crucial for competition, it does not necessarily lead to high levels of customer mobility.

The final report provides the results of Eurobarometer 243 on consumers' views on switching services including credits longer than one year and excluding mortgage loans.

We fail to understand the exact circumstances in which borrowers would exercise their mobility as regards consumer credit products. Though many consumer credit arrangements may be settled for a period of more than one year, most of them remain short term agreements compared to other retail lending agreements.

In this context, we seek clarity on whether the analysis of consumers switching behaviour refers to consumers changing credit provider after they have been discharged from their contractual

obligations (i.e. the loan has been fully repaid) or before completion of the contract (i.e. the loan is still outstanding).

In the latter situation, switching providers implies applying for a new loan to refinance existing obligations. Such a process is therefore far more sophisticated both for consumers and retail financial services institutions than for other forms of switching (e.g. current accounts, standards means of payment). This obviously requires for both parties to enter into a new lending transaction.

The refinancing of existing obligations is not proposed by all lending institutions and remains, for short-term lending agreements, an uncommon practice in most European markets. In specific circumstances, consumers may wish to enter into a consolidation process where multiple debts are brought together. This is not an unusual process but it should be seen as a response to specific needs (e.g. replace multiple debt repayments with a single monthly payment, cut monthly costs, secure a fixed interest rate etc.) and should not be considered as a standard switching practice

When assessing customers' mobility in relation to consumer credit products it is therefore vital to take into account local market specificities including offers, usage of products and customers' expectations.

For example, in those markets with high credit card penetration rates, consumers may usually have the option to transfer their credit cards debts to other providers. While this is common practice in the UK, it is largely absent in other European markets either due to low penetration rates for credit cards, a completely different usage of the product or applicable legal framework.

4. Complaints

EBIC members agree in principle that the level of consumer complaints is an important indicator of consumer satisfaction and a useful tool to identify concrete difficulties experienced by borrowers.

However, it is worth highlighting that official statistics on consumer credit complaints are largely absent. The number of complaints per country, as reported by the consultant, cannot be used as a reliable benchmark.

The nature of collected data does not provide a consistent picture of the number of complaints addressed by borrowers on consumer credit agreements. The data reported in the study either includes complaints related to all banking/financial services, complaints covering all credit related issues (incl. mortgages) or product-specific complaints (i.e. for example including credit cards but excluding other consumer credit products).

In all cases **the reported data does not correspond to the number of complaints filed by consumers in the field of consumer credit** (i.e. restricted to consumer credit products provided by all types of institutions).

5. Cross-border activity

EBiC members agree with the consultant's finding that direct cross-border lending is insignificant in the EU and where it exists is restricted, in the main, to border areas.

It is clear from the responses to the consultant's survey questionnaires that direct cross-border lending concerns a limited number of institutions and, in all cases, an extremely small proportion of overall outstanding consumer credit.

As reflected in the industry responses to the consultant's questionnaires, it is worth highlighting the importance of indirect cross border lending through mergers/acquisitions and establishments of branches or subsidiaries.

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EBiC members appreciate the difficult task of creating an accurate benchmark on the economic impact of the Consumer Credit Directive and the level of consumer protection. We recognise the difficulty of extrapolating on incomparable or even inexistent data.

Unless further uniform data collection mechanisms are put in place at local level there is no way to ensure exact comparability of variables. This would however require a substantial workload and take several years to produce any substantial results.

In light of future work to be carried out on the impact of the CCD and, as a realistic alternative, it is essential to i) provide exhaustive details of data reported, ii) clearly mention what is excluded/included in reported data, iii) establish some general trends for those markets for which data is comparable and, iv) analyse data in light of market characteristics and usage of products. These clarifications are key to ensure the viability of the overall exercise, which otherwise may prove excessively demanding, and employing tools and resources that are disproportionately cumbersome when compared with the desired result.

EBiC members see the impact assessment of the CCD as key for all parties and wish to reiterate their commitment to full cooperation with the European Commission in this field. At the same time, we call for a proportionate and balanced approach, where the pragmatism and usefulness of the assessment exercise remain crucial.

Sincerely yours

Gerhard HOFMANN
EBiC Chair

Sandrine JOURDAIN
EBiC Consumer Credit Working Group Chair