

SPEECH BY THE HON. TONIO FENECH, PARLIAMENTARY SECRETARY IN THE MINISTRY OF FINANCE, AT THE BUSINESS BREAKFAST WORKSHOP ON THE EUROPEAN COMMISSION'S GREEN PAPER ON THE RETAIL FINANCIAL SERVICES - ST JULIAN'S - 21.06.2007

Good morning Ladies and Gentlemen

It is a great pleasure to be here this morning to share with you some of my views on what I believe is an important document issued by the European Commission addressing retail financial services.

The Commission's Green Paper on Retail Financial Services published recently is a welcome development following the publication in 2005 of the White Paper on Financial Services Policy and many other initiatives taken by the Commission to assess the state of play of the single market in retail financial services. The ultimate goal is not only to advance the Lisbon growth and productivity agenda, but also to improve the quality of and access to financial services.

In its Progress Report published in February on the state of play in respect of the Single Market in financial services, the Commission emphasised that following its White Paper on Financial Services Policy, it aimed to fulfil one of its key objectives – that of “dynamic consolidation” of the EU financial services framework. The Commission was clear that there was to be no 'son of' the Financial Services Action Plan (FSAP): the period of weighty legislation was over.

Instead, the FSAP measures were to be given time to settle, were to be monitored, implemented and enforced. The final set of proposals focused on implementation, enforcement and supervisory convergence.

But the White Paper recognised that some areas required further legislative attention including consumer credit, pensions, banking consolidation and the single payments area – four areas where the consumer is the focus of attention.

The integration of both wholesale and retail financial markets has been a European priority since the formation of the euro area. The recent Green Paper on Retail Financial Services acknowledges that the FSAP has made great inroads in developing a robust framework for the wholesale financial services market. However, after the extensive FSAP exercise, it is clear that retail consumers of financial services may have not yet reaped all the benefits which were originally intended to accrue from the extensive FSAP initiatives, be they legislative or regulatory, or both. Indeed, if the elimination of currency barriers have brought markets together, it has also accentuated the opportunity costs of fragmentation.

To a large extent, retail banking and other financial services have always remained local or regional, where consumers tend to cluster or ‘bundle’ products and services they use at one financial institution – such as a bank - and only switch provider when they move or for some other reason.

Various studies have shown that in Europe, cross-border lending to consumers and small companies – to mention one particular service - is minimal: there seems to be minimal interest in such services on the part of banks or consumers. The Green Paper evidently shows the Commission's frustration at not being able to ignite consumers' interest to purchase financial products from competing banks and financial institutions across borders.

But one has to keep in mind that for many consumers, cross-border products and services are an option rather than a necessity, compared to similar products which are available domestically. The Green Paper itself acknowledges that, at a domestic level, many consumers feel that they are reasonably well serviced by their national financial services providers. This is, after all, only natural because a domestic financial provider is well placed to identify the requirements of the captive market in which it operates and offers a product/service suited for those needs.

Harnessing the huge potential and delivering benefits to EU consumers of the single market in financial services poses a formidable challenge. The Commission acknowledges that product characteristics, distribution systems, differences in consumption culture and indeed other economic and structural realities play an important role in retail financial services, compared to the wholesale sector. Many observe that merely harmonising single market rules would not necessarily increase the uptake of cross-border financial services.

There are various ways one could go about achieving further integration – one could leave it to the markets to compete, or where competition does not work, introduce legislation or corrective measures, or leave it to the market to self-regulate itself – or a mix of any of the ways just mentioned. The list is endless.

But it is clear that the Commission does not want to sit on its laurels. It wants to challenge the assumption that retail financial services are bound to be or remain purely local. And that is why the Commission has embarked on a number of projects to instigate and investigate issues which it hopes would bring cross border financial services closer to the people. It is aware that the benefits of integration cannot be taken for granted and whilst recognising the need for a competitive environment for financial providers to develop and offer better and more cost-effective products to consumers, it knows quite well that markets alone might not guarantee that all users share in the benefits created.

I too would like to put forward some issues for your consideration this morning.

The Commission's Green Paper may appear to be a stock-take exercise of the various initiatives it is taking or would like to take to instigate uptake of cross-border financial services. But the Commission does not have all the answers as to why consumers do not shop cross-border for their financial services needs. One of the initiatives which the Commission intends to pursue is a study to examine why consumers generally do not purchase financial services cross border and how they should be encouraged to find the best deals.

But one may ask: is it reasonable to assume or pursue the notion that all EU consumers are interested in products or services which can potentially be used EU-

wide, but for which a business case has yet to be built? The answer can be quite complex.

Take bank accounts, for example. A few weeks after releasing the Green Paper, the Commission published a very interesting report prepared by a group of experts made up of consumer and banking representatives and academics on customer mobility in relation to bank accounts. The expert group was established a year ago to identify obstacles that customers encounter when switching bank accounts at national or EU level and to provide the Commission with recommendations on how identified obstacles could be addressed. The group came up with no less than 37 recommendations to address the various obstacles identified.

It was not surprising to see that a major barrier for consumers when shopping around is information asymmetry. Consumers expect to be adequately informed of the cost they incur for purchasing or maintaining a financial product. If a financial institution does not make such information readily and easily available, one can hardly expect consumers to be able to compare tariffs and charges across the various operators within its home state, without even considering the difficulty of comparing such information with other financial operators elsewhere.

It is sometimes fairly difficult to establish whether it is the suppliers' behaviour or general market conditions (such as certain demand-side features) that limit competition.

It is evident that the Commission would like to give the consumer more tools to empower him to shop around and be in a position to make informed decisions before committing his savings to a product or service. But the Commission is also aware that it might not be in a position to carry out such an important objective unless it has the full cooperation of the respective bodies at national level charged with ensuring such objective in their national home states – be they financial regulators, consumer associations and educators.

Moreover, one has to appreciate that projects which may be carried out at national level might not necessarily succeed in being implemented EU-wide. For example, the Paper makes reference to the importance that consumers should compare products and services to ensure that their choice is based on an informed decision. At national level, many organisations (public and private) are taking initiatives to produce tables comparing fees and charges of various products and services. A case in point is the MFSA which has issued a series of comparative tables of tariffs and charges for a number of bank services.

However, given the diversity of products and services available across the EU, it is unlikely that such tables could be prepared EU-wide – unless a common structure regarding presentation of information is agreed to. Moreover, this should be tested adequately and exhaustively with consumers.

True, there might be products in other jurisdictions which may widen the choice for the consumer. But what the Green Paper does not immediately acknowledge is the fact that many providers may not be willing or placed to offer products or services to consumers other than those located in the jurisdiction where they are located. Indeed,

the Paper acknowledges that, for whatever new product or service with an EU-wide passport which is created, there is no certainty that providers will offer it.

It is therefore imperative for the Commission not only to identify clearly why consumers are not willing to purchase products or services cross-border, but also why certain product providers are reluctant or make it impossible to offer their products to consumers in other jurisdictions.

Europe needs to offer its citizens with more tangible outcomes. It needs to demonstrate to the man on the street that the single market enhances welfare for him and his family, and the community to which he forms part. And if we consider the opportunities which will abound once Malta joins the euro as of next year, the potential for growth is immense.

I believe this morning's session is an excellent opportunity for all Maltese stakeholders — financial operators and consumers — to put across their views and ideas on the issues raised by this Green Paper to put financial services at a wider reach to the people.

Lastly, I take this opportunity to thank *Forum Malta fl-Ewropa* and the Institute of Financial Services-Malta for the initiative.

Thank you.