

The European Commission's Green Paper on Retail Financial Services

I should start with a caveat: though I have worked for the Commission, that was ten years ago, and I have worked for the Financial Services Authority for six years, so you should bear this in mind when evaluating my comments, and I will try to make plain where what I am saying is analysis, which is subjective, rather than fact. Secondly I will try to give some interpretations which are my own views and do not necessarily represent the corporate views of the UK regulator – we are in the process of drafting our response so our collective views are a 'work in progress'.

Context – the Commission perspective

The Commission views its Green Paper as part of a wider initiative of re-examining the Single Market to see if its constituent parts remain fit for purpose in the 21st century. Historically the single market has been very strong through the 1990s as a wave of single market reforms were adopted and implemented in Member States. President Barroso now proposes to look again at the single market and re-position it at the core of EU policy. The Commission has therefore spent most of 2006 and 2007 listening and consulting stakeholders for views on how the single market delivers benefits and whether aspects of it could be improved. It conducted an online consultation a year ago and organised an open hearing.

The messages received by the Commission are the following:

- There is a very positive perception of the single market
- It facilitates working, studying and living abroad
- It helps travel and selection of consumer products
- There is less enthusiasm about its impact on financial services products – only 3% of respondents had considered taking out a mortgage or insurance policy in another Member State
- SO: overall a positive message on the single market BUT citizens know less about how the single market is constructed and the rights that they enjoy as a consequence.

What do businesses say?

- 35% of company executives think that the single market has had a positive impact on their business
- BUT the single market is far from complete – retail financial services are one of the shortcomings mentioned.

- Consumers need to be asked too

The Commission will set out its findings of the single market review at the end of October/beginning November 2007. This will effectively be a list of concrete initiatives that the Commission will discuss with Member States and with the European Parliament in 2008-9. It will include ideas currently being considered such as:

- The single market is no longer an end in itself but a means to ensure consumer welfare
- We need to build a stronger focus on evidence-based policy making
- In particular we need Impact Assessment to go broader to encompass a social dimension
- We need to work in sympathy with the principle of subsidiarity
- Single market policy needs to be more joined up to other policies – and other relevant DGs need to be involved in the work
- Are the instruments we have the right ones going forward?
- Should we rely on legislation? Not only. We need a new set of tools. Retail financial services is a good example of where this applies
- The Commission believes it needs to make a more systematic attempt to reach out to stakeholders beyond the Brussels village
- Needs to move towards a joint system of management of the single market between the Commission and the Member States
- Needs to think about offering citizens more tangible benefits

How does retail financial services fit into this? We have had the Sector Enquiries, the Expert Groups, which drew out the obstacles to creating a more sophisticated single market in retail financial services: there are significant entry barriers, huge price differences, a lack of customer mobility, very significant differences in price, evidence of rent-taking from some suppliers.

In terms of process, it is felt that financial services has set the standard for consultation and the Commission intends to continue that.

The Green Paper

So that's the precise context in which you need to view the Green Paper. Its follow up will be an important component of the single market review and will set the tone for the next few years – probably into the next Commission and Parliament.

The aims of the Green Paper are to:

- Present all the actions and ideas that the Commission has ongoing in retail financial services, even if they sometimes come from areas of the Commission other than DG Markt
- Demonstrate that the Commission has a consistent approach to financial services and a common procedure is being followed
- Put forward ideas and priorities in the field of retail financial services
 - Improving quality and diversity of retail financial services for consumers
 - Improving customer faith in retail financial services (especially with non-domestic providers)
 - Making the consumer not just the object, but also the subject: empowering consumers. Education and information

Mortgage credit and consumer loans (Consumer Credit Directive) are quite advanced in their development but most of the others have not been started or finalised yet.

Follow up

The aim of the Single Market Review is to adopt a report and retail financial services will play a particularly important role within this. It is a great priority for the Commission. The Commission is holding an open hearing in Brussels on 19 September to discuss the Green Paper – by which time they will have received and analysed the feedback so they may discuss that as well. The Commission intends to continue doing the work that it has started unless it gets the clear message to stop what it is doing.

The content of the Green Paper – the UK perspective

A few highlights

I assume you will all have read the report and therefore I don't propose to go into great detail here, I'll merely pick and choose a few issues. Almost none of the measures contained in the Green Paper are brand new – they were initiatives, studies, Commission workstreams that we knew about already and were following and in some cases inputting into ourselves. The remaining few issues are logical extensions of things that are happening already, so from our point of view were relatively uncontroversial. But what the Green Paper does do is portray the Commission work as part of a wider vision of what European retail markets should become, and it offers an opportunity for Member States and other stakeholders to confirm or challenge the Commission's underlying

assumptions. So I will try to give you a feel for how the UK is going to respond so that you can follow our train of thought and perhaps stimulate some debate.

The Green Paper covers an enormous waterfront. Bank accounts, banking products, retail payments, personal loans, savings, pensions, investments, life insurance, general and motor insurance, mortgages. This is a lot of financial services, all with their individual characteristics, market conditions, and specific, mostly national law which has grown up around them. The Commission recognises that – with the exception of UCITS – there is very little cross-border activity happening at the moment. It cites significant variation of price and product choice across the Union as evidence that the market is not integrated at all. Yet the Commission also acknowledges that with different legal frameworks, tax policies, infrastructure and business models there is a natural limit to market integration without tackling these fundamental issues which are extremely difficult to address.

A better regulation approach consisting of economic study, sound cost-benefit analysis and selection of the appropriate policy tool, is crucial to the Commission achieving its objectives. As you might expect, we thoroughly support this aim and will do what we can to assist the Commission to fulfil its aspiration here. An important point that the Commission brings out in its Green Paper is the opportunity that review of existing Directives presents for a new approach, consistent with better regulation principles. The review of the DMD and the IMD are cases in point, and the Commission has yet to decide what to do about the review of the e-money Directive, but that also falls into this category.

DG Markt set up an Expert Group on Customer Mobility in bank accounts last year. It has now published its report, which suggests the possibility of EU-level work on bank account switching. We would support tackling this issue, though we view it primarily as a competition issue for national competition agencies – possibly with co-ordination and exchange of information in the context of the European Competition Network.

Access to credit information is another topic the Commission is examining – in the context of the preparatory work for the White Paper on Mortgage Credit – though it has implications that go beyond mortgages. We see clear benefits from freeing up any inefficiencies in the flow of this information to those who need it – while respecting data protection issues. It's also clear that non-banks should be able to access this information where necessary.

We support the Commission examining the 'general good' provisions in the insurance Directives. The work already completed by CEIOPS-IMEG has

shown considerable variance in how Member States interpret the meaning of the 'general good'. Some Member States have used the concept to impose additional requirements, and so we are pleased that the Commission has taken the opportunity to scrutinise these. A central concept of better regulation is the need to reduce to a minimum differential implementation of Directives in the Member States.

Our vision of retail markets

In addition to giving our views on the individual policy measures outlined in the paper, we will also be suggesting a more holistic approach which I set out here in embryo.

We welcome the Commission's commitment to examining the evidence and identifying the barriers to consumers shopping cross-border (e.g. through surveys and focus groups). However, there are plenty of natural reasons (culture, language etc) why consumers will continue to opt for familiar products distributed locally.

As a consequence, it is important that the Commission makes a good case for intervention in retail markets. This will reduce the risk that any initiatives are shown in retrospect to have made little positive difference, and will help target any new action on areas of genuine promise where there is a real prospect of success.

Given that distribution will remain local most of the burden of regulation should fall at national level, both from a practical point of view, and in accordance with the principle of subsidiarity.

28th regimes should be examined to see whether they can be used to cater for a relatively specialist need, while not imposing unnecessary change on the majority of firms and consumers, for whom that change is not justified. Passports for services and products (e.g. UCITS) need to work as effectively and as efficiently as possible.

We believe that there is much more potential to be unlocked from a systematic examination of competition in partnership with national competition authorities which will be able to deliver outcomes in a way that takes into account the markedly different competitive landscapes in each Member State.

We are pleased that the Commission has committed to undertake consumer testing to evaluate the relevance and usefulness of pre-contractual information

requirements in certain areas, such as credit. Such testing is important if the disclosure is actually going to be useful for consumers.

We can in principle see an advantage in codifying and simplifying existing rules on information requirements. However we remain unconvinced that information requirements are an appropriate policy response to meet the objective of greater integration.

We have not seen any clear evidence of the case for legislative intervention on mortgages. In particular, on consumer protection, the Commission has not yet made a convincing case that harmonising standards will help integration. Consumer protection regimes have developed to address the features and risks of national markets. Our chief concern remains the risk that elements of the CCD approach could be mirrored in the current initiative looking at the EU mortgage market.

Next steps and follow up

The Green Paper was published on 2 May. The consultation period runs to 16 July. As I said, there will be an Open Hearing in Brussels on 19 September, and the Commission is likely to publish some kind of feedback statement. The Single Market Review should be published in late October or November and then the individual workstreams that the Commission has decided to pursue will begin I suspect in the New Year, if they have not already started.

The Commission has also convened a Government Expert Group on Retail Financial Services to guide it in the process of refining Community action. The Group first met last week. I attended with our Finance Ministry for the UK, Geoffrey Bezzina attended from Malta. Further meetings are planned as the retail agenda coalesces.

So I would conclude by saying please respond to the consultation! It's clear that the Commission is looking for opinions. Involve your stakeholders, and in particular try to engage consumer organisations. As Charlie McCreevy is fond of saying: "it's not the Commission's internal market. It is yours".