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Update on Regulatory Affairs in Europe

Consumer Credit Directive: One step closer

The European Parliament has recently adopted its amendments to the text of the Consumer Credit Directive (CCD). Despite being announced in the press throughout the EU as the final agreement on the directive, this was in fact only one further step along the legislative procedure.

Under the co-decision procedure, the Parliament and the Council negotiate the final version of a text for a new directive. In May 2007, the Council had already agreed on a text (a so-called "common position") for the new CCD. However, that text still had to be approved by the Parliament. If the Parliament had approved the draft agreed by the Council without making any further amendments, the draft would have become law. But that was not the case, as on 16 January the Parliamentarians voted to propose a large number of amendments.

The compromises reached among the Member States in May of last year were very fragile, as they relied on finding a middle ground among the countries' positions, so that they would all accept the clauses even though none of them was entirely satisfied with them. The amendments of the Parliament could easily have disturbed this fragile equilibrium. In particular, the issue of early repayment – whether consumers should be allowed to pay back their loan earlier than determined by the contract, and whether in such cases credit providers should be allowed to claim compensation for the loss in interest – remains controversial.

The Council will now have three months to decide whether it accepts this text. If it does not, the last-chance procedure of *conciliation* will begin. This procedure consists of a period of very intense negotiations between the three institutions, lasting a maximum of two months. If after that time an agreement was not reached, the directive could still not be adopted.

Further information:

The text adopted by the Parliament can be found at:
<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+20080116+SIT+DOC+WORD+V0//EN&language=EN>

ECRI Commentary: Figueira, F. (2008) *The Consumer Credit Directive – Still lost in the labyrinth of EU policymaking?*, ECRI Commentary No. 3 January 2008, www.ecri.eu

SEPA has become a reality

On 28 January the Single European Payments Area (SEPA) was officially launched with a ceremony in Brussels. Under SEPA, transfers of money within countries of the Eurozone should become as inexpensive and as quick as national transfers..

At an Ecofin meeting the week before, EU finance ministers had called for the industry to help the SEPA process, and in particular to “develop attractive SEPA products and market them actively so that there is a natural momentum for costumers” to move to SEPA products. Ministers also called on national public authorities to help achieve the changeover, by starting to use SEPA products in their own transactions.

The transition to SEPA is set to take two years and be completed by 2010. The Payment Services Directive (PSD), which sets the legal basis for SEPA, must be implemented by the Member States by November 2009.

Further information:

More information on SEPA can be found in the European Commission website:
http://ec.europa.eu/internal_market/payments/sepa/index_en.htm

ECRI Commentary: Jentsch, N., Rothmund, M. and Lepistö, P. (2007). *One step closer to harmonised European payment systems*. ECRI Policy Briefs, No. 1, June 2007, www.ecri.eu

Mortgages: No directive for now

The Commission has decided not to propose a directive on mortgages – at least for the time being. In a White Paper entitled White Paper on the Integration of EU Mortgage Credit Markets issued on 18 December, it proposed only non-legislative measures to promote the integration of EU mortgage markets. These measures relate mainly to the field of valuation, land registers and foreclosure procedures, but also include studies on other aspects of mortgage credit. The White Paper also sets out four priorities of the Commission relating to mortgages: facilitating the cross-border supply and funding of mortgage credit; increasing product diversity; improving consumer confidence; and facilitating customer mobility. Initially the Commission had planned to propose a directive in this field to harmonise the legislation on mortgages in the different countries. However, when the initial draft of the proposal was circulated in October, it received wide criticism from the industry. In particular, it was argued that that the costs of complying with new legislation at EU level should be proportional to the benefits of more cross-border trade in this field – according to the industry these benefits will be small, given that the market for mortgage credit – similar to the consumer credit market – is essentially national. Nonetheless, the Commission is still considering the possibility of future legislation. The White Paper

announces that the Commission will undertake an impact assessment to find whether the potential benefits of a directive in this field would outweigh the costs.

In a recent ECRI Commentary, International Senior Expert Hans-Joachim Dübel writes that the White Paper is “pursuing only selected legal-regulatory reforms, in the areas of early repayment, responsible lending, APRC, and pre-contractual information, while leaving other issues to recommendations and a new research and stakeholder discussion agenda.” Dübel argues that this limited approach cannot begin to address the huge challenges faced by this industry, nor is it likely to have any greater chance at political success than a more comprehensive one.

Further information:

The White Paper on the Integration of EU Mortgage Credit Markets can be found at: http://ec.europa.eu/internal_market/finservices-retail/docs/home-loans/com_2007_807_en.pdf

ECRI Commentary: Dübel, H.J., *The Commission's Mortgage Market White Paper: Inching to Consensus, Missing the Big Picture* ECRI Commentary No. 4, January 2008, www.ecri.eu

New EU Communication on financial education

Last December the Commission issued a Communication on Financial Education. These initiatives are aimed at ensuring that consumers understand the financial products available in the market and are able to make informed choices between different bank accounts, insurance policies or credit agreements. The Commission has recently stepped up efforts in this area, as part of its current focus on ensuring that consumers are able to benefit from the single market in financial services. The Communication signals that the Commission prefers to play a limited role in financial education, as it believes that the main responsibility in this area should lie with the national governments. The four new initiatives that it announces are therefore all very modest: establishing a group of experts on financial education; providing sponsorship for conferences on this topic; creating an online database of financial education schemes in the different Member States; and developing a teacher training module on financial education. The Communication also contains a list of suggestions for the Member States on how to establish their national financial education policies, based on best practices identified in the different countries.

Further information:

More information and the Communication can be found at: http://ec.europa.eu/internal_market/finservices-retail/capability/index_en.htm

European and US News

Will the sub-prime crisis spread to Europe?

When the sub-prime crisis started this summer, it was not clear how serious and long-lasting its effect would be on the world economy. Some had hoped that calm in the financial markets would soon be restored, once the uncertainty as to which companies had suffered losses in the initial crisis dissipated. Unfortunately, this was not the case: several months later, markets are still feeling the effects of the crisis, and it is now possible that the US has already entered a recession.

European credit markets are feeling the effects of the crisis. The UK has been particularly touched. In the latest example of how the crisis is affecting credit providers, fear of credit card delinquencies led internet bank Egg to cancel the credit cards of approximately 7% of its costumers. This provoked angry reactions from the persons affected and negative coverage in the media. Statistics show that the country's credit situation is imbalanced: the savings ratio of households has dropped below zero and household debt service now makes up 14% of incomes.

On the up side, EU economies may be spared the worse; in a recent CEPS Commentary, CEPS Director Daniel Gros argues that the Eurozone should be able to avoid a recession even if that is possibly already the case in the US.

Further information:

Gros, D. (2008), *Decoupling: Can Europe Avoid a Recession*, CEPS Commentary, January 2008, www.ceps.eu

Events



Workshop on new technologies and retail banking integration

New technologies in retail banking, such as mobile and online banking, e-money and electronic wallets, open opportunities for new services and distribution channels, but also bring new challenges for regulators. These developments will affect competition in the banking sector as well as the integration of European consumer credit markets. An ECRI workshop held on 7 February 2008 at CEPS brought together policymakers, industry officials, central bankers and consumer advocates to

discuss the latest technological developments in retail banking, their implications for regulators and consumers, and their impact on the integration of retail banking services across Europe.

Ann Børestam, Senior Expert on Payment Systems from the European Central Bank pointed at the growing mobility of customers, the establishment of new payment instruments (like mobile payments, e-money, internet banking) and the rise of new actors offering such payment services in the retail financial market. Given the existence of 27 different legal contexts, Mrs. Børestam argued that harmonisation and standardisation (Single Euro Payments Area and Payment Services Directive) were to be regarded as core issues for innovation and competition and encouraged the European Payments Council to continue its work on issues like SEPA online payments, electronic mandates and mobile payments. Dr. Thomas Meyer, Economist of Deutsche Bank Research, eResearch, presented insightful findings from research conducted on the characteristics and drivers of online banking in Europe. Having econometrically analysed close to 40.000 observations between 2002 and 2005, Dr. Meyer stated that roughly 80% of the variance of the use of online banking could be explained by per capita GDP and latitude: online banking increases from poorer to richer and southern to northern countries, with typical early adopters being young, affluent, well educated and male individuals. While better and faster internet connections drove online-banking adoption the influence of perceived security on the decision to use these services was paramount and growing.

In his presentation on the development of Internet and mobile banking, Dr. Tommi Laukkanen, Department of Business and Management of the University of Kuopio, Finland stated that currently 67% of the Finns consider Internet banking as their primary bill-paying method, which – as opposed to the use of branch offices, direct debit or payment via Automated Teller Machines – over the past 14 years witnessed “phenomenal growth”. Mobile banking adoption, however, is still in its infancy, the main reasons being the perceived costs and relative advantage of the service compared to other ways of banking, and further security concerns which appear to be more related to information input and output mechanisms rather than actual fears of data security.

The rollout of a new technology, Visa payWave, was presented by Guido Mangiagalli, Head of New Channels, Department of Innovation and Acceptance of Visa Europe. It would allow customers to conduct contactless payment transactions below €15 by waving the card in front of a reader. In addition, Visa has introduced a platform offering mobile payments and services which could offer contactless person-to-person payments in the future.

Dr. Yoonhee Tina Chang from the School of Management, University of Bath, UK, identified intangible benefits and motivations (such as family and friends' advice, reduced transaction costs and increased speed of service) as the dominating drivers of adoption of internet banking, whereas security concerns constituted the main hurdle. As the generation of

consumer trust was essential for the adoption of new technologies, appropriate efforts such as more frequent communication and the provision of more and better information (possibly enforced by rules and regulation) needed to be made. Enforcing the provision of both the right quantity and quality of information thus remained the challenge for regulatory authorities in the future..

Frank-Christian Pauli, Policy Officer for Banking and Financial Services, Federation of German Consumer Organisations pointed at the necessity “not to shift too much or too little responsibility on consumers”. The issues of the provision of *comprehensible* information, consumers’ *choice* of adopting a new service as well as guaranteeing *security* of new products needed to be appropriately addressed. He also emphasized the importance of the written form of credit contracts as well as certain drawbacks of the use of scoring methods. In many occasions there would be the risk that the outcome would not adequately reflect the real risk inherent in the consumer’s financial situation. Identifying the consumer as the “weak spot in the chain”, the offered security measures needed to be “easy to understand, easy to be remembered and easy to be practiced” in order to protect costumers against the misuse of new technology services and to generate consumer trust.

Further information:

Programme and other workshop material can be found on ECRI’s website www.ecri.eu

News about ECRI

CEPS and partners submit report on EU definition of over-indebtedness

CEPS and its consortium partners have recently submitted to the European Commission the final report of a large-scale research project which aims to lay the basis for the future European definition of over-indebtedness. A year ago, the Commission’s DG Employment and Social Affairs had contracted the Centre for European Policy Studies for this study, together with the Personal Finance Research Centre (University of Bristol) and the European Savings Institute. ECRI, as a sub-institution of CEPS acted as cooperation partner through its Consumer Finance Network. Although over-commitment of consumers and financial exclusion are growing problems in Europe, there exists no standard definition of over-indebtedness at present. Thus, it is currently not possible to collect comparable statistics and to compare the extent of the phenomenon across different Member States. This study aimed to fill that gap, by proposing elements of a common definition of over-indebtedness, which can be used in a definition to collect comparable statistics in the Member States. In December, the Commission held a

conference where ECRI and its research partners presented the results of the study to an audience of experts in this field.

This study will be published by the Commission within the next months, and it will be made available on the ECRI website.

ECRI expands Consumer Finance Network

ECRI has extended its network to two new research institutes: the Centre for Social Policy of the University of Antwerp and the Institute for Demographic Studies of the University of Bordeaux (IEDUB). This network is a cooperation of academic and other research institutions in nine countries covering EU members, accession states and non-EU countries. The network enables information exchange and research cooperation in the field of consumer indebtedness, retail finance and consumer protection.



CEPS among the “Top 10 Think Tanks in the World”

ECRI’s mother-institution, the Centre for European Policy Studies (CEPS) has been ranked among the “Top 10 Think Tanks in the World” in a new report by James McGann, Director of the Think Tanks and Civil Societies Program at the Philadelphia-based Foreign Policy Research Institute and one of the world’s leading experts on think tanks. The study recognises CEPS’ “unique ability to strengthen the research-policy bridge and thus facilitate the effectiveness of the policymaking process”.

Further information:

The full report can be found at: www.ceps.eu

ECRI and PFRC construct Genworth consumer financial vulnerability index

ECRI and its research partner the Personal Finance Research Centre (PFRC, University of Bristol) have recently finalised a study which sets the foundations for the future Genworth consumer financial vulnerability index. Genworth had contracted ECRI and PFRC to conduct research on this topic a year ago. The index will monitor the feelings of consumers in relation to their personal finances, and how well they are doing financially. It will start to be calculated from 2008 in a regular manner of at least one time per year.

ECRI staff visit credit and financing experts in Cameroon



Nicola Jentsch and Marc Rothmund undertook a one-week mission to Cameroon under the aegis of the World Bank from 15 to 22 of December.

As part of the Africa Credit Reporting and Financial Infrastructure Initiative, a programme that aims to enhance overall access to finance for individuals and SMEs, they met with Central Bank officials, policy-makers and senior managers of private companies and microfinance institutions in the cities of Yaoundé and Douala. The goal was to assess the current situation in the Economic and Monetary Community of Central Africa and determine the feasibility of setting up a regional credit bureau for the member states of the community.

ECRI Commentary on Consumer Credit Directive

The ECRI Commentary “The Consumer Credit Directive – Still lost in the labyrinth of EU policymaking?” details the latest progress made by the proposed Consumer Credit Directive (CCD) through the legislative process and outlines the lingering reservations harboured by some member states towards this controversial initiative. In the process, ECRI researcher Filipa Figueira also attempts to educate the reader on the complicated EU procedure known as co-decision.

Further information:

Figueira, F. (2008) *The Consumer Credit Directive – Still lost in the labyrinth of EU policymaking?*, ECRI Commentary No. 3 January 2008, www.ecri.eu

Publications

ECRI Commentary on Mortgages

A new ECRI Commentary by Hans-Joachim Dübel, a mortgage market specialist, examines the Commission’s White Paper on the Integration of EU Mortgage Credit Markets published in December 2007. He finds that the limited approach adopted cannot begin to address the huge challenges faced by this industry, nor is it likely to have any greater chance at political success than a more comprehensive one.

Further information:

Dübel, H.J., *The Commission’s Mortgage Market White Paper: Inching to Consensus, Missing the Big Picture* ECRI Commentary No. 4, January 2008, www.ecri.eu