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Editors:

Nicola Jentzsch
Filipa Figueira
Pauli Lepisto

European Credit Research Institute (ECRI)
Centre for European Policy Studies (CEPS)
Place du Congrès 1 – 1000 Brussels
E-mail: info@ecri.be
Web: www.ecri.be



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Regulatory Affairs in Europe

Standards agreed on payment services

After more than one year, the European Finance Ministers finally reached agreement on the Payment Services Directive (PSD) at the Ecofin meeting at the end of March. This directive aims to set up single legal system for electronic payments between EU member states to make payments across borders cheaper and faster. The directive sets a single standard for payment service providers, as distinct from banks. These payment institutions, which only process payments and do not take deposits the way banks do, will be subject to lower capital requirements than banks. At present, each member state still has its own national payments system. This is so because market access is difficult in some countries due to regulatory obstacles and certain market characteristics, such as limited access to credit registers. Cross-border service provision is still in its infancy, although this could soon change. The lack of foreign competition has led to high fees in banking services.

The Commission expects that the Payment Services Directive will solve these problems. It hopes that increased competition will offer a wider range of choices for consumers, and make cross-border payments easier and cheaper in the EU. These issues were previously covered by a self-regulatory industry initiative. However, policy-makers felt that this was not delivering the necessary results, and that a legal framework was necessary. The European Parliament already gave its approval to the proposal at its meeting on 23 April 2007. If lawmakers are able to keep to their schedule to pass and implement the legislation at national and European level, the new rules are expected to be effective from November 2009 on.

Further information:

http://ec.europa.eu/internal_market/payments/docs/framework/com_2005_603_en.pdf

DG Competition: Results on banking inquiry

DG Competition has just recently published its report with results on the retail banking inquiry. In particular, DG Competition found “widespread competition barriers” that raise the costs of retail banking. In January 2007, the European Commission’s DG Competition published its final “Report on the retail banking sector inquiry”, where it identified major restrictions and distortions in the common market for retail banking services. The latter include saving, borrowing and payment services for consumers and small businesses. The Commission also noted that the co-incidence of sustained high profitability and strong market concentration excludes new competitors from entering the payments markets. Lack of competition and entry barriers was also understood to lead to poor service quality and higher costs in the European Union. Furthermore, cross-border lending to consumers and small companies is currently minimal in Europe. The Commission’s sector inquiries are aimed at identifying whether investigations into anti-competitive practices in the industry are needed. If this is the case and evidence of breaches of national or EU competition law are found, the business practices or arrangements can be addressed by an anti-trust action.

Further information:

Report on the retail banking sector inquiry:
http://ec.europa.eu/comm/competition/antitrust/others/sector_inquiries/financial_services/sec_2007_106.pdf

Commission supports financial capability

The European Commission kicked off its support financial capability initiatives at a large well-attended conference entitled “Increasing Financial Capability” in Brussels on 28 March 2007. The Commission wants to raise awareness for ‘financial capability’ to increase consumer protection. Financial capability relates to the understanding that consumers have of financial services, and whether they are able to make informed choices between different products on the market. The conference focused on the policies to increase financial capability, both at national level and at EU level. Speakers included the Commissioner for Consumer Protection Meglena Kuneva and several high-ranking Commission officials, as well as representatives from governments, civil society and industry from various member states. This topic is of growing interest to financial services providers

and policy-makers, because of the increasing complexity of financial products. The Commission is planning to organise more conferences on this topic, both to raise awareness and to provide a forum for practitioners from the different member states. The European Credit Research Institute has twice organised workshops on the topic in the past.

Further information:

http://ec.europa.eu/internal_market/finances/fscg/index_en.htm

International News



Fed to sponsor consumer credit conference

In September, academics and practitioners from all over the world will be meeting in Philadelphia to discuss their latest research on consumer credit. The research department and the Payment Cards Center of the Federal Reserve Bank of Philadelphia are co-sponsoring their 4th joint conference on consumer credit, to be held on 20-21 September 2007. It is intended to cover latest research in the area of personal bankruptcy and defaults, contractual and informational issues in consumer credit markets, credit scoring and credit reporting agencies, as well as innovations in mortgage finance, including sub-prime lending. The Payment Cards Center is well regarded for its excellent research in this area.

Competition intensifies among credit bureaus

The cross-border expansion of credit bureaus is increasing as the latest market entry of CRIF in Poland shows, where it bought the company InfoData. This is evidence that the major credit reporting agencies in Europe are getting into gear to build up transnational credit reporting networks. In past years, CRIF has primarily expanded in Central and Eastern Europe, which brings it in direct competition with CreditInfo, an Icelandic company. CRIF entered the Czech market in 2001 and in 2004 it established a subsidiary in the Slovak Republic. The company has even entered the Russian market. “We are very excited about

entering the Polish market and we look forward to benefiting from possible future synergies between CRIF and InfoData, in order to enhance the offer of business information services within the country”, said Fabrizio Fraboni who is CRIF’s International Division Director.



Events and Ongoing Projects

ECRI organises over-commitment workshop

In addition to the ongoing research conducted at ECRI concerning over-indebtedness and financial exclusion, the institute is organising a workshop to hear the latest research from other academics on the matter. Throughout Europe, more and more households are financing their purchases with credit. This development has led to worries that it might result in over-commitment of consumers (over-indebtedness) and cause a rise in the number of households in financial difficulty. At the national and at the EU level, public authorities are stepping up their efforts to prevent these problems.

To discuss the latest research on financial exclusion and over-indebtedness, a workshop will be held on 8 May 2007 at CEPS in Brussels. The event is organised by the European Credit Research Institute (ECRI) together with CEPS Financial Institutions Research Programme and will bring together the most recent academic research on financial exclusion and over-indebtedness. Together with academics, interested policy-makers and industry officials, we will discuss the latest insights into why people become over-committed and how to prevent financial exclusion. Speakers will include Professor Rob Raynard (Bolton University), Karl Taylor (Sheffield University), and Assistant Professor Maria Cristina Rossi (University of Rome, Tor Vergata). Further studies are presented by the Personal Finance Research Centre at the University of Bristol (Adele Atkinson and Andrea Finney) and Professor Georges Gloukoviezoff of the University of Lyon. Lise Disneur of the Réseau Financement Alternatif will also be present at the workshop.



ECRI helps define over-indebtedness

The European Commission’s DG Employment and Social Affairs has contracted ECRI, together with the Personal Finance Research Centre (University of Bristol) and the European Savings Institute, for a large-scale research project which aims to lay the basis for the future European definition of over-indebtedness. 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 aims to fill that gap, by proposing a common definition of over-indebtedness, which can be used to collect comparable statistics in the member states. The research will involve a survey of existing definitions of over-indebtedness in Europe, as well as an overview of the political, administrative and legal approaches to over-indebtedness in 19 European countries. The project will run for a year. ECRI will work on this project together with a network of researchers from several countries including Italy, Finland, the UK, Sweden and Poland. The project fits well in the current research programme of ECRI, where in-house economists are also developing concepts for financial vulnerability (that is the vulnerability to income and expenditure shocks) to construct an index for Genworth Financial – a company that has granted an independent research grant to ECRI for this matter.

ECRI conducts study for World Bank

The European Credit Research Institute is conducting a study for the World Bank’s FIRST Initiative on regional credit market integration in East Africa. The Financial Sector Reform and Strengthening (FIRST) Initiative is a multi-donor grant facility providing technical assistance to developing countries to promote their financial sectors. This is part of the effort to transfer knowledge at the institute to developing countries. The emphasis of this study will be on finding common ground for a regional harmonisation of a credit information structure in the markets of Rwanda, Tanzania, Kenya and Uganda. It was launched in 2002 by the Department for

International Development for the United Kingdom (DFID), the International Monetary Fund (IMF), the World Bank and other agencies. The World Bank manages the FIRST Initiative on behalf of the donors. FIRST has recently been extended to 2012 with funding of \$100 million in total. In order to present the study, the Head of Research, Nicola Jentzsch, has been invited to the East Africa Conference in Nairobi at the beginning of May 2007.

Further information:

First: <http://www.firstinitiative.org/index.cfm>



News about ECRI

ECRI welcomes new member: Schufa Holding

ECRI warmly welcomes a new member to its circle of corporate members: The German Schufa Holding AG is the first credit reporting agency to become a member of the international research institution. As in the past, the institute will further expand its research and monitoring of regulatory developments at the European level with regard to credit information sharing. Cross-border information sharing only exists to a limited extent in the European Union. Member countries have implemented the European Data Protection Directive, but there are still differences from country to country in terms of implementation and interpretation.

Some policy-makers regard this as an obstacle to the integration of consumer credit markets and therefore demand the creation of a new directive that is applied to credit reporting. ECRI's primary interest is to provide high-quality research in this area for balanced discussions, since some economic developments are not adequately tackled by regulatory measures as they are inherent in the market (such as lack of supply of cross-border credit products).

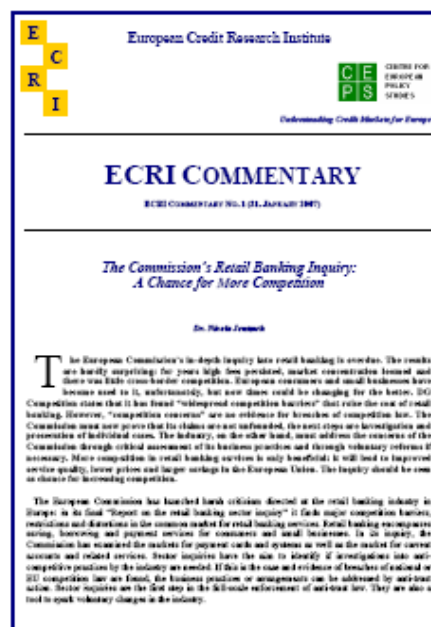
Publications

ECRI develops new publication series

ECRI has developed two new publications series: ECRI Policy Briefs and ECRI Commentaries. The Policy Briefs will be short background documents on current developments in Europe, such as financial literacy or payment services. ECRI Commentaries are editorial papers on current developments that affect the financial services industry. Both series are directly edited by ECRI/CEPS staff, who carry the responsibility for editorial content.

ECRI commentary on retail banking inquiry

In the first ECRI Commentary, issued in January 2007, Nicola Jentzsch argued that the European Commission's Retail Banking Inquiry was long overdue and offered a chance for more competition in retail banking services, leading to improved service quality, lower prices and larger savings in the European Union. The Commission now has to prove that the accusations are really due to anti-competitive behaviours and not due to other reasons.



Further information:
www.ecri.be