

## European Commission public hearing on the green paper on retail financial services, 2 March 2016

### Session 1: How can consumers access the best deals in the EU?

Opening statement by Christophe Nijdam, Secretary General of Finance Watch

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Ladies and gentlemen, thank you for inviting me to speak on this panel.

If the Commission's initiative is successful it will lead to more cross-border sales of financial services, more distance selling and more digital delivery. This raises some public interest questions.

#### *Why is there not more cross-border selling already?*

Distance selling makes it harder for buyers and sellers to interact. Without personal relationships, trust must be built on brand and reputation. Unfortunately, these take time to build and trust in the financial sector is extremely low. This may explain why cross-border sales of financial services are so much lower than in other sectors. The best policies will be the ones that improve trust in the long term, not undermine it.

#### *What channels could facilitate consumers' access to financial products in other Member States?*

Online distribution should reduce costs and allow for more automated personalization of financial products. But these benefits come with strings attached:

- Digital delivery can dramatically increase the risk of mis-selling. How many of us read the small print when we shop online? Probably very few. When the product *is* the small print, as with insurance, this is a regulatory problem.

- An over-reliance on remote scoring and mechanical risk assessment means that cross-border products are less flexible, and can lead to large losses if the scoring techniques are wrong.
- Digital delivery can lead to some citizens being financially excluded if offline channels such as telephone services are not also offered.
- Cross-border selling invites providers to ‘shop around’ for the lightest tax regime, which calls for more tax harmonisation.
- Finally, it is harder for customers to get redress across borders if something goes wrong. The Commission has identified this as a problem; I hope it will seek to make providers equally accountable abroad as at home.

#### *What can be done to enhance competition?*

The theory is that more cross-border competition will lead to more innovation and easier price comparisons. We must ensure that it does not also lead to consolidation and increased concentration, as it has in other sectors. Nor should it be allowed to increase the too-big-to-fail problem or reduce the diversity of business models. If one accepts these limitations, the Commission could promote competition in a number of ways:

- For all basic retail financial services, it should encourage simplification and standardisation, which would make products more comparable and more suitable for consumers.
- It could harmonise regulation and supervision to reduce the ability of dominant players to prey on the weak, for example through payday lending.
- It could help consumers to identify safe and simple products by extending the use of comprehension alerts and key information documents to all retail financial products.
- Where transactions involve a currency exchange, it could help consumers to have a choice of rates and fees at the point of sale, instead of only those offered by the merchant or bank involved.
- For citizens using financial services abroad, regulation could simplify the requirements for identity and address verification, so that residence is not a barrier.

But competition can also have a dark side:

- Excessive price competition can lead to poorer basic services characterised by bad advice, service disruption, opacity, unsustainable business models and predatory practices.
- If this cuts into margins it will push producers towards more complex and profitable products that can exploit consumers.
- It is therefore essential that providers compete on quality as well as price. There is no consumer benefit from a cheap insurance policy that does not pay out when you need it.
- And there is market dominance. We have seen market opening lead to extreme concentration and job destruction in other retail sectors with dominant players. The EU's global systemically important banks enjoy unfair implicit funding subsidies that smaller firms do not have. The cross-border markets for loans and insurance seem especially vulnerable to 'winner takes all' competition.

If regulators are clear about these dangers and have the will to tackle them pro-actively, I believe they can be addressed through consumer protection, banking and other areas of regulation.

I leave you with a final suggestion which I believe could really benefit consumers. Not everyone from the financial industry will like it, although they should, as I will explain. Consumers benefit most from accessing new products if supervisors can prevent detriment *before* it occurs, not after.

Introducing product rules and supervisory pre-approval for new financial products would both clean up the retail product offering and pave the way for a financial product labelling system, similar to the ISO or EU Bio labels in use in other sectors. The costs of product approval should be weighed against higher sales volumes and the consumer benefit of having simpler, more standardised and safer products. Introducing some form of EU labelling for approved retail financial products would help to restore trust, and would certainly help to achieve the Commission's and the financial industry's goals of increasing cross-border sales.

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