

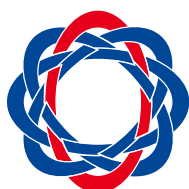
PROCEEDINGS

Optimal Consumer Information and Education in a Competitive Retail Banking Environment

Optimal Consumer Information and Education in a Competitive Retail Banking Environment

Hotel Sofitel, Place Jourdan 1, 1040 Brussels
Wednesday, 16 April 2008

*A conference in the context of
the EU/US Retail Banking Forum*



WSBI



ESBG

Optimal Consumer Information and Education in a Competitive Retail Banking Environment



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WELCOME ADDRESS

Heinrich HAASIS

President, ESBG

President, German Savings Banks Association



Good morning, Ladies and Gentlemen. I would like to welcome you all to today's meeting. We are very pleased to be joined by members of the European Parliament, and guests from the United States. Three years ago, the European Savings Bank Group and the World Savings Bank Institute set up this forum with a view to exchanging knowledge and opinions across the Atlantic. Since last Summer, we all know that it would have been preferable to deal with all of these issues earlier.

The European market is composed of 27 countries, and is very diversified in terms of language, culture and traditions. People in each country have different expectations and demands of the banking sector, as was shown in the [EC Green Paper on Retail Financial Services](#). Today, customers are more generally known as consumers, and consumer protection is an important issue. It is obvious that if the consumer no longer has confidence in the financial markets, then those markets will no longer exist. In addition, the market is more and more fragmented, and the public therefore has more and more choice in terms of its financial services providers.

Today's meeting will take a global approach, and consider both the US and European perspectives. We will consider both the differences and similarities between the two markets. What can we learn from each other? The European Commission is correct in arguing that retail banking services should remain local or regional, and people still want to receive information in their own languages. Nevertheless, there have been major changes in those local markets. Notably, the Internet has brought globalisation into everyone's living room. Despite all of this technology, most people do prefer to receive information via a human interface. That is why a local, personal presence is necessary for many individuals. The current crisis in the banking sector has led people to question the stability and reliability of the banking sector in the long term.

In many countries the transfer of knowledge on financial systems is quite poor. There will therefore always be a need for a regulator/legislator in these markets. The crucial question, however, is at what point and to what extent the regulator/legislator should act within the market. A dialogue between the credit industry and consumer organisations is necessary if we want to resolve consumer complaints and address consumer demands in a satisfactory way. Many citizens have been wondering whether the subprime mortgage crisis is possible in Europe. Banks need to create clarity, follow the rules, and re-establish confidence among themselves. Only then will consumer confidence be restored.

I wish you all an interesting and fruitful meeting.

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KEYNOTE SPEECHES ON CONSUMER POLICY

Jacqueline MINOR

Director

DG Health and Consumer Protection, European Commission



The Commission's aim in consumer policy making is to ensure that consumers play an effective role in retail financial markets, and thereby that those markets work in an optimal way. Our ambition in retail consumer financial services is to assist consumers in making good financial decisions, to give them the freedom to select the products that best suit their needs, and to ensure that they are offered a high level of protection, which is a requirement of the Treaty itself.

The Commission is also committed to evidence-based policy making that delivers real results to consumers. To that end, we are increasing our efforts to monitor the market and ensure that it is providing real results to consumers.

1. Consumer Protection

Consumer protection remains the cornerstone of retail financial services policy. As well as providing this high level of consumer protection, we also want to encourage consumer confidence – through information and education – and competition. Our efforts must focus on what consumers actually want in concrete terms. The plans that are currently underway will give effect to this policy in a market of what is now 500 million consumers – the largest retail market in the world. However, our evidence gathering has shown that the market is not working as it should do, and that most financial transactions take place within national markets. We have also detected price divergences in the market and, in some cases, the absence of competitive pressures.

There are major reasons why consumers are reluctant to purchase financial products from a country that is not their own. This is due to language and cultural barriers, but also to a lack of confidence in the system. Although advances in technology now make it much easier to buy financial services across borders, businesses and consumers are still reluctant to take advantage of these opportunities. A number of measures have already been put in place to improve the integration of the retail financial services market. These measures demonstrate that, by putting consumers first, industry and the most competitive firms can benefit.

2. The Consumer Credit Directive

The Consumer Credit Directive was formally adopted last week, and will contribute to the opening of the consumer credit market. All consumers taking out a loan within the EU will receive the same, standard and comparable pre-contractual information. A new European method will be set up to calculate the annual percentage rate (APR) so that consumers can judge the real cost of the credit being offered to them. Finally, the information contained in the contract will be comprehensive, harmonised, and detailed – and will be the same throughout the EU. As for consumer rights, the Directive introduces a 14-day right of withdrawal in all member states. Consumers also have the right to repay the loan early at any time.

The Directive will ensure that all consumers – wherever they are situated in the European Union – will enjoy the same quality of information and the same rights.

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3. Information Issues

Regarding information, we have evidence that poor quality information makes it difficult for consumers to make informed and intelligent choices. Financial services are increasingly complex, and yet consumers are more and more called upon to manage their finances in an individual manner. It is therefore important that they have the information to allow them to make the right decisions. Many consumers feel incompetent with respect to the range of services and products available on the market. To address this we want to empower consumers to make the best possible financial decisions. This involves making financial products easier to understand and equipping consumers to interpret the information provided. We are therefore looking at pre-contractual information, which must be readily understandable. It is also important that consumers not be overloaded with information.

We recently completed a focus group study in all 27 member states on the topic of pre-contractual information in consumer credit, savings and investment, based on three groups of nine people in each state. We were trying to understand which issues relating to pre-contractual information actually influence consumer behaviour. The study revealed that consumers need a complete set of clearly structured information, which should highlight important points. Information should be written in clear and intelligible language, and many consumers prefer face to face advice over written advice. There is support from both the consumer and industry sides with respect to the EC's approach in this area.

4. Education Issues

We are also working in the area of education, and have recently launched several educational tools, primarily aimed at teachers. We have produced a Europe Diary for 15 to 18 year olds in all member states. We are also developing Dolceta (www.dolceta.eu), a web-based educational tool aimed at adults. At the end of last year, the Commission issued a communication outlining eight principles for the provision of good quality financial education. To that end, we are creating an online database of schemes so that people can learn from each other.

5. The Value of Behavioural Economics

We are also carrying out work on behavioural economics, a young and expanding discipline that looks at how people make choices, drawing on both psychology and traditional economic theory. In particular, it seeks to understand where the classic model of rational economic behaviour is imperfect. Behavioural economics teaches us a number of things that are relevant to consumer behaviour with respect to financial services.

- The use of shrouded product attributes, which are fees or costs that are not immediately obvious, is widespread even in competitive markets. It is a demonstration of the exploitation of more naïve consumers at the expense of more discerning ones. The research has concluded that the market has yet to provide a solution to this issue. A question for policy makers is whether we should be concerned about this behaviour and, if so, should we intervene.
- A fundamental assumption of classic economic theory is that more choice is better. Behavioural economics, however, is beginning to show that too much choice can impede rational decision making. This could be addressed through the greater development of standardised products.
- How do people learn from experience? The data shows that consumers do learn from experience in the short term. Having paid an additional fee once, they then avoid that payment for a while but will ultimately lapse again into their bad habits later on. This raises the issue of how retail providers could take action to warn consumers of the consequences of imprudent behaviour.

This is a fascinating field of study that has given us all a lot to think about.

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Olle SCHMIDT

Member of the European Parliament



As a liberal I am not in favour of regulation, but I seem to be outnumbered today. I hope that the current crisis will be short, and that the measures put in place to protect consumers will not be too dramatic or have too great an impact in the post-crisis period.

1. The Value of Open Financial Markets

I believe in open financial markets, that is, markets that are transparent and open to innovation and development. Only in that way can a well-informed consumer maximise his or her choices. We should not forget that high returns are often correlated with high risk; no risk very often means a weak or very low return. I would rather see a continuous development of the financial sector in Europe, with the opportunities that that would create – and I firmly believe that it would create more good than bad. We do also need consumer policy, but in a balanced approach. For consumers to maximise their benefits, they have to be able to make an informed choice.

Sweden went through a severe crisis in the banking sector in the 1990s. We also liberalised or deregulated the market including the postal, financial, energy and other sectors. A Swedish survey showed that only one in four consumers actually compared the services provided by their banks to those provided by competing banks. This means that 75% of consumers do not even know of the choices that are available to them. A similar survey carried out in France, Spain and Italy, also showed that a large proportion of people on low incomes paid no attention to the differences in cost between financial institutions. Why is this so? People view financial services as complex and removed from their day to day lives. We have to contribute to changing this mind set. The Swedish government's information campaign on pension rights – the Orange Envelope – is sent to all citizens each year. This has pushed consumers' knowledge and choice, and could be an interesting model to follow.

2. The Role of Consumer Policy

The internal market has provided a broad set of choices, and consumers can have difficulty making those choices. Consumer policy has a role to play here, and our aim is to achieve a balanced approach. Should information be mandatory? How much information should be provided? How do we distinguish between information, education and advice? Who does what? What is the role of governments? I believe that certain information should be mandatory, and it should be provided in a manner that allows comparisons to be made.

3. Collective Redress?

I consider the US and the UK as models in this field. The world of financial services has a number of ways of dealing with this, including complaints, litigation, collective redress. I believe in the need for a strong European consumer policy. The levels of cross border trade in Europe are still too low. Only when this is further developed will we be able to truly realise the potential of our common market. The European Union should assist with best practice in the area of consumer policy. Collective redress is the most difficult issue to deal with. Many of my European friends and colleagues are fearful of a US-style class action system. However, if we want a real cross-border market in Europe we need to have a number of consumer-friendly instruments that provide consumers with safety nets.

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All of these topics will continue to be in the forefront of the retail banking sector. This is the new Europe, with 27 different countries and 500 million people, and we should all be a part of it.

Camden FINE
President and CEO
Independent Community Bankers of America, US



I also fear that we could face a period of over-regulation in the Spring. The Independent Community Bankers of America is a national banking association representing 5 000 community banks throughout the US, with an average size of \$250 million in assets. My comments today will primarily focus on the US regulatory system, with an emphasis on community banking.

1. Origins of the Current Crisis

Lately, there has been a great deal of focus on the disruptions in the credit and liquidity markets. The consensus is that the crisis was triggered by overly aggressive mortgage lenders with significant assistance from Wall Street rating agencies, investment houses, and ill-informed consumers. Almost all of the aggressive mortgage lending occurred outside of the traditional banking and regulatory system; almost none of it occurred within the community banking system. It is tempting to allow these disruptions to distract us from fundamental facts. It is therefore important to understand that the great majority of mortgages in the US are performing as expected. Therefore any efforts to address consumer regulation should not limit or create unnecessary restrictions on credit. The steps that are taken should not cut back on the great variety of financial products and services that are available to serve consumer needs. Are there problems? Yes. Should corrections be made? Very carefully. We must not act in a way that would cut back on credit to consumers or hinder institutions in their efforts to serve consumers. A careful balance must be struck between consumer access to required products and services, and consumer understanding of the products and services they are offered. This is particularly true in community banks where employees tend to be multitasked rather than specialists in any particular area. No regulatory scheme can protect every consumer from every possible source of harm. We must therefore aim to protect consumers from the worst harm.

2. Consumer Regulation: Key Questions

Financial literacy is an area where community banks are quite active. In this context, the financial preparedness of our youth is essential to their well-being and to our economic future. Today, our children receive less and training in this area, both at school and in the home.

Financial literacy and consumer regulation are two sides of the same coin, and raise some of the following issues.

- What do consumers need to know? Notices must be very straightforward. The Truth in Lending Act of 1968 – the grandfather of federal consumer protection laws in the US – created the APR to allow consumers to compare and contrast the costs of loans among different institutions. This sounds easy but led to over 40 years of discussions and negotiations, creating a confusing muddle for the consumer. This is a clear argument for simplicity. If a notice is so complex that no one can understand it, this will hurt both the consumer and the bank. We repeatedly hear that consumers want to know how much a loan will cost, notably, what will the monthly payments be. Who should be responsible for telling them in a

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context where many banks rely on third parties to provide products and services, with the bank acting as the front room? The bank that provides the product is the point of contact with the consumer, and is the entity that should be responsible for providing the information. Rules must be written with the consumer in mind, and must be easily understandable by the consumer.

- Who should regulate? A key issue for the US is whether consumer regulation should be at the federal or state level. There is a growing push to have such regulation at the federal level. In the banking arena, many states resent the fact that federal authorities are able to overrule state laws in this area. Federal regulators, however, argue that it is important to have coherent rules throughout the country. We believe that the dual banking system – where both state and federal charters exist – is the best one for us. We also believe that, in some cases, federal authorities should be able to overrule state laws.
- Should the requirements be uniform? ICBA have long advocated a uniform approach to consumer information on financial products. Flexibility is however critical here, and the balance between flexibility and uniformity is the key to the success of consumer regulation.
- Can too much information be provided? Definitely. When too much information is provided, people do not read anything at all. The goal is to provide information that can be readily understood and that provides consumers with what they need. Everything comes with a cost. Providing or tracking information is a cost, and costs and requirements must be controlled, especially for community banks. We need to use common sense here, and ask whether a particular piece of information is really necessary.



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PANEL DISCUSSION ON CONSUMER POLICY

Moderator: Chris DE NOOSE
Managing Director, WSBI and ESBG

In recent years, policy makers have shown a distinct desire to put the consumer at the centre of designated policy initiatives at the EU level. As a consequence, including in the financial services area, the current initiatives and proposals made by the European Commission are chiefly aimed at bringing concrete benefits to consumers, addressing issues such as consumer choice and mobility, financial education and financial inclusion. In light of the keynote speeches, this panel will discuss and explore the different ways of achieving the right protection and empowerment of consumers in markets. The questions to be addressed include: What different kinds of instruments are needed and how can an adequate policy mix be determined and implemented? Is product regulation an option, at the risk of limiting consumer choice? What is the role of information for consumers and what is the role of financial education? Should there be restrictions for certain financial products?

Chris DE NOOSE

I am hoping for a very interactive session between panellists and participants – you are not here only to listen. Our four-member panel is equally divided between US and European representatives. We will begin with a short introduction by each panellist, followed by panellist feedback and then an exchange with the audience.



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Montrice GODARD YAKIMOV

**Managing Director of Compliance and Consumer Protection
Office of Thrift Supervision, US**



The issues that the EU is dealing with are the same as those we are struggling with in the US. We too are concerned with finding the right balance between empowering consumers with the right kinds of information to allow them to make the right choices and not over-regulating. The Office of Thrift Supervision is part of the US Treasury. We oversee about 826 savings banks and 475 savings and loan holding companies. The assets in the thrift industry amount to about \$1.5 trillion. Typically, thrifts hold about two-thirds of their assets in mortgages. Our mission includes examining institutions for compliance with consumer policy regulations.

Some of the questions that we have been dealing with include:

- Are mortgages being underwritten?
- How far should policy makers go with respect to consumer regulation and consumer protection?
- What are the unintended consequences of regulation?
- When should information be provided: what is the timing of disclosure?
- Are there certain practices that we should prohibit, even if full disclosure is available?

Regarding financial education, we believe that this does not replace strong consumer protection and underwriting. Nevertheless, it is very important and should be a fundamental part of school education.

Doug TAYLOR

**Personal Finance Campaign Manager
Which?, UK**



Which? was founded in 1957 during the post-War consumer boom. We are entirely funded by sales of our magazines or books, and receive no funds from either industry or government. Our aim is to make consumers as powerful as the companies they deal with. The UK has both a well developed financial services market and a well developed consumer protection sector. Consumer attitudes, needs and literacy levels vary throughout Europe and even within member states. In the UK, for example, we distinguish between high net worth, mass middle market, and welfare dependent customers. In essence, we judge the success of the financial services market on the basis of what the consumer outcomes will be. We would therefore assess the success of any changes to the regulatory framework by the extent to which the position of the consumer has

been improved or worsened.

The aim of financial information is to improve consumer outcomes. Financial education has a role to play in raising consumer awareness, guiding consumers to better address their needs, assisting in choice, and urging consumers to consider redress. In the UK, 20% of adults are not functionally literate. The challenge of financial education is therefore quite great. I believe the UK government has got it right through the introduction of generic financial advice services – the money guidance projects. This advice is unambiguously on the side of the consumer, is not linked to sales, and is available to consumers through a variety of means. In terms of product regulation, this need not prevent innovation but rather channel it into what consumers really need.

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I do not believe there is a single magic bullet in the area of consumer protection. Rather, it is a patchwork made up of appropriate regulation, suitable information, safe products, sound advice, and robust redress mechanisms.

Camden FINE
President and CEO
Independent Community Bankers of America, US



I would like to make two additional points. First, there is no scale of regulation in the US. That is, the same rules and regulations apply to small community banks as to major Wall Street banks. The ICBA is therefore pushing for tiered regulation. Second, in the US, our bankers can still make choices – they can choose not to make an offer. If regulations become too onerous, there is a risk that banks will stop offering a particular product. In the early 1990s, for example, regulatory over-reaction to our S&L prices led to a credit crunch as the vast majority of community banks stopped providing loans. Ultimately, the regulator realised what was going on and pulled back.

I was also struck by the European 14-day withdrawal period. The US has a 3-day right of rescission and our banks would simply not be able to cope with a 14-day right of rescission!

Dirk STAUDENMAYER
Head of Unit
DG Health and Consumer Protection, European Commission



This morning's discussion explored two main themes.

- First, the need for balance between flexibility and consumer protection.
- Second, the theme of informing and empowering consumers.

1. Consumer Protection Fundamentals

For the European Commission, empowering consumers is one of the main themes of our consumer protection policies, and is closely linked to consumer confidence. This means that, on the basis of clear, correct and comprehensive information, consumers should be able to take a reasonable transaction decision. This means that consumers retain the right to make "stupid" decisions. It also means giving consumers certain rights should something go wrong. These have been the main elements of consumer policy legislation and initiatives at the EU level for the past 20 years.

Financial services are a complex product, which has consequences for the type and quantity of information provided. This is not about limiting choice but about giving consumers more choice about the products that they want and need.

2. Financial Information

Regarding information, the Focus Group launched last Summer was an extremely interesting exercise, providing qualitative data with respect to consumer credit, mortgage credit and UCITS. In particular, we tested the standardised information provided under the Directive, and found that the majority of focus groups in the various countries were in favour of this

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information as it allowed them to compare products across financial institutions. Although a relatively strong minority felt that too much information was provided, they were ultimately not able to point to any particular information that should be removed.

3. Financial Education

Regarding financial education, it is important to distinguish financial illiteracy from functional illiteracy. The latter is not something that we can deal with at the European level. However, financial illiteracy is an area in which we can play a role, albeit a limited one. To this end, we are about to launch a major exercise to extend the Dolcetta module to primary and secondary education. For example, the APR could be used as a model in maths classes. Of course, education is and remains a national concern. It would also be ideal if financial institutions played a genuine role in education, and not just in marketing. This would be result in a win-win situation for all concerned.

Discussion

Montrice GODARD YAKIMOV

One of the challenges we have had in the US is bringing financial education to scale. There are over 20 government agencies that have a financial literacy programme. The challenge is to bring that knowledge to people in their every day lives, and penetrate into all households. Only in this way will it truly empower consumers. We know that people like to receive information about financial services and products in a face to face setting. One of the challenges faced in the US relates to the role of mortgage brokers. As banks have looked to distribute financial services (including mortgages) in a more cost effective way, a network of mortgages brokers has grown up. Financial education would play an important role in allowing consumers to "see through" what mortgages brokers might tell them about a particular loan and its repayments.

Doug TAYLOR

I believe that the distinction between numeracy and literacy should be made, and that financial issues can be used to illustrate teaching in schools. However, it is also important to note that the life stage a consumer finds him or herself in will dictate where their interests lie. A 16-year old will be interested in how to open a bank account or perhaps some credit issues, whereas a 35-year old will be interested in savings and investments or mortgages. A 56-year will be interested in retirement or inheritance planning. There are therefore difficulties in creating learning experiences that embed a process of continual development in this area. We should be clear that financial education is a difficult task and should not be seen as a panacea for all our problems.

Gaël DU BOUËTIEZ, Senior Consultant, Cabinet Stewart

Third party advice is addressed through the EU Insurance Intermediaries Directive. I believe that the Commission was also planning to publish something on credit intermediaries. What are your thoughts on third party advice?

Dirk STAUDENMAYER

The Commission will shortly be launching a study on credit intermediaries, but this is at a very early stage. The idea is to consider what regulations already exist in member states, and determine if there is in fact a problem in this area. The issue of third party advice has been left to the side, and was not dealt with in the Consumer Credit Directive as we simply do not know enough about this market.

Lucy YANK, Financial Services Authority, UK

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It is important to be careful about results obtained in a lab-type setting, such as the Focus Groups, as opposed to consumer reactions in the real world. UK research has shown that consumers are not actually using the disclosure information as a tool to compare institutions but as a record of the conversation they have had with their brokers. The Commission should therefore be careful about what they think disclosure will achieve.

Dirk STAUDENMAYER

This Focus Group was the first exercise in our approach, and we are considering many other different methods and models (such as the decision tree model) to ensure that we obtain the right information.

Matthias ADLER, KfW

As a development banker I have a slightly different perspective on these issues, particularly for Eastern European countries. How do we link consumer policy to the bank's own incentive structure? A sound credit analysis will sometimes lead to a loan refusal.

Camden FINE

It is clearly up to the banker to say "yes" or "no". I analyse the borrower's financial condition and background, their capacity to pay, their prospects for the future etc. A good banker has to be able to say "no", which can be difficult to do. In any case, it is the banker that bears the responsibility of analysing the loan and then making a determination.

Dirk STAUDENMAYER

The Consumer Credit Directive does nothing other than incorporate good practice. It includes a responsible lending provision which, together with the provision of pre-contractual information, is considered as a sufficient and balanced model.

Doug TAYLOR

We support the concept of maximum credit data sharing among lenders. However, we would criticise the UK credit market in the area of credit cards, where some providers increase the credit available without a request from the consumer.

Marcela GAYBOR, Houston Consulting Europe

Would you comment on the 14-day right of withdrawal provision, and on the impact of the new Consumer Credit Directive on the banks' offer of services. Could the Directive lead to some of the smaller banks, in particular, withdrawing from certain products such as overdrafts?

Dirk STAUDENMAYER

The right of withdrawal is an essential point that needs to be harmonised. The previous Directive did not include a right of withdrawal. 13 of the 27 member states had a right of withdrawal of varying length. This was considered an obstacle to cross-border provision of credit, and that is why we chose to harmonise the right of withdrawal. In the EU, it should be noted that the bank may in fact pay out the money during the 14-day period. I am not in favour of waivers as they are too easy to circumvent. Regarding overdrafts, I do not believe that the regime as it stands in the Directive would make it too burdensome for banks to offer overdrafts.

Camden FINE

There is an inverse relationship between the level of harmony and the number of lawyers involved! What starts as good intentions, can become a cumbersome system as time goes by. In the US, there is no mechanism for granting the loan

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during the 3-day withdrawal period, apart from backdating the loan documents. In some cases, the regulations can get in the way of a transaction but the banker and the customer will generally find a way of getting around that.

Gisli JAFETSSON, Savings Banks Association, Iceland

Would you comment on the use and value of credit scores.

Camden FINE

Credit scores have been very heavily used by the large institutions in the US. While they are useful, they should not be substituted for common sense. In some cases, loan decisions are made strictly on the basis of the credit score, leading to many problems in the mortgage and consumer credit area. The credit score is simply one tool within a panoply of other tools that include the character of the borrower.

Astrid HAGENAH, Head of Legal Affairs, WSBI-ESBG

We all agree that we do not want to over-regulate. However, would regulation be a way of overcoming the lack of consumer education? Self-regulation would be another option.

Montrice GODARD YAKIMOV

Standardising information is ideal as a way of helping people shop around. On the other hand, it does add costs to the transaction. The art lies in finding the right type of information that will allow people to make informed choices. We are all conscious of the regulatory burden and the emphasis on disclosure. However, there may be some practices that are deceptive or unfair and have no place in our financial systems, even if accompanied by full disclosure.

Doug TAYLOR

We are a strong supporter of standardised information, both pre- and post-contractual. The ability for a consumer to compare product offerings is assisted by the ability to compare the offerings in a simple way. In some cases, the regulations simply codify good practice and companies would be doing many of these things anyway. We are not opponents of regulation per se. However, we also support the UK banking code, for example, which is an example of self-regulation.

Rainer BODEN, European Financial Services Round Table

I have a question about consumer information and protection in the subprime context. Can you confirm whether or not there was strong political pressure to offer subprime loans?

Camden FINE

My personal view is that hardly any of the subprime problems originated in the regulated industry generally speaking, or in the community banking sector in particular. Most of the problems originated in the mortgage broker industry, which is lightly regulated or not regulated at all. I personally believe that there was political pressure to offer subprime loans, to the extent that the Bush administration and Congress have been heavily pushing home ownership for some years. I believe that they were pushing it too far. They created an atmosphere where the current conditions could arise. There was encouragement to put people in homes, and I believe that they pushed the envelope too far.

Montrice GODARD YAKIMOV

The Community Re-Investment Act requires that these loans be made consistent with safety and soundness. In addition, the pricing of the loans is supposed to be consistent with the risk that the borrowers bring forward. They should not be based on prohibitive factors, such as origin, religion or age. These are important factors for the EU to consider in its own legislation.

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Barbara SMITH, Federal Reserve Board

We are very mindful of the cost of disclosure, and are carrying out considerable research to find out what information really needs to be included, and in what format. In this way we can reduce the burden on the industry. Regarding subprime mortgages, it is important to understand that these mortgages have allowed many people to own homes that would not otherwise have been able to do so. Only a limited number of those mortgages have gone into foreclosure.



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PANEL DISCUSSION ON FINANCIAL EDUCATION

Moderator: Rolf SOEDJAK

Director, International Relations and Affairs
SNS Reaal, The Netherlands

Financial education is increasingly attracting the attention of EU policy makers and is regarded as a necessary complement to other consumer policy initiatives. It enables individuals to improve their understanding of financial products and concepts, to be aware of financial risks and opportunities, and to make informed decisions. In this field, the question of the respective responsibilities of member states and the European Union is relevant, as is the important issue of the necessary division of tasks between industry and the public sector. The panel will address the following questions: Who should be responsible for financial education and how should it be organised? What are the target groups and how can knowledge best be transferred? Where should the line between generic information and product-specific information be drawn?



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Rolf SOEDJAK



Financial education is obviously an important topic in today's meeting. The panellists will begin with a short presentation, and provide feed back on each other's comments. This will be followed by a discussion with participants. Financial education should enable people to understand financial products and systems, and financial risks and opportunities. This topic raises questions of responsibilities and division of tasks, for consumers, financial institutions, consumer organisations, the Commission and Parliament.

Iliana IOTOVA Member of the European Parliament



Financial education enables individuals to better understand financial products and services. It can also involve ways of better understanding financial opportunities and risks. In this area, we need measures to ensure that consumers are well informed, protected and advised, in the most appropriate manner. To this end, we need to fight against insufficient knowledge in the field of financial products, and to stimulate better education within the EU through the exchange of best practice.

Financial markets have become increasingly complex and dynamic. In parallel, individuals' needs have also become more complex. People can no longer rely on the state for all their financial needs such as retirement planning or health care. At the same time, it is no longer possible to understand all the possibilities on offer in our financial markets.

Our aim is therefore to improve education in this field. In particular, we need to define a set of common principles that will form the basis of this education. Several initiatives have already been launched in the EU, for example, the Dolcetta website. Our report will allow us to set up and develop a basic programme that can be used in all European schools, adapted to individual cultures. It will also allow us to exchange best practices, and to create a European network that includes NGOs and governmental organisations. We will push for special funds to be earmarked for positive publicity.

Kathrin WIRZ Geld und Haushalt, Germany



Geld und Haushalt (tr. Money and the Household) is celebrating its 50th anniversary this year, offering a wide range of services for private households including budgeting and finance. In practical terms, with respect to youngsters for example, we have a school service that provides financial education materials for students and teachers. We also provide adult education through various organisations. Last year, we spent €1.8 million in providing information advisory services throughout Germany, not only for lower income households.

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Chantal FAZEKAS

Director

Finances et Pédagogie, France



Finances et Pédagogie (tr. Finance and Education) was set up in 1957 by the French savings banks to help families manage their budgets. In 1977, the organisation became a professional training organisation. Our goal is to provide education, and to improve knowledge and understanding in personal householder finance. We deliver basic information that helps individuals understand how to prioritise their spending. It also helps people plan their retirement budgets, real estate projects, and inheritance. Finally, we participate in economic and social inclusion projects.

Hugues THIBAUT

European Affairs Advisor

Test-Achats, Belgium



Test-Achats is a Belgian consumer association. We are fully convinced that financial education is crucial to consumer protection. Last year, we conducted a survey on consumer rights and found that the financial services industry performed worst. Most consumers do not feel comfortable with financial services. They consider that the services lack transparency, and are difficult to compare.

How can we help consumers? Our study shows that the Internet is one of the best ways to provide support, together with call centres and mini-booklets. We have therefore taken a multi-media approach that includes our magazine, Budget & Droits, which provides comparative studies of financial institutions. Our web site provides online calculators on bank accounts, and provides a detailed lexicon of relevant terms. We also include short videos that treat specific issues (mortgages, interest rates etc.) in simple language.



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Test-Achats supports the Commission's proposals but the questions that arise include how to integrate financial education in school programmes? How can we educate the most vulnerable consumers? We are in favour of public/private partnerships and feel that the Commission has not provided enough financial support in this area. Finally, we believe that while education is crucial, it will never replace strong legislation on consumer protection.

Simon BEGLEY
Senior Policy Advisor
Financial Services Authority, UK



Financial education is about improving people's understanding and helping them develop the skills that are necessary to improving financial literacy. The FSA has been leading the national strategy for financial capability in the UK since 2003/2004. Our vision is for better informed, better educated and more confident citizens who are able to take greater responsibility for their financial affairs. We consider that financial capability covers much more than financial education. It is not simply a matter of providing information but of making people take on that information in their lives.

We therefore define financial capability as follows:

- being able to manage your money on a day to day basis
- being able to keep a track of your finances
- being able to plan ahead
- being able to make informed decisions
- being able to stay up to date with financial matters.

In 2005, we carried out a baseline survey of financial capability in the UK and made the following four findings. First, people were failing to plan ahead, in both the short- and long-term. Second, regarding debt, a small proportion of the population had significant debt, which was a major problem for that population. Third, people were not choosing the appropriate products. Even with the right information they were making poor decisions. Fourth, the younger generation (under 40) was less financially capable than preceding generations.

We work with many employers in the UK to deliver one-off training sessions for employees. We work with young parents and local health authorities, on the financial implications of having a child. We have a consumer website, MoneyMade-Clear, that provides basic information. We have debt tests, a simple online tool that shows individuals if they are heading for financial difficulty. Another key area in which we work is money guidance or generic financial advice, which fills the gap between very basic information and formal financial advice that must be paid for. Finally, we have targets for each of our work streams. In particular, we aim to reach 10 million UK consumers by 2010/2011, and to carry out our baseline survey every four to five years.

Regarding schools, there are significant pressures on the curricula within the UK and we are therefore aiming to provide financial education within existing curricula. To this end, providing appropriate materials to teachers is crucial, as is adapting the information to the different age groups addressed.

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Discussion

Hugues THIBAUT

It would seem that we all agree on the need for basic information.

Kathrin WIRZ

I would like to broaden the discussion to economic capability or education, and not simply financial education. We also try to help households with their budget management.

Chantal FAZEKAS

I would like to stress that, regardless of age and social class, people have less and less resources. Family structures have also evolved and we therefore have to improve our education, in particular, with respect to the daily management of budgets. This is a crucial issue for most people, and it would be valuable to share our best practices in this area.

Simon BEGLEY

This raises the issue of the point at which providing information becomes providing advice. All of this has to be done in partnership with other organisations, including regulators, the financial services industry, voluntary organisations and consumer organisations. The regulator can play a role as the focal point for all those partnerships.

Rolf SOEDJAK

It is clear that much is being done in this area throughout Europe and throughout the different bodies represented here. The question is, who should be responsible for what? Most people, for example, do not even teach their own children how to manage their financial matters.

Chantal FAZEKAS

I also believe that parents play an initial role in the financial education of their children. Pocket money, for example, is the starting point for learning about financial autonomy.

Kathrin WIRZ

In a survey of 200 households in Germany, 96% of respondents felt that parents had primary responsibility for financial education, followed by other institutions including schools and banks.

Simon BEGLEY

All children learn from parents, friends and teachers, and all of these three areas have to be covered.

Rolf SOEDJAK

You stated that your programme was available in 75% of schools. Has it been made part of the regular curriculum?

Kathrin WIRZ

It is only part of the regular curriculum in certain länder, and not throughout the country.

Rolf SOEDJAK

Consumer habits also have to be changed, as they are not necessarily using all the programmes we make available to them.

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Hugues THIBAUT

We also find that many consumers consult our website but do not necessarily follow the advice they find there.

Simon BEGLEY

We should not simply blame the consumer. It is our responsibility to make these services more attractive to consumers.

Olivier JERUSALMY, Researcher, Réseau Financement Alternatif asbl

I would like to ask the panellists if they themselves use the information provided. I myself never read the contracts I sign, and it would seem that the rational consumer does not exist. We therefore have to think of a different way of resolving this problem.

From the floor

We are obviously all responsible for financial education, but what is the responsibility of financial institutions? We do not want to reinvent the wheel and it would be useful if we could share our ideas and best practices? Do you have any concrete brochures or checklists that banks could use when talking to their clients? It would also be useful to draw up a list of the different websites that are available throughout Europe.

Rolf SOEDJAK

The fact that we are working in retail means that we are working in a national space, and language and cultural barriers will apply. Similarly, many of the participants here are competitors, and it may not be possible to share all of their practices. Nevertheless, much information is available in the public domain and can be consulted on the Internet.

Hugues THIBAUT

Most of the services provided by Test-Achats are only available to our members.

Chantal FAZEKAS

Over the past 50 years, we have developed this kind of information through the relevant associations rather than through the individual banks.

Simon BEGLEY

In the UK, all banks have their own financial education projects. Other projects are based on partnerships between the FSA and the banks.

Anne-Françoise LEFEVRE, Head of Institutional Relations, WSBI

The OECD has a website that lists a number of initiatives from around the world taken by public or private stakeholders. Financial education is a responsibility of the member states. What are your expectations in terms of support from governmental organisations?

Chantal FAZEKAS

The focus in France is on National Education, which could include some financial education. We have developed many relationships with schools, and we train about 13 000 people in schools each year. This is done through the goodwill of teachers rather than a real desire on the part of the Education Ministry. I was recently approached by a French television station with respect to a programme on purchasing power, that included an item on financial education. The station was interested in including a sequence on the way we train young people, so this is obviously something that is of growing interest.

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Kathrin WIRZ

We are constantly in contact with the public authorities. However, their priority tends to be more urgent health-related matters rather than economic education. At the European level, there is a high level of awareness of these matters, more so than at the national level in Germany. Angela MERKEL recently called for an episode on financial themes to be included in a well-known German children's television programme.

Jacques BOUCHE, President, JJB-Philcom Gmbh International Communications and Philanthropy Advisors

When it comes to awareness campaigns, frightening people into action could be a valuable option. For example, scare campaigns on certain types of cancer have increased the number of people who have themselves tested.

Simon BEGLEY

We run awareness raising campaigns, that drive people to our websites. While scare campaigns might work in certain areas, all of the testing we have carried out shows that people are in fact turned off by scary messages on finance. We also have the counter-example of graphic warnings on cigarette packets that have not really turned people off smoking.

Jacques BOUCHE

But smoking levels are going down! I believe that television is the best media for these types of campaigns, and personal contact is better than simply sending someone to a website.

Chantal FAZEKAS

While I cannot prove how effective they are, Finances et Pédagogie undertakes many preventive actions. For example, we carry out training sessions with companies or public institutions (including the army). In 2007 alone, we trained 10 000 people in this way.

Rolf SOEDJAK

I would like to thank you all for these interesting contributions. Financial education is obviously a topic that requires the participation of many different sectors. This should not be done on an ad hoc basis but should be the subject of a both a short-term and a long-term policy.



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Panel Discussion on Consumer Policy: Specificities of Mortgage Credit

Moderator: Robin JARVIS

Chair, Forum of User Experts in Financial Services (FIN-USE), UK



The EC White Paper addresses a number of consumer related topics, in particular, pre-contractual information and responsible lending. In the US, a number of policy initiatives have been taken in recent years, with a view to helping consumers decide on the best mortgage credit for them. Panellists will be invited to exchange views on the ideal policy mix in the mortgage area, by addressing the following questions: What kind of information does the consumer need to make a considered decision in the field of mortgages? Is there room for improvement in the information that mortgage lenders provide to consumers? How can the provision of high quality advice be ensured, given the individual profiles of consumers and given the complexity of the relevant products? How can the concept of “responsible lending” be translated into concrete action?



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Robin JARVIS

This panel brings together representatives from industry and regulatory authorities. FIN-USE was set up by the European Commission in April 2004 to improve European financial services policy. It recognises users as a major stakeholder in this area. Our charter confers three responsibilities.

- First, we respond to the Commission's request for opinions and recommendations with respect to financial services products. Requests for these opinions have increased significantly in recent years.
- Second, we participate in proactive work, selecting and commenting on key issues. To date, we have published two papers on the structure of consumer organisations in Europe and on the role of consumer education in the financial services retail market.
- Third, we produce an annual report.

All of the materials we produce, including our opinion on the Mortgage Credit Green Paper, are available on our website.

John KOCH

Vice-President

Ion Capital Management, US



I will be providing an overview of the US mortgage market. As you are all aware, the US mortgage industry is undergoing a major financial crisis. Foreclosures are up dramatically and home values are collapsing. What can we learn from that US experience?

1. History of the US System

The US system was founded in the 1930s during the Depression. Portfolio lenders thrived for 50 years under this initial regulatory solution, with the GSEs emerging and becoming dominant in the mortgage market. They provided significant standardisation of all documentation and lower cost mortgages for consumers. However, the GSEs underwent significant accounting issues and regulatory restrictions. Wall Street then entered the equation, and took up much of their market share.

2. History of the Current Crisis

The current fiasco can be blamed on a number of players including mortgage brokers, real estate investment trusts, Wall Street and rating agencies, US tax and housing policies, homeowner speculators/fraudsters, auditors and appraisers, builders and bankers.

The US mortgage market is regulated by a number of entities including the OTS, the FDIC, the Federal Reserve, the Federal Trade Commission, the SEC and Congress. However, there was a significant blind spot from the regulatory perspective: the non-Freddie Mac and Fannie Mae activities were outside of the purview of these regulatory bodies. This regulatory blind spot is what really caused the problems.

I would like to highlight a number of very positive matters in the US system. On the topic of credit scores, our ability to maintain credit data for every individual in the country on a completely confidential basis is a very significant benefit for consumers. It allows them to rapidly access their credit and borrow money instantaneously for many items. Automated underwriting is also very valuable in keeping costs low, as are the automated valuation models.

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As the GSEs lost their power and retracted from the market, Wall Street players came in, and the mortgage product set went wild! This led to higher loan to values, higher debt to income ratios, interest only loans, and an explosion in stated loans. The later are based on a statement by the consumer as to how much money he or she makes, without having to prove it. 60% of all loans made in the US in 2006 were stated loans. Similarly, optional ARMs allow people to borrow money with a range of payment options. This multiplicity of loan products – high LTV stated loans, lower LTV subprimes, stated non-owner occupied – were outside of the Freddie Mac and Fannie Mae purview.

This resulted in the seizing up of the market place. The underpinnings of the system – Freddie Mac and Fannie Mae, and the Home Loan Bank system, which had provided over \$200 billion of financing for homes – have saved the day. The significance of the collapse is fairly severe, but the US is not in the midst of a depression. The current foreclosure rates are up dramatically (1.4% at year end compared to 10% during the Depression). Nevertheless, the US will experience a sustained recession.

3. Critical Learnings

What should Europe learn from this experience? First, originators have to be properly trained and licensed, particularly mortgage brokers. If they promote fraud, they should have appropriate sanctions. Second, appraisers should be independent from the originator. Third, regarding consumer disclosure, product innovation in the US got ahead of the regulatory required disclosures. The product set was simply too complicated for proper disclosure. People therefore did not understand what they were signing up for. Fourth, regulatory oversight is absolutely crucial, as are financial literacy and credit counselling.

4. Market Outlook

The legislative and regulatory response is frenzied and probably excessive. The Federal Reserve is doing a tremendous job in addressing the current environment. The US system has not collapsed. The Home Loan Banks, GSEs and Thrifts are still providing liquidity in the system. This secondary market is continuing to function. The situation is therefore not quite as bleak as it may appear. Nevertheless, this provides EU regulators with a tremendous opportunity to review their own system and learn what not to do.

Barbara SMITH

Senior Supervisory Policy Analyst, Division of Consumer and Community Affairs
Federal Reserve, US



I will begin by stating that I will be expressing my opinions only, and not those of the Federal Reserve Board, Banks or staffs.

I will be focusing on the response of the Federal Reserve to the situation in the subprime mortgage market. Effective responses need to build on an informed understanding of the complex situation. The Federal Reserve Board has been criticised for not responding more quickly but it had to take the time to analyse the situation right across the whole US. One single solution would not resolve the many different situations faced across the country.

The Federal Reserve has a number of tools at its disposal: regulation and supervision tools, and research and community outreach tools, including financial education.

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1. Regulatory Powers

During the Summer of 2006, the Federal Reserve held a series of meetings throughout the country focused on consumers and mortgages. These meetings confirmed our fears and concerns: the mortgage market was changing very quickly. In 2006/2007, we issued a series of guidances to the institutions we supervised. These covered non-traditional mortgage loans, subprime lending, and servicing practices. Unfortunately, the problems observed were the result of actions by companies and individuals that we did not supervise.

We have regulatory powers over the whole of the US financial market under the Home Ownership Equity Protection Act. We have hesitated to use that power in the past as we would like the market to be as free as possible. Given the situation, however, we decided to issue new rules in 2007 that prohibit unfair and deceptive practices. These proposed rules apply not only to the institutions that we supervise but to the entire mortgage industry. Four provisions apply to subprime loans: creditors are required to consider the borrower's ability to repay the loan, creditors are required to verify borrower's income and assets, creditors will have to establish escrow accounts for taxes and insurance, and would be limited as to when they can assess pre-payment penalties. Other provisions apply to all loans, including the deeming of certain advertising practices as unfair or deceptive.

2. Research and Community Outreach Powers

The Federal Reserve has an extensive research department that is being used to study these problems. We also have an extensive network of contacts with industry, local community groups and other stakeholders. Since July 2007, we have sponsored or co-sponsored more than 50 events relating to foreclosures, reaching over 4 000 attendees. We are conducting a five-year study on pre-purchase home ownership counselling. We are also testing mortgage disclosures on consumers, both with respect to their content and format. Finally, we undertake a number of financial education activities.

It is increasingly clear that improving consumer knowledge of the home mortgage process will help them avoid unsuitable mortgages in the future. Our website contains considerable information on a variety of mortgage-related topics.

In response to the crisis, we decided to work more closely with NeighborWorks® America, a non-profit organisation, to develop and deploy tools, strategies and best practices with a view to mitigating the negative impact of foreclosures. We have also started a pilot programme to conduct reviews of selected non-depository lenders with significant subprime mortgage operations. The purpose here is to achieve more uniformly effective supervision among all regulators.

All of these measures demonstrate that the Federal Reserve is trying to be as active as possible in response to the current crisis.

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Astrid KRATSCHMANN

Head of Housing Central Europe/Legal Department
Erste Bank/s Bausparkasse, Austria



I represent EU industry in the mortgage arena. With respect to consumer information, Austria has had regulations in place for the past 15 years, leading to quite good results. What information does the consumer need? First, can the consumer afford the housing loan? Only as a second step does the consumer need to compare the offer on the market in competitive terms. Should more information be available? Consumers always want more information, in theory, but tend not to consult this in practice. It is therefore important to provide personalised information before the loan contract is entered into. We believe that credit scores are a very important tool, but they should not be the only criterion used.

1. Financial Information and Education

It should also be remembered that information does not necessarily equal understanding. Consumers want their loans as cheaply as possible and as quickly as possible. They do not necessarily want to any other information, especially if it concerns risk.

We support all initiatives with respect to financial education, and believe that we engage in important financial education when going through a loan application with our customers. However, financial institutions cannot do everything here, and it is important that the public authorities and consumer associations also play an active role in financial education.

2. Responsible Lending

With respect to responsible lending, we are used to having face to face relationships with our customers, and our mortgage lending approach is a very conservative one. We also have a long tradition of involvement by the Austrian state with a view to providing affordable loans. In terms of the conflict between legislation and innovation, it is important that legislation takes a common sense approach. It should not hinder innovation, or drive innovation into areas that are of no interest to anybody.

Eric DUCOULOMBIER

Deputy Head of Unit, Retail Issues, Consumer Policy and Payment Systems, DG Internal Market and Services, European Commission



Information and education are some of the hottest topics under consideration by the Commission today, and recent events in financial markets have reinforced that focus. When the Commission asks EU consumers why they do not make more use of the financial services on offer in Europe today, the two reasons most often cited are language – for which we can do little – and information – for which we can do much. In addition, 50-60% of respondents believe that mortgage information is not understandable or comparable – and this despite years of efforts by both national and EU authorities.

According to our Green Paper on Retail Financial Services, which was released last year, information should be complete, correct, clear, proportionate, understandable, timely and consistent. At the same time, information

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requirements have to be balanced between quality and quantity. Too much information defeats the purpose, as does too little information. How do we achieve information requirements that people want and need? This is extremely difficult, especially in a context of 27 member states, 27 different mentalities, and 23 different languages.

1. Code of Conduct for Lenders

We have been working on the area of information in mortgages for many years now. In 2001, we promoted the adoption of a code of conduct that lists the information that people should be provided with throughout the EU. Such information would make it easier to compare the offers available. This code of conduct had had mitigated results. On the one hand, an important proportion of EU mortgage lenders (about 4 000) have registered to apply the code of conduct. On the other hand, the feedback from consumer organisations shows that there is room for improvement.

We would now like to revise this set of standardised information requirements, and undertake real consumer testing of the revised requirements. To this end we will be working with a company specialised in such testing. Despite the difficulties, we believe that it should be possible to identify a bedrock of provisions that all Europeans would consider as appropriate.

2. Education Programmes

In parallel, it is also important that people receive sufficient education to enable them to understand the information provided. With respect to education, the Commission issued a publication in December 2007 that highlights a series of principles that we believe financial services education schemes should respect. That information should be complete and targeted to various population segments, and should not simply lie dormant on a website. The Commission will also set up an expert group on financial education matters, in order to assist the Commission in designing appropriate tools and initiatives.

3. Responsible Lending

These policies are part of a broader policy leading towards more responsible lending and more responsible borrowing. Other initiatives include a review of advice standards, particularly for mortgage credit.

Finally, we want to promote better assessment of people's credit worthiness by lenders. Some of the main tools that lenders use here are credit history and credit data. Ensuring that people's credit data is freely available and comparable is quite a delicate task as countries tend to determine their citizens' credit profiles in different ways.

Discussion

Robin JARVIS

The four speakers have focused on information as the "saviour" of ill markets. Do they believe that we are giving too much emphasis to information as that saviour? Are we not overestimating the importance of information and education?

John KOCH

When you take out a mortgage in the US, you have to sign your name about 45 times, and provide your initials about 90 times. Excess disclosure is no disclosure. I would therefore urge that whatever is done is clear and succinct, and written

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in plain language.

Eric DUCOULOMBIER

I do not believe that we are overestimating the importance of striking the right balance between the quality and quantity of information required. Too much information or bad information is tantamount to no information at all. If we are able to show exactly what European consumers want and need, we will better be able to answer the regular calls for adding more and more information.

Barbara SMITH

I agree that too much information is equivalent to no information and, in this respect, the Federal Reserve takes its consumer testing very seriously. Financial education is not the only solution by any means: it is a good complement to regulation but will never replace regulation.

Robin JARVIS

Should we regulate mortgage brokers more closely?

Astrid KRATSCHMANN

We clearly have to put more responsibility on mortgage brokers. In Austria, the final mortgage decision always lies with the bank and the role of completely autonomous mortgage brokers has not really taken root in our countries.

Paul SCHMIDT, Deputy Representative, Österreichische Nationalbank

Regarding the revision of information requirements for consumers, what is the timetable for testing and when might we see the first results? What will be the DG's response if the 27 different mentalities are asking for 27 different sets of information? I would like to ask Astrid KRATSCHMANN is she is seeing different information requirements for consumers in the different countries where the bank has a presence.

Eric DUCOULOMBIER

We are now busy preparing the organisation of the consumer testing phase, and hope to finalise the testing at end 2008/ beginning 2009. We are very hopeful that the testing will enable us to identify a bedrock of requirements that are clear and meaningful to all European consumers.

Astrid KRATSCHMANN

In our experience, there is no difference in people's requirements for information. The first thing that people ask is, "will I be able to afford the repayment rate?", followed by, "what are the other costs that I will have to pay?" It is in this area that standardisation across Europe becomes extremely difficult, as each country has different tax and fee systems in place.

Stella DUNN, Senior Manager, Lloyds TSB

Do you think that there is a need for consumer education and standardised in for investment banks with respect to complex financial products, such as derivatives? Where does responsible lending end and responsible borrowing begin?

John KOCH

Investment banks are primarily looking at the embedded risks that the rating agencies have determined are inherent in these assets. They do not hold the assets in the way that banks do. They simply create products and sell deeply subordinated pieces of the asset. The real error occurred with respect to the rating agencies, as well as the buyer who did not really understand what they were buying. Consumer education could be beneficial for investment banks, but they are relying on

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other entities such as rating agencies to assess the risk.

Barbara SMITH

What happened with the securitised mortgages shows what happens at a lower level with consumer financial education if they do not have correct information. In this area, we therefore need consumer financial education plus good, sound financial information.

Eric DUCOULOMBIER

Regarding responsible lending and responsible borrowing, it is up to the lender to provide clear, personalised, and accurate information to allow the borrower to make an informed decision. However, it should always be up to the borrower to decide whether or not to make a given purchase, and to take the relevant consequences.

Astrid KRATSCHMANN

Responsible lending has to go far if banks want to have a long-term relationship with its customers. It has to be made clear that financial products are risky products. However, the ultimate decision should always be that of the consumer.

John KOCH

In the late 1800s in the US, it was stated that "The biggest disservice a bank can do to individuals is to lend them money they cannot repay." Both the borrower and the lender are responsible, but the bank bears the brunt of that responsibility. The bank has a bigger obligation to be a responsible lender and to determine suitability of the loan product set and avoid its own greed.



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CLOSING ADDRESS

David WRIGHT

Deputy Director General, DG Internal Market and Services
European Commission



I would like to congratulate the WSBI and ESG for organising this event. It is very important that the EU and the US – the biggest capital markets in the world – come together in events like these to discuss these issues. We have been discussing very important topics – consumer protection, information and education – and it is important that we work together in addressing the issues faced here.

We have seen the financial turmoil and damage that has been sparked by the serious crisis, starting with the US subprime markets and developing into a global set of liquidity problems. As financial markets contract, economies weaken and sooner or later consumers will pay more, for example, through more expensive mortgages or higher credit charges. Financial services are at the heart of our economies – they make a huge contribution to GDP and are central to our futures. Nevertheless, we seem to have elements of market failure right in the heart of our financial markets, in that our consumers have a deep lack of understanding about financial services. People are simply not prepared for the financial decisions they have to make, and it will require a sustained effort to change this, certainly over generations.

1. Financial Education

I firmly believe that financial education is extremely important and it is, fortunately, gaining more and more attention. The fact that it was not given more attention in the past has had the regrettable effects that we are all aware of. Europe has also had its share of financial disasters, and we have been involved in promoting and developing financial education. The benefits of consumer financial education are known, as outlined in our White Paper on Financial Services Policy. According to the subsidiarity principle, this lies in the domain of national governments. However, we want to act as a catalyst in improving the situation overall. For example, we have created a network of practitioners, representing private and public stakeholders from all over Europe, that will meet twice a year. We want to develop a pan European website for teachers, providing materials for teaching financial services issues to children.

Those member states that are able to introduce financial issues into the compulsory school curriculum will be doing something of great importance in a societal sense. They will also be creating a long term competitive advantage for their economies.

2. Consumer Information

The second strand for improving the demand side is proper consumer information. In mortgage lending, many consumers do not receive full, complete and understandable information, and struggle to grasp the significance of different offers and so forth. To make the right decisions, people have to have the right information. This also raises the question of the role of independent financial advice, and the balance between advice and sales. This question is likely to become more and more important as we go forward.

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3. Responsible Behaviour

Responsible behaviour is obviously another important part of this equation. If we go to full prescription in this area, we add costs and diminish flexibility. However, can we achieve this through legislation that is principles based? This is a period for financial firms to step up to the plate. They have lost us all 1% of GDP. This is not a time for de minimus responses; it is a time for the industry to examine its practices, not only in securitised markets but in the way consumers have been treated. We are all worse off because finance is not playing its role in the allocation of resources and investment in the economy. I believe that all of the issues under discussion today are crucial. I am therefore looking forward to the next event, and congratulate both WSBI and ESBG for setting up what I hope is a long series of productive and cooperative meetings.



Optimal Consumer Information and Education in a Competitive Retail Banking Environment



Final Comments and Conference Closing

Chris DE NOOSE
Managing Director
WSBI and ESBG



We have had a very intensive day with many exchanges, that I will try to summarise.

The key concept of the day was balance: balance between regulation, information and education, a message received from both sides of the Atlantic. Consumer protection is certainly key, but it should not be achieved by over-regulation. Any regulation implies costs and may also limit consumer choice. Products are more and more complex and consumers have to be empowered to make the best possible choice. Many adjectives were applied to the information that consumers need – it should be comparable, proportionate, balanced, complete, timely, targeted, promoted, accessible, meaningful, and understandable.

Education and information are seen as two pillars in helping consumers make the right decision. In this context, quality is more important than quantity. It would seem that consumers are not always confident when buying financial products, and education plays a key role in empowering consumers.

Education can be achieved in many ways. However, the final responsibility remains in the hands of the member states. We have also seen examples of the involvement of financial institutions in educating the public. The role of public authorities could be to promote best practice in this area. A general remark made was that personal contact was extremely appreciated by consumers, and local content will therefore remain a critical element.

This meeting has highlighted the strong interest we have in learning from each other across the Atlantic, making this EU/US forum such an important event.

I would like to thank all our speakers and all participants for their contributions to this conference.



Information exchange platform

The EU/US Retail Banking Forum is a WSBI/ESBG initiative which was launched on the occasion of the WSBI/ESBG conference entitled "First EU/US Retail Banking Forum Conference", in Brussels on the 14th and 15th of November 2005.

The EU/US Retail Banking Forum is open to professionals in the fields of retail banking and financial regulation from all related backgrounds (policy-makers, bankers, advisers, regulators, academics etc.), working in the EU or the US.

The aim of the Forum, which represents a platform for the exchange of views, knowledge and opinion, is to promote a better understanding of the systems of retail banking and financial regulation of each market. In so doing, it is hoped that the Forum will contribute usefully to policy-setting in the field of financial regulation.

About WSBI-ESBG

WSBI (World Savings Banks Institute) is one of the largest international banking associations and the only global representative of savings and retail banking. Founded in 1924, it represents savings and retail banks and associations thereof in 92 countries of the world (Asia-Pacific, the Americas, Africa and Europe – via ESBG, the European Savings Banks Group). It works closely with international financial institutions and donor agencies and promotes access to financial services worldwide – be it in developing or developed regions. At the start of 2006, assets of member banks amounted to more than €8,081 billion, with operations through more than 191,000 branches and outlets.

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising about one third of the retail banking market in Europe, with total assets of € 5,215 billion (1 January 2006). It represents the interests of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

WSBI and ESBG members are typically savings and retail banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their region. WSBI and ESBG member banks have reinvested responsibly in their region for many decades and are one distinct benchmark for corporate social responsibility activities throughout Europe and the world.



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Rue Marie-Thérèse, 11 ■ B-1000 Brussels ■ Tel: +32 2 211 11 11 ■ Fax: +32 2 211 11 99
info@savings-banks.com ■ www.savings-banks.com