

## M E M O

### SPI Romania Secretariat Visit to Brussels September 18 - 19, 2007

The SPI Secretariat representative, Ms. Ramona Bratu, SPI Director of Bank Products and Services, attended the Public Hearing on Retail Financial Services hosted by the European Commission on September 19<sup>th</sup> and visited on September 18<sup>th</sup> the European Banking Federation and a large international bank.

The objective of this initiative was to align the SPI activity in 2008 to the recent developments in the European financial market and to the priorities set up by the European institutions.

Following are the main themes that would make the 2008 SPI Romania program aligned with EU priorities:

- + Payment Services Directive implementation,
- + Client standard information,
- + Provision of basic financial services,
- + Consumer protection regulation and
- + Industry self-regulatory solutions.

### **I. Participation at the Public Hearing on Retail Financial Services**

The SPI Secretariat representative participated at the Public Hearing on Retail Financial Services hosted by the European Commission on September 19. The objective of this participation was to gain first-hand knowledge on the priorities for the EC on retail financial services resulted from the public consultations organized on the basis of the EC Green Paper.

The public hearing was structured on three debates referring to: empowering European consumers, enhancing consumer confidence and price, quality and choice for consumers.

The SPI Secretariat representative made available to participants a paper on the summary of the Romanian stakeholder's views, to be included in the documents package of the event.

The public hearing was opened by **Mr. Jorgen HOLMQUIST**, Director General, DG Internal Market and Services. In his welcome address, Mr. HOLMQUIST outlined the improved participation of the consumers at the public consultations on the Green Paper – 18% of the submissions were provided by the users of the financial services. The results of this initiative are considered very good, fact which is confirmed by the large audience of the public hearing – more than 300 participants.

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All the participants to the public consultations agreed on the **main objectives** set out by the European Commission. Among the **main obstacles** for the accomplishment of the single European market for retail financial services, stakeholders identified domestic taxation and consumer protection regulation, along with the poor quality of information and advice to consumers<sup>1</sup>.

In respect of consumers' confidence, the General Director referred to the Alternative Dispute Resolution (ADR) schemes, emphasizing that in many cases customers are not aware of these facilities and that, in order to better approach cross-border complaints, ADR schemes should be harmonized.

As for the 28<sup>th</sup> regime for pensions, the conclusion of the opinions submitted to EC was that the comparison between the 28<sup>th</sup> regime and the national schemes is difficult. In respect of insurance, it seems that there is low appetite for cross border insurance products and that the market players would expect the availability of tax incentives for life and non-life insurance products (in line with the Romanian stakeholders' opinions).

Mr. HOLMQUIST ended with the idea that financial education is critical and it should be included in the school curricula. EC is going to issue in November a communication on the best practices in the European member states in financial education (Romanian stakeholders suggested also that a guideline or best practice should be in the EC attention).

**Mrs. Ieke VAN DEN BURG**, Economic and Monetary Affairs Committee, European Parliament, made reference to the July Plenary of the Parliament that addressed the issue of the cross border integration, outlining that this shouldn't be perceived as an objective per se, but as a mean to satisfy the customers' needs; for the time being, it seems that customers still use the physically present banks and prefer domestic providers and that better impact analysis is needed in order to focus on real customers' requirements.

The European Parliament identified in its document 6 important matters that should concentrate the European efforts:

- development of **pan-European pilot projects** (as the pension project);
- **access to basic service**: services should be available and affordable, especially accounts, cash machines, credits, etc. It was pointed out that AML legislation could prevent distance offers of products and services, but micro-credits and the establishment of the niche banks (such as Islamic banks) could improve access to financial services;
- **follow up to SEPA and PSD** (Payment Service Directive), in order not to lead to dominant positions;
- **financial education and literacy**, that has the potential to provide customers with choice;
- **reinforcing the inputs of consumers**: expertise building in consumers' organizations through financing and support;
- **a basic framework for consumers protection**. Initiatives to be developed in this respect: setting up standards for consumers' protection, using, maybe, MiFID provisions as a benchmark; performing an evaluation on the Insurance Mediation Directive, etc.

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<sup>1</sup> Taxation and the poor financial education were perceived as the main obstacles by the Romanian stakeholders too.

Mrs. VAN DEN BURG emphasized that the European Community has to maintain a focused approach on consumers' needs in all these priority directions.

## Debate 1 – Empowering European Consumers

**Moderator:** *David WRIGHT*, Director, DG Internal Market and Services

**Panelists:** *Guillaume PRACHE*, Federation des Associations Independantes de Defense des Epargnants pour la Retraite (FAIDER);  
*Andrew SMART*, Chief Risk Officer, Global Life Insurance, Zurich Financial Services and member of the Association of British Insurers (ABI);  
*Matthias BAUER*, Raiffeisen Capital Management and President of European Fund and Asset Management Association (EFAMA);  
*Eddy WYMEERSCH*, Chairman of the Banking and Financial Commission and Chairman of the Committee of European Securities Regulators (CESR).

The first issue rose for discussions referred to **the information to be provided to consumers** and how to reach a balance between quantity and relevance. Panelists expressed their views regarding the simplified prospectus that should contain key information, similar and comparable for similar products, in an accurate and understandable language. MiFID requirements could be a benchmark in this respect, although its implementation is not satisfactory, but a good start. The information to customers should be smart, meaning necessary and enough information. There is not a level playing field regarding this issue. The information requirements should maintain a focus on consumers and the outcome should be tested with customers in order to reach the balance between quantity and quality of the information.

Regarding the **advice to consumers**, many pros and cons were brought on the table. The financial industry's point of view is that advice should be provided only on request and should not be mandatory (shared by the Romanian financial industry also). There is a potential conflict between sales and advice activities, and, when the distributor is the same as the provider, there is no reference product for comparison and advice. At the same time, by imposing provision of advice, the number of intermediaries could be reduced and, thus, the consumers' access would be limited. Providing advice to consumers could also increase the costs of the products because of the additional spending with training and with controlling the compliance with the requirements. There is a negative direct impact on consumers from advisory activities: while the providers' commission is tax deductible, the advice fee is charged on the consumers and it is not tax deductible. **In respect of regulating the advice provision, it seems that the MiFID can be taken as a benchmark, but its implementation is difficult; the right balance between disclosure and conduct rules has to be reached through Codes of conduct developed by the industry.** The EC could develop practice rules and case studies to help industry's initiatives.

**The 28<sup>th</sup> regime on pension** is considered to be a purely industry initiative, as investors and consumers were not involved. Consumers believe that it is unrealistic to harmonize the 27 national regimes and the 28<sup>th</sup> regime could decrease the level of protection for consumers. The proper approach in this respect is considered to be a solid European base for pension products, with simplified rules. This would ensure the basis for customer mobility in the general context of the single labor market.

Every **financial education** initiative should start from assessing the actual level of consumers' knowledge. All the participants agreed that financial education should start in school.

Harmonization of the deposit guarantee funds regime throughout Europe would be an idea to be taken into consideration by EC.

## Debate 2 – Enhancing Consumer Confidence

**Moderator:** *Agne PANTELOURI*, Director, DG Health and Consumer Protection

**Panelists:** *Manfred WESTPHAL*, Vice-Chairman of FIN-USE;

*Isabel MENDES CABECADAS*, Member of FIN-NET;

*Rolf SOEDJAK*, Member of the Board, European Savings Banks Group (ESBG);

*Michaela KOLLER*, Director General, European Insurance and Reinsurance Federation (CEA).

The second debate highlighted from the beginning 3 important things in enhancing the consumer confidence: the importance of focusing on consumers' needs in respect of products and information, the education and information needs as more complementary than equal terms, the creation of simple ("certified") products.

Regarding the way the **financial market is reflecting the consumers' needs**, the products have to ensure financial access for all the clients and the information on products should be structured and clear, avoiding the overload and in an understandable language. While simplification cannot apply to all products, minimum standards could be established for all the products. Long term products should be flexible in order to allow adjustments. As for the intermediaries, rules for their professional conduct should be in place, ensuring a level of protection for consumers.

**Internet services and confidence of clients** was the next subject of the debate. The internet banking is increasingly used, but more for bank transactions than for selling. The high use of internet is an indication of the consumers' confidence and trustful systems will bring more confidence. Consumers' concerns regarding data protection have to be addressed. As regards the domestic versus cross border use of internet banking, there are differences that prevent a more extensive international use, such as harmonization of rules and of the different guarantee schemes. In internet services, participants noted that there is a potential for a single market, but the integration process will be very slow.

The discussions on the **Alternative Dispute Resolution schemes** and the improvement of the cross border resolution of conflicts outlined the key issues that have to lead the efforts to create the cross border ADR: enhancing the market-led schemes, the interoperability of the national ADR schemes, data protection, technical issues, legal issues, and costs of the solution.

Regarding **the reduction in fragmentation in retail insurance market**, five key measures were outlined at the end of the second debate: abolishment of the idea of the fiscal representatives for cross border transactions, implementation of Solvency 2 project, blocking the exemption regulation, pooling off risks and information to consumers.

## Debate 3 – Price, Quality and Choice for Consumers

**Moderator:** *Elemer TERTAK*, Director, DG Internal Market and Services

**Panelists:** *Dominique FOREST*, Senior Economic Adviser, European Consumers' Organization (BEUC);

*Gyula GAAL*, Appointee of the Hungarian Prime Minister for retail financial services, represented by Mr. *M. KOVACS*

*Guido RAVOET*, Secretar General, European Banking Federation (EBF);

*Antoine MANTEL*, member of the Managing Board of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS);

**Dr. Christopher PLEISTER**, President of the European Association of Cooperative Banks (EACB), represented by *H. GUIDER*

The third debate was opened by **Mrs. Meglena KUNEVA, Consumer Protection Commissioner**, who emphasized the Commission's priorities in respect of the empowerment of the choice for consumers:

- the provision of understandable and comparable information. Commission believes that a revision of all financial directives is necessary in order to see whether there are proper information requirements. Pre-contractual information requirements are especially important in distance service;
- the improvement of consumers' financial capability through information and financial education. The studies conducted in this area outlined the considerable level of functional and financial illiteracy and the Commission intends to expand voluntary financial education in schools.

**Arlene McCARTHY, Chairwoman, Internal Market and Consumer Protection Committee, European Parliament** continued the ideas launched by the previous speaker, placing an emphasis on the role of financial institutions for a responsible lending and for providing high quality information to consumers in order to avoid over indebtedness and financial crisis. Financial education has to be structured in coherent programs, starting from schools, and ensuring a balance between regulation and information requirements.

Debates in the panel concentrated on the role of the **credit databases** in empowering consumers' choice. The cross border transfer of credit records has to become a reality by removing the roadblocks pertaining to different ownership (private, public and dual), and to different content (positive/negative credit information, to legal barriers related to national regulations on data protection).

Mr. Davouet showed that EBF is very positive on the objective of the Green Paper, but considers that EC should take more into account the realities. The integration of the financial markets is more supply-related than demand-driven and consumers should express better their options. As for standardization of products, EBF stated that they are for standardized information allowing a good understanding and the comparability, while the standardization of products would affect competition and consumers' choice.

Mr. Kovacs made known the results of a survey recently performed in Hungary that indicated that 40% of the consumers do not understand what cards are about; therefore, there is the needs for financial education and identification of the right language in order to increase financial literacy. He illustrated with an example the prevention of the consumer choice – the huge switching costs (6% of the value) and the unilateral modification of contracts in mortgage lending.

The public hearing was closed by Mr. Charlie McCREEVY, Internal Market and Services Commissioner, who expressed his satisfaction on the public consultations on the Green Paper and on the large participation at the public hearing that showed the interest of all stakeholders in the issues related to the retail financial services. Mr. McCREEVY outlined the EC priorities in this area as resulted from the recent initiatives: Consumer Credit Directive, SEPA, the revision of the Mortgage Directive (based on an ex-post analysis) and MiFID implementation.

## **II. Meetings with banking industry representatives**

### **1. Meeting with the representatives of the European Banking Federation (EBF)**

Following SPI Secretariat request supported by the Romanian Banking Association, EBF mobilized a large team of specialists for the meeting: Ms. Viktorija Proskurovska, Assistant Adviser, Economic and Monetary Affairs; Ms. Denisa Mularova, Adviser, Payments and Securities & Accounting Affairs; Mr. Sebastien de Brouwer, Head of Legal Affairs, Mr. Robert Priester, Head of Department, Banking Supervision and Financial Markets; and Mr. Stephen Fisher, Adviser, Financial Markets.

The SPI Secretariat delivered a presentation on the SPI Romania (governance, objective, activities and projects undertaken in the period September 2006 – September 2007) and on the plans for 2008 (organizational and financial arrangements and proposed projects).

It was made clear to the EBF's representatives the kind of support SPI Secretariat is asking from the European association: EBF's and its members' priorities for the next period in order to capture them in the SPI 2008 program.

SPI Secretariat gave examples on the projects proposed to be undertaken in 2008, asking for EBF representatives' validation on the importance of the issues to be tackled and/or on their harmonization with the European and European banking industry's concerns, and for ideas on topics to be included on the SPI 2008 activity fitting the previous description.

Regarding the project proposals for 2008, EBF representatives appreciated that the projects on the payment systems, Banking Mediator, AML database seem to be of topical interest.

They outlined also the importance that the draft Consumer Credit Directive deserves and the expected EC events that could be a good source of inspiration for next year projects, such as the White Paper on Mortgages (expected in December), best practices in consumers' financial education (in November).

EBF representatives emphasized the aspects related to post-trading that are envisaged by the European Commission: TARGET 2 Securities and the issue of the codes of conduct that would cover all financial market infrastructures.

They consider also that issues pertaining to customer mobility, such as standardization, transparency, pricing and switching arrangements, are on the agenda of all their associates.

At the same time, they appreciate that the current project on IFRS could have a follow up in 2008, as the standards (and especially IAS39) will be undergoing changes.

The discussions led to some conclusions regarding the possible future co-operation between SPI Romania and EBF: SPI Secretariat will send the list of all project proposals to EBF and this will be circulated to all their departments for comments and suggestions. For the SPI approved projects for 2008, EBF offered support in respect of international expertise and experience. From 2008 RBA will become a full EBF member and have thus full access to all the information that the federation manages. As for the ongoing projects, EBF was aware of ABI's presentation in the seminar on MiFID implementation and offered support for the Romanian banks in the implementation of MiFID provisions.

## **2. Meeting with the representatives of Banca Intesa San Paolo, Brussels office**

On September 18, 2007, the SPI Romania Secretariat representative met the representatives of the Belgium office of Banca Intesa San Paolo, staff to the Managing Director and CEO: Mrs. Francesca Passamonti, Regulatory Advisor, Mr. Simone Pieri and Mr. Stefano Mazzochi, from the International Affairs area.

The Italian bank's representatives outlined that regulatory analysis, in support of and interfacing with European institutions, is one of the 3 pillars of their activity in Brussels. The other two are anti-trust policy of the group and advising their clients on how to access EU funds.

The SPI Romania representative presented SPI Romania current activity and the plans for 2008, outlining the principles on which the program for next year will be built up. Some of the project proposals for 2008 were presented in order to illustrate the principles and directions for the future SPI Romania activities. It was emphasized that SPI Romania would like to have on its agenda for 2008 topics that are considered to be by the European financial industry of priority importance, supporting thus the Romanian financial community to be responsive and active in respect of EU concerns and initiatives.

The representatives of Banca Intesa gave an example of the European banking community's priorities of the moment: the draft new Consumer Credit Directive. They outlined that the intention of the European Commission is to enhance consumers' protection, but there is the danger for an over-protection of the consumers which would be finally reflected in the costs of the loans.

The conclusion of the discussions outlined the support the two institutions can offer to each other: Banca Intesa Brussels office, being in close connection with the European institutions and involved in all the financial and legal European issues, could signal to the SPI Romania the important topics that need special and immediate attention and could ensure their Romanian subsidiary's involvement in the SPI projects and activities; at the same time, SPI Secretariat could keep informed Banca Intesa on the development of its activity, supporting them to better cover the Romanian market priorities affecting their subsidiary's activity.

### III. Conclusions

SPI Secretariat representative visit to Brussels reached its objectives:

- a. To initiate relationship with international public and private institutions (Euroean Commission, European Banking Federation and Banca Intesa San Paolo);
- b. To identify more sources of information (the two visited institutions and other sources suggested by their representatives);
- c. To improve access to international experience (from both two institutions);
- d. To ensure the consistency of the SPI Romania activities with the European priorities and recommendations.

The debates in the public hearing confirmed that topics such as positive credit information sharing, the Banking Ombudsman, consumer education (whose consistency with the best practice to be released by EC has to be ensured) and MiFID projects, undertaken by SPI Romania in the period September 2006 – September 2007, have approached top priority issues.

As for the plans for 2008, the following issues deserve consideration in order to formulate SPI project proposals:

- The draft of the Consumer Credit Directive;
- The revision of the Mortgage Directive;
- SEPA and PSD implementation;
- TARGET 2 Securities;
- Affordability and availability of basic financial services;
- Setting up standards for consumer protection in the financial market;
- Establishing standard information to be provided to consumers;
- Expansion of the Banking Mediator scheme;
- Preparedness of the Credit Bureau to share credit history at a pan-European level;
- Changes in the IFRS;
- The consistency of the Romanian regulations on consumer protection with the EU regulations;
- The industry codes of conduct in respect of information to consumers, advice provision, conflict of interests.

The SPI Secretariat will de-brief Romanian financial stakeholders on the main messages of the Public Hearing at an informational session hosted by the Info Center of the Representation of the European Commission on September 26, 2007 at 9 a.m.