EU Regulatory Framework Call for Evidence

FSUG Submission

Introductory comments

The FSUG welcomes the opportunity to respond to the Call for Evidence on the EU regulatory framework for financial services.

In a recent speech addressed to regulators and supervisors, Commissioner Hill stressed the need to better protect consumers and regain their trust[1]. We cannot agree more with that statement: a lot still needs to be done in the financial services area, both in terms of regulation and supervision.

The FSUG has identified inconsistencies and regulatory gaps as regards the EU consumer protection law. We have also identified a severe lack of proper enforcement in several Members States and a lack of convergent EU culture and practices as regards the supervision of conduct of business.

Consumer trust in financial services providers regularly scores at the lowest level among all providers in the Consumer Market Scoreboards published by the European Commission. For instance, in 2013 (latest data available) only 35% of retail investors trusted investment services providers to respect consumer protection rules.

That is the reason why an efficient and properly enforced EU law is key to enhancing consumer confidence in financial services, particularly in the light of the CMU (Capital Markets Union) and the single market for retail financial services.

However, the FSUG is concerned that, through a well-rehearsed rhetoric, the financial lobby has already successfully convinced some authorities that the strengthening of financial legislation aiming to restore financial stability and citizen confidence would have generated some perverse effects and would jeopardize business investment, limit loans to households, increase the price of retail financial services and would ultimately be destructive to employment and growth.

It is important to remind ourselves that there was a strong reason to regulate the financial sector – we have gone through the worst financial crisis in a century and this has had a significant impact on the real economy. Taxpayers had to bail out too-big-to-fail banks in many European countries, and legislation should aim to reduce the risk of this happening ever again[2]. Moreover, the practices of financial institutions with respect to their retail customers have not changed at all over last years: unfair trade practices and mis-selling practices, marketing of useless products because of cross-selling, advice biased by conflicts of interest and misaligned incentives, products not appropriate to consumer needs have cost billions to European consumers who have never been compensated for the damages they have suffered.

Over the past few years the EU policy-makers adopted several pieces of legislation in the retail financial services and payments area. Those laws contain crucial provisions aiming to protect consumers who e.g. open current account, make payments, borrow money to purchase a car or a house, invest and save for their retirement.

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[1] http://europa.eu/rapid/press-release_SPEECH-15-5117_en.htm

[2] The 2008 financial crisis cost taxpayers €1,600 billion to rescue banks: http://www.finance-watch.org/hot-topics/blog/909

However, most of those new or revised laws have only recently entered into force, or are about to enter into force (MIFID, PRIIPs…) while some are still at the transposition phase (e.g. Insurance Distribution Directive, Payment Accounts Directive, and Mortgage Credit Directive). Thus, it is too early to assess any potential positive impact on consumers.

That being said, we can already point to a number of loopholes and shortcomings in the existing regulatory framework, enforcement and consumer redress schemes that cause or will, in our view, cause detriment to consumers, and hence need to be assessed and addressed by the Commission.

That is why we are sceptical about the real objective of this call for evidence. It is hard to imagine how this exercise will really improve the situation of consumers if the existing legislation is questioned while not having yet been put in place.

The FSUG urges the Commission to resist any pressure tending to undermine the current legislation, when so much remains to be done to restore financial stability and consumer confidence.

FSUG
January 2016