Meeting of the Financial Services User Group

Minutes

13-14 June 2024
Vilnius

Following a warm welcome and introduction by Alin Iacob, FSUG Chair, Nijole Valinskyte, Head of Macroprudential Policy Division, provided a welcome address on behalf of Julita Varanauskienė, Deputy Governor of the Bank of Lithuania. It was followed by greetings from Kęstutis Kupšys, Vice-President of the Consumers Alliance, that co-hosted the FSUG meeting of 13-14 June in Vilnius, Lithuania.

The FSUG meeting in Vilnius featured three discussion panels with representatives from the civil society, academia, and regulators to debate on how financial sector could better serve society in a more digitalised environment while faced with heightened global challenges.

The first roundtable debate focused on access to cash, e-payments, digital euro. FSUG Vice-Chair Vinay Pranjivan moderated the panel composed of:

- Tomas Karpavičius, Head of Market Infrastructure Policy Division, Bank of Lithuania
- Saulius Žilinskas, Member of the Lithuanian Small and Medium-Sized Enterprises Council and Member of the Lithuanian Payments Council
- Andrius Jarošenko, Legal Council at Caritas of Vilnius Archdiocese
- Vytautas Valvonis, Chief Executive Officer at Revolut Holdings Europe

The Bank of Lithuania representative depicted the market for banking services, underlining that Lithuania had a small and concentrated banking market. He informed that a number of regulatory and legislative measures were taken in Lithuania to increase competition in market, especially in the payments area. Most recent efforts are aimed at enabling consumers to more easily switch between providers of financial services and notably in the mortgage credit market.

With regard to financial inclusion, the representative from the Bank of Lithuania thought that the involvement of a privately owned bank is not always required, hinting at the measures taken by the Bank of Lithuania, namely to establish 100 ATMs in 100 locations. They have already been installed, though not very actively used. This means 10% of the population has now better access to cash.

It was also noted that 10% of society members do not have a banking account. Retirement pension is brought home which could be a specific peculiarity compared to other EU Member States and could largely explain this phenomenon. When it comes to payment of salaries, until 2022 many companies paid salaries in cash. The amended laws now require salaries to be paid into bank accounts.

Andrius Jarošenko, a lawyer providing legal advice in Caritas, agreed that digital banking has become very common in LT. The problem is that outside the digital environment, there are still people who need to have access to finance underlining that 19.9% of population are at risk of social exclusion while only 18% GDP in Lithuania vs 29% in the EU are allocated to social security. He noted several practical issues on the availability of services: first, vulnerable consumer often have no money to buy digital tools. Second, to be able to access digital services, they need to have a bank account, which is not preferred by overindebted persons, given easy access to them by debt collectors, despite the fact that national law ensures a legal minimum income to survive and therefore not all the money on consumers accounts should be accessible to debt collectors.

The Revolut representative noted that cash is inevitable. At Revolut to have a basic account is free. ATMs per 100k inhabitants in LT is one of the lowest in the EU. But hundreds of shops, thousands of national loto terminals are used for cash withdrawal. The number of ATMs is decreasing everywhere. Phones are increasingly used as card readers. Referring to EU laws that overhauled the EU energy sector and introduced competition in the market, the Revolut representative suggested that the Commission should consider separating the infrastructure from the provision of services.

The SMEs representative underlined that no cash essentially means more control over the money for their users. However, for some it is the opposite: keeping cash mean better control of money, so it is important that users' preferences are taken into account.

The Bank of Lithuania informed that although the volume of payments in cash goes down and the trend is very clear, in 2022 62% of payments were still made in cash. It is important to keep in mind that the EU is highly reliant on American payment schemes, although in e-space there are alternatives to card payments.

The panelists and FSUG members exchanged views on issues linked to the availability of cash.

The second panel was dedicated to issues in the mortgage credit market and possible solutions to them. The FSUG Vice-Chair Maria Lissowska moderated the panel composed of:

- Nijolė Valinskytė, Head of Macroprudential Policy Division of the Bank of Lithuania
- Eivilė Čipkutė, President of the Lithuanian Banking Association
- Marius Jansonas, President of the Finance and Credit Management Association, Lithuania

Before the start of the panel discussion, the representative from the Bank of Lithuania gave a presentation of the recent regulatory changes in the mortgage credit sector.

According to the analysis of the Bank of Lithuania, consumers from Lithuania, and other Baltic states pay the highest price for mortgage loans in the euro area. While at the moment the interest rate margin for variable loans remains the lowest in recent years, consumers are often not willing to switch their mortgage provider, in particular because of high switching costs. BoL together with the MoF has proposed now to the Parliament to eliminate switching costs for consumers. The only cost that would remain for consumers would be a repayment fee of up to 3% of outstanding amount for fixed rate mortgages.

In addition, the proposed changes also include the requirement for mortgage providers to offer a mortgage loan with the borrowing rate fixed for at least 5 years. The measure is aimed to increasing the share of fixed rate mortgage, which is currently close to zero and is lowest in the euro area (compared to 67% euro zone average).

The moderator asked the panelists to consider further on what is needed to enable mortgage providers to offer more fixed rate loans and to encourage consumers to take fixed rate mortgage loans. The Bank of Lithuania representative underlined that the measure proposed by the BoL does not aim to force consumer to choose fixed rate mortgage loans, but rather to enable the choice to consumers so that they are able to choose the type of the interest rate that is most suitable to them, be it a fixed or a variable interest rate. Fixed rate mortgages may not be suitable for all potential borrowers. The measure should also enable consumers to compare different options and therefore to make an informed decision. The Bank of Lithuania wishes to break the vicious circle of "no demand – no offer".

According to the President of LT Banking Association, to be able to offer to borrowers fixed rate loans, Lithuanian banks must go to markets and borrow at a long-term fixed rate. Given that even the largest Lithuanian banks are very small at the EU level, they cannot obtain the long-term fixed rates at the same good rates as other larger EU banks. Also, the market for fixed rate mortgages is very small. All this leads to higher borrowing rates for consumers, which are higher than in other euro area countries. The securitisation or covered bonds could possibly help in the future. Also, the President recalled a long low-interest rate period in the EU in the aftermath of the financial crisis, in which borrowers with variable interest rates were better off compared to those who took a fixed interest rate.

Marius Jansonas, the President of the NGO which helps to educate borrowers and investors, supported the Bank of Lithuania and Ministry of Finance proposal to make switching and early repayment easier. He recalled that 15 years ago when fixed rate interest mortgages were offered, early repayment penalties were huge amounting to 10-15% of the outstanding amount. This was one of the reasons why fixed rate loans did not gain popularity in Lithuania. He underlined the importance of good financial education of consumers so that they can take informed decisions.

The FSUG Chair reminded that interest rates have exploded together with the inflation in 2022. He welcomed the LT Bank initiative to increase the choice and consumer awareness. He considered that the initiative on switching is revolutionary that should find a place in the EU as a Directive or Regulation.

Participants questions huge profits of the banking sector. The President of the Banking Association underlined that the whole business cycle, rather than a specific year, should be assessed when discussing banking sector profitability. Return on Investment (ROI) was roughly 7% taking into account the whole cycle while investors would like to have around 11% ROI.

One FSUG member underlined that a consumer takes all the risk due to interest rate changes for variable rate mortgage loans and therefore consumers should be remunerated for taking that interest rate risk. The other FSUG member asked about the possibility to have dynamic limits on the interest rate to which the Bank of Lithuania responded that under the "responsible income" regulation, a burden to consumers from increased interest rate would be prevented by setting an Debt service-to-income (DSTI) limit of 50% under a hypothetical higher 5% interest rate, which is an addition to the 40% DSTI limit for the offered credit interest rate. Furthermore, banks would be obligated to restructure or take other measures to help the consumers, whose DSRI goes above 40%, such as reducing the profit margin, but CWA would still have to be done in case of refinancing the mortgage loan. This is currently in the proposal submitted to the Parliament.

Addressing some of FSUG members' concerns about huge borrowing rates for mortgages issued in Poland and Romania, the President of the LT Banking Association pointed out that joining euro area helped borrowers in Lithuania. Among other suggestions from the FSUG members, it was considered that CWA requirement could be unhelpful if a person would like to refinance their mortgage, given it might be difficult for a person to pass a new CWA due to reduced income or increased financial liabilities, essentially preventing a consumer to refinance his loan. Responding to a question from an FSUG member, Bank of Lithuania reiterated that it does not regulate neither fees nor interest rates, which is left to the market to decide, except for the existent mortgage to help consumer to refinance it.

Discussion on the FSUG draft opinion on the possible revision of PAD

FSUG members discussed the way forward to finalise the draft FSUG opinion on PAD. Vice-Chair has asked to add Lithuania among the best examples and contribute with other examples from other Member States. The discussion focused on how to best summarise and present the findings found in the report. Among other issues, FSUG touched upon the accessibility to basic accounts, readability of comparison websites, difficulties to switch the provider, IBAN discrimination, which should be reflected in the FSUG opinion to the Commission. The Chair proposed to deliver the report in autumn.

Discussion on the FSUG draft opinion on potential revision of the MCD

FSUG members went through the note, discussed which issues need to be included into the opinion and asked members to contribute to the note. It was proposed to finalise the opinion in autumn.

Panel discussion on digitalisation and inclusive finance: how to put interests of consumers, microenterprises, start-ups and retail investors at the centre of the financial system

The second day was opened by the FSUG Chair Alin Iacob inviting for a minute of silence to commemorate the Day of Mourning and Hope in Lithuania.

Julita Varanauskienė, Deputy Governor of the Bank of Lithuania, gave a keynote address. She highlighted the ongoing challenges faced in Lithuania, notably the continuing issue of overindebtedness, recognising the limited effectiveness of the measures on financial education which have been taken so far in Lithuania. There should be a good balance between the supply and demand to financial services, leading to an optimal outcome in the society. Regulation is important to protect consumers, but excessive regulation can stifle innovation and limit choice to consumers. Financial education should help consumers to understand the financial products, empower them to take informed decisions.

The Bank of Lithuania established the centre of financial education, which organises different events and supports initiatives taken by different actors. The most effective education method seems to be the 'teachable moment' method, i.e. to provide information/ consumers obtain the knowledge at the time when they get interested in the matter. Other methods are also important, especially when marginal benefits do not require significant costs. The weakest area in education is for digitalised financial products which is also an area widely exploited by scammers and therefore draws most attention.

The panel was moderated by the FSUG hosting member Kęstutis Kupšys representing Lithuanian Consumer Alliance, and included the following speakers:

- Julita Varanauskienė, Deputy Governor of the Bank of Lithuania

- Petru Sorin Dandea, member of the European Economic and Social Committee
- Evaldas Remeikis, CEO & Chairman of the Board of NEO Finance
- Rimantas Žylius, Advisor to the Prime Minister of the Republic of Lithuania (digital transition, govtech), former Minister of Economy

Regarding investment services, Julita Varanauskienė informed that the Bank of Lithuania waited for the finalisation of negotiation in the Council on the Retail Investment Strategy. The recent mystery shopping exercise revealed disappointing practices applied by insurance undertakings. In the absence of EU regulation which could prevent such practices, the Bank of Lithuania would likely continue with their usual supervisory practices, including taking disciplinary measures when needed.

Rimantas Žylius gave an inspirational speech: A data lake of the future: from govtech to open finance, in which he set out his future vision of digitalised e-government and regulation, including financial regulation. He underlined the need to continue develop AI based products which could process the increasing amount of data that is both regularly collected by public services and institutions but also which is spread on the internet in a highly digitalised society. This is essential to bring timely and quality services for the whole range of public functions – from defense and public health to financial services regulation.

Petru Sorin Dandea, the rapporteur of EESC opinions 'ECO/534 - Digital finance strategy' and 'ECO/454 - Financial Technology (Fin Tech)' gave a speech about the needs of the society, on the crossroads of digitalization of finance, providing examples of how unregulated financial instruments, such as crypto currency, could undermine the orderly functioning of the society and markets other than financial markets. The prominent example was the energy crisis in Kazakhstan due to bitcoin mining reallocation from China.

Evaldas Remeikis showcased the fintech innovations spanning from financial education to digital wallets. He acquainted FSUG members with real-life financial products and services, giving practical examples on how the fintech revolution brings benefits for microenterprises, consumers and retail investors.

Update from DG FISMA and DG JUST on the ongoing Commission work on retail finance initiatives

A FISMA representative informed the FSUG members about the achieved progress in the negotiations in the Council and in the Parliament on the Retail investment Strategy, notably the General Approach achieved in Council on 12 June 2024 and the adoption of the Parliament position on 23 April 2024. That paved the way for trilogues, which are planned to start in autumn.

The Commission reminded the important issues that the proposal aimed to achieve and the measures that found their place in the Council general approach and in the position of the European Parliament. Specially, the ban on inducements for certain products proposed by the Commission was not supported by co-legislators. However, both co-legislators supported some measures that would strengthen product governance rules for introducing new products to ensure that products provide value for money to consumers. They also included new disclosure rules and adapt to new digitalisation trends to ensure that the consumer is empowered to choose the product which is in his best interest.

Tour de table: updates from members on their activities of FSUG interest, newly identified risks to consumers in financial services and possible issues related to the application of law

An FSUG member observed that there are indications that in at least some Member States there is insufficient willingness to support the Capital Market Union and wondered if there is a similar situation in other Member States.

Representatives from the European consumer organisations informed about the preparatory steps for the advocacy work in the light of the European Parliament elections and the upcoming new Commission.

An FSUG member updated on the key points discussed at the Payment and Innovation conference which took place in Lisbon, among others alerting about the issues that consumers face from personalised services based on their activity on the internet.

Another FSUG member informed about an investigation initiated by the Federal Financial Supervisory Authority in Germany regarding massive sales of risky products, such investment certificates or structured bonds, by savings banks and cooperative banks and whether these are in line with investors' interests.

On climate finance, an FSUG member updated about the discussions that took place at the EESC on how to mobilise public and private resources to fight climate change. He underlined that in the end developed countries would have to pay developing countries and the private sector would have to contribute. Financial legislation would have to be adapted and retail investors would have to contribute, which can be an interesting topic for discussion at the FSUG. EESC aims to issue a report in autumn.

Another FSUG member informed about his takeaways from the conference organised in Italy in April, which focused on how debt advisory services could be financially supported by the finance industry. A policy statement regarding the participation of the financial industry in financing debt advisory services has been issued and the reactions from stakeholders are awaited. He noted that given the amended Consumer Credit Directive does not foresee on how debt advisory should be financed, the statement, following the "polluter pays" and "solidarity" principles, proposed that the financial industry plays a role in supporting debt advisory services. The Chair suggested to follow up on this issue and consider if such a position should also be supported by the FSUG.

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It has been agreed that the FSUG secretariat will propose a list of 2025 FSUG meeting dates for the next FSUG meeting in September.