



Meeting of the Financial Services User Group - 19 November 2020

Draft minutes

Welcome remarks, adoption of the agenda, approval of the minutes of the September meeting

The Chair introduced a new member of the FSUG, Jasper de Meyer, financial services team leader at BEUC. The agenda was adopted and the minutes of the September meeting were approved.

Discussion on the possible impacts of the Consumer Credit Directive review policy options

Consultants from ICF, the consultancy preparing the supporting study for the Consumer Credit Directive (CCD) impact assessment, presented the main problems identified, and policy options to tackle these problems.

FSUG members asked whether ICF found evidence on the credit rating models used from digital lender using social media data, since there is no much information in scientific literature about credit rating models and this is an issue since digital lenders are growing. ICF replied that digital lenders are reluctant to provide this information. They seem to have issues in accessing data from banks because of GDPR. It is not clear whether these lenders use alternative data, but the CCD could be more prescriptive on this issue.

FSUG members also asked about COVID-19 related measures, and whether personal insolvency laws can be used as a tool to deal with borrowers vulnerabilities. Member States frameworks for personal insolvency are very diverse, and in the impact assessment supporting study those were not analysed in details. Several measures have been considered to respond to the COVID-19 crisis, based on measures applied in Member States. APR caps have been considered, and they have a positive effect on consumer protection but might end up in reduced access.

Update study on NPLs impact on consumers

Draft final report of the study on NPLs, based on several consultation strands and 8 case studies, was sent to FSUG members. Comments to be sent to the Commission by 27/11. The Commission will organise a dedicated meeting for the contractors to present the study to FSUG members once finalised.

Reply to Blackrock letter

The Commission explained via email that the issue is public, and [this information note](#) provides comprehensive explanation on the award of the contract, which should respond to FSUG members concerns. No further comments were raised.

Tour de table with a focus on measures to protect retail financial services consumers in the light of the COVID-19 crisis

National developments

- IT: moratoria on loan repayments have been prolonged, and no new measures were introduced. The debate that is emerging is about the economic and social divide that this crisis is emphasising. Focus on ‘new poor’ consumers, and inequalities in access to health services, education (because of home schooling).
- BG: the government is injecting more liquidity into the market, in different sectors but often the most vocal groups.
- SK: the crisis is still hitting hard the economy in Slovakia. The number of households unable to repay their loans is increasing, which will be a major problem when moratoria will be over. A pension reform is also ongoing, which could heavily affect now middle age consumers.
- UK: Together with Brexit, COVID-19 is still a big concern, since many households have to borrow more, just to make ends meet. With COVID-19, a portion of households has also seen a rise in their revenue, showing that the crisis exacerbates inequalities. Because of the low interest rates environment and COVID-19, the financial services sector is pushing for deregulation and relaxation of prudential regulatory standards. Only 30% of advice provided on pensions was suitable.
- PT: problem with interest over interest in case of moratoria, but according to Bank of Portugal this has to be done in order to comply with EBA guidelines. DECO asking for a level playing field in the way moratoria are designed. Private moratoria ended and this brought a big rise in demands to DECO to get help to restructure debt. Since the private moratoria for consumer credit is only voluntary for non-banks, many of these actors did not implement moratoria at all. Public moratoria in PT will last until September 2021, but they only cover home loans and consumer credit for education. A rise in personal loans and credit cards was observed, and this raise concern in terms of over-indebtedness. There were also a number of warnings concerning unregulated entities trying to enter the financial services market. As regards cross selling, there is a change in PT law: as of January, consumers are allowed to conclude a mortgage with a bank without having a bank account in the same bank.
- ES: Spain is moving towards consolidation – now potential merger between BBVA and Banco Sabadell, but there may be concerns in terms of competition.
- PL: In connection with COVID, problems have arisen in Poland in relation to consumer mortgages and consumer loans. These concerned the conclusion of annexes, charging additional and hidden fees, the use of so-called contractual credit holidays by lenders. As

part of the anti-crisis package, a special law was passed on so-called statutory holidays. The President of the Office of Competition and Consumer Protection is looking at the practices of creditors and issuing decisions on the use of prohibited contractual clauses and practices that harm the collective interests of consumers (See: https://www.uokik.gov.pl/news.php?news_id=16382, https://www.uokik.gov.pl/news.php?news_id=16478).

EU developments:

- Better Finance (BF): the main concern at the moment is pensions. Report on real rate of return of pension products in Europe was published (<https://betterfinance.eu/publication/pension-savings-the-real-return-2020-edition/>), and the situation is quite worrying from the consumer point of view. Criticisms from industry on the study, but BF is using public available data. Some industry representatives are keen to cooperate with BF in the future.
- BEUC: issues with the implementation with payment holidays for mortgages, and especially with transparency of costs involved, which can be very high. Moreover, consumers face difficulties in asking banks to postpone their repayments.
<https://www.altroconsumo.it/soldi/mutui/news/indagine-sospensione-mutui-e-prestiti>
<https://ssl.vzbv.de/pressemitteilung/stundung-von-krediten-verbraucher-zahlten-drauf>
<https://www.test-aankoop.be/geld/lenen/nieuws/uitstel-afbetaling-woonkrediet>
- Coface: more and more families are fragile in terms of their finances, and expenses raised for many households, for which will be even more difficult to make ends meet. The problem of banking fees e.g. for overrunning it is not solved and puts families in danger.
- AGE replied to the New Consumer Agenda consultation, and the recently published Communication includes concerns around accessibility and scams.
- Moratoria will be ending in several MS, and there are calls to extend them. But these extension would have a big impact of consumer credit sector, and the impact on consumers should be assessed. The definition of default should probably be reviewed during this period. More evidence is needed on the consumer perspective. Restructuring frameworks should take into account the COVID-19 situation. Rising number of scams.

ECB digital euro proposal and related public consultation (Mr Ignacio Terol, ECB)

The ECB recently published a report on why we need a digital currency (https://www.ecb.europa.eu/pub/pdf/other/Report_on_a_digital_euro~4d7268b458.en.pdf).

The idea is to complement cash, not substitute it, through synergies with current payment services and providers. Digital currency should be trusted and widely accessible with similarities to cash (in terms of privacy protection, offline use, accessible to vulnerable groups, free of charge for basic use) and technologically safe.

The next steps include engaging with stakeholders, coordinating experimental and conceptual work and live experimentation.

The exchange with the FSUG touched several points as the comparison with stable coins, privacy aspects, the risk of transforming it into an asset, the accessibility and non-discrimination aspects. A public consultation runs until 12 January.

Perspectives on the digital euro, from a digital finance and retail payments angle (Ceu Pereira FISMA B.3 - Retail financial services, Laszlo Butt FISMA.B.5 - Digital Finance)

Electronic transactions are becoming more and more important and in some countries cash is declining. This is why the digital euro is fully in line with the retail payment strategy of the Commission (published together with the digital finance strategy). The payment strategy promotes choice for consumers, better payment and infrastructure and cross-border European payment solutions. For these three goals the digital euro can make the difference.

Work plan 2020-2021: state of play of the sub-groups work and proposal for small study on “Who owns the EU economy”

The sub-group on COVID-19 meets in the afternoon. For the digital euro, FSUG members will respond individually. The study on “Who owns the EU economy” would combine data that is already available, so it offers a small added value, and it is too distantly linked to the ongoing policy work streams, it is therefore not a good option currently. It is agreed that the FSUG and the Commission will provide ideas on how to better promote studies on the Commission website.

AOB and conclusions

No other business raised.

Financial services consumers’ protection in Bulgaria: discussion of FSUG members with Bulgarian consumer organisations representatives (Bogomil Nikolov of the Aktivni potrebiteli association, and Georgi Atanasoff of the Bulgarian Financial Forum)

The virtual meeting took the form of a free conversation around predefined topics sector – organised as follows: insurance, investments, pensions and banking services, while and to some extent crypto-currencies and Distributed Ledger Technology (DLT) products. FSUG member Desislav Danov moderated the discussion. Initial remarks were dedicated to the unwillingness/inability of local supervisory bodies to cooperate with representatives of civil society and the absence of their representatives at the meeting. According to Bulgarian consumer organisations, inadequate enforcement steps are taken by local supervisory authorities with respect to consumer protection. Then the discussion turned to consumer related issues within the main financial services domains.

Insurance: Stage setting remarks encompassed the steadily raising premiums of the main type of insurance in Bulgaria – Motor Third Party Liability (MTPL). This increase is due to mechanical raising of the premiums, partially due to internalization of expenses, related to the failure of local insurance regulator to take protective steps onto the domestic market in order to shield consumers from the negative effects of one supervised entity’s misbehaviour. Bulgarian insurance market is growing some 1% YoY and the limited effect of the COVID-19 crisis on the Bulgarian insurance sector is mainly due to dominance of the MTPL, CASCO segments. Bulgarian consumer organisations also highlighted the inadequacy of reaction of Financial Supervision Commission (SC) to certain cases involving some domestic insurance

entities.

https://www.dnevnik.bg/biznes/finansi/2020/09/23/4117766_koronakrizata_pochti_ne_zasiag_a_zastrahovatelniat/

Banking: It was emphasized that the entire sector has profit of some 701 million BGN up to date (approx 350 mil EUR) thus dropping down by 270 mil BGN from the same period in 2019. At the same time, the banking industry still has much bigger and more complex problems with consumer related behaviour compared to those related to market performance. The upcoming adoption of Statute of absolute limitation (the debtor may not be legally forced to repay existing loan after 10 years of the date of default) was highlighted together with its potential impact on the consumers. Certain focus was drawn upon the report of the petition commission to the EU parliament published just a week before the meeting where findings about BG banks and consumer protection were made. It is noted that a big chunk of banks operating in Bulgaria are foreign owned and their reluctance, when operating in Bulgaria, to stick to the high level of consumer protection benchmarked in their markets of domicile is worrisome.

A report of a fact-finding mission to Sofia (from 24 to 26 February 2020) organised by the European Parliament to meet with the petitioners, ministers and government officials, civil society representatives, consumer organisations and the Bulgarian Ombudsman regarding numerous petitions received on alleged unfair contract terms in mortgage loans with findings about BG banks and consumer protection:

http://www.europarl.europa.eu/meetdocs/2014_2019/plmrep/COMMITTEES/PETI/CR/2020/11-10/1216737EN.pdf

News on the mortgage credit sector:

<https://news.bg/finance/mesechnata-pechalba-na-bankite-se-svi-do-15-mln-leva.html>

<https://www.investor.bg/biudjet-i-finansi/333/a/komisiia-na-ep-sistemata-za-ipotechni-kreditiv-bylgariia-e-neprozhachna-315641/>

https://www.dnevnik.bg/bulgaria/2020/11/10/4137527_evrodoklad_shemata_za_ipoteki_v_bulgariia_e/

Pensions: The upcoming and potentially devastating effect of the decumulation phase of private pension schemes in Bulgaria was discussed. Since the first wave of pensioners is on its way, it turns out that their private pensions will be insufficient to cover even basic living standard. While combined with their state-run pension scheme, their total pension may even fall beyond the amount of pension they would have received, should they used only the state-run pension scheme. The huge dispute around that topic about the actual return from private pensions funds was highlighted. Pension companies keep claiming that their pension products achieve adequate returns while Mr Lyubomir Hristov - the Bulgarian author of the BetterFinance report “Pensions savings: the real return” - is voicing concerns on behalf of consumers. Mr Hristov has even been subjected to a harassment campaign by the Bulgarian association of pension companies, who asked for punitive measures against him to be taken by the Bulgarian pensions regulator on grounds of slander.

<https://www.segabg.com/hot/category-bulgaria/chastnite-pensionni-fondove-sa-685-mln-lv-zagubi-koronakrizata>

Investments: The negligible volume of the Bulgarian Stock Exchange and its inability to fulfil its role as solid and secure marketplace for investments was highlighted. It was mentioned that due to the mentioned comment, the Bulgarian stock exchange may easily fall prey to market manipulations of different kinds.

https://www.capital.bg/moiat_capital/investments/2020/11/06/4136070_neugasvashtata_ljubo_v_kum_dividentite_na_bfb/

Others: The group also discussed the recent rise of loan sharking and the detriment it brings forth to consumers together with the unregulated activity of the collection agencies that have become one of the biggest loan holders. The detrimental effect that the practices of those debt collectors have on the societal coherence was underlined. Attention was drawn to the lax regulatory framework they operate in (with the collection agencies being entirely unregulated). Another topic of discussion was the raise of crypto currencies and Fintech companies, mushrooming within the BG jurisdiction in the last couple of years and their potential impact on consumers EU-wide.

The main takeaways of the discussion were that according to Bulgarian consumer organisations in many cases consumer detriment results from the inability of BG financial authorities to ensure reasonable enforcement of existing legislative and regulatory measures, while in some cases the legislation is insufficient and should be amended to enhance consumer protection.