



CONSUMER FINANCIAL SERVICES ACTION PLAN: BETTER PRODUCTS, MORE CHOICE, GREATER OPPORTUNITIES

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SCOPE AND AMBITION OF THE ACTION PLAN

What are consumer financial services?

Consumer financial services, also known as 'retail' financial services, are services or products offered to ordinary consumers rather than businesses or institutions. A wide array of products fall within this category, which represents an essential part of a consumer's everyday life: savings and current accounts, payment services, credit cards, mortgages and other credits, as well as different kinds of insurance (e.g. life, travel, motor, health or home insurance).

Retail investment products, such as investment funds, insurance-related investment products, and pension products have not been included in the scope of this Action Plan as they are already addressed separately as part of the [Capital Markets Union](#) (CMU) initiative. Today's Consumer Finance Action Plan is part of the CMU.

What has the EU done so far and why is this Action Plan needed?

The EU has already taken major steps towards creating a more competitive and safer European consumer financial services market thanks to numerous legislative initiatives, some of which are still in the process of being implemented across the EU. These include but are not limited to:

- The [Payment Accounts Directive](#), which improves the transparency of bank account fees and makes it easier to switch accounts from one bank to another, among other things.
- The [Mortgage Credit Directive](#) to make responsible mortgage lending the norm across Europe.
- The recently-agreed [Insurance Distribution Directive](#), which ensures that consumers benefit from greater choice and information when they buy insurance products.
- The Commission's [Action Plan on Building a Capital Markets Union](#) to develop stronger capital markets across the EU, including for retail investment products.
- The [Single Market Strategy](#) which aims to reduce barriers and prevent discrimination within the Single Market.
- The [Digital Single Market Strategy](#) to boost access to digital products and services and put an end to unjustified geo-blocking.
- The renewal of the [Financial Services User Group](#), for which a call for applications was launched on 20 February 2017.

In order to identify remaining barriers and work towards a more integrated EU market for consumer financial services, the Commission launched the [Green Paper on retail financial services consultation](#) in December 2015. The consultation attracted feedback from a broad range of interested parties, including consumers, consumer protection organisations, industry representatives and public authorities. The 428 contributions received by the Commission confirmed that consumer financial services markets in the EU are not yet as integrated as they could be. Indeed, while it is much easier to buy goods from other Member States, consumer financial services still operate largely on a national basis. Consumers find it difficult or even impossible to access or transfer certain financial products across borders.

To address those outstanding issues identified through the Green Paper, the Commission has developed this Action Plan which builds on existing work and sets out further steps needed towards a genuine Single Market for consumer financial services. Facilitating access to financial services in other Member States will enhance choice and strengthen competition. Customers will benefit from more innovation as well as lower prices and better quality.

The Green Paper highlighted in particular that innovative on-line services represent a major

opportunity in this area. The Action Plan seeks in particular to harness the potential of digitalisation and technological developments (FinTech) to bring about better financial services for consumers.

Does the Action Plan foresee fresh legislation?

The EU has already developed a considerable body of legislation to foster better financial services for consumers over recent years. The focus now is on properly enforcing this legislation and on complementary, mostly non-legislative measures to ensure that EU rules on retail financial services will provide the strongest possible beneficial effects for consumers.

Today's Action Plan sets out a roadmap for further work. Many of the actions will need to involve parties such as national supervisory authorities, service providers and consumer organisations. Moreover, the Action Plan seeks to give market operators more opportunity to develop their own solutions, including via digital means, to address some of the barriers in the Single Market.

HOW WILL THE ACTION PLAN HELP CONSUMERS?

How will the Action Plan address the issue of high costs of some payments in Europe?

The [Regulation on cross-border payments](#) aligned the fees for cross-border and domestic payments - transfers, card payments, cash withdrawals - made in euro across the EU. The Commission will propose an amendment to this Regulation to further extend its scope to other currencies to reduce payment costs and eliminate charging practices that are not favourable to consumers. For example, some Romanian and Bulgarian banks may currently charge between €15 and €30 for a cross-border transfer equivalent to €100. A non-euro country such as Sweden could serve as an example of good practice: cross-border payment fees there are already the same as for national payments, whether in euro or in Swedish Krona.

This Action Plan also proposes to improve transparency when it comes to currency conversion. Consumers are frequently offered a currency conversion rate by merchants (online shops, hotels, etc.). This is called Dynamic Currency Conversion (DCC) and whether this is convenient for consumers depends on the fees involved under the merchant's scheme, as opposed to the rate offered by the consumer's bank or card scheme.

While the DCC has the potential to introduce more competition in a market dominated by just a handful of providers, it is often criticised for offering a worse deal than currency conversion through payment card schemes. Currently, there is no real competition as consumers generally do not have sufficient information to choose the best option. The Commission will look closely into DCC rates and practices and will explore how these can be made more transparent so that consumers can make well-informed decisions when choosing their payment method.

How will the Action Plan empower consumers to switch more easily to better offers?

European consumers are currently reluctant to switch to other providers of financial services. This is a major barrier to new entrants in retail financial markets and means that consumers may be losing out on better offers that are less likely to reach the market. The underlying reasons for these low switching rates are commercial, legal but also behavioural, linked to consumers' tendency to stay with known products.

One problem is that consumers still struggle to find objective and credible information about available financial products. While there are now more comparison websites, consumers do not seem to trust them yet. To improve the quality of comparison websites, a Multi-Stakeholder Group on Comparison Tools steered by the Commission has developed "[Key Principles for Comparison Tools](#)". The Commission will continue to work to ensure high-quality comparison websites and voluntary industry-developed certification schemes.

One example that has already made a difference is the Payments Account Directive, which makes it easier to switch payment accounts by making the old and the new provider responsible for taking most of the necessary actions on behalf of the consumer. In the context of this Action Plan, the Commission will investigate whether a similar approach could also work for other types of retail financial services and what else could be done to allow consumers to switch more easily to a provider that offers a better deal. This would create a strong consumer financial services sector for all consumers, regardless of whether they are based in their home country or regularly cross borders for work or leisure.

What is the Commission going to do to better protect victims of traffic accidents when an insurer becomes insolvent?

Victims of traffic accidents are currently entitled to compensation for personal injuries or material damage, even when the vehicle that caused the accident is uninsured or involved in hit-and-run events. However, there is no harmonised compensation mechanism in a cross-border situation if an insurer becomes insolvent. The Commission will examine, following a REFIT evaluation of the Motor Insurance Directive, how to best ensure that accident victims will be compensated in case of insurers'

insolvency.

What will you do to ensure that no-claims bonuses in motor insurance will be accepted more easily and widely across borders?

An important element determining the price of car insurance is the so-called no-claims bonus ('bonus-malus'), which reflects consumers' good personal driving records. However, when switching to another insurer, this bonus is not necessarily taken into account in the premium calculation. This happens particularly when the new insurer is situated in another Member State. As part of the review of the Motor Insurance Directive planned for 2017, the European Commission will examine whether the claims history statements in different Member States can be standardised to make their acceptance across Europe easier.

What will the Commission do to enhance transparency in the insurance-related costs of car rentals?

For some time the Commission has been working with the biggest car rental companies to increase the level of transparency on each component of the overall car rental costs. Due to peer pressure, around 65% of EU car rental companies have by now shifted to a more transparent pricing policy. With this Action Plan, the Commission will strive to extend these good practices to the remaining 35% of the market and ensure that these standards are upheld.

For example, some insurers do not flag to consumers the exclusions to the coverage of the insurance. Some consumers choose to buy 'full insurance' or a 'full package' and discover only afterwards, when the car was damaged, that some parts of the vehicle were actually excluded from the insurance. The insurance policy is not always provided to the consumer in advance of the purchase of the additional insurance and the seller at the counter does not always properly explain it. Our goal is for all car rental firms to clearly inform consumers about what is covered in the basic car rental service and in the additional insurance product before the purchase is made. This will be beneficial to all consumers, no matter whether they rent a car in their home country or in another Member State.

Will consumers get access to loans at lower interest rates in other EU countries?

The Consumer Credit Directive established an EU-wide framework for consumer credit and ensured a high level of consumer protection by focusing on transparency and consumer rights. At the time of the adoption, banks were still the main credit providers. Since then, non-bank players have entered the consumer lending markets. Thanks to the internet, more companies are now offering consumer credits on-line, in some cases across borders as well. While alternative lending offers great opportunities, it can also pose risks to consumers and serious regulatory challenges. The Commission will examine whether current rules need to be reviewed or whether further steps are needed to ensure that consumers are being adequately protected while benefitting from a greater variety of loans.

Does the Action Plan seek to improve financial advice?

Financial advice is offered mostly in relation to complex investment products, which fall outside of the scope of this Action Plan. However, an on-going Commission study under the Capital Markets Union initiative looks at distribution systems for retail investment products across the EU and is gathering facts and figures on the current practices. This study will also examine how consumers are being advised, including through digital means and its related risks and benefits.

WHAT DOES THE ACTION PLAN DO FOR PROVIDERS OF FINANCIAL SERVICES?

Will the Action Plan help lenders operate across borders?

Cross-border lending will only work if banks or other lenders are able to assess the creditworthiness of their potential customers situated in other Member States. However credit register practices differ quite substantially across the EU, making it difficult for lenders to assess the creditworthiness of potential customers in other Member States.

To enable firms to exchange such data more easily, the Commission will first seek to introduce common creditworthiness assessment standards and principles for unsecured lending to consumers (similarly to the creditworthiness guidelines for mortgages developed by the European Banking Authority). The Commission will then develop a minimum set of data to be exchanged between credit registers when assessing creditworthiness across borders while taking into account data protection aspects. This work can take the form of a Recommendation or Guidelines to be presented by 2019.

Will the Action Plan tackle barriers that result from differences in national regulatory regimes?

Barriers to cross-border provision of services still exist and unjustified barriers need to be removed. These often stem from national legislation. The diversity of these rules may discourage providers from offering their services across borders. This is not only to the detriment of the providers, but also

disadvantageous to consumers who cannot benefit from better offers.

For example, Member States usually have their own national consumer protection rules in place, in addition to rules required under European legislation. The Commission proposes to work together with the Member States to identify how national rules are holding back cross-border provision of services, while maintaining a high level of consumer protection across the EU.

FINTECH: THE NEW FRONTIER IN FINANCIAL SERVICES

What is FinTech and how can it help improve financial services?

FinTech refers to technology-enabled and technology-supported financial services. Technology has the potential to facilitate access to financial services and to improve the efficiency of the financial system. Investment in new technologies has substantially increased in recent years and the pace of innovation is exponential. We now interact with our bank using mobile technology: an online bank never closes, it is never far away and you can carry it with you. We now make payments, transfer money and make investments using a variety of new technological tools that were not there few years ago. We store data on the 'cloud' and we use virtual currencies.

All these new technologies can benefit both consumers and companies by enabling greater access to financial services, offering wider choice and increasing efficiency of operations. Fast-changing technology can also contribute to bringing down national barriers and spurring competition in areas such as online banking, online payment and transfer services, peer-to-peer lending, online personal investment advice and services and virtual currencies like BitCoin.

The financial sector should take advantage of the most cutting-edge technologies, while remaining financially sound and safe for consumers and investors.

How will FinTech allow consumers and firms to benefit from a more integrated EU market for financial services?

One priority of the Action Plan is to enable firms to engage with customers online, irrespective of where they are. This is a cornerstone of the digital Single Market for retail financial services. A major step to that effect is the recently-adopted [Regulation on electronic identification and trust services](#) (eIDAS) which enables consumers to be recognised via an electronic identification system and use their e-signature and other trust services across the EU Single Market.

Under this Action Plan, the Commission will explore how the banking sector could make use of the eIDAS infrastructure to engage with customers from a distance. This could lead to widespread use of customer electronic identification.

What will the Commission do to ensure that financial products sold on-line are safe for consumers?

Changing consumer behaviour coupled with new business models of financial service providers could lead to new risks related to consumer protection (e.g. financial exclusion, supervision/regulation issues in the market, etc.). This means that current legislation has to be assessed to make sure it is still fit for purpose.

For example, one way to ensure consumers are adequately protected is by providing them with sufficient material to make well-informed choices. For this reason most of the relevant EU legislation requires providers to give certain information to consumers so that they can make an informed choice. However, feedback to the Green Paper, in particular from industry, indicated that current pre-contractual disclosure requirements might not be fit for the digital world and need to be adjusted. In particular, mobile technology could enhance consumer understanding of financial products.

The Commission will carry out a study to monitor how disclosure requirements will be applied by digital providers before suggesting any amendments to legislation. The Commission also invites the industry to present appropriate new solutions that could help consumers gain a better understanding of financial products or services and make informed decisions.

What is the scope and purpose of the consultation on FinTech?

The Commission is launching a targeted consultation to gather feedback on the impact that new technologies are having on financial services. We will assess whether current regulatory and supervisory rules are supporting these developments.

The consultation is structured along four broad policy objectives related to FinTech:

1. Fostering access to financial services for consumers and businesses;
2. Bringing down operating costs and increasing efficiency;
3. Making the Single Market more competitive by lowering barriers to entry;

4. Balancing greater data sharing and transparency, security and privacy needs.

Why is the Commission launching this consultation now?

FinTech has the potential to change for the better the financial industry and the way people access financial services. Technological innovation is already having a significant impact on the market and consumer expectations are growing in parallel. Our goal is to ensure that the EU takes full advantage of these technologies and remains globally competitive, while keeping financial systems safe and secure for firms and consumers.

What are the next steps for the FinTech consultation?

The consultation period is 12 weeks, running until June 15, 2017. Based on this public consultation and the work of the FinTech Task Force, the Commission will present an EU strategy for FinTech, determining which actions are required to support the development of FinTech and a technology-driven Single Market for financial services.

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