

EBA - Request to national
consumer associations in the EU

Consumer Trends Report 2017

28 February 2017

EBA request for the Consumer Trends Report 2017 – identification of Top 3 issues

1. The European Banking Authority (EBA) promotes a transparent, simple and fair internal market for consumer financial products and services. The EBA seeks to foster consumer protection in all EU Member States, by identifying and addressing consumer detriment in the financial services sector. By assessing the retail conduct of financial firms, the EBA also seeks to contribute to the stability, integrity and effectiveness of the financial system.
2. One of the tasks of the European Banking Authority (EBA) is to collect, analyse and report on consumer trends. In carrying out this task, the EBA publishes an annual *Consumer Trends Report*, in which it sets out the trends it sees in the market and the issues that arise, or might arise, for consumers, and which forms the basis of its work priorities for that year.
3. For the next iteration of the Report, to be published in mid-2017, the EBA would like to hear from the national consumer associations in the EU Member States about the topics and issues they are experiencing in their respective jurisdiction. The topics nominated should stay within the remit of the EBA, which includes mortgages, personal loans, deposits (including structured deposits), payment accounts, credit/debit cards, other payment services and electronic money.
4. The national consumer associations in the EU Member States are requested to provide responses to the survey questions set out below and each association is asked to return one form.
5. We would be grateful if you could complete and return the questionnaire to ConsumerTrends@eba.europa.eu **by 27 March 2017, cob.**

Respondent’s identification

Name: Financial Services Consumer Panel

Email: enquiries@fs-cp.org.uk

Survey questions

1.1. Which, if any, of the topics below that fall into the remit of the EBA or that are linked to the EBA’s scope of activity do you consider to be amongst the top-3 issues you are experiencing in your Member State?

- | | |
|--|---|
| <input checked="" type="checkbox"/> Household borrowing (mortgages, personal loans, creditworthiness) | <input type="checkbox"/> Deposits (including structured deposits) |
| <input type="checkbox"/> Traditional payment methods (e.g. credit cards, transfers) | <input type="checkbox"/> Alternative forms of financial services (e.g. crowdfunding) |
| <input type="checkbox"/> Alternative payment methods (e.g. new payment services, channels and solutions) | <input checked="" type="checkbox"/> Selling practices (cross-selling, sales incentives) |
| <input type="checkbox"/> Mobile payments | <input type="checkbox"/> Innovative uses of consumer data |
| <input type="checkbox"/> Payment accounts (e.g. switching, fees) | <input type="checkbox"/> Financial literacy |
| <input type="checkbox"/> E-money (e.g. prepaid cards, e-wallet) | <input checked="" type="checkbox"/> Consumer trust and confidence |
| <input type="checkbox"/> Digital currencies | <input type="checkbox"/> Financial Advice |
| <input type="checkbox"/> Comparison websites | <input type="checkbox"/> Foreign currency loans |
| | <input type="checkbox"/> Other (please specify): |
| | _____ |
| | _____ |
| | _____ |

1.2. Why do you consider these particular topics relevant for the purposes of the EBA’s Consumer Trends Report 2017?

The Panel considers that these topics are of particular importance to the EBA’s overall objective of promoting a transparent, simple and fair internal market for consumer financial products and services.

We believe regulators should be doing more to prevent poor **selling practices**. Preventative regulatory tools might include an interrogation of business models, to identify good and bad conduct within firms; and using intelligence and ‘radar’ to intervene early. In the UK banks are still ‘sweeping up’ after the years of mis-selling of Payment Protection Insurance (PPI) but there is no sense that they have learned from their mistakes.

In the UK, the FCA’s regulatory principles imply that firms only have a duty to comply with the FCA’s rules. The FCA has to define poor conduct and make rules about it. So firms’ unfair treatment of consumers continues to be widespread and takes many forms. This undermines **consumer trust and confidence**.

In November 2016, the Bank of England issued a warning about the high level of **household borrowing** in UK households. Consumers are borrowing more on their credit

cards and other unsecured debt. In November 2016, overall unsecured debt was rising at its fastest rate for 11 years. The Bank of England’s Stability Report found the overall ratio of household debt to income was 133% in Q2 of 2016, which is high by historic standards. This is therefore clearly an issue of much concern in the UK.

1.3. What evidence of risk, or materialised risk, related to the topics indicated in Question 1.1 are you aware of? Please provide references to as any source material you are aware.

i) Household borrowing:

Overdrafts and credit cards

Most over-indebtedness in the UK arises from the use of overdrafts and credit cards. According to StepChange Debt Charity, credit card debt is the single biggest cause of problem debt in the UK, with two thirds of their clients having at least one card, and average debt of over £8,000. Last year, 14 million people in the UK suffered a shock to their income or a change in circumstances and 4.5m of them used credit to cope¹.

Big data and credit

Some UK firms have begun to use consumers’ transaction data to build credit score-cards, including ‘data scraping’, eg from social media. It is not clear whether the claimed benefits of this approach outweigh the potential risks to the consumer. For example, there is no accepted methodology for impartial assessment of data derived from social media. It is therefore important to monitor this development carefully so that vulnerable people are not exploited.

ii) Consumer trust and confidence:

A recent review of the UK banking sector by the Banking Standards Board, a body set-up two year ago to help the sector regain the trust of the public after a string of scandals, found that one in eight bank employees believe it to be difficult to progress in their careers without “flexing ethical standards”. The report also found that only a quarter of bank employees ‘strongly agreed’ there was no conflict between their organisation’s values and how it did business². UK banks will not change culture voluntarily as they know customers don’t switch to better-behaved banks, or shun the unethical. Regulatory action, at the national and EU level is essential to ensure that banks treat their customers fairly, and help restore consumer confidence in the sector.

A paper published by the FCA’s Practitioner Panel³ found that attempts to win new business generate poor practices . These include overselling, too much choice, product

¹ StepChange Debt Charity response to the FCA’s Credit Card Market Study: <https://www.stepchange.org/Mediacentre/Pressreleases/ResponsetoFCACreditCardMarketStudy.aspx>

² Banking Standards Board, 2016/2017 Annual Review: <http://www.bankingstandardsboard.org.uk/annual-review-2016-2017/>

³ FCA Practitioner Panel. Consumer Responsibility: identifying and closing the gaps: https://www.fca-pp.org.uk/sites/default/files/fca_practitioner_panel_consumer_responsibility_report_september_2013.pdf

complexity, too much information, incomprehensible terms and conditions, the penalising of loyalty/inertia and the need for consumer to haggle in some markets in order to get the best possible deal. Industry has a responsibility to ensure that communications about its products and services are clear and comprehensible; otherwise consumer trust and confidence are further eroded. If the industry will not communicate in a way that consumers understand, then the regulator needs to step in.

iii) **Selling practices:**

Cross-selling and mis-selling

Mis-selling of financial services and products takes many forms and can cause serious harm to consumers.

The current business model prevalent in UK retail banking – cross-selling on the back of a “free” current account – leads to opaque cross-subsidies that prevent consumers from fully understanding how much they are paying for their account. The Panel published a study⁴ on the effect of cross subsidies on different groups of consumers, in order to open up a debate about whether the current model serves all consumers well.

In the UK, Payment Protection Insurance mis-selling has become the biggest scandal to hit the banks . Over 12 million consumers were mis-sold payment protection insurance (PPI), and firms have paid over £22 billion in compensation to them since April 2011⁵.

Digital Comparison Tools and Price Comparison Websites

Price comparison websites (PCWs) should in theory increase competition and allow consumers to make better choices. However, PCWs and other digital comparison tools (DCTs) lack transparency. Consumers cannot see the basis for rankings, which may be ‘paid for’ rather than impartial. In a 2014 thematic review on PCWs in the general insurance sector, the FCA found that PCWs encourage consumers to focus on headline price and brand, distracting from crucial product features such as policy coverage and terms, and resulting in choices that were not appropriate for consumers’ needs. The same review also found evidence of ‘up-selling’ with consumers offered extras that they had not asked for. . It should be possible for DCTs to produce useful non-price search criteria, without overwhelming consumers with information. For DCTs to work properly for consumers, they need to be truly independent with no commercial relationships, and it should be possible to compare products, including key features other than price, on a single page.

⁴ Financial Services Consumer Panel, Cross-subsidisation in the Personal Account Current Market: https://www.fs-cp.org.uk/sites/default/files/discussion_paper_cross_subsidies_in_the_pca_market_20140911_1.pdf

⁵ Treasury Select Committee, Financial Services Mis-Selling and Redress: <https://www.publications.parliament.uk/pa/cm201516/cmselect/cmpubacc/847/847.pdf>

1.4. Why should the EBA be interested in the particular topics indicated in Question 1.1? In other words, which of the EBA's objectives and tasks do you see as being at risk as a result of the trend? Please tick as appropriate.

EBA objectives & tasks Topics indicated in 1.1	Consumer protection	Stability, integrity and effectiveness of the financial system	Other (please specify)
Household borrowing	X	X	
Traditional payment methods			
Alternative payment methods			
Mobile payments			
Payment accounts			
E-money			
Digital currencies			
Comparison websites			
Deposits			
Alternative forms of financial services			
Selling practices	X	x	
Innovative uses of consumer data			
Financial literacy			
Consumer trust and confidence	X	X	
Financial Advice			
Foreign currency loans			
Other: _____			
Other: _____			
Other: _____			

1.5. For each of the topics indicated in Question 1.1, please provide details on how it gives rise to the risk(s) you ticked.

- i) **Household borrowing:** according to figures from the UK's Office for National Statistics, the average household in the UK now owes a record amount of £12,887, even before mortgages are taken into account.⁶ If the economy underperforms in 2017 and beyond, this borrowing could become more difficult to repay - and some households risk being exposed to sudden changes in financial circumstances. Unsustainable household debt would not only have clear implications for consumer protection but also for the stability and integrity of the financial system as a whole.

- ii) **Selling practices:** inappropriate remuneration structures, of which commission payments are a prime example, have been the main drivers behind a succession of mis-selling scandals that have caused significant consumer detriment and cost the industry billions of pounds. The Payment Protection Insurance scandal is a clear example of how certain selling practices can negatively impact consumer protection and have a wider impact on the industry. This also has an impact on financial stability given the amounts that banks have had to put aside to pay compensation.

- iii) **Consumer trust and confidence:** the lack of trust in the industry and confidence in the financial services industry means that consumers do not benefit from it as they should. Consumers should be able to access vital products and services they need in order to participate fully in society and protect themselves in the short, medium and long term. A diminished engagement also leads to a less competitive and ultimately less stable and effective financial system, which has a negative impact on the economy as a whole. Empowering consumers to make financial decisions will only be possible if service providers regain the trust of consumers and place consumer interest at the heart of their business model. Ensuring clearer communication would go some way towards increasing trust.

1.6. Any additional information you would like to convey?

⁶ <http://www.bbc.co.uk/news/business-38534238>