

Green Paper on retail financial services in the Single Market

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The Committee on Economic and Monetary Affairs adopted the own initiative report by Othmar **KARAS** (EPP-ED, AT), welcoming the Green Paper on Retail Financial Services in the Single Market.

The report notes that not only private customers but also SMEs are less inclined to take up cross-border financial services and underlines the need to ensure that the advantages of the financial single market also benefit SMEs. It considers that, especially on the demand side, the provision of financial services to private customers and SMEs is, to a large extent, a local business, due to linguistic and cultural factors and the preference for personal contact.

MEPs emphasise that a single market in financial services for consumers can be created only by measures that provide a secure environment both for the demand and the supply side, including as regards the conditions for redress. They consider it crucial that such measures should take a form which would open the way for new products, services and market actors.

Better regulation: MEPs support the Commission in its aim only to pursue initiatives that demonstrably offer citizens tangible benefits, are soundly justified by thorough cost-benefit analysis, and have been subject to proper impact studies. A proper impact study must always include a component correctly ascertaining the original market conditions and take account not only of the price and range of choice on offer but also of the quality of services and the social and cultural context.

The report notes that, of the legislative approaches currently available, targeted full harmonisation, which implies full harmonisation of key elements deemed essential, is the appropriate approach for the development of cross-border business and consumer protection, and thus the integration of the retail market. For those elements where harmonisation is not feasible, mutual recognition regarding different national rules should apply.

MEPs are critical regarding the idea of standardisation of products by means of legislation, if this undermines the aim of greater product diversity. They consider that, to improve comparability of competing financial products, legal harmonisation, for example of information or prudential requirements, is the way forward. In these specific cases, self-regulation should be encouraged and its implementation thoroughly monitored.

More choice and lower prices for consumers and SMEs: the report stresses that, for the creation of a single market in financial services for private clients and SMEs, the establishment of Europe-wide competition and cross-border provision of financial services are among basic preconditions. MEPs remind the Commission that effective competition between financial service providers is secured by having a large number of market participants competing. In this context, the pluralistic structure of the European banking market, where financial institutions could take on diverse legal forms in accordance with their diverse business aims, is an asset to the European social market economy, to the consumer and to the financial markets' stability.

Noting that real and fair competition can arise only on a level playing field, MEPs conclude that any legislation must follow the principle of 'same risks, same rules'. The report points out, however, that in the financial services sector product design is particularly influenced by the regulatory environment and an undifferentiated 'one size fits all' approach would adversely affect product diversity. It therefore

stresses the importance of differentiating according to the type of product. MEPs are convinced, however, that comparable transparency and disclosure requirements for competing investment products, especially at the point of sale, are needed.

Practical measures supporting the supply side are accordingly proposed in this report:

- the Commission is called upon to present proposals to streamline regulatory requirements with respect to the distribution and organisation of comparable retail products and information thereon (these proposals should be based upon the principles set out in Directive 2004/39/EC on markets in financial instruments (the 'MiFid directive');
- taking into consideration the development of Internet services, the Commission and the Member States are called upon to further promote e-commerce and the electronic signature, and to investigate the money-laundering directive to ascertain whether it is hindering the remote provision of services and how this situation might be remedied;
- recognising the great importance of financial service intermediaries, i.e. agents and brokers alike, MEPs call on the Commission to ensure a framework that will strengthen this industrial sector;
- Member States are called upon to take and coordinate measures to raise financial literacy among citizens – including children, young, employees and retirees – with a view to empowering and educating consumers to seek better, cheaper and more appropriate products and services;
- credit institutions and credit data agencies must have non-discriminatory cross-border access to credit data and fraud-data registers. The report emphasises that optimal protection of the consumer's data must be guaranteed, as well as the customer's right to inspect and, if necessary, correct their personal data.
- the Commission should clarify the legal status and supervisory framework of non-banking consumer credit providers such as those that are only Web- and/or SMS- based;
- lastly, MEPs recall that differences in tax law constitute one of the greatest obstacles to the single market in finance. They note that abolishing the requirement of appointing a fiscal representative when taking up activities in another Member State is possible only when the legal framework defining supervisory competences and responsibilities of cross-border operations is in place.

Enhancing consumer confidence and empowering consumers: the report emphasises that consumers need confidence and proper knowledge to make the right choice of financial product. Coordinated efforts at national and European level are therefore needed to improve levels of financial literacy in all Member States. Furthermore, the simplification of financial service regulations and the dismantling of barriers to customer mobility should not lead to lower standards of consumer protection in the Member States.

MEPs agree that consumers who wish to change financial service provider must be free to do so at any time, with the minimum legal barriers and costs involved. They support finding a coherent solution at European level which provides consumers with access to balanced new forms of collective redress for the settlement of cross-border complaints related to retail financial products. Lastly, they stress the need to ensure access to financial services for all interested parties.