Green paper on retail financial services

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PURPOSE: to launch a debate at EU and national level on how to ensure a further opening of the European market in retail financial services.

CONTENT: retail finance provides a number of services that are essential for citizens: current accounts, pensions and savings, mortgages and financing other purchases, personal insurance against health problems or accidents and property insurance.

But Europe-wide markets in retail financial services do not really exist at present. Only a small minority of retail financial service purchases take place across borders. There are many good products that exist in domestic markets, but it is difficult for consumers in one EU Member State to buy products provided in another. Furthermore, prices vary widely across the EU: for example, motor insurance for ordinary citizens.

The Commission considers that **digitalisation** could help bring down prices and improve the comparability of products, empowering consumers in their financial choices. In the long run, digitalisation should allow firms to make their products available anywhere in the Union, bringing a single European market closer to reality.

Building confidence, will, however, be crucial to the expansion of the single market in this area: confidence among companies that they can do business across borders and trust among consumers that if they use a service across borders their interests will be protected.

The Commission's goal is to maximise the practical benefits of a single market in retail financial services for as many European consumers as possible by **opening up the market**, so that they have a bigger and better choice of financial products.

The Green Paper complements other key pieces of Commission work:

- the Digital Single Market, which intends to ensure better access for consumers and businesses to online goods and services across Europe by tackling the problem of unjustified 'geo-blocking' (supplier-imposed restrictions on purchases);
- the Capital Markets Union (CMU), which aims to offer businesses more choices of funding at different stages of their development and to provide more options and better returns for savers and retail investors;
- the Single Market Strategy, which consists of targeted actions in three key areas: (i) creating opportunities for consumers, professionals and businesses, (ii) encouraging modernisation and innovation and (iii) ensuring practical delivery that benefits consumers and businesses in their daily lives.

Retail financial services are also subject to a wide variety of requirements and regulations at EU and national levels with the aim of protecting consumers and encouraging an internal EU market for these services.

CONTENT : the Green Paper is an opportunity **to make proposals on how the European market for retail financial services** – namely insurance, loans, payments, current and savings accounts and other retail investments – **might be further opened up**, bringing better results for consumers and firms, whilst maintaining an adequate level of consumer and investor protection. It seeks to identify the specific barriers

that consumers and firms face in making full use of the single market and ways in which those barriers could be overcome, including by making **best use of new technology**, subject to appropriate safeguards.

The goal is to make it easier:

- **for companies** based in one EU Member State to offer retail financial services in other EU Member States;
- **for consumers** to be able to buy retail financial services offered in other EU Member States; and
- **for citizens** to take their financial service products with them if they move from one Member State to another, whether to study, work or retire –"portability".

The Green Paper therefore explores:

- the current state of the Single Market for retail financial services, and the recent trend of digitalization;
- the need for action at the EU or national level to overcome the barriers which currently stop consumers and firms from going cross-border.

Obstacles to cross-border activity in the market for retail financial services: the Commission states that the obstacles originate from two main groups of root causes affecting both suppliers and consumers, which act together to keep the European market fragmented:

- **consumers do not know about or do not have enough confidence in offers** from other Member States and if they do, they have trouble accessing them;
- **suppliers do not offer products to consumers in other Member States** because fragmented markets create excessive operational and compliance costs.

The Commission is particularly interested in whether the **use of innovative digital technology** can assist in solving any of these obstacles.

Helping consumers to buy financial products cross-border: whether purchasing life insurance, using a mortgage to buy a home, moving abroad or saving money for the future, consumers should be able to (i) know what is available elsewhere in the EU, (ii) get competitively-priced products suited to their needs, and iii) be confident that their products are safe and suitable and will act in the way they intend.

Customers should be better informed of the different financial services and insurance products available in the EU. It is also necessary to determine whether new measures are needed to:

- improve the comparability of products and/or facilitate switching of retail financial services providers;
- tackle complex and prohibitively high fees for foreign transactions;
- prohibit unjustified discrimination on grounds of residence in the retail financial services sector, including insurance;
- facilitate the portability of retail financial products – for example, life insurance and private health insurance – or facilitate access to and recognition of professional indemnity insurance cross-border;
- improve the transparency and comparability of financial products (particularly by means of digital solutions) to strengthen consumer trust;
- increase possibilities of compensation or remedies in the retail financial services sector in the case of cross-border purchases;
- ensure that victims of car accidents are covered by guarantee funds from other Member States in case the insurance company becomes insolvent;
- increase transparency and comparability of ancillary insurance.

Creating new market opportunities for suppliers: the Green Paper also focuses on how the Commission could help to reduce the costs and risks inherent in providing financial services cross-border, making this possible for firms and increasing competition and consumer choice across the EU. It is necessary to determine if new measures are needed to:

- support firms in creating and providing innovative digital financial services across Europe, with appropriate levels of security and consumer protection;
- enable electronic signature and verification of identity;
- improve access to and usability of financial data for credit-worthiness assessments;
- facilitate the provision of after-sales services in another Member State, without a subsidiary or branch office;
- encourage lenders to provide mortgage or loans cross border;
- make practical assistance available from Member State governments or national competent authorities (e.g. through 'one-stop-shops') in order to facilitate cross-border sales of financial services, particularly for innovative firms or products.

Next steps: interested parties are invited to send their answers to the questions in the Green Paper by 18 March 2016 through the online questionnaire.

The Commission will organise a conference in early 2016 to examine the evidence yielded by the consultation and discuss priority areas mentioned in the Green paper. It envisages publishing an action plan on retail financial services to follow up the consultation around summer 2016.