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ECRI NEWS

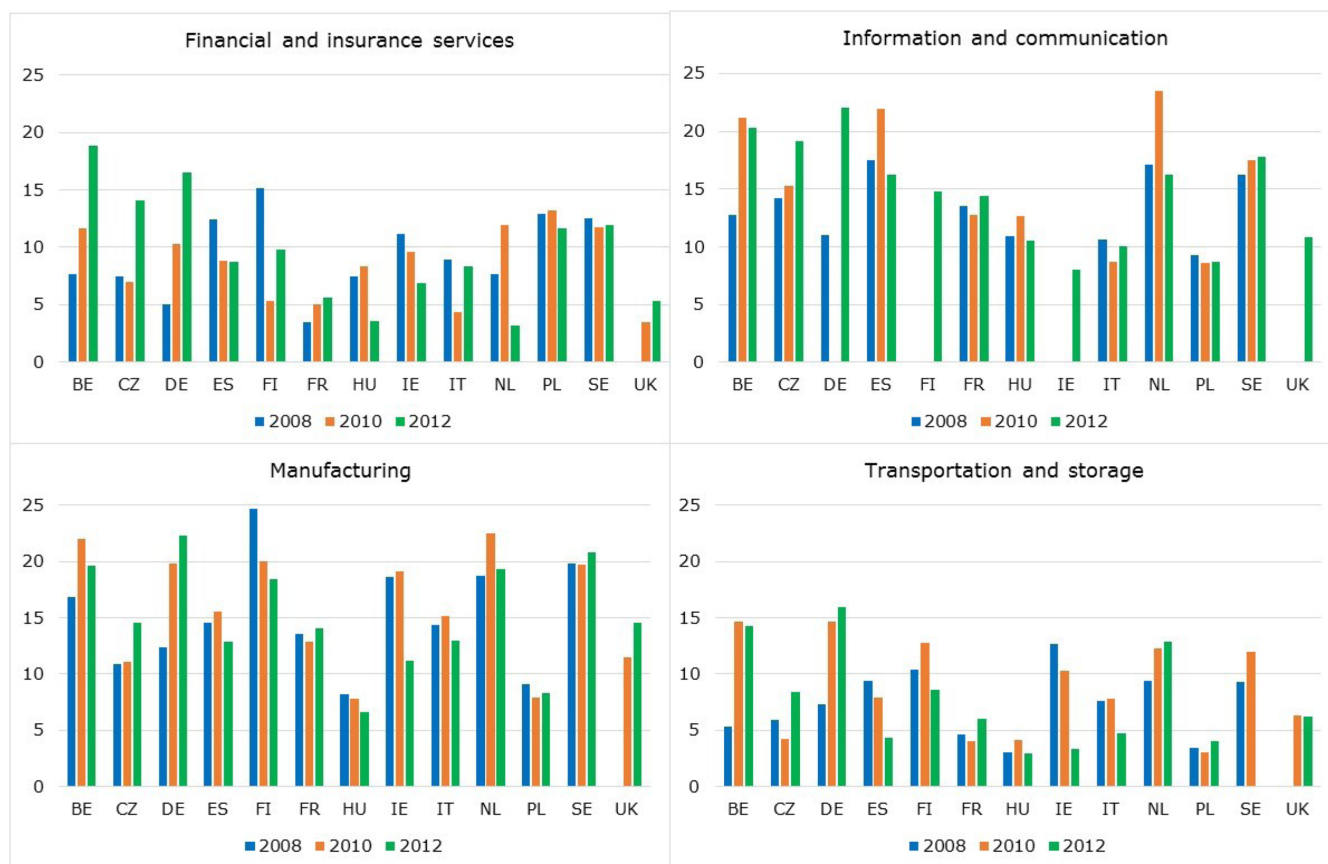
Understanding Credit Markets for Europe

REPORT ON THE CONFERENCE "CONSUMER PROTECTION IN FINANCIAL SERVICES, THE CHALLENGES OF INNOVATION AND CAPITAL MARKETS UNION" (12 MAY 2015)

By Sylvain Boyon, Research Fellow at CEPS

In our modern economies, growth in existing sectors depends primarily on the ability to innovate in both products and processes (see Figure 1), notably by integrating the latest technological developments. Although it does not typically convey an innovative image to the general public (please see article of Anne-Laure Mention, p. 5) the financial industry is no exception. Innovation in financial services can take two main forms: i) new financial products can be developed mainly to respond to new needs for customers; and ii) on the other hand, innovation processes can shape new business models, with innovative distribution channels or/and new forms of funding for these financial services. The innovative process can aim at improving existing services and models or it can be based on a 'greenfield strategy' by creating 'everything from scratch'. In either cases, whether 'improvement' or 'pure creation', the process is encouraged not only for the purpose of boosting growth but also in the name of the European sacrosanctity of 'diversity': diversity of financial services and diversity of business models, in order to better serve customers and raise their welfare.

Figure 1. Share of product and/or process innovative enterprises (%)



Source: Eurostat, Community innovation surveys (2008, 2010 and 2012)

Note: Product and/or process innovative enterprises include enterprises with abandoned/suspended or on-going innovation activities

The data published by Eurostat in its community innovation surveys (2008, 2010 and 2012) reveal a significant share of product and/or process innovative enterprises in the sector of financial and insurance services across the EU-28. These shares at domestic level are broadly in line with that of the transportation/storage sector but significantly below the manufacturing and information/communication sectors.

Nevertheless, if innovation in financial services and its related business models is a priori a source of welfare for practitioners (via growth) and customers (through the concept of diversity), it might also trigger new types of risk or raise existing risks, thereby requiring a specific regulatory framework. For example, new financial services include this part of unknown, which could be in the end detrimental to the customers who discover these products for the first time. Totally new business models operate in a new context and the absence of previous experiences is likely to make strategic choices more complicated, resulting in further risks.

Against that background, the regulatory strategy will depend on the level of risks which is judged as 'acceptable' or 'necessary' for a robust and healthy growth in the sector and, indirectly, in the whole economy. Depending on the gap between the acceptable level and the actual level of risk observed or anticipated in the sector, the regulator will intervene or not. The main difficulty for the regulator most likely resides in the assessment of the actual risk, as the new nature of these services and models generally imply poor historical/current data and little knowledge on the overall dynamics at stake.

In that context, ECRI organised its 2015 Annual Conference on Consumer Protection in Financial Services: The Challenges of Innovation and Capital Markets Union. The driving force behind this event was to define a balance between innovation, growth and appropriate regulatory intervention, especially for the case of consumer/investor protection.

The first session shed light on the interactions between innovation, competition and consumer protection for the new business models, with a strong focus on crowdfunding platforms. This panel kicked-off with David Geale's introduction on the key role of innovation for the economy and the support that innovation might have for regulatory purposes. In the meantime, Mr Geale emphasised the need to protect consumers.

Anne-Laure Mention placed some focus on the ambiguity of innovation in financial services, as rapid financial innovations are often perceived as a source of crisis. Nevertheless, this innovation process is essential for financial services in order to develop sound financial systems, thereby contributing to the well-being of the whole economy (see Article p. 5). One of those innovations, crowdfunding, has greatly benefitted from the technological development of the internet and still raises some key questions in relation to the most appropriate regulatory framework, the role it can play in the funding of the economy, etc. Laurent Degabriel emphasised that while innovation in finance has contributed to economic growth and brought significant benefits to investors and consumers, some financial innovations may undermine financial stability, market integrity and investor confidence. Therefore, regulators should continuously adopt a balanced approach, both protective and supportive to the topic of financial innovation. More specifically, Mr Degabriel highlighted that regulators should ensure a greater adherence of crowdfunding platforms to financial regulation, should clamp down against rogue crowdfunding firms and should standardise the rules to which companies must adhere. These developments should be based on cooperation between ESMA (for equity platforms) and EBA (for lending platforms).

J.B. McCarthy quoted President Obama, who considered the legalisation of equity crowdfunding platforms as a potential game-changer for start-ups and small businesses (see Article p. 6). Mr McCarthy highlighted that, in Europe, the regulation of this type of new entrants remains highly fragmented and dependent on the domestic approaches, varying from 'wait and see' to 'proactive' approaches. According to Mr McCarthy, better authorisation processes and new types of prudential supervision are necessary. Karen Kerrigan placed emphasis on the rules implemented by the Financial Conduct Authority in order to regulate equity crowdfunding platforms, especially on the obligation of potential investors to have sufficient understanding of the risks of this type of investment. According to Ms Kerrigan, these rules are beneficial for crowdfunders; nevertheless, providers should also ensure that these risks are mitigated as much as possible (Ms Kerrigan gave the example of the providence of pre-emption rights by Seedrs, in order to alleviate the risk of dilution for investors, see Article p. 6). Finally, Pärtel Tomberg highlighted that the unbundling of universal banks has similar benefits to the unbundling of electricity generation, transmission and distribution. However, according to Mr Tomberg, while unbundling of vertically integrated utilities was enforced directly by the regulators, unbundling of banking is enforced by the technological innovation. Nevertheless, proper regulation can help this change occur faster (see Article p. 7).

The objective of the second panel was to discuss the application of behavioural insights to consumer protection policies. Typical issues addressed by this panel were: How to define behavioural economics (assumptions, methodologies, etc.)? How can its findings be applied to policy-making (what are the advantages, limits and risks)? And what are the concrete experiences of policies and regulations based on behavioural insights? The panel has been summarised by the moderator Wijnand Van de Beek on page 8.

The afternoon session kicked off with two presentations on the recently published report of the ECRI Task Force on Household Credit. Eric Delannoy emphasised the marked contraction of the outstanding amount of consumer loans since 2008, resulting from a combination of the loss of household confidence in banks and the economy, banking fragilities and a major wave of new banking regulations (notably to cope with the recently identified systemic risks). According to Mr Delannoy, the regulatory responses to these challenges contain significant flaws: firstly, the setup of new regulations did not include incentives to consider the ecological dimension of

consumer credit; secondly, the new banking regulation tends to promote above all the US financing model. In order to improve the regulatory framework, Mr Delannoy believes that it is essential to accompany emerging economic growth recovery by taking advantage of technological breakthrough, simplifying as much as possible the rules and taking social developments into account. He concluded that the supervision of a network of independent and local agencies of social and environmental ratings could help improve the efficiency of the rules.

Sylvain Bouyon added that the sustainability of the recovery will depend not only on the quality of the funding of SMEs' investments, but also on the quality of the funding of household consumption and investment. Nevertheless, in order to avoid past mistakes, regulators should continue to develop a framework where household loans can contribute to the economy in a balanced way. To achieve this, five main issues need to be addressed further:

- Greater harmonisation in statistical methodologies to support the policy process
- Refinement of macroeconomic models used to boost loans, in both a quantitative and qualitative way
- Innovative policy tools to deal with persistent and new market dysfunctions for household credit (especially in the areas of information disclosure requirements and responsible lending practices)
- Better understanding of the integration process of household credit
- Accompanying the financial sector throughout its digital transition process

The third panel addressed the following issues: What is the impact of big data on the design of financial services? How to find a proper balance between well-tailored financial services, healthy competition andefficient data protection for privacy and security purposes? How will the reinforcement of personal data protection at European level impact this balance? For this purpose, Monika Kuschewsky gave examples of the different financial services that rely heavily on the processing of individuals' personal data (see Article p. 11). In her own words, digitisation, globalisation and big data do not spare the financial services industry and come with significant challenges in the area of data protection.

Christian D'Cunha focused on the 'privacy risk' resulting from the use of big data in financial services and the overlap between consumer protection and the enforcement of data protection. Mr D'Cunha emphasised that data protection is relevant for financial services regulation, especially as the large-scale regulatory agenda that has been implemented in the banking sector since the onset of the financial crisis in 2008 largely concerns the actions of legal persons, with insufficient attention paid to the regulatory framework for the processing of personal information (data relating directly or indirectly to identifiable natural persons).

It is therefore imperative to integrate high standards of data protection into all new pieces of legislation. Furthermore, data protection and privacy should be considered as distinct rights, in both their nature and operation, and therefore require separate analysis and application.

Michael Donohue introduced the 'Principle 8' of the G20 High-Level Principles on Financial Consumer Protection, whose purpose is to protect consumer data and privacy. According to Mr Donohue, mechanisms aimed at protecting consumers' financial and personal information should define the purposes for which the data may be collected, processed, held, used and disclosed, and should acknowledge the different rights of consumers, especially in terms of access to data and the information on the use of their data.

Frank Bröker placed the focus on the role of credit bureaus and data protection in Europe (see Article p. 11). Firstly, he highlighted the relevance of data in the lending process, as the use of appropriate data typically increases customer satisfaction and the efficiency of production, and helps reduce default rates. In the current environment, there are many types of bodies in Europe providing positive and/or negative data: banks, leasing, credit card suppliers, debt collectors, enforcement divisions, telecoms, brokers, internet providers, etc. In addition, the domestic systems aimed at collecting credit information data differ markedly across the 28 EU member states, in the kinds of data stored on the consumer (court judgments, income, other credit file enquiries from lenders and others, etc.) and in the practices of consumer groups in terms of data. To conclude, Mr Bröker showed that the use of positive data tends to reduce default rates.

Finally, each year, one specific type of financial service is singled out for in-depth coverage. This year's conference focused on payments, the latest regulatory trends in payments and the fast process of their digitisation, as well as the related implications for consumers, payment providers and regulators. When he first took the floor, Erik Nooteboom discussed the latest developments on the revision of the Payment Services Directive (PSD2). He introduced the main objectives of the PSD2, including modernising the current legal framework in line with technical and market developments and promoting innovative developments and competition. The main means of achieving these objectives were to expand the scope, to include new players (such as third-party payment service providers, TPPs), to enhance security requirements for electronic payments and consumer protection, to clarify passporting rule and to improve consumer redress and complaint procedures. Then, Mr Nooteboom highlighted the progress made in the trilogue process, noting the political agreement achieved on 5 May 2015, and emphasised that the European Parliament is expected to vote in July 2015, followed by an expected entry into force in September 2015 and a transposition by member states by September 2017.

Finally, Mr Nooteboom presented the main political topics agreed in trilogue in relation to TPPs, security aspects, negative scope, supervision and competent authorities, refund right and charges. Among them,

it was agreed that TPPs provide added value for merchants and consumers in the context of e-commerce, but that certain concepts raise security, data protection and liability concerns. In addition, the expansion of the regulatory framework of PSD2 aimed at providing a global 'pro-competitive' level playing field for all payment services providers. Regarding security aspects, strong customer authentication was required for payments transactions and the duty on payment services users to protect their personalised security credentials was emphasised.

Dirk Haubrich opened the final panel of the day by introducing the main elements of digitisation in payments. Then, Mr Bolt presented the theoretical framework of what is a payment and emphasised that academic research typically shows that the 'two-sidedness' of the related market has important implications for payment pricing, competition and innovation, and also regulation (see Article p. 12). According to Mr Bolt, electronic payments provide significant economic benefits but are typically expensive for merchants. In that context, Mr Bolt questions the ability of innovative digital payments to bring some relief for the merchant. Finally, in Mr Bolt's view, the main objective of regulation should be to enhance the removal of barriers of entry in payment markets and the ban of merchant restrictions.

Olivier Denecker introduced the latest analyses of McKinsey regarding the digitisation of the payments industry. He believed that payments have become the epicentre of Fintech innovation and have followed the same patterns in technology-driven digital disruption such as in the music, film, travel and software industries. Then Mr Denecker questioned the McKinsey research that suggests that the market is entering the early adopter phase regarding digital payments and might reach 25% of total point-of-sales transactions 10 years after its launch. Finally, in terms of strategy, Mr Denecker highlighted that successful payment innovation rely on different markers, such as 'value step change' (deliver significantly more customer value than the market alternatives), 'beyond cost' (build value propositions that go beyond cost reduction) or 'established infrastructure' (leverage established infrastructure).

Jonathan Vaux placed some emphasis on the interactions between digital innovations in payments and the development of devices (see Article p. 13). He showed that consumers will buy, access and use consumer products or services over different devices through their single operating system. As such, digital wallets will need to adapt to this new complex environment of multiple devices and applications. The key element will become registration and maintenance of cards, rather than payment (entering card detail, updating them, etc.), especially as card vaults become more prevalent, thereby raising the complexity of identification. Against that background, it is necessary for banks to ensure the convergence point for consumers to track, manage and control their finances.

Finally, Nilixa Devlukia gave an overview of the innovation process in payments and questioned the definition of digitisation. She also discussed the potential benefits and pitfalls in relation to digital payments: on the one hand, digital payment should favour the ease of use, inclusion, speed, access and tailored services; in the meantime, however, there might be rising risks of security, further complexity, poor consumer protection and understanding. In the end, Mrs Devlukia highlighted that it is imperative to find an appropriate balance between innovation and protection.

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ECRI ANNUAL CONFERENCE
12 MAY 2015

Consumer Protection in Financial Services - The Challenges of Innovation and Capital Markets Union

While the discussions on the set-up of a Capital Markets Union have increased in intensity, the 2015 budget of European Supervisory Authorities, whose main goal is to contribute to the gradual creation of a safe and dynamic European market for financial services, has been cut significantly. In essence, these budgetary decisions re-launch the debate on the sharing of tasks between European and domestic supervisory authorities and call into question what type of financial services market is wanted for the European Union: its level of integration, the dynamism of its innovations and the appropriateness of its rules for consumer and investor protection. Against that background, ECRI and CEPS jointly organised their first Annual Conference on Consumer/Investor Protection and Innovation in EU Financial Services on 12 May 2015 in Brussels. The objective was to provide a platform for an exchange of good practices across the various supervisors and providers of financial services and to contribute to higher regulatory consistency across the different segments of financial services.

As such, the scope was relatively wide and intended to include retail financial services (credit, savings and payment), as well as investments and insurance. The programme featured key stakeholders in the financial services sector and high-level speakers from the European institutions, national authorities, the financial industry and academia. This inaugural annual conference explored the risk of market dysfunctions triggered by growing innovation in banking business models. Innovation was also debated with respect to the policy design process, especially by considering the role that the increasingly popular behavioural economics can play in the refinement of the enacted rules and the overall supervision of financial services. A third panel addressed the growing possibilities offered by the processes of personal data collection in the design of better-tailored financial products to meet consumer/investor needs and the risk that these processes may infringe on consumers' right to privacy.

Finally, each year, one specific type of financial services will be singled out for in-depth coverage. This year's conference focused on payments and the fast process of their digitalisation and its implications for consumers, payment providers and regulators. The conference was also an occasion to launch a new ECRI Task Force Report on household financing in the post-crisis period.

Special articles series: ECRI Annual Conference 2015

SHAPING TOMORROW'S FINANCIAL SERVICES INDUSTRY: THE ROLE OF INNOVATION IN THE EMERGENCE OF NEW ECOSYSTEMS

By Anne-Laure Mention, Head of Research Unit, Public Research Centre Henri Tudor

The financial services industry does not typically convey an innovative image to the general public. Furthermore, innovation in the industry is sometimes perceived negatively, and the last few years have emphasised the dark side of innovation in the sector, as discussed in the recently published book Innovation in Financial Services: A Dual Ambiguity, edited by Anne-Laure Mention and Marko Torkkeli. However, financial services account for large share of employment in many countries and aside from their own significance, they are also critical for the overall economy. Recent events also demonstrate the importance of having a sound financial system, which is a prerequisite for the well-being of the whole economy. Indeed, since financial services offer products and services to other businesses, its proper functioning is essential for the running of the entire economy. In this industry, as in all others, innovation, when properly designed, sustainably managed and correctly implemented, can be an acknowledged driver of growth and competitiveness.

Nowadays, innovation in the financial services is more multifaceted and multipolar than ever. The overall industry is changing fast, due to the convergence with other industries, either complementing or supplementing it, such as the information and telecommunications industry.

Crowdfunding is one of those innovations, both in terms of processes (another way to collect money) and in terms of services (providing another way to access funding), which has drastically grown concomitantly with the explosion of Internet accessibility and use. It now allows enormous volumes of transactions and plays a multifaceted role, engaging a wide variety of stakeholders in quest of monetary returns, social recognition or aiming to make a societal or local impact. As the overall FinTech arena is developing, and crowdfunding is part of the numerous illustrations of the FinTech revolution, many questions arise regarding the regulatory needs, the framework conditions for crowdfunding to operate, as well as its role in supporting the funding of novelties. Should crowdfunding act as a substitute or a complement to early stage funding, business angel support or venture capital back-up? To what extent can crowdfunding shape the financial industry in the next decade? These

questions, as well as many others will be debated at the 2015 Innovation for Financial Services Conference in Singapore, 15-16 October 2015, at Singapore Management University. More information on this event can be found on 2015.innofin.org.

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CROWDFUNDING MODELS – ENSURING FUTURE GROWTH REQUIRES FURTHER REGULATION AND EDUCATION

By JB McCarthy, Development Director at Financial Services Innovation Centre, University College Cork

Crowdfunding has emerged as a novel way for entrepreneurial ventures to secure funds without having to seek out venture capital or other traditional sources of investment. The earliest iterations of crowdfunding were focused on internet community-based projects that had either a chaity or collective project goal. The community-based ethos behind these types of crowdfunding initiatives is an important factor in helping to regulate what gets funded or not. Videos and other social media initiatives help those projects with a social or community goal or cause to rally their members in support of the initiative. These earlier types of crowdfunding have now been supplemented by commercial lending and equity investment models.

The multitude of crowdfunding web sites and approaches has led to some confusion in interpreting the terms and how best to select and leverage the appropriate solution. These various models of crowdfunding can be explained by grouping them into the following four primary types and illustrating the different models with reference to examples (see the table below).

- Collective lending investment: peer-to-peer investing in return for financial repayment in the future at some agreed upon rate of interest
- Collective equity investment: peer-to-peer investing in return for equity/future income
- Collective patronage: peer-to-peer investment in return for some benefits from a product or service to be developed (acknowledgement, free product, early access, etc.)
- Collective charity: peer-to-peer investment in support of some project without expectation of meaningful returns to the investor

Primary types of crowdfunding

Lending	Equity Investment
www.lendingclub.com	www.fundedbyme.com
www.zopa.com	www.microventures.com
www.prosper.com	www.crowdcube.com
www.smava.de	www.earlyshares.com
www.ppdai.com	www.aswarmofangels.com
Patronage	**Charity**
www.kickstarter.com	www.fundrazr.com
www.indiegogo.com	www.causevox.com
www.rockhethub.com	www.fundraise.com
www.sellaband.com	www.donorschoose.org
www.fundanything.com	www.justgiving.com

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The potential commercial impact of these new funding models has been recognised by new and small businesses that might otherwise have difficulties accessing funding through standard commercial routes. Upon signing the US JOBS Act (Jumpstart Our Business Startups Act) in 2012 to legalise equity crowdfunding, President Obama stated that “for start-ups and small businesses, this bill is a potential game changer”. Within the EU, the approach to regulating these types of companies has been fragmented, with various regulators adopting different approaches ranging from a wait-and-see stance by some regulators to proactively developing new authorisation processes by others. The limited research that has been undertaken in this area has shown low levels of malfeasance, but there are some reports of dissatisfaction about schedules and unmet deliverables. It is clear that for crowdfunding to become a mainstream solution for commercial lending and equity investment needs in Europe, better authorisation processes and new types of prudential supervision must be developed by European regulators. Furthermore, there is a pressing need to educate businesses and individual consumers on the differences between the various types of debt and equity instruments available.

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EQUITY CROWDFUNDING: INNOVATION, COMPETITION AND INVESTOR PROTECTION – GETTING THE BALANCE RIGHT

By Karen Kerrigan, Legal and Financial Director at SEEDRS

‘Fintech’ is a buzzword in Europe right now. A renaissance in financial services, coupled with an increasing use of technology to improve customer experience has

led to a melting pot from which innovations such as peer-to-peer lending, equity crowdfunding and crypto-currencies have arisen. Like all startups, fintech businesses are focused on disruptive, competitive growth, but as finance providers they are shackled to existing regulatory frameworks. In Europe, certainly in the context of the retail market, such frameworks rightly focus on investor protection. But they can also be dense, inflexible and struggle to accommodate digital processes. So how do fintechs get the balance right?

Last month I joined innovators, regulators, researchers and traditional finance practitioners at the inaugural CEPS/ECRI conference to discuss exactly that question. At Seedrs, Europe's leading equity-only crowdfunding platform, these issues are fundamental to the development of our business. Seedrs was the first such platform to receive regulatory approval, and we have since been working alongside the UK Financial Conduct Authority (FCA) to develop processes that establish a proportionate approach to the provision of equity finance and investor protection.

The FCA has led the way in regulating the sector in Europe. Last year it set out rules for equity crowdfunding that ensured that only investors with a sufficient understanding of the risks of equity investing were permitted to use the platforms. Contrary to the press hype, these rules were not overly prescriptive or unreasonable. Whilst some platforms may have suffered a decline in investor numbers, in the long run, restricting access to those investors will be good for the platforms and good for crowdfunding in general.

At Seedrs, however, our approach to investor protection goes further than the FCA's rules. We believe it is not just about investors understanding the risks of equity investing, but that those risks are mitigated as much as possible. Take dilution, for example, one of the biggest risks of investing in private companies (unlike public companies, private companies are not obliged to provide pre-emption rights). In our view, if an investor has taken the risk of investing in an early-stage business, if it succeeds, he or she deserves the chance to benefit in that success – but they won't if their shareholding has been significantly reduced, unbeknownst to them, by the issuance of further shares. Through the Seedrs structure, investors receive contractual pre-emption rights, so that if a company issues further shares, the investors are informed and have the opportunity (but not the obligation) to maintain their shareholding.

It is the same with information rights. The old maxim "knowledge is power" is key here. Under UK company law, a private company is not required to provide shareholder information in the same way that a public company is. But at Seedrs, we contractually require investee companies to provide information to its investors on a regular basis. This can be done through our online post-investment portal, which, when you have potentially hundreds of crowdfunding investors, is an efficient way to keep them engaged and informed and to manage their expectations.

Providing these types of investor protection is not onerous, restrictive or administratively burdensome. From a practical perspective, in fact, they are actually an effective way of keeping investors both financially and emotionally invested in the growth of a business they have crowdfunded. The result is not only protected investors, but supportive ones too. Looking beyond regulation, this type of stakeholder buy-in is surely how fintech businesses get the balance of innovation, competition and protection right.

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FINTECH STARTUPS WILL REPLACE UNIVERSAL BANKS

By Pärtel Tomberg, CEO at Bondora

Marketplace lending will make universal banks obsolete by giving everyone the opportunity to provide capital directly to consumers and businesses. Every consumer and small business should have an option to find the best service provider for every type of their financial needs, instead of having to buy all services as an expensive bundle.

Every product on offer by traditional banks, from current accounts, to foreign exchange, to lending and investment management, can now be purchased from an alternative fintech vendor. Those vendors are highly focused and efficient, which makes their services cheaper, faster and easier to use for the end customer. Over the next decade, these changes will replace today's universal banks with smaller, single-product focused service providers that are loosely coupled through different marketplaces.

This future will ensure long-term stability, as a failure within a single product (e.g. US sub-prime mortgage lending) will no longer cause the collapse of a financial system. There will be no 'too-large-to-fail' notion in the world where financial services are provided by a myriad of highly focused and efficient players.

A financial system that is driven by open marketplace principles will accelerate economic development by reducing financing costs for the end users, increasing credit availability and ensuring supply of credit even in times of economic crises.

Unbundling of universal banks has the same benefits as unbundling of electricity generation, transmission and distribution. However, while unbundling of vertically integrated utilities was enforced by the regulators, the unbundling of banks is enforced by the technological innovation.

Standalone service providers can focus solely on improving a specific product or solving a unique need without having to worry about the legacy

technology, regulatory burden in un-related services and conflicting incentives from other business lines. In addition, different lenders with diverse risk-appetites and cost-strutures will be able to finance a wider spectrum of borrowers ensuring competitive credit terms for all segments of the society.

Finally, separating services protected by deposit protection schemes from other businesses will ensure transparency for regulators and consumers alike concerning where the raised deposits are invested, and taxpayers will not have to pay for excessive risk-taking any longer.

All this will make for a stable and effective system propelling economic development and relegate large-scale financial crises to the history books.

Technology will inevitably unbundle banking and unleash economic growth, but proper regulation can help this change occur faster. Regulators need to start with forcing the public sector and financial institutions to open up and share their data. The data that are necessary for credit underwriting, customer identification, managing counter-party risks and understanding a financial service provider's own financial health need to be open and available to everyone. Transaction ledgers need to be public, a single data exchange protocol standard should be introduced and homogenous sets of data should be made available all across Europe.

Reducing information asymmetry between service providers, their customers and partners will slash transaction costs, and consequently will cause unbundling of the industry without regulators having to force such a change.

We at Bondora have embraced open data in order to develop the first single marketplace connecting borrowers and lenders all across Europe through personal loans. The transaction ledger, including all loan applications, issued loans and payments, is public and available for downloading by anyone.

There are a number of service providers that use this data to provide our customers with added insight and advanced investing tools. We envisage that there will be thousands of services built on top of our open marketplace serving borrowers, lenders and our partners. Openness is vital to fulfil our vision of seamlessly connecting every European consumer with millions of investors to allow both sides to get the best possible deal in seconds.

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APPLYING BEHAVIOURAL INSIGHTS IN CONSUMER PROTECTION POLICIES

By Wijnand van de Beek, Manager of Strategy, Policy, and International Affairs at the Netherlands Authority for the Financial Markets (AFM)

Behavioural finance is the study of the effects of psychological, social, cognitive and emotional factors on the financial decisions of individuals and institutions. It attempts to describe and explain the impact of systematic resulting from the bounded rationality of human beings.

In recent years behavioural finance has become an important factor in understanding some of the human challenges that can lead to market failure in financial services. As such, it is becoming an important source of insight for consumer protection policies. Understanding the nuances of human financial decision-making, and the potential pitfalls involved, is complex and sometimes counterintuitive. As a result, this field is under development, and policy-makers and supervisory authorities are still in the process of learning how to apply behavioural insights to consumer protection.

In light of its potential to improve consumer protection policies, the application of behavioural insights to these policies was the topic of discussion at one of the panels at the CEPS-ECRI Conference on 12 May 2015. Stefan Hunt (FCA) kicked off the debate with a number of practical examples of behavioural biases that affect us all. This gave the opportunity to experience some of the human cognitive failings ourselves. After a short video explaining some of the concepts, Stefan continued with many practical examples where the FCA has researched the mistakes that consumers can make when making financial decisions and how it has assessed and chosen among policies to address the problems. His conclusion is that more and higher-quality evidence is necessary in most cases to better understand the nature of the problems and to make consumer protection policy more effective. Information disclosure remedies have been particularly ineffective, and are likely to continue to be without better research, and so should be an area of particular focus.

Roman Inderst (Goethe University) voiced words of caution. Behavioural insights promise great potential, but have important limits and risks. Fintech is rapidly developing, and adding another layer of regulation may pre-empt business solutions. The potential of more 'light-touch' policies, in particular disclosure and information, may be neglected. The lopsided application of behavioural insights may be used to justify additional regulation, but not to question regulation. And finally, the not-so-smart application of insights may have negative and unintended consequences.

Alexandra Chesterfield ('Which?') began by noting the fact that it is now widely accepted that consumers (generally) do not behave like the hyper-rational homo economicus of economic textbooks. She argued that this fact poses various implications for consumer policy, including: i) in some contexts, consumers are far less likely to respond to 'softer' policies typically associated with 'nudging' (i.e. disclosure); ii) because consumer behaviour is so complex and dependent on context, policy interventions should be rigorously tested to minimise/avoid unintended consequences; and iii) firm behaviour does not affect all consumers equally. These implications raise difficult questions for consumer policy-makers, such as what is the right balance between motivating active consumers to drive competition and protecting disengaged customers?

Harald Stieber (DG FISMA, European Commission) argued that Homer Simpson is actually very rational in his decision-making: he knows exactly what he wants and how to optimise it. He then used the balance sheet of the median euro-area household to illustrate that large financial risks are attached to: i) buying a house,

CEPS-ECRI TASK FORCE REPORT

12 MAY 2015

Towards a Balanced Contribution of Household Credit to the Economy

Sylvain Bouyon (Rapporteur) & Eric Delannoy (Chair)

While policy-makers are creating conditions to strengthen recovery, the debate on the role that retail finance should play in this respect focuses on corporate loans rather than on household credit. The improvement of financing conditions for firms in order to support further investment spending is certainly essential to ensuring sustainable growth. However, a significant part of EU growth will depend on the behaviour of households and on their ability to secure funding for their consumption and investment. It is therefore essential to place further emphasis on the different options available to stimulate household credit, in particular consumer loans. Nevertheless, in order to avoid past mistakes, regulators should continue to develop a framework where consumer loans (and by extension household credit) contributes to the economy in a balanced way. To achieve this, five main issues need to be addressed further:

- Greater harmonisation in statistical methodologies to support the policy process.

- Refinement of macroeconomic models used to boost loans, both in a quantitative way and a qualitative way.

- Innovative policy tools to deal with persistent and new market dysfunctions for household credit (especially in the areas of information disclosure requirements and responsible lending practices).

- Better understanding of the integration process of household credit.

Accompanying the financial sector throughout its digital tr- ansition process.

This report is based on discussions in the CEPS-ECRI Task Force "Towards a Balanced Contribution of Household Credit to the Economy", which met several times over a concentrated period from May 2014 to April 2015, under the chairmanship of Eric Delannoy, former Vice President of Weave. Sylvain Bouyon, CEPS-ECRI Research Fellow, acted as rapporteur.

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with or without a mortgage; ii) health status due to its potential impact on a person's capacity to work and iii) longevity, i.e. the risk of living much longer than one can afford financially. While acknowledging that behavioural economics has made considerable progress in the areas of asset management and pensions, heencouraged more work on mortgages, health insurance and new products and markets to better insure health, education and macro-risks.

The panel concluded that behavioural insights can improve the design of intelligent interventions in financial consumer protection policies. However, in order to avoid adding extra regulation rather than improving regulation and to avoid counterintuitive pitfalls, more research and deeper understanding are needed. We would recommend t policy-makers and stakeholders to increase their understanding of how behavioural insights can improve our regulation and supervision. Next, we should identify where these insights have the greatest impact and prioritise those areas where regulation and supervision can be most beneficially improved.

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BEHAVIOURAL INSIGHTS AND CONSUMER POLICY: THE IMPLICATIONS

By Alexandra Chesterfield, Head of Behavioural Insights at Which?

For almost 60 years, the UK-based consumer advocacy organisation "Which?" (www.which.co.uk) has worked to make individuals as powerful as the organisations they have to deal with in their daily lives.

Achieving this ambition - whether it's through providing information and advice, developing policy and campaigning on behalf of consumers or entering a market ourselves to meet a consumer need – depends on an in-depth understanding of real consumer behaviour.

That consumers do not behave like the hyper-rational 'homo economicus' of economic textbooks is now widely accepted. In its study on 'consumer literacy' in 2012, Which? exposed how few consumers even come close to the model of the rational consumer. Updating the standard assumptions about human decision-making is now essential in designing effective policy. Yet most policy interventions harnessing behavioural science are in the field of public policy and focus on changing behaviour to meet public policy goals, such as getting people to save for their retirement or eat more healthily. Arguably, designing effective behaviourally-informed interventions in consumer policy can be more challenging. We identify three implications for applying behavioural insights in consumer policy:

1. Evidence suggests that in some contexts, consumers are far less likely to respond to 'softer' policies, which are typically associated with 'nudging', such as disclosure. This can be because of the incentives that regulated firms have to counteract them and the degree of control they have in implementing 'nudges'.

2. Consumer behaviour is hugely complex and dependent on context. Policy interventions designed to maximise positive outcomes for consumers ideally need to be thoroughly tested, to avoid or minimise unintended consequences. For example, UK regulation ensures that consumers make a minimum repayment on their credit card debt. The intention of this regulation is good – to ensure that people pay something back each month. But evidence suggests that including a minimum payment reduces the repayments that people make (due to the anchoring effect), thereby increasing their debt in the long run.

3. Firm behaviour does not affect all consumers equally. Whereas 'naïve' consumers (those who do not switch when deal periods end, for example) can be adversely affected, 'sophisticated' consumers (those who behave more 'rationally') can often benefit. This raises difficult questions for consumer policy-makers. For example: what is an appropriate balance between the interests of disengaged and engaged consumers? What is the right balance between incentives for active consumers to drive competition and protecting disengaged customers?

Finding solutions that work for all consumers - without imposing heavy costs on business - and promoting healthy competition, is challenging and behavioural insights is not a panacea. But we believe that policies based on a more realistic understanding of human behaviour have the potential to empower consumers to make better choices, while also protecting those who choose not to choose or risk making a choice not in their best interest.

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Reference

Real Consumers: Consumer Literacy, Samuel Mohun Himmelweit, Which? Consumer Literacy Report 2013

BEHAVIOURAL INSIGHTS IN RETAIL FINANCIAL MARKET REGULATION

By Janneke Toussaint, Coordinating policy advisor and Behavioural expert at the Dutch Ministry of Finance and the Money Wise Platform

Among European and national policymakers in the area of retail financial markets, the legal and economic perspective still seems dominant. Do we miss out when we continue our work without seriously taking behavioural expertise into account? Here, I will argue that we do. Ensuring that behavioural insights become fundamental part of the policy-making process will contribute to more effective policies. As an example below I set out the case of information requirements.

A traditional argument for consumer protection is information asymmetry. The solution seemed simple: make sure that providers are transparent about costs and features of financial products and services.Information requirements should allow consumers to make informed decisions which would result in a well-functioning market.

In his book "Thinking fast and slow", psychologist Daniel Kahneman shows that it is unlikely that aiming at complete and correct information in itself will have a profound impact on consumers' decision-making. Kahneman shows that people have limited time and motivation to search for all necessary information, to completely understand information and make sensible decisions accordingly. If they receive too much information at once (information overload), this might easily discourage them to read at all. In other words, people are not tempted to conduct 'slow thinking'. Kahneman explains the relevance of various heuristics and biases – mechanisms of fast thinking – which in retail financial markets result in decisions systematically deviating from decisions of the hypothetical homo economicus. Due to fast thinking, small adjustments in the 'choice architecture', which is amongst others the information provision, can have a huge impact on decisions.

Important steps, inspired by behavioural research, are currently being taken in the context of various new EU directives regarding mortgages and retail investment products. The European Commission introduced standardised information in uniform formats. A uniform format has proven to facilitate comparison by consumers . Although these have been important steps, more is needed to make the information requirements effective. For instance, the timing or easy access to information: is it available at the right moment in the consumer journey? Furthermore, attention for additional aspects of the format appear crucial.

The format should be dictated by behavioural purposes. In other words, as policymakers we should ask ourselves: what decisions consumers should be able to make; and to what key questions they need answers. This starting point contrasts with the legal and technical approach which is often primarily focused on the technical knowledge of a product or service. After having defined the behavioural purpose and relevant key questions, the structuring of text (layering), highlighting of text, the use of text and non-text, framing of sentences, provision of reference points, are all elements that potentially support decision-making .

Finally, more attention should be paid to online tools and comparison websites, as these appear effective in supporting consumer decision-making. It would be worthwhile to explore possibilities to integrate information requirements with digital developments. For instance information on products and services could be available as open data, which means that these data are technically and legally open to third parties.

In short, the behavioural perspective can clearly contribute to the policymaking process concerning information requirements. This is also true for financial education, advice and product regulation. For the product regulation, more attention could be paid to the presentation of the set of choices, as its effect is generally bigger than that of any type of information.

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The views expressed are those of the author and do not necessarily represent the views of the Dutch Ministry of Finance.

DATA PROTECTION CHALLENGES FOR THE DESIGN OF FINANCIAL SERVICES

By Monika Kuschewsky, Special Counsel at Covington & Burling LLP

Analytics, business intelligence, scorecards, rating systems, credit process automation, home banking and electronic payment are just examples of the many processes in the financial services industry that heavily rely on the processing of individuals' personal data. Digitisation, globalisation and big data do not spare the financial services industry and come with significant data protection challenges. This complex situation is exacerbated by the fact that, for legal, historical and cultural reasons, the use of consumer data, including types and sources of the data, significantly varies across EU member states, thus making it difficult to adopt a uniform data protection compliance strategy.

Data protection is obviously not a new phenomenon, but has gained in importance and attention in recent years. The OECD Guidelines on the Protection of Privacy and Transborder Flows of Personal Data of 1980 (the "1980 Guidelines") were the first set of internationally agreed privacy principles. The eight basic principles of the 1980 Guidelines – namely collection limitation, data quality, purpose specification, use limitation, security safehuards, openness, individual participation and accountability – have found their way into many of the privacy laws that are now in place in more than 90 countries worldwide. The 1980 Guidelines were revised in 2013 and now also include, among other things, a risk-based approach, privacy management programmes and data breach notification.

The OECD's basic principles are also reflected in the 1995 EU Data Protection Directive. National laws implementing this Directive impose a number of data protection obligations on private organisations. In 2012, the European Commission proposed a General Data Protection Regulation (GDPR), which is intended to replace the current Directive. There are a number of parallels between the revised 1980 Guidelines and the proposed GDPR. Both instruments put a strong emphasis on the principle of accountability as a means to promote and define organisational responsibility for data protection and articulate a number of very similar essential elements in this regard, including the concept of privacy by design, privacy policies and privacy impact assessments.

Financial services companies would be well advised to start assessing the possible impact of the GDPR on their business and begin preparing for it. The GDPR, which may be adopted as early as the end of 2015, includes a number of provisions that may in particular affect the use of big data analytics and profiling, but also – more generally – the provision of tailored services, based on an individual's personal data, all of which play an increasingly important role in the financial services industry.

Financial services providers should also pay attention to the work of the G20-OECD Task Force on Financial Consumer Protection. The importance of financial consumer protection has been acknowledged in the G20 High-Level Principles of Financial Consumer Protection from 2011. These principles call for the protection of consumers' financial and personal information through appropriate control and protection mechanisms.

More recently, in November 2014, the European Data Protection Supervisor published his "Guidelines on data protection in EU financial services regulation" (the "EDPS Guidelines"). Since 2008, over 40 new laws have been proposed in the financial services sector, many of which involve close supervision of the behaviour of traders and investors, control of risk-taking, reporting and information exchange and, consequently, require the processing of personal data. Although the EDPS Guidelines are targeted at policy-makers and legislators, they can also help private organisations better understand the nature of the rights to privacy and data protection in the EU and the related concerns.

Helpfully, the EDPS Guidelines contain a checklist of key data protection issues and requirements to consider and recommendations, which could also be put to good use by financial services providers. For instance, any processing as well as international transfers of personal data must be based on one of the possible legalgrounds, appropriate retention periods for the personal data must be established and the data protection rights of individuals mustbe respected. This may provide a good starting point for financial services providers to develop a data protection compliance strategy and programme.

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CREDIT BUREAUS AND DATA PROTECTION IN EUROPE – A PRACTITIONER'S PERSPECTIVE

By Dr. Frank Bröker, Head of Rating Services, Schufa Holding AG

The use of personal data from credit bureaus in consumer lending market substantially reduces information asymmetries between borrowers and lenders. In practical terms, the incorporation of credit bureau information provides two sets of advantages: i) faster and more convenient lending processes and ii) more reliable creditworthiness and default-risk assessments.

The first set of advantages is often associated with credit process automation. Customer satisfaction is increased significantly if lenders use their own data plus credit bureau services to build convenient and easy-to-use applications resulting in fast and uncomplicated credit decisions. From a lender's perspective, serving his customers' preferences can be combined with leaner and more standardised workflows and therefore relevant process cost advantages. Via competition, the lenders

often and at least partially pass on these cost advantages to consumers.

Furthermore, the personal data from credit bureaus allow a more advanced default-risk assessment, especially a higher predictive power of the scoring systems used to determine the likelihood of a future loan default. Lenders typically employ this higher forecast power to increase the quote of accepted applications (more "green" cases), to set more specific covenants for a narrow band of "yellow" cases, and/or to reduce default rates. For some products and in some markets, it is also used for a risk-based individualised pricing. Additionally, the predictive power of the scoring system as well as the use of credit bureaus is a relevant building block to prevent overindebtedness of consumers.

Public debates about privacy and data-protection questions concerning the use of personal data by credit bureaus are taking place all over Europe. The long-established national policies, regulations and procedures vary tremendously and this is mirrored the in often very divergent general mindset, which is deeply rooted in the individual societies, and the intensity, emphases and relevance of these discussions.

The general environment for the different credit bureaus in Europe is also very diverse. In some countries like France and Belgium, certain credit bureaus' functionalities are provided by the national banks, whereas in most other countries credit bureaus are private corporations. There are also huge differences in the credit bureau user groups providing and receiving credit information data. An ECRI Industry Survey 2011 (covering 30 ACCIS members) found that non-banks with credit-risk exposure, such as like collection agencies, telecoms, insurance companies and utilities provide credit information data in less than one-third of the countries and often the amount of data provided is limited to negative data only.

The study also shows that the type of consumer data stored varies notably. In some countries such as Sweden, it is accepted that credit bureaus can receive income data (even from government institutions), while the general public in other countries such as Germany would vigorously oppose both the storage of income data and the data provision by government authorities. Finally, even the national consumer groups seem to be split on the question of whether or not they support data-sharing, as shown in a 2013 survey on 28 ACCIS member firms across 21 countries.

Hence, all parties involved will need to make a huge effort to find a common ground in the upcoming EU General Data Protection Regulation.

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PRICING, COMPETITION AND REGULATION OF RETAIL PAYMENTS

By Wilko Bolt, Senior Economist at De Nederlandsche Bank

A safe, smooth and efficient payment system is absolutely essential for the smooth functioning of any advanced economy – forming the 'backbone' of the economy. But its underlying economic structure is complicated because of its interactions with a set of interdependent bilateral relationships.

Payments are different. Nobody celebrates the successful execution of a payment, which is often dubbed a 'dis-satisfier'. Moreover, payments are joint services: i.e. consumers need to use them and merchants need to accept them, making the payments market `two-sided'. Academic research has shown that this quality of 'two-sidedness' has important implications for the pricing of payments, competition and innovation, and also regulation.

In a two-sided payments market, appropriate pricing needs to get both merchants and consumers on board. But the question rises which side of the market pays for these services. The ongoing shift from cash and paper towards electronic payment potentially confers large economic benefits. But they have remained expensive for merchants, especially credit cards. It is an open question whether innovative digital payments (and virtual currencies) can bring any relief for the merchant side. Innovation in the payment landscape, attracting new players without banking licenses, may ultimately shake up the 'old' credit card business model, which is based on interchange fees.

Merchants may alleviate 'two-sided' tensions when they are allowed to surcharge payment instruments or give discounts. Recent research has found that this type of cost pass-through has also ambiguous effects. Indeed, merchants may 'overshoot' and abuse surcharges, which can then lead to under-usage of certain payment services. Based on research in the US, it is argued that cost savings from discounts may be too little to offset the transaction costs of administering price menus.

Interestingly, payment competition need not increase economic efficiency. It may result in low or negative consumer fees if card issuers compete too vigorously on the consumer side, tilting pricing against merchants. This may not be desirable. Moreover, due to fierce retail competition, merchants may be willing to pay higher payment fees than is socially optimal (i.e. weak 'merchant resistance').

Innovation is the key to dynamic efficiency. Payment innovation requires cooperation between competing players, but this is a thin line for antitrust authorities. Although they need to provide regulatory clarity, too much regulation may frustrate innovation and

dynamic efficiency. A pure cost-based approach to put new services on the market limits incentives to innovate. Payment networks and issuers may require years to recoup their investment in a new product, inducing them not to introduce new products but only to upgrade existing mechanisms.

In a two-sided market, due to externalities and feedback effects, payment prices cannot be based purely on costs. As a consequence, antitrust authorities cannot simply isolate the merchant side from the consumer side – the definition of the 'relevant market' is much more complicated. In addition, wrong incentives may have adverse effects. For example, in the Netherlands, 'cheap' debit cards were surcharged favouring 'expensive' cash use. A public campaign, supported by the Dutch central bank, to stop surcharging was successful. A strong growth in small card payments resulted, and now contactless small payments are on the rise as well.

However, otherwise well-intended regulation may have unintended consequences as well. An interesting example concerns the so-called 'Tourist Test' applied by the European Commission to evaluate levels of interchange fees for debit and credit cards in Europe. (The fee that meets this test, also referred to as the 'balancing fee', is set at such a level that the merchant is indifferent as to whether s/he receives a card or cash payment.) A counterfactual analysis for the Netherlands shows that the observed doubling of the number of debit card transactions during 2002-10 would have allowed a five times higher interchange fee when adopting the Tourist Test methodology. This outcome would have been hard for Dutch merchants to swallow.

To conclude, payment economics is complex. The overriding question is whether the market can deliver efficient and fair outcomes. Non-banks also want a piece of the future 'payment pie', and at the same time the Internet increases privacy and safety issues. Regulation in my view should be geared towards removing barriers of entry in payment markets and banning merchant (pricing) restrictions. Particularly in payment markets, path dependence and market specifics matter – no one size fits all. Ultimately, economic theory alone is not enough; we need data to understand the effects of payment competition and to identify possible unintended consequences of regulation.

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The views expressed are those of the author and do not necessarily represent the views of De Nederlandsche Bank or the European System of Central Banks.

THE CHANGING FACE OF DIGITAL WALLETS

By Jonathan Vaux, VISA Europe

'Digital wallet' or 'mobile wallet' is a term that has been used interchangeably to describe a range of consumer possibilities – commonly used for payment-related services – intended to emulate the storage capabilities offered by a physical wallet.

In the early days of the internet, card payments saw a huge percentage growth as the only viable way to pay at the time of placing an order. As online payments grew, however, card payment processes (such as data entry and authentication) were seen as too cumbersome and alternatives emerged. 'Wallets' became far more prevalent as a means of storing the customer details to streamline payment and avoid checkout abandonment. 'Card-on-file' technology has evolved into the '1-click' solution whereby a customer simply presses "pay" and a pre-determined card is automatically used for payment.

As smart phones have become more prevalent, we have seen a huge focus on enabling and developing wallets for mobile payments. MNOs (mobile network operators) and Telcos (telecommunications companies) viewed wallets as a way to deliver new services to their customers and, as 'wallet owners', to have access to customer data to offer new services. Early failure rates were very high and would, with hindsight, appear to stem from a lack of sufficiently compelling offers, challenging registration processes and an intrusive approach to managing the payment.

The commonly held belief that the data deriving from wallet transactions could be used to market and 'monetise' the data led to the creation of battle lines being drawn between players who, hindsight shows, would probably have been better off collaborating in order to drive the adoption of the technology. The adoption of near-field communication (NFC) – technology that en- ables smart phones and other devices to establish radio communication with each other by touching the devices together or bringing them into proximity of a distance of typ cally 10 cm or less – was significantly hampered by the inability of the key players to agree a mutually beneficial commercial framework and market approach. It required the emergence of host card emulation or HCE (software architecture that provides exactvirtual representation of various electronic identity (access, transit and banking) cards using only software, which negated the need for a SIM,) and ApplePay in order to force the players to try to cooperate.

Consumers are now increasingly experiencing 'connected devices' with complex environments

of multiple devices and applications. A consumer will buy, access and read a book, for instance over different devices through their single operating system. The idea of having a capability tied to a single device will be anachronistic – and this will affect any wallet technology that is physically linked to a single device.

Customers appear to be comfortable using multiple apps and are likely to be happy to pay within the merchant app environment using card-on-file capabilities. Card-on-file capabilities may well become more centralised as APIs (application programme interfaces) enable those services to be accessed and managed by third parties. The pain point for customers will become registration and maintenance of cards, rather than payment, i.e. entering card details or updating them in the case of update, replacement or loss. More advanced banks, such as BBVA, are now promoting multiple discrete apps based on customer feedback.

Technologies such as Passbook allow the cards to be digitally presented in wallets to appear in the way they appear physically. This 'digitisation' of cards helps mitigate brand disintermediation concerns for the bank but, most importantly, it appears from results in the US to significantly increase customer confidence and the likelihood of successful payment.

As card 'vaults' become more prevalent, the complexity of authentication becomes greater. There appears to be a three-stage process emerging:

- Card registration/enrolment – registering the card to the vault, enabling it for tokenisation, etc.;
- Cardholder pre- or passive authentication – utilising available pattern data – customer, history, location, device, biometrics, merchant data, etc. – to make payment frictionless by avoiding the need for 'step-up' authentication; and
- "Step-up" authentication – in the event of requiring further validation from the consumer, what options are available – today password, PIN, VbV, etc.

In this new 'connected commerce' environment, some banks are now reconsidering their role in wallets and payments, focusing on services that add value pre- and post- payment rather than facilitating the payment itself. Convergence happens through the cloud on the banks' platforms so that any data are synchronised and presented consistently within the various apps – the customer has a single view across all their interactions.

It is clear that we are seeing increasing divergence with the advent of new devices, channels, communication protocols, authentication methods and the drive to the "Internet of Things". There is a clear opportunity for banks to provide the over-arching convergence point for consumers to track, manage and control their finances. In this connected environment, wallets are more likely to become features of numerous, wider applications which will require a fundamental re-think of many players' current wallet strategies.

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ECRI Commentary No. 14, 16 June 2015

http://www.ceps.eu/publications/recent-trends-eu-home-ownership

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ECRI Commentary No. 15, 16 June 2015

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Consumer Protection in Financial Services:

The Challenges of Innovation and Capital Markets Union

1st CEPS-ECRI Annual Conference · Brussels, 12 May · CEPS, Place du Congrès 1

OVERVIEW

While the discussions on the set-up of a Capital Markets Union have increased in intensity, the 2015 budget of European Supervisory Authorities, whose main goal is to contribute to the gradual creation of a safe and dynamic European market for financial services, has been cut significantly. In essence, these budgetary decisions re-launch the debate on the sharing of tasks between European and domestic supervisory authorities and call into question what type of financial services market is wanted for the European Union: its level of integration, the dynamism of its innovations and the appropriateness of its rules for consumer and investor protection.

Against that background, **ECRI and CEPS are jointly organising their first Annual Conference on Consumer/Investor Protection and Innovation in EU Financial Services on 12 May 2015 in Brussels**. The objective is to provide a platform for an exchange of good practices across the various supervisors and providers of financial services and to contribute to higher regulatory consistency across the different segments of financial services. As such, the scope is relatively wide and intends to include retail financial services (credit, savings and payment), as well as investments and insurance. The programme will feature key stakeholders in the financial services sector and high-level speakers from the European institutions, national authorities, the financial industry and academia.

This inaugural annual conference will first explore the *risk of market dysfunctions* triggered by growing innovation in banking business models. *Innovation* will also be debated with respect to the policy design process, especially by considering the role that the increasingly popular behavioural economics can play in the refinement of the enacted rules and the overall supervision of financial services. A third panel will address the growing possibilities offered by the processes of *personal data collection* in the design of better-tailored financial products to meet consumer/investor needs and the risk that these processes may infringe on consumers' right to privacy. Finally, each year, one specific type of financial services will be singled out for in-depth coverage. This year's conference will focus on *payments* and the fast process of their *digitalisation* and its implications for consumers, payment providers and regulators.

The conference will also be the occasion to launch a new ECRI Task Force Report on household financing in the post-crisis period.

AGENDA

08:45 **Registration**

08:55 **Opening remarks by Karel Lannoo,** Chairman, CEO of CEPS

09:00 **Keynote Address**

Neena Gill, MEP, European Parliament

09:30 **Panel 1. New business models: Innovation, competition and consumer protection – getting the balance right**

- How new business models (such as crowdfunding platforms) have emerged and what is their contribution to the funding of the economy?
- Which market dysfunctions are likely to be triggered by such developments?
- In this context, what is the best regulatory approach? "Proactive/prevention" or "wait and see"?

Moderator: **David Geale**, Director of Policy in the Strategy and Competition Division, Financial Conduct Authority (FCA), UK

Laurent Degabriel, Head of Investment and Reporting Division, European Securities Market Authority
Karen Kerrigan, Legal and Financial Director, Seedrs
James B. McCarthy, Development Director, Financial Services Innovation Centre, Univ. College Cork
Anne-Laure Mention, Head of Research Unit, Public Research Centre Henri Tudor
Pärtel Tomberg, CEO and Co-Founder, Bondora by isePankur

10:55 **Coffee break**

11:10 **Panel 2. Applying behavioural insights in consumer protection policies**

- What is behavioural economics (assumptions, methodologies, etc.)?
- How can its findings be applied to policymaking? What are the advantages, limits and risks?
- Concrete examples of policies and regulations based on behavioural insights.

Moderator: **Wijnand Van de Beek,** Manager of Strategy, Policy and International Affairs, Netherlands Authority for the Financial Markets (AFM)
Alexandra Chesterfield, Head of Behavioural Insights, Which?
Stefan Hunt, Manager, Economic Research Programme, Financial Conduct Authority (FCA), UK
Roman Inderst, Professor of Economics and Finance, Goethe University Frankfurt
Miguel de la Mano, Head of Unit, Economic Analysis and Evaluation, DG FISMA, European Commission

12:30 **Lunch break**

13:30 **Special focus: Household financing**

Keynote speaker: **Eric Delannoy**, Chairman of the CEPS-ECRI Task Force on Household Credit
Presentation of the CEPS-ECRI Task force Report on Household Credit

14:00 **Panel 3. Data protection and the design of financial services**

- What is the impact of big data on the design of financial services?
- How to find a proper balance between well-tailored financial services, healthy competition and efficient data protection for privacy and security purposes?
- How will the reinforcement of personal data protection at European level impact this balance?

Moderator: **Monika Kuschewsky**, Special Counsel, Covington & Burling LLP
Frank Bröker, Division Manager Solutions, Schufa Holding AG
Christian D'Cunha, EU Security and Data Protection Expert, European Data Protection Supervisor
Michael Donohue, Head of Unit on Information, Security and Privacy, OECD

15:05 **Special focus: Latest developments in the Payment Services Directive**

Keynote speaker: **Erik Nooteboom,** Head of Retail Financial Services and Consumer Policy, DG FISMA, European Commission

15:35 **Panel 4. Special focus: Risks and opportunities in digital payments**

- Trends and definitions of the different types of digital payment and the related technical supports (smart phones, virtual currencies, etc).
- What is the dynamics of innovation in digital payment, what are the related business opportunities and what is the related impact on consumer needs and welfare (safety, accessibility and convenience)?
- How to find a good balance between consumer protection and innovation in digital payment?

Moderator: **Dirk Haubrich**, Head of Consumer Protection, Financial Innovation and Payments, European Banking Authority (EBA)
Wilko Bolt, Economics and Research Division, De Nederlandsche Bank
Olivier Denecker, Director of Knowledge, Global Payment Services, McKinsey & Company
Nilixa Devlukia, Technical Specialist Payments, Financial Conduct Authority (FCA), UK
Jonathan Vaux, Executive Director, Digital Propositions and Strategy, Visa Europe

16:50 **Concluding remarks by Karel Lannoo,** Chairman, CEO of CEPS

17:00 **End of meeting**

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