Summary of the ECRI/CEPS SEMINAR
(25 November 2003, CEPS)

Consumer credit at the point of sale: Future prospects and challenges for regulatory policy on consumer credit in the EU.

Introduction:

The Seminar brought together a wide-ranging panel of speakers from the industry, financial entities, political institutions and academia to exchange views on the subject. Two main items were discussed: a) the importance of point-of-sale credit for private consumption and b) the efficiency of the current regulatory framework for consumer credit and future prospects.

Speakers:

Part 1. Point-of-Sale Consumer Credit

Experiences from the Field
Lars Bråberg, IKEA
Eric Spielrein, RCI Banque (Renault)
René Pinon, Sofinco (France)
Pierantonio Rumignani, CC-Holding (Germany)
Leonardo De Simon, Findomestic (Italy)
Salvador Maldonado, Banco Cetelem (Spain)

Major Features of Point-of-Sale Consumer Credit
Frédéric Tardy, Cetelem (France)

Part 2. Economic and Legal Implications of Regulatory Decisions: Impact of Current Proposal for a Consumer Credit Directive

Roundtable Discussion

Almudena de la Mata, ECRI/CEPS
Roger Grazebrook, Lloyds TSB Group plc.
Stefan Stein, Dr., Institut für Kredit- und Finanzwirtschaft (ikf), Fakultät für Wirtschaftswissenschaft der RUB, Bochum
Udo Reifner, Prof. Dr., Institut für Finanzdienstleistungen (iff), Hamburg
Stephan Huber, Assistant to MEP Joachim Würmeling, European Parliament
Jens Ring, DG Health and Consumer Protection, European Commission
Tobias Mackie, DG Market, European Commission

SUMMARY of the interventions:

Mr. Lars Braberg (IKEA) reported that consumer credit at the point of sale is used especially for major goods purchases, such as a complete kitchen or living room, and that it is mostly distributed through IKEA and co-branded cards which amount to about 6% of sales. Mr. Braberg emphasised that harmonisation of legislation and rules in the EU would be beneficial for extending and improving financial services at the point of sale. Indeed, it would allow for a centralised approach to customers. But the proposal for a new European directive on consumer credit would lead to an overprotection (articles concerning transfer of personal data and repossession of goods) and to excessive bureaucracy (articles concerning central database) which are costly and inefficient.

Similar concern was expressed by **Mr. Eric Spielrein** (RCI Banque) who argued in favour of "specific measures for investment secured credit". He noted that car financing at the point of sale should be considered as a "service" provided to the customer in order to answer his/her specific needs in an efficient (high acceptance of demands) and secure way (default risk covered by the value of the car). Furthermore, the car industry would suffer even more from further restrictions and protection since the core of the business is based on consumer credit financing: between 40% and 70% of new cars sold to private consumers in the EU are financed by point-of-sale consumer credit products.

Mr. Leonardo de Simon (Findomestic) presented figures from the Italian consumer credit market showing the significance of vehicle financing in terms of credit market share (62%) followed by personal loans (10%). Although revolving and personal loans represent 50% of Findomestic lending to consumers, financing of vehicles (in the majority, new cars but also second-hand cars and bikes) and furniture contributes a large part of its turnover. Mr. de Simon remarked that the period of 14 days given to the customer to exercise his/her right of withdrawal (Art. 11 of the draft proposal for a directive) is excessively long for credit agreements at the point of sale.

The point-of-sale consumer credit market in Germany is particularly developed in the car industry (accounting for the financing of 75% of new car sales and 60% of used car sales) and to a lesser extent for durables (12% of furniture and 5% of white and brown goods). **Mr. Pierantonio Rumignani** (CC-Holding) stressed the importance of taking into account the distribution methods of consumer credit products in different countries. The German specificity on that point is the high degree of decentralisation of the activity (only a few organisations cover the whole country), the negligible role of intermediaries and the frequent use of debit cards linked to overdraft.

According to the report of **Mr. Salvador Maldonado** (Banco Cetelem), general and savings banks dominate the Spanish consumer credit market with 63% of new credit granted for purchases of consumer goods. Specialised banks which often have special agreements with retailers provide the other 37%. The use of low- or zero-rate credit products constitutes a fairly big part of consumer credit products at the point of sale - 20% of car financing and 55% of financing of furniture. Mr. Maldonado remarked that the point-of-sale consumer credit market in Spain presents certain stability in spite of the fact that consumer credit as a whole might be growing.

A differentiation of products included in consumer credit at the point of sale was given by **Mr. Cyril Robin** (ASF) as follows: revolving (store cards), “assigned credit” (store instalment credit) and hire-purchase or lease with purchase option. These types of credit are used to finance 20% of white and brown goods, 30% of department store sales, 20% of superstore sales and 2/3 of new cars purchases in France. Mr. Robin argued that special features of point-of-sale consumer credit must be considered further in the assessment of legislative rules, notably the right of withdrawal (Art. 11 of the draft proposal), the definition of credit intermediary (Art. 2 of the draft proposal) and the exemption of credit agreements of less than three months (Art. 3 of the draft proposal).

Mr. Frédéric Tardy (Cetelem) concluded the first part of the seminar underling the crucial role of efficient financial services for retailers who use this kind of services to increase sales, to conserve a market share and to obtain new revenues. By offering various exclusive advantages and services, store cards serve to support consumption which, incontestably, has beneficial effects on retail business. Mr. Tardy gave an example of a special agreement between But (first furniture retailer in France) and Cetelem, which contributed to an increase in But’s turnover by 10%.

Discussions of economic and legal implications of regulatory decisions on consumer credit concentrated on consumer protection and the establishment of common rules in order to bring about the construction of a single credit market in the EU. Most of the participants agreed that imposing very restrictive rules with the intention of ensuring a maximum harmonisation of national legislation could be harmful rather than beneficial to stimulate consumer credit activity throughout Europe.

Ms. Almudena de la Mata (ECRI/CEPS) started by pointing out the need of a new regulation for consumer credit in Europe and cited the reasons for this. Keeping the current legislation is no longer possible. Ms. de la Mata highlighted the most controversial points of the draft consumer credit directive and gave an overview of the different perspectives. She raised the question whether the potential negative economic effects that are attributed to the implementation of the Proposal are due to the consumer protection approach of the directive or whether a high level of consumer protection can be compatible with a functioning market. The consumer´s perspective overlooks the paradox that certain protective measures can have an overall negative effect for the average consumer. It is a matter of choice. Ms. de la Mata entered into the maximum harmonisation issue, presenting pros and contras. Maximum harmonisation implies important policy choices. She raised the question whether it could be possible to have a maximum harmonisation with more exceptions.

Mr. Roger Grazebrook (Lloyds TSB Group) reproached the proposed European directive for its lack of a clear outcome. He noted that the scope of the proposal is very broad, and suggested that overdrafts and mortgages must not be included in the directive because they differ substantially by their purpose (overdrafts correspond to short-term not structured credit) or by the way they are granted (mortgages are not immediately obtained by the consumer) from other types of credit. Mr. Grazebrook also questioned the justification of the principle of "responsible lending" given the fact that lenders have no interest to encourage less responsible borrowing. Their "culture of business" imposes sufficient incentive for good control on borrowing. Furthermore, excessive restrictions reduce the flexibility of consumer finances and, finally, disadvantage the consumer (Mr. Grazebrook gave the example of zero interest borrowing).

Dr. Stefan Stein (Intitut für Kredit- und Finanzwirtschaft, Bochum) appealed for stronger faith in the market and reminded the participants that "the spirit of competition" is the best protection for both lenders and borrowers. He insisted on the need to give more attention to the economic impact of institutional intervention as in the case of Art. 19 (joint and several liabilities for creditors and retailers). Art. 19 would give advantage to consumers buying goods by point-of-sale credit over consumers paying by cash or using overdrafts. Legislative restrictions would lead to either credit rationing or price increases, which would negatively influence growth and employment.

Prof. Dr. Udo Reifner (Institut für Finanzdienstleistungen, Hamburg) raised the point that credit has a social function. It must be productive, and give consumers the opportunity to buy things that give them new possibilities. Prof. Reifner disagrees with the criticism that the draft consumer credit directive is overregulating the market and that this is negative. Regulation is good in itself as long as it is done well. Empirically, the most regulated countries in Europe are the best functioning ones (Sweden). Prof. Reifner showed his preference for the minimum harmonisation approach. The law is what consumers understand as their law. Consumers identify themselves with the law of their country and feel more confident. "Standardisation" instead of maximum harmonisation is the clue to market integrations. This way, comparisons would be facilitated and competition stimulated. It would also increase consumer confidence which constitutes an essential element of the demand for credit.

Mr. Stephan Huber (European Parliament, assistant to Joachim Würmeling of the Legal Affairs Committee) supported the willingness of the European institutions to adapt consumer credit legislation to actual needs of the market. Given the wide differences of interest expressed in public opinion, legislators must look for political balance. This could require combining certain rules of the current directive and probably exporting some of them to other directives. On the other hand, cultural and legal diversities between members states are strong enough to assess the "minimum harmonisation" principle as the best approach for consumer credit regulation. Maximum harmonisation would, indeed, eliminate some efficient protection rules already implemented in different countries. Finally, Mr. Huber proposed to examine the proposal for a consumer credit directive in the light of the directive for unfair market practices.

In response to the arguments against the proposal, **Mr. Jens Ring** (European Commission, DG SANCO) defended the idea that current legislation based on the "minimum harmonisation" principle does not contribute building the single market. This is the reason to opt for a "maximum harmonisation" principle. Mr. Ring emphasised that consumer confidence is a key issue in the process of increasing cross-border activity and that protection rules as proposed in the draft are no more "draconian" than what already exists in national regulation frameworks. "Credit is considered as a risk by all national regulators" and it represents an area where abuses are potentially high. Mr. Ring focused on the fact that the relationship between an immature consumer and a professional supplier supports the argument in favour of the obligation for "exchange of information in advance and duty to provide advice" (Art. 6 of the proposal). Furthermore, common measures and good rules will allow taking rational decisions because creditors will be well informed of these rules and, thus, be better-armed to build their strategies.

Mr. Tobias Mackie (European Commission, DG Internal Market) closed the seminar by enumerating some additional issues to be considered in the revision of the current proposal. First, more attention should be directed to changes occurring in the financial sphere, such as the increasing efficiency of the market due to consolidations and restructuring or the substantial current and potential development of the market. Secondly, Mr. Mackie stressed the extremely political nature of the question of harmonisation because the construction of a single credit market needs further convergence in other related areas. He concluded by stating that "mutual recognition of credit contracts will be a major step towards the Internal Market."

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