# EBA CONSUMER TRENDS REPORT 2014

28 FEBRUARY 2014

EUROPEAN BANKING AUTHORITY

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# Abbreviations

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| **BSG** | Banking Stakeholder Group |
| **CARRPD** | Directive on Credit Agreements Relating to Residential Property |
| **EBA** | European Banking Authority |
| **ECB** | European Central Bank |
| **EIOPA** | European Insurance and Occupational Pensions Authority |
| **ESA** | European Supervisory Authority |
| **ESMA** | European Securities and Markets Authority |
| **EU** | European Union |
| **JC** | Joint Committee (of the three ESAs) |
| **MCD** | Mortgage Credit Directive |
| **NSA** | National Supervisory Authority |
| **PAD** | Payment Accounts Directive |
| **PPI** | Payment Protection Insurance |
| **POG** | Product Oversight and Governance |
| **PSD** | Payment Services Directive |
| **RTS** | Regulatory Technical Standard |

# Executive Summary

One of the tasks of the European Banking Authority (EBA) is to collect, analyse and report on consumer trends. In order to fulfil this mandate, the EBA publishes an annual Consumer Trends Report. Each annual report sets out the trends the EBA has observed, identifies the consumer issues that may arise, or have arisen, from these trends, and describes the approaches the EBA will be taking in that calendar year to address them.

The market segments of relevance to the EBA comprise the 'pure' banking products that fall into the mandate and scope of action of EBA's consumer protection and financial innovation work. These include mortgages, personal loans, savings products, current accounts, credit/debit cards and payment services.

The trends identified for 2014 are best seen in the context of the trends that were identified in the 2013 report, and the actions the EBA has taken since then to address issues arising from those trends. The actions include the publication of the following instruments:

- EBA Opinion on Good Practices for Responsible Mortgage Lending;
- EBA Opinion on Good Practices for the Treatment of Borrowers in Payment Difficulties;
- EBA Consultation Paper on draft Regulatory Technical Standards (RTS) on the minimum monetary amount of professional indemnity insurance for mortgage credit intermediaries;
- EBA/ESMA Consultation Paper proposing to read across to the banking and investment/securities sectors the EIOPA complaints handling guidelines for the insurance sector;
- A Joint Position of the European Supervisory Authorities, setting out eight high-level principles for manufacturers' product oversight and governance processes; and
- Response to the European Commission consultation on crowdfunding, setting out the risks arising for fund seekers and fund providers when using the lending model of crowdfunding and providing an overview of the national approaches used in the EU-28.

Looking towards the trends and issues for 2014, the report uses a wide set of sources, including input from national supervisory authorities (NSAs), complaints data from European Ombudsmen, views from EBA's Banking Stakeholder Group (BSG), and reports and statistical datasets produced by third-party entities. These inputs suggest that the EBA should look at eight different trends and issue areas in 2014 and take the following actions to address them:

With regard *to household borrowing*, the EBA will assess the merits of converting the Opinions on good practices for responsible mortgage lending and for the treatment of borrowers in mortgage payment difficulties into more binding legal instruments, such as EBA guidelines. The EBA will also be publishing the final version of the RTS on the minimum coverage level for professional indemnity insurance for mortgage credit intermediaries, following the end of the consultation period in March 2014.

With regard to *bank accounts* and *traditional payment methods*, as well *as non-traditional payment methods*, the EBA will monitor the ongoing discussions of the proposed Payment Accounts Directive (PAD) and the revised Payment Services Directive (PSD2), and will launch its own initiatives where required. With regard to *crowdfunding*, the EBA will conduct further analysis jointly with ESMA, to form a view on whether a European regulatory framework is required and, if so, what that framework should look like.

With regard to *mis-selling*, the EBA will embark on phase 2 of the work on Product Oversight and Governance, to develop more detailed requirements for the banking sector which build on the eight principles that have been published as a Joint Position. The EBA will also commence work on sales incentives by gathering the respective experience of NSAs followed by a legal assessment of the supervisory powers available to them, and will continue to work on self-placement of financial instruments within the Joint Committee (JC).

For the topic of *comparison websites*, the EBA will contribute to a JC initiative to develop a 'How to' guide for consumers. With regard to *financial literacy*, the EBA will assess how best to fulfil its mandate on financial literacy. In the meantime, the EBA's work on product oversight and governance will consider requiring manufacturers to take into account the degree of financial capability of consumers when developing and marketing products.

# Background

1. One of the tasks of the European Banking Authority (EBA) is to collect, analyse and report on consumer trends, as laid down in Article 9(1)(a) of the EBA Regulation.[1] In order to fulfil this mandate, the EBA publishes an annual Consumer Trends Report, and has done so in February 2012 and March 2013.[2] Each annual report sets out the trends the EBA has observed, identifies the consumer issues that may arise, or have arisen, from these trends, and describes the approaches the EBA will be taking in that calendar year to address them.

2. The market segments of relevance to the EBA comprise the 'pure' banking products that fall into the mandate and scope of action of EBA's consumer protection and financial innovation work. These include mortgages, personal loans, savings products, current accounts, credit/debit cards and payment services.

3. The 2014 iteration of the report builds on the reports published in previous years. In 2013, the report was mainly based on a survey by the EBA of the consumer protection priorities identified by NSAs in the 27 EU Member States in their respective national markets. This approach was repeated for the 2014 report but was supplemented by several measures the EBA took to increase the variety of information sources on which the report is based. The measures included:

    - The acquisition and analysis of statistical datasets and reports produced by independent research institutes and other organisations on the market trends across several categories of financial services, using the most recent data available. This includes household borrowing, new product activity and emerging growth categories, market position and performance of leading national and international players, and in-depth reports and forecasts of emerging new technologies such as mobile banking;

    - Input from the EBA's BSG, the 30 members of which were asked to name the top five issues they thought the EBA should address in 2014; and

    - Complaints data on banking products received from both NSAs and national Ombudsmen across the EU.

4. The increased number of sources is aimed at increasing the reliability and, hence, quality of the report and, as a result, at ensuring that the EBA will set the right priorities and tackle the right issues in 2014. The acquisition of cross-EU statistical datasets, in turn, was a way to

[1] See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:331:0012:0047:EN:pdf

[2] See http://www.eba.europa.eu/-/financial-innovation-and-consumer-protection and http://www.eba.europa.eu/-/eba-publishes-consumer-trends-report

overcome the limited availability of consistent consumer and product data from the 28 NSAs. This cross-EU perspective inevitably means focusing on data that is comprehensive at the cost of omitting some more recent information that individual NSAs might have been able to provide.

5. The trends and topics that have emerged from the resultant analysis are set out in this report, which presents a selection of the data and explains the measures the EBA will be taking in 2014 to address them. The report will start, however, with a review of the trends that were identified in last year's report and the actions the EBA and NSAs have taken since then.

# Trends and issues identified in 2013 and actions taken since then

6. Last year's report was developed at the end of 2012 and published in March 2013.[3] It identified the following trends and issues as relevant for the EBA in 2013, based on a survey the EBA undertook of NSAs in the (then) 27 EU Member States:

   - Indebtedness and responsible credit;
   - Mis-selling;
   - Transparency and levels of charges;
   - Issues related to specific products (foreign currency loans, complex products, PPI);
   - Security of new technologies used for banking services; and
   - Emerging new forms of liquidity raising.

7. This part of the report sets out which actions have been undertaken by the EBA, NSAs and other relevant institutions since the publication of the report.

## Indebtedness and responsible credit

8. The global financial crisis and the ongoing challenging economic environment had led to concerns in many Member States about consumer over-indebtedness, arrears and foreclosures, and about how such risks might be mitigated, including through responsible lending and credit practices. Concerns that were highlighted in the 2013 report included both mortgage lending and other lending to consumers, such as overdrafts, term loans, hire purchase, credit cards and other personal loans.

9. In response, the EBA monitored the progress of the negotiation of the Mortgage Credit Directive (Directive on credit agreements relating to residential property, CARRPD), which should provide EU solutions to some of the issues identified in relation to indebtedness and responsible lending in the mortgages sector.

10. In particular, the MCD will require lenders to assess the creditworthiness of applicants before granting a loan and encourage them to exercise reasonable forbearance. On this particular point, the EBA published in June 2013 two Opinions on good practices for (i) responsible mortgage lending and (ii) the treatment of borrowers in mortgage payment difficulties.

[3] See http://www.eba.europa.eu/-/eba-publishes-consumer-trends-report

11. As explained in more detail below, in the second part of the consumer trends identified for 2014, the EBA envisages assessing the effectiveness of these opinions, so as to form a view on whether there is a case to 'convert' them into a more binding legal instrument, such as the EBA guidelines.

12. The MCD also introduces requirements related to the professionalism and admission of mortgage credit intermediaries. To that end, the EBA has fulfilled a mandate given to it in Article 29 of the MCD by publishing, on 19 December 2013, a Consultation Paper on draft RTS on the minimum monetary amount of the professional indemnity insurance or comparable guarantee for mortgage credit intermediaries.[4] The deadline for responses is 18 March 2014, at which point the EBA will produce a feedback statement and the final RTS.

13. Some NSAs have also taken measures at a national level in respect of responsible credit and arrears handling, as high levels of indebtedness have led to consumers in arrears. For example, one NSA refined its regulatory approach to develop a recommendation related to consumer protection issues arising as a result of practices by debt collection organisations.

14. Another three NSAs reported having revised existing guidelines, recommendations and provisions. One of these revised the existing set of requirements and principles for responsible lending; another developed a revised code of conduct on mortgage arrears focusing on the interaction between lenders and borrowers, the treatment of un-cooperative borrowers, additional rules in relation to provision of information to borrowers, and new rules in relation to appeals.

15. Additionally, four NSAs introduced new legislation or regulations. In one case, the new law sets a specific legal framework for debt restructuring related to borrowers with low annual income and who also fulfil other specific conditions. One other NSA enacted personal insolvency legislation, while another submitted a proposal to its national government requiring banks clearly to show how amortisation affects a household's finances in the long run.

## Mis-selling

16. In last year's report, a number of NSAs continued to be concerned about the scope for mis-selling of products, which was compounded by the increased incentives for some financial institutions to rebuild their balance sheets and explore revenue opportunities and profit in difficult economic conditions. This included the scope for inadvertent mis-selling by intermediaries who do not understand the products they are distributing. Related to this issue, one NSA had also specifically commented on an increase in customer complaints about the behaviour of its banks and other financial institutions over the previous year, and this regulator's increased focus on how institutions are handling customer complaints.

[4] See http://www.eba.europa.eu/-/eba-consults-on-the-minimum-amount-of-professional-indemnity-insurance-for-mortgage-credit-intermediaries

17. Following last year's report, the EBA started several initiatives to address the issue with regard to both the drivers of mis-selling and the way financial institutions deal with the consequences of mis-selling in terms of complaints handling.

18. With regard to the consequences of mis-selling, the EBA proposed within the JC of the three European Supervisory Authorities (ESAs) to read across to the banking sector the complaints handling guidelines already in place for the insurance sector as developed by the European Insurance and Occupational Pensions Authority (EIOPA). The EBA did so jointly with the European Securities and Markets Authority (ESMA), which proposed the same for the investment and securities sector.

19. The objective of this initiative is to provide EU consumers with a single set of complaints handling arrangements, irrespective of the type of product or the geographical location of the consumer and the financial institution. Identical guidelines will also allow firms to streamline and standardise their complaints handling arrangements across product ranges and will allow national regulators to supervise the same requirements across all sectors of financial services. The Consultation Paper was published on 6 November 2013, with a response deadline of 7 February 2014.[5]

20. With regard to the drivers of mis-selling, work was undertaken by the EBA within the JC of the three ESAs to address one of the drivers of mis-selling: the failure by manufacturers to have proper product oversight and governance processes in place. The design of financial products and services poses risks to consumers when the target market is not correctly identified and when the objectives and characteristics of the target market are not duly taken into account in the marketing of products to consumers.

21. To address the issue, which has arisen across the three sectors of banking, insurance and securities, the JC developed eight high-level principles that stress the importance of the controls that manufacturers need to have in place before launching their products. The aim is to discourage products and services that may cause consumer detriment from entering the market and thus ultimately enhance consumers' confidence in financial markets.

22. The principles were published on 28 November 2013 in the form of a Joint Position of the three ESAs.[6] A Joint Position is not directly addressed at market participants or competent authorities but provides a high-level, consistent basis for the development of more detailed requirements addressed at manufacturers by each ESA in their respective sectors. In 2014, the EBA will embark on phase 2 of this work, as outlined in more detail further below.

23. A particular variant of potential mis-selling that was addressed by the EBA in 2013 is that of 'self-placement'. Self-placement refers to the practice of credit institutions selling their own

[5] See http://www.eba.europa.eu/regulation-and-policy/consumer-protection-and-financial-innovation/guidelines-for-complaints-handling-for-the-securities-esma-and-banking-eba-sectors

[6] See http://www.eba.europa.eu/-/eba-eiopa-and-esma-publish-joint-position-on-product-oversight-and-governance-processes

financial instruments – such as common equity shares, preference shares, hybrid securities and debt – to their existing depositors. Self-placement can cause consumer detriment if the financial instruments are sold to banking customers without making them aware of the risks, by providing misleading information, or declaring the product as being 'as safe as a deposit'. Jointly with ESMA, the EBA undertook preliminary work in 2013 with NSAs to assess the extent to which self-placement occurs across the European Union, and the nature of any risks seen. The work will continue in 2014 within the JC.

### Transparency and levels of charges

24. Concerns that had been identified by national authorities in 2013 referred to the trend for some financial institutions to increase fees and charges, or introduce new 'administrative' fees and charges, for certain loan repayments (particularly when repayments are late), which further burden indebted consumers. Some NSAs have also identified a lack of transparency in charges being levied for overdrafts, and some disregard for the disclosure requirements of the Consumer Credit Directive. A number of regulators were considering whether such behaviours are consistent with their national laws and regulations, and whether clarification or regulatory intervention was required.

25. As the European Commission was in the process of proposing a Payment Accounts Directive (PAD) that would give several mandates to the EBA on the transparency of fees, the EBA did not start any of its own initiatives in 2013 to address the issue.[7] The Commission eventually published the draft PAD proposal on 8 May 2013, and the EBA has since then monitored the legislative process and liaised with the Commission and the European Parliament to clarify the proposed EBA mandates. Depending on the legislative progress of the PAD, the EBA will commence work on the implementation of the proposed mandates in mid-2014 (for details, see the second part of this report).

### Issues related to specific products

26. The 2013 report continued to highlight concerns by NSAs about unnecessarily complex products being offered to consumers who do not understand the products or the risks they involve. Concerns were related to the quality of information provided about such products and whether the information can be readily understood by those to whom the products are offered.

27. Particular examples that were mentioned in the report include loans taken out in foreign currencies (including foreign currency mortgage loans), payment protection insurance (PPI), credit protection insurance in connection with loans, and other complex products that are difficult for consumers to understand in terms of the trade-offs between charges, risks, returns and guarantees. Three NSAs had the topic of PPI as their priority, of which two have

[7] See http://europa.eu/newsroom/calendar/event/434081/european-commission-adopts-a-proposal-for-a-directive-on-bank-accounts

analysed sales procedures and redress to consumers has been decided upon. One NSA is preparing legislation in order to apply the same regulation to all intermediaries offering financial services, and this would include qualification requirements.

28. Since the publication of the report, the EBA has taken no specific measures to address issues arising from these particular products. Instead, the EBA has embarked on a more general approach to address one of the causal drivers of detriment arising from the sale of the above products. Within the framework of the JC, the EBA developed and published eight high-level principles to address insufficient product oversight and governance processes by manufacturers.[8]

29. The pending second phase of developing more banking-specific product oversight and governance requirements is intended to contain the risk of consumer detriment arising from the mis-selling of banking products, including foreign currency loans, PPI and complex products.

30. At a national level, some NSAs took steps to address the issue of foreign currency loans. One NSA published new requirements at the beginning of 2013, setting standards for the risk management and granting of foreign currency loans and loans with repayment vehicles. These were aimed at the unification of existing standards and the full implementation of ESRB recommendations on foreign currency lending (ESRB/2011/1). As a result, the NSA in question observed a notable decrease in the number of such loans.

## Security of new technologies

31. Last year's report raised concerns about the security and fraud risks that continue to arise in connection with new banking and payment technologies. These include the need to ensure that all providers have appropriate systems and controls in place to manage the risks and to deliver on their consumer protection obligations, including where services are provided across national borders.

32. Since the publication of the report, the EBA has started working on the topics of mobile payments and alternative payment channels. As a first step, a risk analysis has been carried out for mobile payments. As a next step, the EBA will integrate the various payment-related topics into a single initiative, including security issues in this work.

33. Furthermore, in summer 2013, and following the publication of the European Commission's proposal for a review of PSD2, the EBA started attending the meetings of the European Forum on the Security of Retail Payments (SecuRe Pay) of the European Central Bank (ECB). SecurRe Pay is a voluntary cooperative initiative between relevant authorities from the European Economic Area – i.e. supervisors of payment service providers – formed with the objective of facilitating common knowledge and understanding of issues related to the

[8] See http://www.eba.europa.eu/-/eba-eiopa-and-esma-publish-joint-position-on-product-oversight-and-governance-processes

security of electronic retail payment services and instruments. Where considered necessary, SecuRe Pay can issue recommendations.

34. The mandates that the EBA would receive if the PSD2 proposal was adopted foresee the EBA working closely with the ECB and SecuRe Pay to implement those mandates that are related to security. This work is expected to start in the second half of 2014 (for details, see the second part of the report).

### New forms of liquidity raising and funding

35. Lastly, the 2013 report identified new models of liquidity raising and funding. One of these is ‘crowdfunding’ or ‘peer-to-peer’ lending, whereby groups of consumers are invited to participate in direct lending to other borrowers or enterprises, as an alternative to funding from financial institutions. While such models may have their place, some regulators have issued reminders to consumers to be aware of the risks that may be involved and the lack of protections underpinning some of these schemes.

36. This new form of raising capital is typically put in place through an internet-based platform that brings together individuals or companies looking for funds and those who are willing to provide the funds. There are different models of crowdfunding – donations, rewards, profit sharing, lending, debt and equity are the most widely mentioned. These activities were considered to be relevant by a number of NSAs and some have actually taken steps in order to address their concerns.

37. Since publication of the report, the EBA has started analysing the risks for fund seekers and fund providers when using the lending model. The result of this analysis was sent as an EBA response to the European Commission consultation on crowdfunding, with a view that the mitigation of these risks will contribute to market actors having increased confidence in this new form of funding.

38. Simultaneously, work was carried out in autumn 2013 with ESMA in the form of a joint survey of the 28 Member States to gauge the scale of the phenomenon and to identify any risks that may have materialised and the regulatory approaches taken by the 28 NSAs. The resulting report is to be sent to the Commission to further contribute to the emerging European approach to crowdfunding.

# Trends and issues identified for 2014

39. As explained in the background section, the EBA identified the consumer trends for 2014 using a wider choice of data and information sources than previously. The EBA approached the NSAs in the 28 Member States to identify the top consumer issues they are currently working on. The EBA also acquired and analysed statistical datasets and reports produced by independent research institutes and other organisations on the latest market trends across several categories of financial services. Throughout, the EBA has used the most recent data points available to do this. These categories included household borrowing, new product activity and emerging growth areas, market position and performance of the leading national and international players, and in-depth reports and forecasts of emerging new technologies, such as mobile banking. The methodologies used by these external reports is summarised in Annex 1.

40. Furthermore, the EBA received input from the EBA's BSG, the 30 members of which were asked to name the top five issues they thought the EBA should address in 2014, and analysed complaints data on banking products requested and received from both NSAs and national Ombudsmen across the EU.

41. The increased number of sources is intended to improve the reliability and, hence, quality of the report and, as a result, to ensure that the EBA will set the right priorities and tackle the right issues in 2014. The acquisition of statistical cross-EU datasets was, in turn, a way to overcome the limited availability of consistent consumer and product data from the 28 NSAs individually (although it came at the cost of having to ignore more recent data that a few NSAs were able to provide individually).

42. The analysis of the above data and information suggests that the EBA should assess the following issues in 2014:

    - household borrowing;
    - bank account switching and fees;
    - traditional payment methods such as cash, debit and credit cards, cheques, bank transfers;
    - non-traditional payment methods, such as mobile payments and e-wallets;
    - digital currencies;
    - crowdfunding;
    - mis-selling of products;
    - comparison websites; and
    - financial literacy.

43. A comparison of the list above with the list of trends and issues that had been identified in 2013 reveals that many trends, or variations thereof, have remained an issue in 2014. For example, matters related to household borrowing, i.e. the means of financing available to households for the purchase of residential properties and for some of their consumption expenditure remain important. Macro-economic and social conditions appear to have further exacerbated this issue, resulting in concomitant high levels of indebtedness and borrowing.

44. The topic of bank accounts, in turn, has increased in relevance and now includes the topic of transparency and level of fees, as well as account switching. Furthermore, amongst the new forms of funding and liquidity raising, crowdfunding has attracted the greatest attention across the EU, as it provides an alternative to traditional channels of borrowing and lending. The European Commission, too, has taken an interest in the topic and published a consultation paper on 3 October 2013. It provides additional impetus for the EBA to take a view on which, if any, regulatory measures are required to ensure that market actors can have confidence in this new form of borrowing and lending and that regulatory arbitrage is avoided.[9]

45. Mis-selling of products continues to be an issue this year, as some survey results show that consumers still mention this as a reason for losing confidence in the financial institutions.[10] The increased usage of innovative payment methods, such as internet and mobile payments, is also a continuing issue, particularly with regard to payment security.

46. A cross-cutting topic that has been mentioned by many of the sources used by the EBA is financial literacy. Improving consumers' understanding of matters such as product characteristics, terms and risks remains a contributing factor in reducing detriment and increasing consumer confidence in financial markets.

47. New trends that have emerged for this year include virtual currencies and comparison websites. Virtual currencies such as Bitcoins have increased in popularity, and the number of users and retail outlets that use virtual currencies as a means of payment has increased significantly. The question therefore arises as to whether virtual currencies can and ought to be regulated.

48. With regard to comparison websites, their importance as a basis for consumers' choice of financial products has continued to increase in some Member States. This raises questions about the remuneration models of websites, the criteria by which products are recommended, and any conflicts of interest that may arise as a result of the ownership models of such websites.

49. The remainder of this report considers each topic in detail and includes the measures the EBA will take on them in 2014.

[9] See http://ec.europa.eu/internal_market/consultations/2013/crowdfunding/index_en.htm

[10] Ernst & Young (2012), Global Consumer Banking Survey 2012

## Household borrowing

50. The effects of the global economic crisis have further exacerbated the topic of household borrowing, which therefore remains a key consumer protection concern. Consumer indebtedness results primarily from individuals taking out mortgages and personal loans to finance household consumption. Data from the research reports analysed by the EBA has highlighted several noteworthy trends in these types of loans, which has been echoed in the qualitative descriptions provided by NSAs about their respective national markets.

51. Exhibit 1 depicts the annual percentage change in housing loans in real terms across Member States of the EU, and for the six most recent years available.[11] Housing loans have shown a diverse trend, as the stock of housing loans has grown in a number of countries while it has decreased in others. However, the aggregate pattern that emerges is that, although annual growth rates have declined since the onset of the financial crisis in 2008, housing loans have continued to grow up until the most recent year for which cross-EU data was available.

52. When selecting the most suitable source for household borrowing data and consumption data, the EBA had two options, each of which fulfilled to a different degree the various criteria that needed to be met, such as geographical comprehensiveness, timelines and methodological consistency. Data from the European Credit Research Institute (ECRI), for example, covers all EU Member States but was available only until end of 2012. Data gathered and publicised by the ECB, by contrast, covers an additional 12-month period but uses a consistent methodology only for a subset of the 28 EU Member States, i.e. the countries of the Eurozone.[12] Faced with this choice and the respective upsides and downsides, the EBA did not opt for either one of them and instead used both sets of data.

53. The drivers of the trends depicted in Exhibit 1 are likely to be diverse. They may include the observation that mortgage credit is no longer as readily available to consumers as it had been prior to the crisis, which has resulted in a tightening of lending standards and, hence, a contraction of lending volumes. This was followed by a demand contraction in some countries as households faced a reduction of real disposable income. On the other hand, in an effort to stimulate weakening economic activity, the ECB and national central banks embarked on a course of prolonged interest rate cuts, keeping loan contraction at bay by making loans more affordable than they would have been otherwise.

[11] European Credit Research Institute (2013), Statistical Package 2013, Lending to Households in Europe (1995-2012)

[12] European Central Bank, Statistical Data Warehouse, Monetary Financial Institutions (MFIs)/Monetary Statistics/MFI balance sheets/Assets/Loans

Exhibit 1: Real growth in housing loans, year-on-year percentage change (base year: 2010)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| **Austria** | 3.06% | 7.78% | 0.87% | 6.60% | 1.49% | -0.27% |
| **Belgium** | 7.41% | 6.38% | 4.43% | 4.68% | 4.61% | 2.94% |
| **Bulgaria** | 47.02% | 28.79% | 6.64% | -0.65% | -0.17% | -1.93% |
| **Croatia** | 15.76% | 12.49% | -0.62% | 12.98% | 1.30% | -5.02% |
| **Cyprus** | 23.30% | 20.40% | 20.31% | 12.57% | 1.03% | -0.37% |
| **Czech Republic** | 30.39% | 15.95% | 10.54% | 4.39% | 4.21% | 3.11% |
| **Denmark** | 7.47% | 3.22% | 3.64% | -0.21% | -0.93% | -0.41% |
| **Estonia** | 20.13% | 3.23% | 0.18% | -7.28% | -5.43% | -4.14% |
| **Finland** | 10.28% | 5.21% | 4.37% | 3.91% | 3.86% | 2.06% |
| **France** | 9.96% | 6.37% | 2.82% | 6.28% | 3.78% | 1.64% |
| **Germany** | -3.89% | -1.91% | -0.58% | -1.20% | -1.08% | -0.09% |
| **Greece** | 16.87% | 9.62% | 1.09% | -4.98% | -4.72% | -5.13% |
| **Hungary** | 8.49% | 20.36% | -3.87% | 5.32% | -7.00% | -20.66% |
| **Ireland** | 8.44% | -9.97% | -6.08% | -7.09% | -18.78% | 4.08% |
| **Italy** | 5.69% | -2.75% | 4.93% | [13] | 0.73% | -2.92% |
| **Latvia** | 26.69% | -2.80% | -3.14% | -6.77% | -12.07% | -12.37% |
| **Lithuania** | 49.54% | 15.13% | -1.63% | -4.20% | -4.15% | -3.83% |
| **Luxembourg** | 17.02% | 6.86% | 3.71% | 5.25% | 4.75% | 4.26% |
| **Malta** | 10.40% | 4.95% | 11.20% | 4.26% | 6.94% | 3.89% |
| **Netherlands** | -0.57% | -1.98% | 0.00% | -6.29% | 1.03% | 1.21% |
| **Poland** | 44.16% | 59.20% | 7.72% | 20.71% | 14.14% | -1.38% |
| **Portugal** | 6.90% | 2.99% | 5.29% | 0.96% | -3.87% | -4.95% |
| **Romania** | 80.89% | 38.52% | 10.77% | 10.58% | 11.83% | 5.79% |
| **Slovakia** | 30.18% | 35.77% | 10.88% | 13.12% | 8.54% | 7.53% |
| **Slovenia** | 29.18% | 24.65% | 13.63% | 20.94% | 4.59% | -0.64% |
| **Spain** | 8.96% | 3.56% | -0.97% | -1.56% | -3.23% | -6.37% |
| **Sweden** | 9.84% | 7.62% | 7.11% | 6.37% | 4.95% | 3.51% |
| **United Kingdom** | 7.87% | -0.57% | -1.31% | -2.96% | -3.95% | -1.05% |

Source: European Credit Research Institute (2013), *Statistical Package 2013, Lending to Households in Europe (1995-2012)*

54. Irrespective of the relative importance of the various drivers, the implication for the EBA and national regulators is the same: despite a contraction or stagnation of economic activity, some consumers seek to maintain their living standards and benefit from the low cost of credit and take on increasing loan volumes. This gives rise to the concern about how borrowers will fare as and when interest rates rise again, particularly those that are on variable interest rates.

[13] Italy's data is not available due to the effects of its adjustment to ECB/2008/32 – Regulation concerning the balance sheet of the monetary financial institutions sector

55. It also raises the question of whether, during the prolonged phase of low interest rates, lenders take sufficient account of the inevitable increase in interest rates in the future when assessing the affordability of loans and the creditworthiness of borrowers. Finally, those borrowers that will be hit negatively by increases in interest rates may be subject to unfair treatment by lenders with regard to arrears management and repossession practices.

56. Another form of household borrowing and debt is consumer credit. As depicted in Exhibit 2, the contraction in loan volumes has been much more pronounced in this loan category, with only three countries recording growth in the most recent year available.

Exhibit 2: Real growth of consumer credit, year-on-year percentage change (base year: 2010)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| **Austria** | -3.24% | -3.53% | -6.69% | -3.03% | -7.06% | -6.28% |
| **Belgium** | 7.83% | 5.14% | 0.64% | 0.71% | 1.61% | -2.28% |
| **Bulgaria** | 33.29% | 21.14% | 4.05% | -8.40% | -5.01% | -5.25% |
| **Croatia**[14] | | | | | -25.67% | -19.41% |
| **Cyprus** | 5.55% | 33.87% | 10.26% | -30.37% | -4.67% | -2.16% |
| **Czech Republic** | 19.46% | 18.56% | 8.78% | 5.30% | -3.35% | -2.33% |
| **Denmark** | 16.58% | -1.29% | -14.17% | -11.96% | -6.36% | -6.98% |
| **Estonia** | 35.11% | 0.41% | -9.29% | -16.86% | -14.27% | -1.60% |
| **Finland** | 5.78% | 3.87% | 0.81% | -1.34% | -0.44% | 0.04% |
| **France** | 2.42% | -0.88% | -1.69% | -2.14% | -0.78% | -2.75% |
| **Germany** | -2.22% | 1.41% | 1.90% | 1.42% | -0.61% | -5.26% |
| **Greece** | 15.78% | 11.64% | -3.53% | -7.44% | -7.98% | -8.65% |
| **Hungary** | 31.26% | 35.97% | -3.50% | 6.26% | -2.11% | -16.99% |
| **Ireland** | 3.15% | 1.22% | 7.36% | -17.92% | -12.01% | -15.81% |
| **Italy** | 11.13% | 5.68% | 5.24% | -0.17% | -6.44% | -3.67% |
| **Latvia** | 6.54% | -0.36% | -8.36% | -11.20% | -9.78% | -12.00% |
| **Lithuania** | 32.15% | 10.06% | -19.80% | -12.42% | -28.30% | -7.79% |
| **Luxembourg** | -2.00% | 2.05% | -5.58% | -4.45% | 2.18% | -2.53% |
| **Malta** | 11.02% | 9.27% | 13.80% | -6.03% | 3.25% | -1.59% |
| **Netherlands** | -6.70% | 3.89% | -1.96% | 13.42% | -6.24% | -6.62% |
| **Poland** | 27.31% | 28.54% | 8.46% | -1.92% | -6.97% | -7.16% |
| **Portugal** | 17.96% | 11.12% | 1.95% | -3.92% | -6.48% | -12.61% |
| **Romania** | 65.42% | 25.80% | -5.66% | -18.27% | -6.44% | -10.82% |
| **Slovakia** | 16.05% | 32.32% | 12.69% | 61.23% | -1.36% | 5.60% |
| **Slovenia** | 13.58% | 2.99% | -1.21% | -4.08% | -5.87% | -11.04% |
| **Spain** | 7.65% | -2.43% | -10.51% | -13.61% | -16.12% | -7.36% |
| **Sweden** | 6.34% | 5.04% | 3.52% | -2.68% | 5.67% | 1.39% |
| **United Kingdom** | 0.66% | 0.09% | -13.52% | -6.97% | -11.12% | -4.55% |

Source: European Credit Research Institute (2013), *Statistical Package 2013, Lending to Households in Europe (1995-2012).*

[14] Data for Croatia is only available from 2010 onwards

57. For a set of more recent data, Exhibit 3 shows the year-to-year growth rates for lending for house purchases and for credit for consumption, published by the ECB.[15] The trends observed until 2012 in the ECRI data are in most cases shown to continue through 2013.

### Exhibit 3: Year-to-year growth (December 2012 to December 2013)

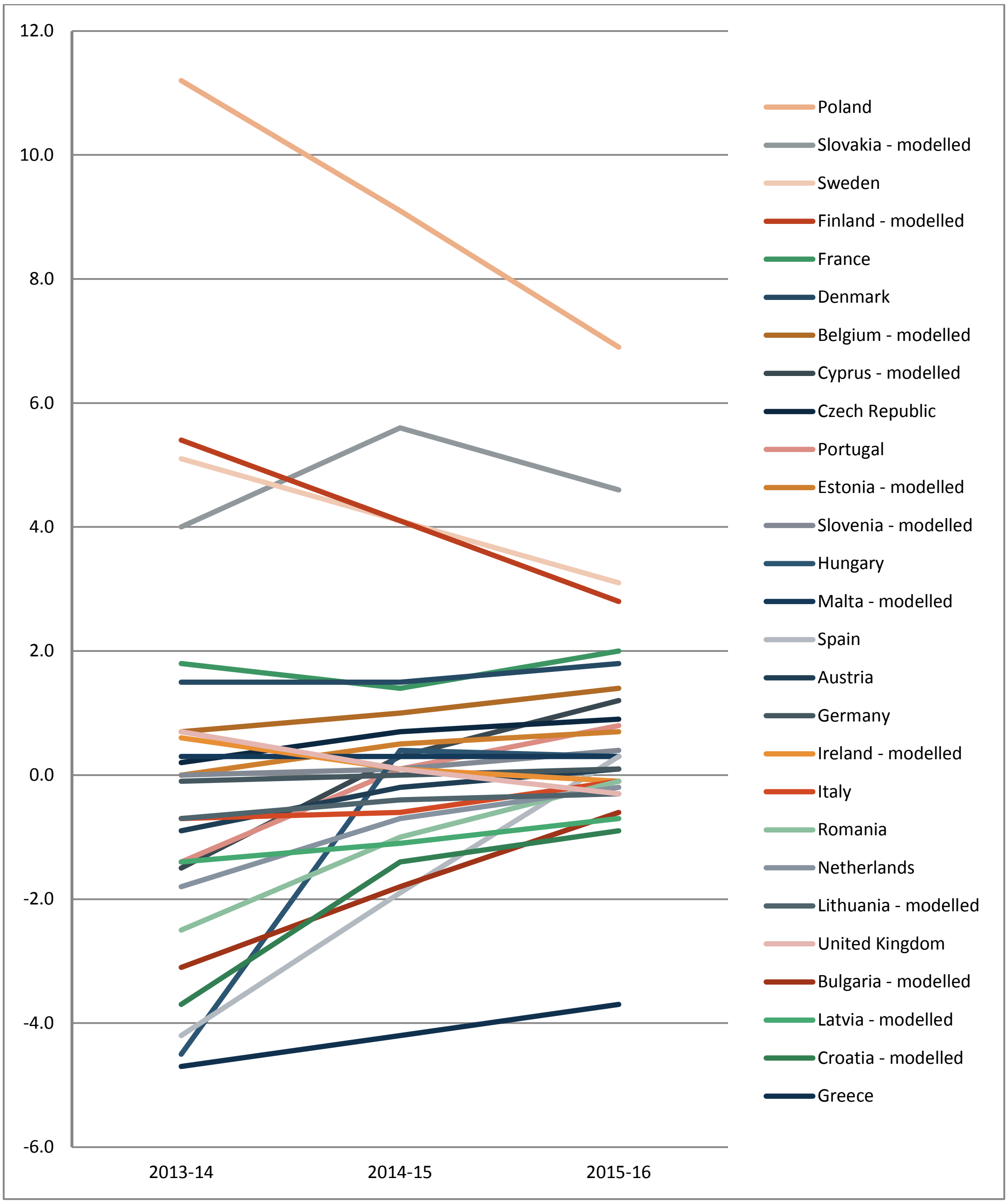
| | Lending for house purchase | Credit for consumption |
|---|---|---|
| Austria | 1.57% | -4.16% |
| Belgium | 11.08% | -6.15% |
| Bulgaria | -1.25% | 1.55% |
| Croatia | -2.82% | -8.07% |
| Cyprus | -6.76% | -10.27% |
| Czech Republic | -4.06% | -8.51% |
| Denmark | 0.56% | -10.57% |
| Estonia | 0.91% | -2.83% |
| Finland | 2.28% | -1.11% |
| France | 4.00% | -5.73% |
| Germany | 2.02% | -2.82% |
| Greece | -4.84% | -6.17% |
| Hungary | -7.12% | -6.93% |
| Ireland | -1.95% | -8.97% |
| Italy | -1.14% | -1.87% |
| Latvia | -5.81% | -33.84% |
| Lithuania | 0.41% | 0.76% |
| Luxembourg | 7.71% | 2.67% |
| Malta | 6.14% | -0.26% |
| Netherlands | -0.37% | -6.43% |
| Poland | 1.69% | 3.49% |
| Portugal | -3.56% | -9.66% |
| Romania | 9.45% | -8.44% |
| Slovakia | 11.70% | 7.53% |
| Slovenia | 0.91% | -10.79% |
| Spain | -4.41% | -7.37% |
| Sweden | 2.03% | 0.12% |
| United Kingdom | -0.80% | -5.42% |

Source: European Central Bank, *Statistical Data Warehouse*, *Monetary Financial Institutions (MFIs)/Monetary Statistics/MFI balance sheets/Assets/Loans*

[15] Rates calculated from the outstanding amounts at the end of period, for December 2012 and 2013

58. However, as can be seen in Exhibit 4, a forecast for the period 2013-2016 suggests that the contraction will end, and that consumer credit markets will stabilise and return to modest growth across the vast majority of EU countries from 2015 onwards.[16] The methodology for this forecast is summarised in Annex 1.

Exhibit 4: Forecast of consumer credit – annual percentage change 2013-16




Source: Euromonitor (2013), *Passport – Consumer finance* (countries in legend ordered by 2015-16 position).

[16] Euromonitor (2013), Passport – Consumer finance

59. The trends observed above were confirmed by a number of supervisory authorities. One NSA indicated that it expected household deleveraging to continue as a result of modest economic recovery, high structural unemployment and low levels of consumer optimism. A continued reduction in real incomes will be a further obstacle to boosting demand in the sector.

60. Another NSA pointed out the fact that, although household debt in its jurisdiction is not alarmingly high by international standards, the more recent accumulation of debt gives cause for concern, as an increasing number of individuals are heavily indebted in terms of their collateral assets. A further NSA mentioned the additional effects arising from currency depreciation, which raised the value of loans that are denominated in foreign currency.

61. The supervisory authority in another jurisdiction pointed to additional causes for the slowdown in housing loans growth after 2007, which include stricter lending criteria (such as lower loan-to-value levels), increased capital requirements, a stagnating housing market with declining house prices, and the general economic slowdown after the financial crisis.

62. The complaints data received from NSAs and analysed by the EBA further reinforced the relevance of the topic in 2014. Of the 17 NSAs that were able to provide complaints data, 11 reported mortgages and other loans as representing the largest share of complaints. Of the 13 NSAs that were able to disaggregate complaints between those for mortgages and those for other loans, nine reported mortgages as accounting for a higher share.

63. A similar analysis of the complaints data received from the Ombudsmen shows that 11 out of 12 reported that loans comprised the highest share of complaints raised, which were equally split between mortgages and other loans.

64. The final source of information used, the responses to a survey carried out by the EBA's BSG, confirmed the concerns relating to mortgages. The BSG made particular reference to contract clauses, information requirements, and irresponsible lending and its impact on financial stability. Further consumer issues mentioned were the trend of consumers borrowing beyond capacity, excessive household borrowing, and the impact of pending interest rate increases on household debt, particularly for those with variable interest rates that are linked to indexes such as Euribor.

65. In 2014, the EBA will take a number of steps to address the issues arising from the trends summarised in this section. Towards the end of 2014, the EBA will assess the effectiveness of the two Opinions on good practices for responsible mortgage lending and for the treatment of borrowers in mortgage payment difficulties that it published in June 2013. The two opinions complement, and provide suggestions on how to give effect to, the related provisions set out in the MCD.

66. More specifically, the Opinion on responsible mortgage lending sets out good practices on the verification of information provided by the mortgage applicant, reasonable debt service coverage, appropriate loan-to-value ratios, and lending and supervisory processes. The

Opinion on the treatment of borrowers in mortgage payment difficulties, in turn, sets out good practices on general principles, policies and procedures, the provision of information and assistance to the borrower, and resolution processes.

67. As Member States will be in the process of transposing the MCD in their national jurisdictions, the EBA will assess the merits or otherwise of converting the opinions into more binding legal instruments, such as EBA guidelines.

68. Furthermore, in April/May 2014, the EBA will be publishing the final version of the RTS on the minimum coverage level for professional indemnity insurance for mortgage credit intermediaries, following the end of the consultation period in March 2014. This will add another element of consumer protection to mortgage markets in the EU, particularly for those who encounter detriment after obtaining their mortgage through an intermediary.

## Bank accounts

69. Bank accounts in general, and payment accounts in particular, are the gateway product for consumers in their relationship with banks, and have therefore been a focal point for regulatory scrutiny. The extent to which consumers are able and willing to switch bank accounts, the transparency of bank account fees and the penetration of bank accounts in the population are being subjected to increased scrutiny.

70. The complaints data received by NSAs underlines the importance of banking products as an area of consumer detriment. In six out of the 17 Member States that provided such data, NSAs indicated that payment accounts were the topic with the highest percentage of complaints. Within the few NSAs that reported disaggregated data in terms of the reason for the complaint, charges and fees ranked highest or second highest in four out of the nine countries. The complaints data received from the European Ombudsmen also confirmed the relevance of the topic, although only in five of them did bank accounts register with a significant percentage of total complaints.

71. The BSG is also concerned about the transparency of fees, the terminology used in bank accounts and the process for switching. For some members, account switching is still not sufficiently agile and effective and is thus undermining the competitiveness of the marketplace.

72. A survey of the EU population carried out in 2012 indicated that respondents were particularly dissatisfied with fee transparency, pointing out that the lack of clarity in communications (55% of respondents) and the lack of standard terms and conditions (34%) were the two main reasons.[17] As a result, 9% of respondents were considering changing accounts, an increase from 7% in 2011.

[17] Ernst & Young (2012), Global Consumer Banking Survey 2012

73. The respondents were also asked to indicate the number of institutions with which they bank. While in 2011, 46% had banked with one, 38% with two, and 12% with three institutions, the percentages shifted slightly in 2012 to 43%, 38% and 14%, respectively. While this indicated a slight trend for consumers to bank with an increasing number of institutions, the overall extent of account switching remains low.

74. NSAs themselves have reported diverse views on the topic of bank accounts, particularly with regard to account switching. While several NSAs mentioned that they were implementing measures aimed at promoting account switching, many of the measures were not of a binding nature. Others stated that they do not have in place any measure that would ensure the whole ease of account switching.

75. The European Banking Industry Committee developed and adopted some 'Common Principles for Bank Accounts Switching' in 2010, which were intended to facilitate account switching and to encourage the participant banks to liaise during the switching process.[18] However, the acceptance of these principles was voluntary, and banks' implementation of the principles within a given jurisdiction differed across the EU.

76. With regard to the degree of penetration of bank accounts in the population, Exhibit 5 depicts data from a selection of EU countries across a ten-year period. While the top countries feature a banked population that is close to 100% of the population over the age of 15, other Member States continue to have 10% or more of the population without a bank account.[19]

[18] See http://www.eubic.org/Position%20papers/2008.12.01%20Common%20Principles.pdf

[19] Euromonitor (2013), *Passport – Consumer Finance.* See Annex 1 for the definitions used

Exhibit 5: Banked population as a % of 15+ population

| Countries | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Unbanked 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Austria*** | 97.4 | 97.5 | 97.6 | 97.7 | 97.9 | 98 | 98.9 | 99.3 | 99.3 | 99.4 | 99.4 | **0.6** |
| ***Germany*** | 98.0 | 98.5 | 98.5 | 98.8 | 98.9 | 99.2 | 99.5 | 99.3 | 99.1 | 99.1 | 99.2 | **0.8** |
| ***France*** | 97.5 | 96.9 | 97.8 | 97.9 | 98.2 | 98.5 | 98.6 | 98.7 | 98.6 | 98.7 | 98.7 | **1.3** |
| ***Netherl.*** | 98.9 | 99 | 99.4 | 99.1 | 99.4 | 99.2 | 99.0 | 98.9 | 98.3 | 98.0 | 98.0 | **2.0** |
| ***Sweden*** | 94.5 | 94.7 | 94.9 | 95.1 | 95.3 | 95.3 | 96.5 | 96.4 | 96.8 | 96.9 | 96.9 | **3.1** |
| ***Denmark*** | 90.8 | 92 | 92.8 | 93.1 | 93.3 | 95.1 | 95.3 | 95.5 | 95.8 | 96.1 | 96.3 | **3.7** |
| ***Portugal*** | 75.5 | 77.3 | 78.4 | 80 | 82.9 | 85.1 | 86.9 | 88.7 | 91.2 | 93.7 | 96.1 | **3.9** |
| ***Spain*** | 88.0 | 87.7 | 87.0 | 87.0 | 87.5 | 89.5 | 90.6 | 92.1 | 92.8 | 92.6 | 92.8 | **7.2** |
| ***UK*** | 93.5 | 94.2 | 94.9 | 94.2 | 93.9 | 93.4 | 92.9 | 92.3 | 91.7 | 91.1 | 90.5 | **9.5** |
| ***Czech Rep*** | 70.8 | 75.1 | 78.2 | 82.3 | 85.2 | 85.5 | 85.5 | 85.8 | 86.4 | 88.0 | 89.2 | **10.8** |
| ***Hungary*** | 68.0 | 69.9 | 71.9 | 73.8 | 75.0 | 79.9 | 81.2 | 82.9 | 84.1 | 85.0 | 86.7 | **13.3** |
| ***Italy*** | 74.9 | 74.6 | 75 | 76.2 | 77.6 | 79.2 | 79.6 | 81.6 | 82.1 | 82.9 | 83.1 | **16.9** |
| ***Greece*** | 85.7 | 86.4 | 86.3 | 86.3 | 86.3 | 86.3 | 86.7 | 87.5 | 85.6 | 84.4 | 82.2 | **17.8** |
| ***Poland*** | 55.5 | 57.5 | 60.9 | 65.1 | 68.9 | 71.2 | 71.6 | 72.6 | 74.9 | 78.8 | 81.0 | **19.0** |
| ***Romania*** | 30.6 | 31.7 | 33.1 | 34.8 | 36.8 | 39.2 | 41.9 | 45.1 | 46.3 | 46.8 | 47.7 | **52.3** |

Source: Euromonitor (2013), *Passport – Consumer finance*

77. The input given by NSAs suggests numerous reasons why individuals may not hold a bank account. These include banks applying restrictive criteria to the selection of customers, individuals preferring not to hold a bank account for cultural reasons, individuals lacking confidence in banks and governments given more recent instances of banks' conduct failures and government appropriation of deposits, and bank branches being too remote from individuals to allow for easy access.

78. In 2014, the EBA will take action to address these trends, primarily by preparing for the pending adoption of the proposed Directive on the transparency and comparability of payment account fees, payment account switching and access to a basic payment account, also known as the Payment Accounts Directive.[20] The Commission aims to improve the transparency and comparability of fee information relating to payment accounts, facilitate switching between payment accounts, eliminate discrimination based on residency with respect to payment accounts, and provide access to a payment account with basic features within the EU.

79. The above-mentioned proposal is anticipated to give mandates to the EBA to develop guidelines to assist competent authorities with regard to the reasonable fee for payment accounts with basic features, and in identifying the most relevant services provided by banks on payment accounts. The EBA will monitor the discussion and its outcome, with the final text of the directive and the mandates issued determining the action to be taken.

[20] See: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0266:FIN:EN:PDF

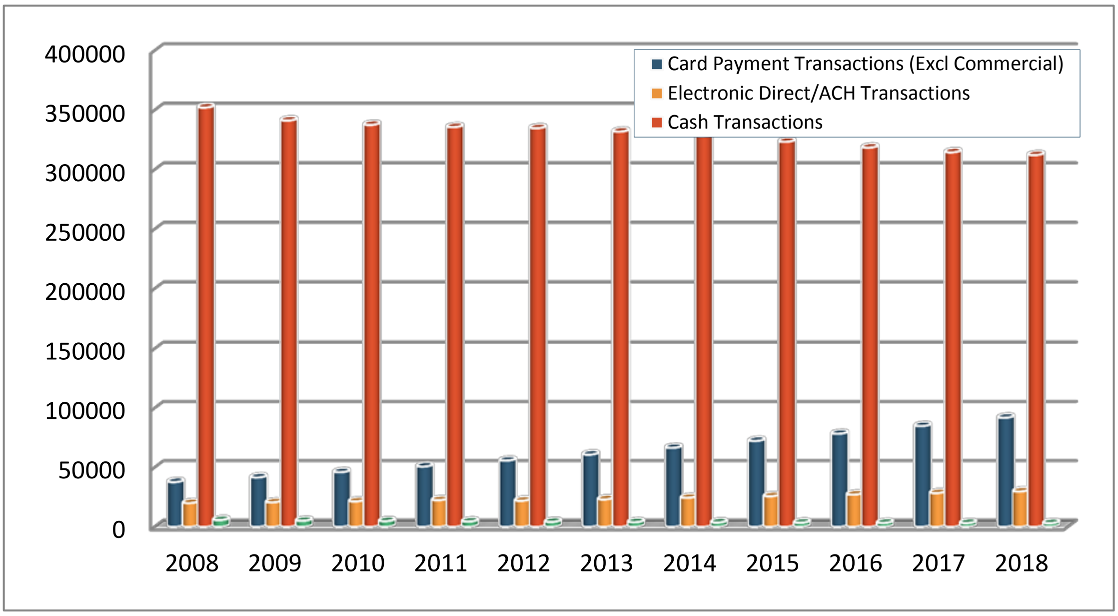
## Traditional payment methods

80. Traditional payment methods include cash, debit and credit cards, cheques, and bank transfers. The trends identified by the EBA indicate a slow but constant shift on the usage of such methods. Cash has been the dominant form of payment by far, and forecasts suggest it will remain so. However, gradually card payments and electronic transactions, such as electronic funds transfers, wire transfers and direct debits, are gaining a higher share of transactions. Exhibit 6 presents the history of and forecast for payment transactions in Europe using traditional payment methods.[21]

81. In 2009, cash transactions represented 83.5% of all payment transactions in Europe, while card payments represented 10.2% and electronic transactions accounted for 5%. By 2012, cash transactions decreased to 80.3%, while card payments and electronic transactions increased to 13.4% and 5.3%, respectively. The forecasts predict the trend to continue in the years to come, as cash transactions will slowly diminish further while card payments will grow at a faster rate.

82. However, geographical distinctions need to be made, as the national markets in the EU do not behave homogeneously. While payment methods have grown and benefitted from innovation for a number of years in Western Europe, with card and electronic payment options being implemented and now widely spread, in some eastern European countries the trend seems to have started changing only more recently.

Exhibit 6: Payment transations in Europe (in millions) – history and forecast




Source: Euromonitor (2013), *Passport – Consumer finance*

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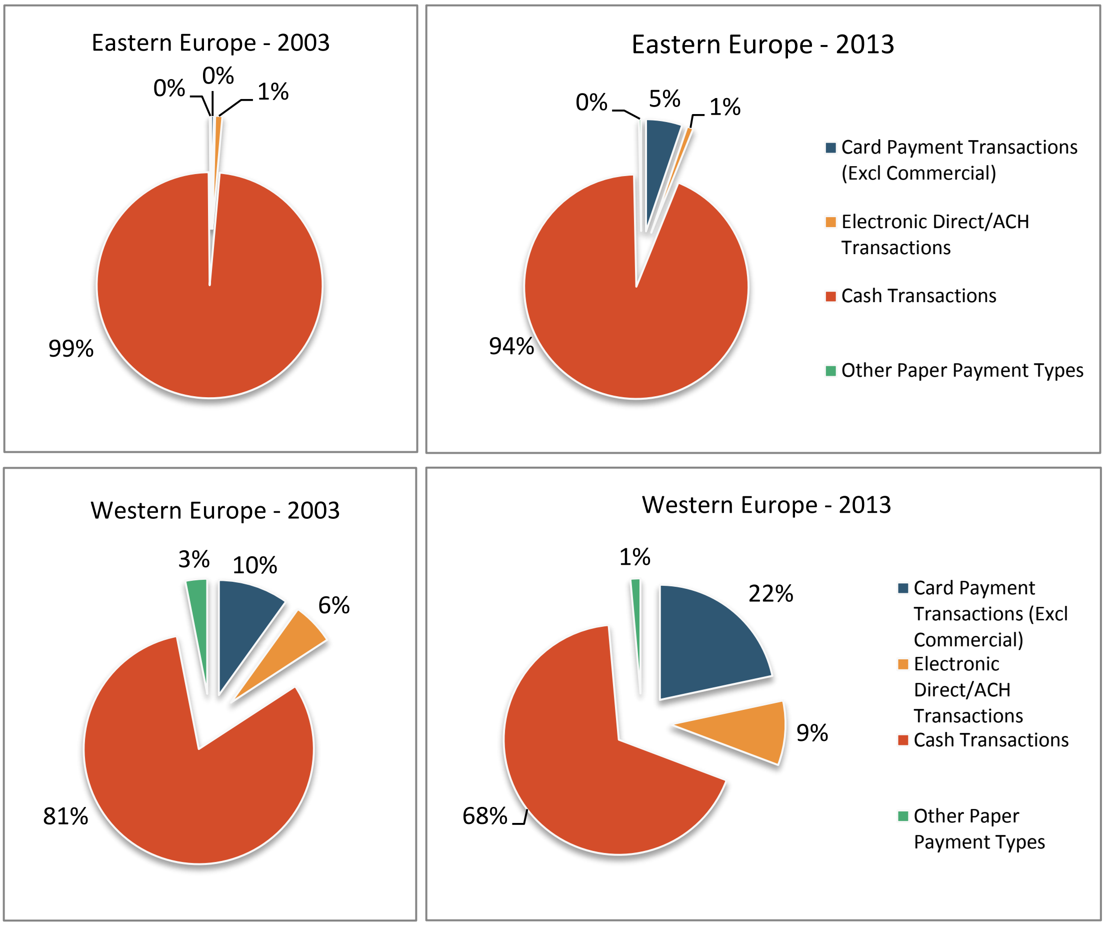
[21] Euromonitor (2013), Passport – Consumer finance

83. Exhibit 7 presents some of these differences. For example, Eastern European markets have seen a pronounced growth of card transactions to 5%, which is likely to continue in the future, but are still at a significantly lower level compared to the 22% recorded for Western Europe, up from 10% a decade before.[22] Electronic transactions have reached a significant share, growing in Western Europe from 6% to 9% over the same period, while cash transactions saw a reduction from 81% to 68%. By contrast, until the present day, cash transactions remain the primary means of payment in Eastern Europe.

Exhibit 7: Payment transactions per type, year and geographical region




Source: Euromonitor (2013), *Passport – Consumer finance*

84. The above trends were confirmed by the NSAs. They also expect cash payments to be replaced by an increased usage of card payments, a trend that will continue further while the retail sector is preparing for payments via Near Field Communication.

85. However, differences between markets were noted as some traditional payments, specifically cheques, are still relevant for a small number of Member States, while reduced or

[22] Euromonitor (2013), *Passport – Consumer finance*, with Eastern Europe comprising the Czech Republic, Hungary, Poland and Romania, and Western Europe comprising Austria, Denmark, France, Germany, Greece, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and the UK

practically inexistent in others. One NSA indicated that the two cashless payment methods most frequently used were payment cards (debit and credit cards) and credit transfers. Direct debit transfers are not that broadly used. The usage of cheques is diminishing as a payment method.

86. Another NSA mentioned that the usage of debit and credit cards and bank transfers by consumers is widespread. The usage of cash is diminishing and cheques are not used at all by consumers. This NSA was concerned that it was becoming more difficult to use cash as a means of payment and that the diminishing cash services among certain financial institutions were causing problems for certain groups in society.

87. Another NSA described its consumers as more traditional users, intensively resorting to cash, with 60% of all consumer payments being made in cash and the remainder by debit or credit card. This was also one of the few remaining EU Member States where consumers still use cheques on a regular basis.

88. Looking at the complaints data provided by NSAs, among the 17 NSAs that record complaints data by product type, debit and credit card issues registered the highest in only one country. However, the share in total complaints is high across the vast majority of jurisdictions. As for the Ombudsmen complaints data, when combined, cards and payments services become the highest ranked cause of complaints in five of the 12 entities.

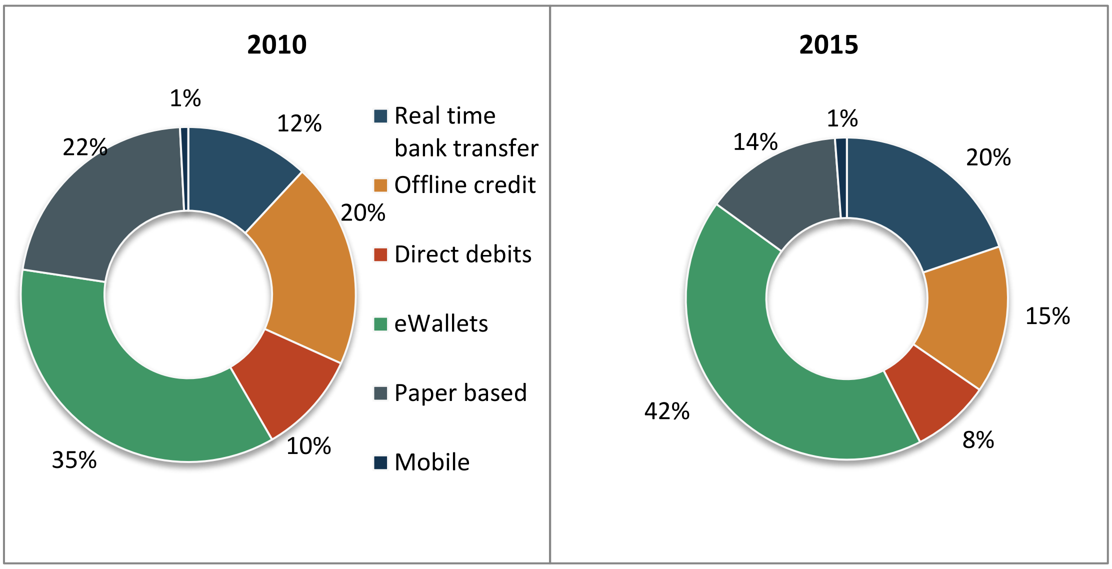
89. Only a few members of the EBA's BSG considered traditional payment methods an issue to which the EBA should devote its efforts. One member referred to the evolution towards a cashless society and its impact on the elderly, who not familiar with other payment instruments.

90. The EU regulatory framework regarding traditional payments will see some changes with the upcoming PSD2 and the proposal for a regulation on interchange fees for card-based payment transactions. The EBA will continue monitoring these two documents. It is anticipated that the revised version of the PSD2 might provide mandates to the EBA, particularly with regard to certain technical aspects, but the adoption of the PSD2 is not expected before the end of 2014.

### Non-traditional payment methods

91. Payment methods have evolved and innovations have been introduced across EU Member States. Some of these alternatives have come to represent a serious competition to the payment services provided by banks. Examples of these new methods are mobile payments and e-wallets.

Exhibit 8: Global share of alternative payment methods




Source: WorldPay (2012), *Optimising your Alternative Payments: a Global View*

92. Mobile payments (M-payments) can be briefly described as payments for goods and services made using mobile devices, which does not include accessing banking services via an internet browser on a mobile phone. E-wallets are a means of electronically storing digital cash and billing, shipping and payment information for online transactions. Exhibit 8, which is based on research carried out by alternative payment providers, shows the past and estimated market shares of these new payment methods and suggests that the importance of these alternatives is growing.[23]

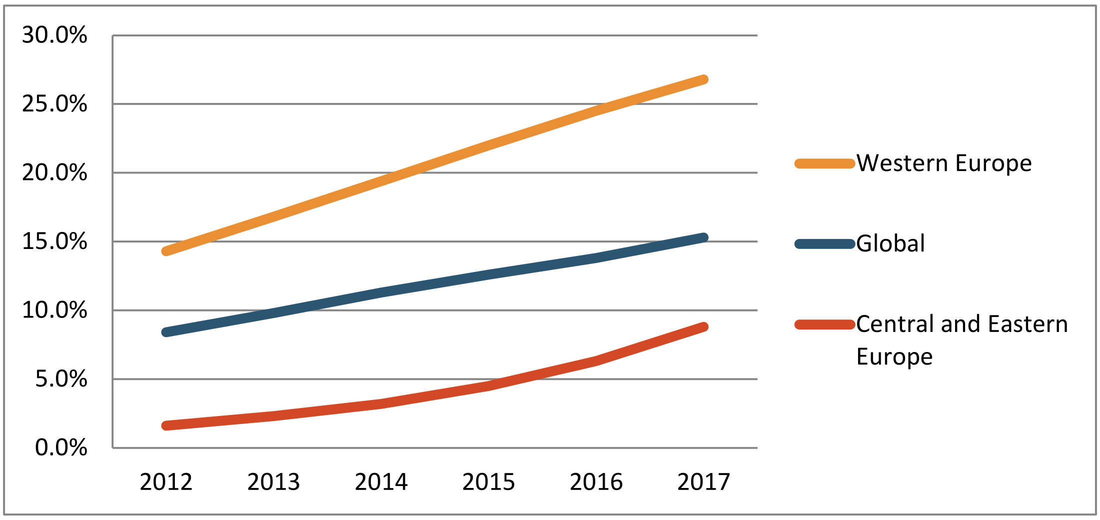
93. As early as 2010, e-wallets accounted for the largest share of alternative payment methods and they are expected to grow further from 35% to 42% by 2015. In the same period, real time bank transfers are expected to double their share, growing from 12% to 20%. These shares will grow at the expense of paper-based options, which are expected to decrease from 22% to 14%.

94. While mobile payments continue to account for a relatively small share of payment transactions (1%), forecasts show they will experience significant growth. Exhibit 9 shows that global mobile payments are expected to increase in the next five years, as more than 15% of mobile users will be using their handsets for payments. In Western Europe, the percentage is even higher and is predicted to reach more than 25% in 2017.[24]

[23] WorldPay (2012), *Optimising your Alternative Payments: a Global View*

[24] Juniper Research (2013), Mobile Banking, Handset & Tablet Market Strategies 2013-2017

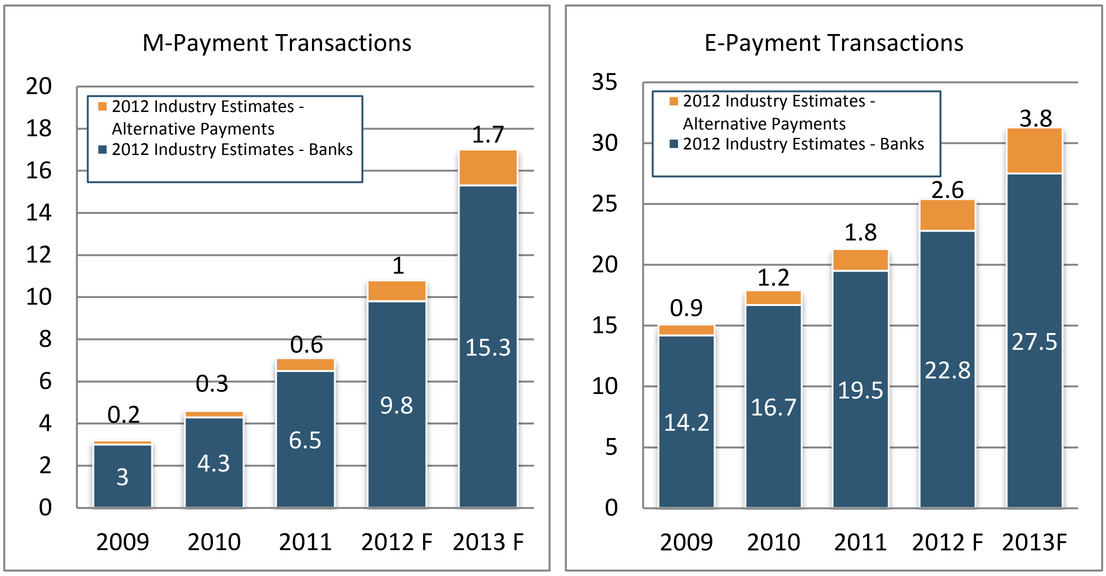
Exhibit 9: Percentage of mobile users who access mobile banking information services




Source: WorldPay (2012), *Optimising your Alternative Payments: a Global View*

95. As growth is confirmed, so is the competition that these new alternative payment methods will represent to banks. Exhibit 10 depicts the evolution of the share of banks and alternative providers of M-payments and E-payments. As the numbers of transactions are expected to grow in both types of payments, alternative providers will be taking a higher share of the market.[25] Some of the new payment methods are being introduced by non-banks, e.g. supermarket chains and independent payment companies.

Exhibit 10: Global number of M-payment and E-payment transactions (billions)




Source: Cap Gemini/EFMA (2012), *World Payments Report*

[25] Cap Gemini/EFMA (2012), *World Payments Report*

96. The results of the survey of NSAs confirm the growth in the usage of alternative payment methods. NSAs report that the infrastructure supporting their usage is expanding and developing and that many payment service providers are starting to introduce more innovative payment methods including contactless technologies.

97. As these payment options are developing, some NSAs are increasingly concerned about the security risks arising from alternative payments. One NSA mentioned that it is now carrying out an annual analysis on risks and vulnerabilities arising from the management and control of payment systems, while another NSA has focused on the aspects of safety and integrity for those using non-traditional payment methods.

98. BSG members have also mentioned concerns regarding security and innovative payment methods, especially those arising from mobile payments. Data security has been mentioned most frequently.

99. A number of possible consumer detriment issues can arise: unauthorised charges, misleading information disclosure, absence of dispute resolution and redress mechanisms, data protection concerns, accountability for payment instructions carried out and the involvement of third-party service providers in fund transfers and remittance.

100. The PSD2 is anticipated to address issues related to new payment services, their providers and security. The EBA will be monitoring the mandates that are proposed to be assigned to it, and will commence work on the implementation of those mandates in the second half of 2014.

### Virtual currencies

101. A virtual currency is a form of unregulated digital money that is not issued or guaranteed by a central bank and that can act as a means of payment. Virtual currencies have come in many forms, beginning as currencies within online computer gaming environments and social networks, and developing into means of payment accepted offline or in 'real life'. It is now increasingly possible to use virtual currencies as a means to pay for goods and services with retailers, restaurants and entertainment venues. These transactions often do not incur any fees or charges, and do not involve a bank.

102. In recent times, Bitcoin has changed the character of virtual currencies by setting the scene for a new generation of decentralised virtual currencies. Bitcoin started off amongst consumers in the online world who were looking, amongst other things, for a means of payment for the internet age that did not rely on any central Government or central banks.

103. Supported by heavy media coverage, the use of Bitcoins has spread rapidly: in 2013 alone, the number of users is said to have grown from 45 000 to more than 400 000. An increasing number of retailers, both online and in the real economy, have started to accept Bitcoins as a means of payment that does not incur any exchange rate fees and which does not usually involve a bank or any charges that may be placed on a transaction.

104. The EBA decided to issue, in December 2013, a warning to consumers regarding the risks related to virtual currencies, i.e. the risk of losing money on the exchange platform, the risk that money could be stolen from the digital wallet, the lack of protection when using virtual currencies as a means of payment, the fact that the value of virtual currency owned can change quickly and even drop to zero, the fact that transactions in a virtual currency may be misused for criminal activities, including money laundering, and the fact that individuals holding virtual currency may be subject to tax liabilities in their countries. Several national supervisors followed suit and published statements on their own websites and/or cross-referenced the EBA warning or one of its 22 translations.

105. However, the question yet to be addressed is whether virtual currencies can and ought to be regulated. To that end, the EBA will establish a cross-sectoral taskforce in H1 2014, with the aim of finding an answer to this question. The analysis would see the taskforce identifying not only the risks for consumers of using virtual currencies as a means of payment, but also risks that may arise

- for regulators in achieving their anti-money laundering objectives, given that the anonymous nature of virtual currencies is conducive to this type of activity;
- for investors from using virtual currencies for speculative purposes or from buying investment products that are based on virtual currencies (e.g. ETFs using Bitcoins as an underlying asset); and
- for societies more widely, as a result of virtual currencies being used for criminal activities, such as the anonymous purchase of illegal goods, including drugs and weapons.

## Crowdfunding

106. From the many new forms of raising funding, crowdfunding has been the most widespread. Crowdfunding can be defined as an emerging alternative form of financing that directly connects those who can give, lend or invest money with those who need financing for a specific project. This is usually done through online portals, also referred to as ‘crowdfunding platforms’.

107. Crowdfunding can take many forms, including donations, rewards and pre-sales, lending, and investment-based models, and has been enjoying increased popularity in recent years. Its growth is difficult to quantify due to the lack of quantitative data that would provide a reliable picture of the amounts raised through these models of funding.

108. One source suggests that the 2012 worldwide volume reached USD 2.7 billion, raised from more than a million different campaigns, which represents a growth of 81% on the previous year.[26] The largest share in 2012 was raised by donations and reward-type of crowdfunding projects and amounted to USD 1.4 billion. This was followed by lending-based projects,

[26] Massolution (2013), 2013CF – The Crowdfunding Industry Report

which grew by 110% to USD 1.2 billion, and equity-based projects received USD 116 million. Analysed by geographical region, North America accounted for USD 1.6 billion, while Europe accounted for USD 945 million.

109. To its proponents, crowdfunding offers an alternative source of funding to banks, many of which have restricted their credit provisioning across Member States in the wake of the financial crisis. However, crowdfunding can also give rise to risks for both fund seekers and fund givers, which is why the EBA carried out a more thorough risk analysis in 2013. Since donations, rewards and pre-sales are considered to be outside of the scope of banking and financial services regulation, the regulatory attention is most usefully afforded to the lending and investment-based models. Nevertheless, when fund transfers and remittances are involved, all crowdfunding models can be considered under the regulatory remit of the PSD.

110. Jointly with ESMA, the EBA conducted a survey of NSAs, with the aim of gauging the scale of the phenomenon; any risks that may have arisen and any regulatory actions NSAs may have taken. The responses showed that 16 of the 28 NSAs reported crowdfunding activities, and these appeared to be growing at a fast rate.

111. The survey also showed that a limited number of countries have already taken or are in the process of developing regulatory initiatives directly targeted at crowdfunding. NSAs had different views as to the applicability to the phenomenon of crowdfunding of existing EU directives, such as the Payment Services Directive, the Consumer Credit Directive or the Anti-Money Laundering Directive. This has resulted in a heterogeneous regulatory approach across EU Member States, and has allowed initiatives to develop crowdfunding business so that it falls outside the supervision or approval powers of the regulators.

112. The current heterogeneous regulatory playing field may allow arbitrage opportunities, as platforms are usually internet based and may set up their activities choosing jurisdictions according to their business requirements.

113. For participants, fund seekers and fund contributors, risks may arise in several areas, e.g. money transfers and assurance of fund delivery, due diligence regarding the reputation of involved parties and money laundering aspects, misleading or lack of information disclosure, unfair or misleading contract terms, and the absence of dispute resolution and redress mechanisms.

114. The EBA will conduct further analysis in 2014, jointly with ESMA, to form a view on whether a European regulatory framework is required and, if so, what form that framework should take.

### Mis-selling

115. Similar to the findings in last year's report, the sources used for the 2014 report suggest that mis-selling continues to be a concern for some NSAs. It also features heavily as a reason for

consumer complaints filed with Ombudsmen, and is mentioned repeatedly in the input received from EBA's BSG.

116. The EBA started several initiatives in 2013 to address the issue of mis-selling with regard to both the drivers of mis-selling as well as the way financial institutions deal with the consequences in terms of complaints handling. These initiatives will continue in 2014 and will also be complemented with new work.

117. With regard to the consequences of mis-selling, within the framework of the JC of the three ESAs, the EBA published a consultation paper (CP) proposing to read across to the banking sector the complaints handling guidelines already in place for the insurance sector as developed by EIOPA. The EBA did so jointly with ESMA, which proposed the same for the investment/securities sector. The CP was published on 6 November 2013, with a response deadline of 7 February 2014. The EBA and ESMA will produce a feedback statement soon and aim to publish the final guidelines in late Q1 2014.[27]

118. With regard to the drivers of mis-selling, the EBA will continue work on product oversight and governance processes, the first phase of which was completed in November 2013 by the JC of the three ESAs. The design of financial products and services poses risks to consumers when the target market is not correctly identified and/or when the objectives and characteristics of the target market are not duly taken into account in the marketing of products. The JC developed eight high-level principles that stress the importance of the controls that manufacturers need to have in place before launching their products, and published them on 28 November 2013 in the form of a Joint Position.[28]

119. In 2014, the EBA will continue with the second phase of this work and develop more detailed requirements that build on the eight principles but are specific to the oversight and governance of banking products such as mortgages, personal loans, credit cards and savings products, as well as, to a lesser extent, payment services. The work is envisaged to be completed in Q2 2014.

120. The EBA will also commence work on sales incentives, which is potentially another driver of mis-selling. As a first step, the experience of the various NSAs with this comparatively intractable and non-transparent issue will be gathered, followed by a legal assessment of the supervisory powers available to NSAs to obtain and evaluate the necessary information on remuneration approaches from financial institutions. The timeline and next steps are not yet determined as they are dependent on the findings of the previous steps.

121. Finally, the EBA will contribute to work in the JC to address two particular variants of mis-selling. First, the EBA will continue to work on self-placement within the JC, an initiative that

[27] See http://www.eba.europa.eu/regulation-and-policy/consumer-protection-and-financial-innovation/guidelines-for-complaints-handling-for-the-securities-esma-and-banking-eba-sectors

[28] See http://www.eba.europa.eu/-/eba-eiopa-and-esma-publish-joint-position-on-product-oversight-and-governance-processes

was started in 2013. Self-placement means, in this context, the practice of credit institutions selling their own financial instruments – such as common equity shares, preference shares, hybrid securities and debt – to their own depositors. These activities might potentially lead to consumer detriment, as consumers may be given the impression that the product is a deposit, ‘as safe as a deposit’, or protected by a deposit guarantee scheme.

122. The EBA anticipates that incoming new regulations, in particular CRD IV and the Banking Resolution and Recovery Directive (BRRD) will require banks to raise capital levels further in order to meet new requirements, such as to hold additional capital buffers and bail-in-able debt instruments. The new regulations are likely to incentivise issuance of certain types of debt instruments. The EBA will contribute to work in the JC to identify which actions, if any, need to be taken to prevent consumer detriment.

123. The second variant of mis-selling is that of cross-selling. Cross-selling can be broadly defined as the selling practice of grouping together two or more separate products or services as part of a package where the customer is either induced, often through an incentive, to opt for such a package or where such a grouping is imposed on the customer.

124. A common distinction amongst cross-selling practices sets apart ‘tying’ practices on one hand and ‘bundling’ practices on the other. While in some instances the two concepts may be difficult to clearly distinguish, the key and differentiating feature of tying practices is the fact that the grouping of the two or more services or products is imposed on the customer by the firm. Bundling practices, by contrast, leave a choice to customers to group products but may result in consumer detriment, if this choice is limited or distorted as a result of the bundling practice.

125. In the survey of NSAs, many have mentioned cross-selling of insurance policies in conjunction with mortgages and loans as an issue in their national jurisdictions. Three NSAs considered it to be a top priority issue.

126. Cross-selling practices are employed by financial institutions in different sectors, and the products and services offered to consumers in the same package are often of a cross-sectoral nature. Products in one sector are often used as a ‘gateway product’ for products from another sector (for instance: mortgages or other loans as a gateway product for insurance policies, investment services as a gateway product for current accounts, insurance policies as a gateway product for current accounts).

127. In line with this trend, and consistent with the cross-sectoral nature of this topic, the EBA will carry out this work jointly with the other two ESAs, and the task has therefore been included in the work programme of the JC for 2014. The objective is to prevent consumer detriment by developing guidelines and other regulatory tools as required. The result of this work will be also beneficial in preparing for any work required as a result of the on-going legislative process on the Markets in Financial Instruments Directive (MiFID2), the Insurance Mediation Directive (IMD 2), and the Mortgage Credit Directive (MCD).

## Comparison websites

128. Comparison websites have gained increasing significance over the past few years, and are ever more often used as a means of communication and distribution that enhances the comparability of information for consumers. However, significant drawbacks have also emerged with regard to over-reliance by consumers on the price of products, at the expense of a proper understanding of the underlying terms and conditions of the websites.

129. This includes the potentially limited scope of products, providers or both, covered by a website, potential conflicts of interests arising from the remuneration model of the website (pay-per-click vs. pay-per-sale) or the commercial ownership arrangements, and the lack of transparency of the criteria used by websites in promoting some of the search results as 'Top Choice', 'Best Buy' or similar.

130. Given the resultant risk of consumer detriment in terms of excessive charges or unsuitable sales, the EBA considers it useful to investigate the issue further in 2014. However, the input received from NSAs suggested that it is not a topic of priority across Member States, possibly because most website operators are not financial institutions and do not therefore fall within the jurisdiction of supervisory authorities.

131. Of further relevance is the fact that commercial websites are not usually specific to the banking sector, but also cover insurance and investment products. Regulatory work on websites is therefore arguably best carried out within the framework of the JC of the three ESAs, rather than by the EBA on its own. A corresponding task has therefore been included in the JC work programme for 2014.[29]

132. The objective of the JC work will be to develop a 'How to' guide for consumers, providing tips on how best to use comparison websites and pointing them to potential issues they should be aware of, such as the aforementioned conflicts of interest by website owners, the potentially biased presentation of results, and the scope of products and providers covered. The EBA will contribute to this work, which will also benefit from the work already undertaken by EIOPA for the insurance sector.[30]

## Financial literacy

133. Financial literacy was mentioned by some of the NSAs as one of their top issues for 2014. Although financial literacy is beyond the legal remit of the majority of NSAs, a number of them have taken action. A frequent approach has been to liaise with other national authorities and organisations to develop programmes targeted at students. In other cases,

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[29] See http://www.eba.europa.eu/about-us/organisation/joint-committee

[30] See https://eiopa.europa.eu/en/fixed-width/activities/consumer-protection-and-financial-innovation/consumer-lounge/what-has-eiopa-done-recently-in-the-area-of-consumer-protection/comparison-websites/index.html

NSAs have launched websites and social media tools aimed at the wider public. With regard to measuring financial literacy or illiteracy, some NSAs refer to OECD recommendations and have launched surveys assessing the level of financial literacy within the population.

134. Amongst BSG members, nearly a third mention it as a Top-5 issue, given that insufficient financial literacy may lead to insufficient understanding of financial products and may therefore be a driver for detriment such as over-indebtedness.

135. According to Article 9 of the Regulation establishing the EBA, the Authority is to review and coordinate financial literacy and education initiatives by national authorities. The EBA is in the process of assessing how best to fulfil this mandate. In the meantime, and until initiatives are decided upon, the EBA will be considering measures as part of its work on product oversight and governance (see above). This will include examining the role there is for manufacturers to take into account the degree of financial capability of consumers when developing and marketing products.

# Annex 1: Methodology of data sources used

### European Central Bank, *Statistical Data Warehouse*

- All monetary financial institutions (MFIs) in the euro area are legally obliged to report data from their business and accounting systems to the National Central Banks of the Member States where they reside. These in turn report national aggregates to the ECB.
- Scope: Euro area, although a more limited dataset is available for non-euro area EU Member States. Coverage: Whole financial balance sheet, comprising end of-period stocks and transactions during the period.
- Lending for house purposes and credit for consumption: outstanding amounts at the end of the period (stocks), households and non-profit institutions serving households; reported monthly.

### European Credit Research Institute (2013), *Statistical Package 2013, Lending to Households in Europe (1995-2012)*

- Housing loans correspond to the amounts of loans outstanding at the end of the year granted by the resident MFI sector to resident households and non-profit institution(s) serving households (NPISHs) for housing purposes. The data series comprise both loans secured and not secured on dwellings. Breakdowns by maturity and currency are provided when available.
- Consumer credit corresponds to the outstanding amounts (stocks) of loans at the end of the year granted by the resident MFI sector to resident households and NPISHs for consumption purposes. Consumer credit notably includes loans related to credit cards as well as overdrafts.
- The base year for calculation of constant prices and real values is 2010.

### Euromonitor (2013), *Passport*

- Banked population: Individuals 15 years and older that have a formal relationship with a bank or other financial institution via a current/checking account, savings account, credit card or a combination of these products. Euromonitor analysts consult publicly available sources including (but not limited to) official sources (e.g., central banks) and trade press.
- 2013 represents the last year of the historic period (with forecasts extending to 2018). In-country research for this edition occurred in the first half of 2013.
- Consumer payments:
  - Other paper: personal cheques, money orders, traveller’s cheques, cashier’s cheques, teller cheques, certified cheques, gift certificates/vouchers.
  - Cards: debit, personal credit, personal charge, pre-paid and store.
  - Electronic: Electronic fund transfers, wire transfers, direct debits. Payments handled electronically end-to-end (bank-to-bank) through the electronic fund transfer network (e.g., for insurance premiums, utilities, phone companies, cable TV operators).

- For consumer credit forecasts, analysts consider industry-specific issues in tandem with the macroeconomic environment in devising their projections. After the establishment of historic market trends, analysts probe how the market may develop in comparison with its performance over the historic period, taking into account historic momentum and incorporate inputs and assumptions such as regulation, consumer mind-set, consumer expenditure, GDP, banked population, employment, disposable income, etc. Data projections and future performance analysis result from the analysis of historic trends of 15 years or more. Forecasts represent many of the essential conclusions about the current state of the market, how it works and how it behaves under different macro and micro conditions.

### WorldPay (2012), *Optimising your Alternative Payments: a Global View*

- This report considers an alternative payment to be any payment that falls outside the sphere of credit or debit card payments. That includes the following types of alternative payment: real-time bank transfers, offline credit transfers, direct debits, e-wallets, paper-based payments and mobile payments.

### Juniper Research (2013), *Mobile Banking, Handset & Tablet Market Strategies 2013-2017*

- 'Push' mobile banking information services (includes financial messaging): the ability to access banking information whilst on the move 'whenever you want' and 'wherever you are'. The most common method of accessing mobile banking information services is via SMS; users are turning increasingly to mobile internet or smart apps for information services. Typical messages are balance enquiries, event alerts and mini statements; there is a growing trend towards messaging for more sophisticated reasons such as product marketing, mobile commerce and cross-selling.

### Cap Gemini/EFMA (2012), *World Payments Report*

- Industry estimates for the overall size of the E-payments and M-payments markets are derived from various industry and analyst reports, including Advance Payments Report 2011, Edgar, Dunn & Company; IE Market Research Corporation; Innopay-Mobile Payments 2012; PR Web; and Juniper Research.
- For estimating transactional data for non-banks and alternative players, in E-payments and M-payments, transactional data was analysed from PayPal, Amazon and Vodafone M-Pesa.
- Average transaction sizes for E-payments were estimated by analysing card data collected for WPR 2012, Visa and MasterCard transactional data. Average E-payment value per transaction was taken as USD 66.3 for 2011, USD 66.7 for 2012, and USD 67.1 for 2013.
- Average M-payment value per transaction (sourced from IE Market Research) was taken as USD 6.6 for 2011, USD 7.1 for 2012, and USD 7.7 for 2013.

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