# CONSUMER CREDIT BULLETIN EUROPE

by Eurofinas, the voice of consumer credit providers in Europe

eurofinas

15

spring 2015



· FOCUS ON ·

FUTURE OF EUROPEAN CONSUMER FINANCE

All you need to know in forward-looking research report.

p.2

GREEN PAPER ON RETAIL FINANCIAL SERVICES

EU pushing for more cross-border activity.

p.3

ANNUAL CONVENTION OF THE EUROPEAN CONSUMER CREDIT INDUSTRY

Save the date.

p.7

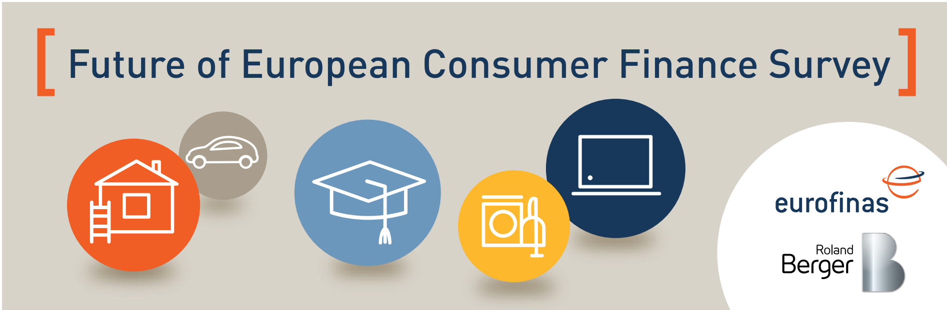
SPOTLIGHT ON THE UNITED KINGDOM

Eurofinas' member FLA (UK) presents the consumer finance market in the UK.

p.11


# FUTURE OF EUROPEAN CONSUMER FINANCE

## Report available now




Eurofinas is pleased to announce the release of its joint research report with Roland Berger Strategy Consultants, 'The Future of European Consumer Finance'. The report is not only Eurofinas' first forward-looking piece of industry research, but also its first collaboration with associate member Roland Berger, demonstrating the value that partnerships of this kind can bring to the industry.

Our joint report provides a detailed analysis of the expectations of some of the industry's leading executives on some of the major trends that shape our industry's future. Data was collected from over 115 consumer finance executives in 21 European countries in the second half of 2015.

The executives that were surveyed expect the European consumer finance industry to grow in the coming years but foresee this growth to come at the expense of margins. Almost 70% of respondents believe that consolidation will occur in the near future. Our report also shows that 68% of respondents hold the opinion that online banks and internet players such as Google or PayPal represent a significant challenge in the coming years and that a resounding 94% of respondents consider digitisation the most important technological trend.


*Continued on next page >*

*> Continued*

EDOARDO DEMARCHI,
Partner,
Roland Berger

> Our study sheds light on the industry agenda and how captives, specialists and retail banks expect to fully embrace digitisation to attain new levels of efficiency when dealing with more demanding customers, partners and regulators

While the full results are only available to participating firms, an abridged version is publicly available.

For more information or to receive a copy, please consult our website or contact c.low@eurofinas.org

# FUTURE OF EUROPEAN CONSUMER FINANCE

## National Initiatives

In order to further leverage the findings, Roland Berger has expressed its willingness to explore various opportunities with Member Associations, including national analyses from the data collected, local meetings, press releases etc.

As reported in the last edition of the CCBE, Eurofinas and Roland Berger presented the findings of their joint research at the 2015 Annual meetings of the Eurofinas Polish and Romanian members. Eurofinas and Roland Berger also presented the key findings at the VFN in the Netherlands.

If you are interested in any country level initiatives, or would like to showcase the European findings, please contact c.low@eurofinas.org

# SPECIAL EDITION OF EUROFINAS EXECUTIVE BRIEF RELEASED

Eurofinas recently released a special issue of its "Executive Briefing" on the main EU/international policy developments of relevance to the consumer credit industry.

This edition, published twice a year, provides a more detailed overview of the main upcoming policy challenges, the issues at stake for the industry as well as the timing of the many initiatives in the pipeline. To get your copy, please contact a.valette@eurofinas.org

# ANACREDIT

## National discretion must go!

● As reported in the Consumer Credit Bulletin Europe nº 14, the European Central Bank (ECB) is setting up an analytical credit dataset. This initiative, commonly referred to as AnaCredit, will create a common database on credit information across the Eurozone. After an intense and unsurprisingly passionate industry campaigning on the project, the ECB eventually decided to consult on the subject.

Once and for all, let's set things straight. We support robust prudential supervision within the Eurosystem and fully understand the need for adequate data for statistical analysis. However, it is essential to recognise the diversity of reporting firms. Data reporting obligations, which are currently quite extensive, should be consistent with their activities as well as technical abilities and resources. The requirements should also be aligned with the European prudential framework. Likewise, the transmission of information should be synchronised with the Common Reporting (COREP) issued by the European Banking Authority for Capital Requirements Directive reporting.

Key for Eurofinas member firms is the feedback loop to reporting agents. The ECB would allow National Central Banks (NCBs) to decide whether or not to share reported data. We think this national discretion is unacceptable. There is an obvious interest for all reporting agents to access this data for managing credit risk and improve the quality of credit information available to them. We think this has a systemic implication and would not only benefit market operators but also supervisory authorities. The ECB's current proposal is inconsistent with the objectives of a coordinated supervisory framework within the Eurozone.

The establishment of the Single Supervisory Mechanism (SSM) and the implementation of the single rulebook require substantial efforts for both credit and financial entities and their supervisory bodies. It is not justifiable that full discretion is being provided to NCBs on this issue. The ECB must take a stand.

Contact a.giraud@eurofinas.org for more information.

# GREEN PAPER ON RETAIL FINANCIAL SERVICES

## EU pushing for more cross-border activity

● On 10 December, the EC released its long-awaited Green Paper on Retail Financial Services and Insurance. With this initiative, the Commission wishes to incentivise better products, more choice and greater opportunities for consumers and businesses. It is now consulting stakeholders on the obstacles providers and consumer face when offering or purchasing financial services and is especially interested to receive input on how the market can be further opened up and the impact of digitalisation. In contrast to the establishment of business operations, the Commission notes that the provision of retail financial services remains fragmented across Europe. The EC also identifies a lack of competition in the retail financial services markets in the EU. The Commission also highlights the changing landscape of the sector in view of digitalisation, with new players entering the market, new technologies, new financial and payment products. The Commission's key objectives are to enhance cross-border activity across the EU, to deliver better information for consumers and to improve the possibility of redress.

### Next steps

The Commission has already suggested that follow-up measures may include market-led solutions, soft-law instruments or legislation. Olivier Salles, Head of Unit for Retail Financial Services and Payments in Directorate-General FISMA, recently indicated that the Commission has been looking at the promotion of best practices for FinTech startups, and possibilities to facilitate cross-border activity (e.g. by streamlining the different national requirements in the Member States with regard to establishment, labour and fiscal law).

Given the potential impact of the initiative on the industry, Eurofinas is treating the Green Paper as a top priority. In addition, we have the lead on those consultation questions concerning consumer lending and credit reporting within the European Banking Industry Committee.

For more information, please contact n.hazeveld@eurofinas.org

# PRUDENTIAL DEVELOPMENTS

In the past months, Eurofinas worked on many international and European supervisory developments, such as default, IRB, shadow banking and remuneration.

## DEFAULT

• In order to increase the comparability of risk parameters and reduce compliance costs for cross-border institutions, the European Banking Authority (EBA) was mandated in the Capital Requirements Regulation (CRR) to develop guidelines on the application of the definition of default. These guidelines do not address the materiality threshold of a credit obligation past due, for which dedicated Regulatory Technical Standards (RTS) are being developed by the Authority.

The definition of default is a key and strategic feature in the calculation of regulatory capital for credit institutions. It influences own funds requirements both under the Internal Rating-Based (IRB) Approach and under the Standardised Approach.

In January, Eurofinas responded to a consultation on the EBA draft guidelines and used this opportunity to draw the Authority's attention to a number of key issues for its member firms.

### DID YOU KNOW?

At the initiative of Eurofinas, the European Banking Industry Committee (EBIC) also worked on a joint set of observations on the definition of default.

### MORE ON DEFAULT

**→ Impact and Timeline**

The proposed definitions will have a significant impact on many financial institutions across Europe. It is therefore essential that sufficient time is granted for the sector to recalibrate internal models, adjust IT systems and obtain the necessary supervisory approvals.

**→ Materiality thresholds**

The EBA's ongoing work on both qualitative and quantitative criteria of default is critical. There has been very little public communication on quantitative indications of default since the Authority's October 2014 consultation. A general clarification on this topic is required from the EBA.

**→ Technical Default**

Not all cases will be covered by the proposed definition of technical default. It is essential to allow additional expert judgment to apply where need be. As a minimum, we think that a general clarification on the diverse causes (including non-financial) of technical default and the responsibility of counterparties should be included in the guidelines.

**→ Indications of unlikeliness to pay (sale of credit obligations)**

We have reservations on the relevance and appropriateness of this indicator. The sale of credit obligations at a loss may not always result from credit-risk related reasons but can also be justified by other reasons such as liquidity constraints or business strategy. We also see the proposed threshold of 5% for the credit-related economic loss related with the sale of credit obligations as overly restrictive.

**→ Return from default to non-defaulted status**

We understand the EBA's objective to rationalise the conditions for reclassification of borrowers to a non-defaulted status. However, financial institutions remain best placed to assess whether a particular customer is no longer in default and we fear that the introduction of probation periods will unnecessarily complicate this process. In particular, the introduction of a "one year" probation period for distressed restructuring will contrast with operational reality.

**→ Retail exposures**

We agree with the EBA proposed approach which allows institutions to choose the level of application of the definition of default (i.e. obligor/facility) for retail exposures according to their respective internal risk management practices. However, we do not believe that where an obligor defaults, this necessarily indicates his unlikeliness to pay his remaining credit obligations. It is important to recognise that in the retail sector, when an obligor experiences difficulties in repaying its debts, the latter will usually identify and first repay priority debts. As a consequence, it is difficult if not impossible, to predict a contagion to the entire portfolio.

We think that where the definition of default applies at the level of a credit facility, institutions should not be requested to assume unlikeliness to pay for remaining credit obligations of a particular obligor. Introducing such requirement would in our view call into question the ability of institutions to benefit from a more granular treatment of default for retail exposures as provided by the Capital Requirements Regulation (CRR).

## IRB

### On your marks, get set...

• On 4 February, the EBA published a revised timeline for the implementation of the regulatory review of the IRB approach.

All changes related to the regulatory review should be finalised by the end of 2020, at the latest.

### ...go!

| | PHASE | REGULATORY PRODUCTS | PRIORITY |
|---|---|---|---|
| 01 | IRB assessment methodology | Assessment Methodology | By Q1 2016 |
| 02 | Definition of default | RTS on the materiality threshold<br>Guidelines on the application of the definition of default | By mid-2016 |
| 03 | Risk parameter estimation and treatment of defaulted assets | RTS on the nature, severity and duration of economic downturn<br>Guidelines on downturn LGD estimation<br>Guidelines on PD estimation<br>Guidelines on LGD in-default, ELBE and IRB shortfall calculation | By mid-2017 |
| 04 | Credit Risk Mitigation | RTS on conditional guarantees<br>RTS on liquid assets and internal models | By end 2017 |

## EUROFINAS ATTENDS EBA'S 5TH ANNIVERSARY CONFERENCE

• Eurofinas was among the invited attendees at a conference organised to celebrate the 5th anniversary of the European Banking Authority (EBA) on 5 February. The conference, hosted by the Lord Mayor of the City of London, took place at the Guildhall.

Andrea Enria, the EBA Chairperson, had invited EU banking stakeholders to participate in the anniversary conference to express their views on the new regulatory framework and the effects of the reforms of the past 5 years on EU banks as well as discuss the achievements and remaining challenges in strengthening the EU banking sector. In an introductory speech, Jonathan Hill, European Commissioner for Financial Stability, Financial Services and Capital Markets Union, pleaded for proportionality in European legislation.

Among other speakers and panelists were Mario Nava, Director of Regulation and Prudential Supervision of Financial Institutions, at Directorate General Financial Stability, Financial Services and Capital Markets Union of the European Commission, and Danièle Nouy, Chair of the Supervisory Board of the Single Supervisory Mechanism (SSM) at the European Central Bank (ECB).

## SHADOW BANKING

### BCBS takes significant step

• Following the November 2015 G20 Summit, the Financial Stability Board (FSB) clarified its work programme in the field of shadow banking. In 2016, the FSB will continue monitoring the implementation of the international methodology for the identification and assessment of shadow banking risks and will give a progress report to the G20 in September.

In parallel, the Basel Committee on Banking Supervision (BCBS) is currently working on an international guidance on the scope of consolidation for bank prudential regulation. We see this as a major step towards the development of an international regulatory framework for shadow banking entities and should not be under-estimated.

The BCBS is establishing a conceptual framework to capture step-in risks potentially embedded in credit institutions' relationships with shadow banking entities. Interestingly enough, the BCBS decided not to provide a specific definition of shadow banking but rather focus on the situations that give rise to step-in risk. A step-in risk is the risk that a credit institution may provide financial support to an entity in times of market stress, beyond or in the absence of any contractual obligations to do so.

To identify risk situations, the BCBS proposed several indicators which in fact cover an extremely wide range of relationships between a credit institution and a shadow banking entity including capital ties, sponsorship, provision of financial facilities, use of similar branding etc.

The BCBS did not yet decide how the proposals would fall within the existing regulatory framework including whether they should fall within Pillar 1 and/or Pillar 2 regimes. We are keeping a close look on this proposal. For more information, please contact a.giraud@eurofinas.org

## THE LINK

• The Eurofinas priority is to ensure that the voice of our industry is heard. We are continuously engaging with international and European policy makers on critical prudential developments for the consumer credit industry.

On 17 February 2016, Michael Somma, Head of Economic Affairs at the Bankefachverband and Chairman of the Eurofinas Task Force on Prudential Regulation participated in a Basel Committee industry roundtable on the review of the standardised approach for credit risk. The event was an opportunity to put forward our position on the treatment of retail exposures.

On 25 January 2016, Leon Dhaene, Eurofinas Director General exchanged views with MEP Paul Tang (NL, S&D) on the prudential treatment of securitisation and the introduction of a European quality label for simple, standardised and comparable securitisation. We are now working hard on a joint industry position on the topic.

## REMUNERATION

### More restrictions on the way

• Over recent months, remuneration policies have remained high on the agenda of EU policymakers and supervisors. What started as an initiative to increase financial stability within the sector, has now been extended to introduce rules on pay in connection to consumer protection. At the same time, the European Banking Authority (EBA) is concerned that the European Commission's current interpretation of the Capital Requirements Directive (CRD) IV rules on remuneration does not allow for sufficient proportionality, especially for smaller firms. Against this background, the EBA released an opinion recommending EU institutions to amend the CRD IV.

On 21 December 2015, the EBA published final CRD IV- based Guidelines on Sound Remuneration Policies. The scope includes all staff of all credit institutions and all their subsidiaries - even when they are not covered by the CRD IV. These firms must have in place remuneration policies that promote sound and effective risk management from 1 January 2017.

Responding to industry feedback, the EBA made a number of important adjustments to their initial Guidelines. A key achievement for the Federation includes the EBA clarification that subsidiaries of significant institutions are not automatically treated as such themselves. Instead, all institutions are to be assessed in their own right.

In parallel, the EBA recently released draft Guidelines for rules on remuneration for staff and managers of staff directly involved in the sale of retail banking products. The EBA sees poor remuneration policies and practices as key underlying drivers for misconduct and mis-selling by staff in the financial sector. With these new rules, firms are required to take into account the rights and interests of consumers in the design of their remuneration policies. Final Guidelines are expected in the summer of 2016 and will be applicable as of 3 January 2017.

For more information, please contact n.hazeveld@eurofinas.org coming soon

Mark the date!

# ANNUAL CONVENTION OF THE EUROPEAN CONSUMER CREDIT INDUSTRY

## Athens, Greece | 6 & 7 October 2016

### A must-attend event in the business leader's agenda, with the right balance between powerful content and top-level networking

• With the European Consumer Credit, Leasing and Automotive Rental Industries holding once again their Annual Convention together to offer delegates a unique one-stop shop opportunity, the event will most certainly live up to its reputation as the undisputed gathering of the year for those industries at European level. Our organising team is working on the 2016 academic and networking programme to create another exceptional event.

The Convention will begin on Thursday 6 October in the early afternoon and continue on Friday 7 October for a full day programme rich in opportunities to learn, meet and connect. As part of the event, delegates, special guests and their partners will also be invited to a dazzling evening reception on 7 October.

Booking of accommodation and opening of registration is to be announced shortly. Check the Annual Convention website regularly for the latest updates on the programme and the many activities planned at www.annual-convention.eu. For more information, please contact a.valette@eurofinas.org

REASONS TO ATTEND

- Organised by the industry for the industry
- Largest event of its kind in Europe with 500+ participants every year
- 30+ countries represented
- Truly European in scope
- Renowned for its compelling programme & first class speakers
- Acclaimed for its many networking opportunities
- Meeting with senior representative from leading key industry solution providers
- Privileged registration fee for Eurofinas member associations & their member consumer credit companies, as well as for Eurofinas' associate members
- More than ever, THE gathering of industry decision makers at European level

# BANK REGULATION

## Proportionality discussed at industry event

• The Proportionality of Bank Regulation was discussed at an event held at the offices of the European Savings Banks Group (ESBG) on Friday, 15 January, to discuss the findings of a recent report of the Banking Stakeholders Group (BSG). The BSG is a group established by the European Banking Autority (EBA) to help facilitate consultation with stakeholders in areas relevant to its work streams.

At the event, the Chair of the Panel, describing the prevailing mood, believed the regulatory environment had become somewhat disproportionate. The European Commission representative assured attendees of its commitment to achieving proportionality and reiterated their open door philosophy, where the voice of industry is welcomed.

Proportionality and in-banking regulation was a strong theme throughout with regulators emphasizing that proportionality, in terms of risk, was as important as proportionality in terms of size. The aim of the report itself was to clarify the full dimensions of the principle of proportionality and to try to propose an analytical framework for regulation.

**The main recommendations of the report can be summarised as follows:**

→ The concept of materiality and the principle of proportionality should be clearly defined

→ The European Commission and the European Supervisory Authorities should enjoy greater flexibility on items that include hard quantitative constraints

→ A task force should eb set-up by the European Commission to evaluate and describe proportionality and how to interpret it

→ National regulators should be allowed to establish semi-autonomous proportionality review groups

→ Proportionality should always be central to regujialtory developments

The Panel included Chris De Noose, Managing Director, WSBI-ESBG, David T. Llewellyn, Chairman, Banking Stakeholder Group, Erik Van der Plaats, a Senior Expert in policy and regulatory advice with the European Commission and Isabelle Vaillant, Head of Regulations Department at the European Banking Authority.

# FOLLOW US ON LINKEDIN

• If you are not yet a member, join Eurofinas' affinity group on LinkedIn to network and exchange views with a growing number of industry peers. This group aims at bringing closer together all the consumer credit professionals active in Europe. It is restricted to professionals active in this sector. Join us


Linked in

# DSM 1.0

• In May 2015, the European Commission published its Digital Single Market (DSM) Strategy, which sets out 16 political and legislative initiatives that the Commission intends to undertake in 2015-2016. The Commission's objective is to boost Europe's digital potential, create more growth and jobs, help European companies go online, offer more choice and better prices for consumers and make Europe more competitive globally.

Since its publication, several consultations have been launched (for example on geo-blocking or the role of online platforms). To date, no specific legislative proposals have been tabled.

Of key importance for the Federation is the contribution of the data-driven economy to economic growth and the opportunities that new ICT technologies such as Big Data, cloud computing, the Internet of Things, 3D-printing and other technologies can bring to the economy and society, especially if integrated with other sectors such as credit activities.

# DATA USAGE

## Experts meet in Brussels

● The first meeting of the Eurofinas Data Usage Task Force took place on 4 February.

With data related topics increasingly on the radar of the EU regulator, Eurofinas decided to set-up a dedicated task force to support the Federation's work on the regulatory dimension of the digital transformation, big data, electronic identification and trust services.

Automated advice, the new Data Protection Regulation as well as the European Commission's Digital Single Market Strategy were discussed during the day.

WE ARE GRATEFUL TO ALL PARTICIPATING ORGANISATIONS

Cofidis / Crédit Agricole Consumer Finance / BNP Paribas Personal Finance / Experian / KPF / FLA / Bfach / Easy Credit / Kruk / Crif

# CREDIT TV


● Watch our latest interview with Ian Bell, Head of Prime Collateralised Securities, sharing his views on how the European securitisation market is likely to evolve in the next years and on the European Commission's proposal to revive a high-quality securitisation market.

*Credit TV is a special section on Eurofinas website showcasing video interviews with industry practitioners and representatives of Eurofinas' Member Associations on a variety of consumer credit related issues.*

# AUTOMATED ADVICE

● The European Supervisory Authorities (ESAs) published a Discussion Paper on "Automation in Financial Advice" in December 2015. With the increasing digitalisation of financial services, a growing number of financial institutions offer automated tools in order to provide advice to consumers.

The ESAs have identified the following characteristics of financial advice tools:

1. The automated tool is used directly by the consumer, without (or with very limited) human intervention
2. An algorithm uses information provided by the consumer to produce an output
3. The output of the tool is, or is perceived to be, financial advice

Any output generated by an automated tool that could be reasonably perceived by the consumer as financial advice is considered within the scope of this Discussion Paper.

The ESAs are of the view that, even though automated advice is not presently observed equally across all financial sectors and/or EU Member States, this trend has the potential to continue to grow. The Authorities want to better understand the phenomenon and will decide if regulatory and/or supervisory action is required. Contact a.giraud@eurofinas.org for more information.

# CROSS-SELLING

## New rules on hold

• The European Supervisory Authorities (ESAs) recently requested that the Commission harmonise existing legislation applicable to cross-selling of insurance, securities and retail banking products. Amendments are necessary to ensure proper supervision of these products.

# DPR

## Are you ready?

• An informal agreement on the Data Protection Regulation (DPR) was reached on 15 December 2015. The DPR still needs to be officially adopted by the European Parliament and the Council, which is expected to happen in Spring. Technical/editorial aspects are currently being reviewed and also needs to be translated in all EU languages which is taking longer than expected.

### Priority provisions

Principles relating to personal data processing
Lawfulness of processing
Processing of special categories of personal data
Right to be forgotten
Right to object
Automated processing / profiling
Administrative sanctions

The business community must anticipate changes of practices in these key priority areas and adopt a consistent approach across jurisdictions.

# INSURANCE DISTRIBUTION DIRECTIVE

## Enhanced responsibility for intermediaries?

• The Insurance Distribution Directive (IDD) was published in the Official Journal of the European Union on 2 February 2016. It entered into force on 23 February 2016, giving the EU Member States 24 months to transpose the Directive into their national frameworks as of this date.

The European Commission now intends to adopt delegated acts on Product Oversight and Governance (POG) and the Product Information Document for non-life insurance products. To this extent, the European Commission has requested technical advice from the European Insurance and Occupational Pensions Authority (EIOPA). The EIOPA is currently examining how much influence intermediaries (can) have on the manufacturing of insurance products - potentially leading to a review of the notion of "manufacturer". Any re-classification would have a significant impact on the current division of responsibilities between manufacturers and distributors of insurance products.

A 3 month public consultation on EIOPA's draft advice is foreseen at the end of June, with a public hearing planned in September. We treat this as a top priority, therefore the Federation will meet the EIOPA on this topic.

In parallel, the EIOPA is developing Guidelines on POG for manufacturers and distributors. The Federation responded to the recent consultation on these Guidelines, stressing that the main responsibility for POG must remain with the "manufacturer", as is the case in the banking field, and that any Guidelines must be proportionate and provide sufficient flexibility to adapt to the number and diversity of industry operators. We continue to monitor any developments in the field.

On 20 January 2016, the Eurofinas Task Force on Insurance Mediation met to discuss Eurofinas work on the above issues. We are always looking for industry experts for our dedicated taskforces. Please contact n.hazeveld@eurofinas.org for more information.

# AML UPDATE

• Following the adoption and publication of the 4th Directive in June last year, the European Supervisory Authorities (ESAS) are now working on risk factor guidelines. Once published, these guidelines are to be used as a reference tool by obliged entities and competent authorities.

The guidelines will consist of a non-exhaustive list of both lower and higher indicative risk factors, on which we provided comments to the ESAs. Although we do not consider the guidelines unfavourable, we did request the EBA to make certain clarifications, such as on the meaning of a "low value loan facility".

On 15 December, the Federation participated in a public hearing regarding the EBA draft guidelines. We are now awaiting the publication of the revised joint risk factor guidelines.

## UNITED KINGDOM IN BRIEF (2014)

POPULATION
64.6 million

| | |
|---|---|
| **GDP** | £ 2,22bn[1] |
| **GDP growth** | 2.8%[1] |
| **GDP** per capita | £ 29,900[1] |
| Inflation | 0.3%[2] |
| Unemployment rate | 5.1%[3] |
| Budget deficit | 2.4%[4] |

1. Eurostat / 2. Bank of England / 3. Office for National Statistics / 4. Office for Budget Responsibility

# SPOTLIGHT ON THE UNITED KINGDOM

## About FLA

The Finance & Leasing Association (FLA) is the leading trade body for the asset, consumer and motor finance sectors in the UK. We have 140 full members and 77 associate members.

Our members include banks, subsidiaries of banks and building societies, the finance arms of leading retailers and manufacturing companies, and a range of independent firms. All full members must sign up to the FLA Lending Code (if lending to consumers) or the FLA Business Code (if lending to businesses).

### Regulation

The UK consumer credit market has been well-regulated since the 1974 Consumer Credit Act (CCA). The CCA remains in place but has been supplemented by a consumer credit handbook (CONC) which has been in place since April 2014 when the Financial Conduct Authority (FCA) took over responsibility for credit regulation from the Office of Fair Trading.

It has been a major challenge for the FCA to process 50,000 firms for authorisation. The FCA is a very proactive regulator which favours an outcomes-based approach rather than the prescriptive era pre-2014. Examples of work it has carried out include a credit card market study, banning 'pre-ticking' for insurance products and reviews of the pay day lending market, debt management advice, treatment of customers in financial difficulty and broker remuneration. More recently, the FCA has also taken an interest on affordability/creditworthiness and consumer vulnerability.

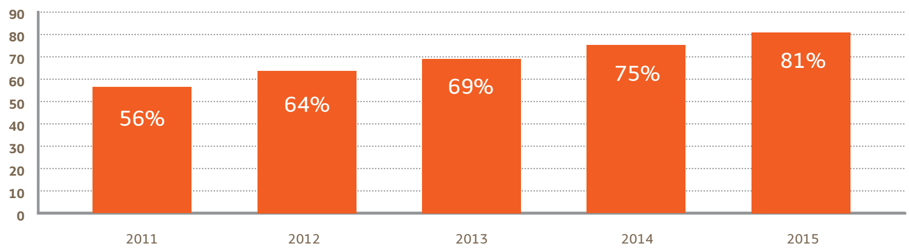
Looking ahead, lenders are now preparing to implement the EU Data Protection Regulation, and those offering second charge mortgages, are adapting their processes to comply with the Mortgage Credit Directive. We will work with the EU Institutions on the Retail Financial Services Green Paper to ensure that regulators take into account the needs of consumers when taking out loans online. We will also contribute to an FCA review of the CCA provisions with a view to removing those which are no longer relevant to lending in the 21st Century.

### Market trends

The UK is one of the largest consumer credit markets in Europe. At the end of December 2015, the value of outstanding consumer credit contracts in the UK was £179 billion, which remained 14% below its pre-crisis peak. Of this total, the value of outstanding credit card contracts was £64 billion and the value of other forms of consumer credit contracts was £115 billion.

*Continued on next page >*

**FLA consumer finance new business**
(in £ billions)



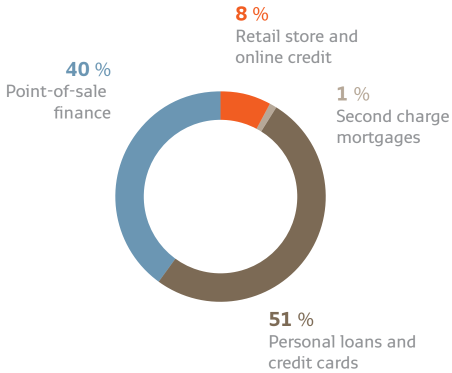

There is a break in the time series in 2012 due to changes in membership.

> Continued

FLA members provided new finance to consumers of almost £81 billion in 2015, representing around a third of all new consumer credit in the UK in the same period. There was growth across all of the main finance products in 2015. New business provided through personal loans and credit cards together grew by 4%; retail store and online credit grew by 2%; and second charge mortgage new business by value increased 34%, albeit from a low base.

The point-of-sale consumer car finance market reported new business up 15% by value and 10% by volume in 2015. More than 80% of private new car registrations in the UK were financed by FLA members through dealerships last year. The recent growth in this market has to a large extent mirrored a reduction in the use of unsecured personal loans, while also reflecting changing consumer attitudes towards car ownership. The increase in popularity of personal contract purchase and hire purchase means that the majority of car finance taken out by consumers is secured against the car.

**Distribution of FLA consumer finance new business by channel in 2015**




views from

# CONSUMER FINANCE IN CHINA, A NEW CONSUMER FINANCE MODEL

RAPHAËL GOUÉ
Chairman of the Consumer Finance and NBFI Group – EUCCC
General Manager – Euracific Strategies

● As China economy slowdowns, with a GDP remaining still up to 6.9% in 2015, the 12th 5 year plan was making as a priority the enhancement of domestic consumption. The objective was set to rebalance its GDP from an investment driven economy to consumption.

In the 2014 National Party Congress. China decided to enter in the so-called new normal era and to enhance the development of financial services through financial innovation. As such, China consumer finance industry would be experiencing policy reforms and a rapid growth with new models relying on technology.

## Consumer Finance in China, a new industry

It was not before 2003 that the first type of regulated Non-Banking Financial Institutions was created in China with the development of a framework for autofinance companies. It was dedicated to support the tremendous development of the automotive industry. Since then, 21 companies have been licensed and operating, including 10 involving European shareholders and representing by end of 2014, according to the CBRC, a total asset size of 340 bn Yuan.

In August 2009, the Chinese regulators decided to launch the development of a consumer finance pilot with "one company one city" principle. The pilot project issued 4 licenses, with 2 of them having currently European shareholders. It was not before November 2013 that the China Banking Regulatory Commission (CBRC) revised the Administrative Measures on the Pilot Programme of Consumer Finance Companies, lifting geographical restrictions on CFCs' operations and enabling the development of 12 consumer finance licenses which were in contest in 2015. This was a clear push to enhance the development of a consumer lending industry, supporting the purchase of any type of goods and services.

Continued on next page >

> *Continued*

## 2014, a year of rupture

Fostered by the Chinese Prime Minister in March 2014, Financial Innovation has been made possible thanks to

- Recent Chinese leadership in the digital industry thanks to with the development of Internet giants as Alibaba, JD.com, Baidu or Tencent having built databases representing several hundred millions of consumers each;

- Internet and smartphones penetration reaching 700 million of the Chinese population and the propensity for the Chinese consumer to buy online – it was said over 350 million customer were using online payment platforms (June 2015);

- Authorities' willingness to develop a technology based industry to support SME and consumer lending.

Initiated without a dedicated regulatory framework which is still under elaboration today, China was end 2014 the second Peer to Peer global market representing 29% of the global credit outstanding's delivered in this format after the United States. This new industry plays a significant role in the Chinese consumer finance development today.

Lending transactions via China's peer-to-peer platforms was said to reach 982.3 billion Yuan ($151 billion) in 2015, up 288.6 percent from 252.8 billion Yuan in 2014. According to Wangdaizhijia.com, China's P2P lending platforms have cumulatively brokered 1.37 trillion Yuan as of the end of December, through 2,595 P2P platforms across the country, from 1,575 platforms end 2014.

On regular basis, new regulations are getting implemented to frame the industry to catch up with this new industry which is structuring the consumer lending landscape, with for instance:

- The People Bank of China (PBoC) and the CBRC clarified that P2P platforms should be positioned as information intermediaries in 2014;

- In July 2015, CBRC has issued guidelines clarifying the definition of internet lending (P2P lending and internet small loans);

- The Peer to Peer was excluded from third party payment in the same time;

- In August 2015, the Supreme Court of China set a cap on interest rates to 36% and decided to protect 24% only.

- On December 28 2015, the CBRC issued the draft rules for online lending which says that online lending platforms are designated as information intermediaries for borrowers and lenders, and should not participate in the transaction in any other way.

> "China will maybe get back to a more traditionally regulated industry. Nevertheless, the issues due to its fast development should not hide the strong success of a new highly promising industry which moves the consumer finance industry to a new era where the underserved consumer segments can now have access to financial options to support their consumption."

## Current issues should not hide the new collaborative finance industry success

Shadow on the industry was recently brought by Ezubao and its parent company Yucheng Ponzi scheme which represented a fraud of 7.6bn USD discovered in January 2016. This was the first emerging case coming out in the international press. According to the industry data provider Wangdaizhijia, which maintains a list of "problematic platforms", there should be 1,263 of those from 104 at the start of 2014. Analysts say most are cases of "runaway bosses," in which senior executives flee as financial problems rise at their firms.

With the initial idea of a self-regulated industry, China will maybe get back to a more traditionally regulated industry. Nevertheless, the issues due to its fast development should not hide the strong success of a new highly promising industry which moves the consumer finance industry to a new era where the underserved consumer segments can now have access to financial options to support their consumption.

Integrated in the consumer finance landscape, those new P2P platforms have been brought by entrepreneurs, private equity funds but also banks where Ping'An, or Minsheng, for instance, have invested some of the industry key players with respectively Lufax and Msyidai.

eurofinas

# EUROFINAS MARKET PROFILES

## Updated versions now released

• The annual Eurofinas Market Profiles have been updated and are available on Eurofinas' website.

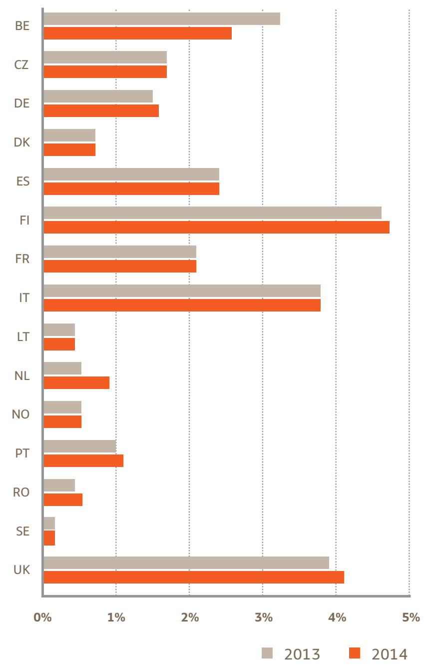
These profiles give a brief overview of our contributing members, describing their macro-economic context, their national consumer credit market structure and the position of the national association's membership within the local market. This provides the possibility to compare the features of the different markets and helps explain to those unfamiliar with Eurofinas, where its members are situated within their respective markets.

The market profiles are featured on a dedicated page on the Eurofinas website, where comparison graphs of various indicators are published annually, as well as extracts of the full market profiles for each member. The full market profiles contain more detailed consumer lending figures for each member association, in addition to all the information found in the extracts. These full versions are only made available to our members.

As an example of the information that can be found in the online market profile extracts, the chart below shows a comparison of the percentage of household consumption that is financed by Eurofinas members. Although they differ markedly by country, the significant contribution that Eurofinas members make to economic activity is clearly highlighted.

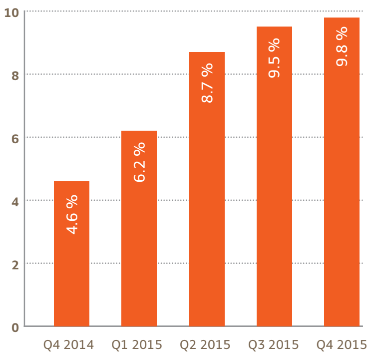
For more information, please contact c.low@eurofinas.org

**Eurofinas new consumer credit for personal consumption as a % of total national consumption**




# QUARTERLY RESULTS RELEASE

**Total New Consumer Credit**
(for Personal Consumption and Consumer Car Finance)




% change period on same period a year ago - adjusted for exchange rate fluctuations
included: BE, CZ, DE, DK, ES, FI, FR, UK, IT, NO, PL, PT, SE, LT, RO

• The results of the latest Eurofinas Quarterly Survey for Q4 2015 have been released.

The Quarterly Statistical Enquiry is a brief survey of member associations' quarterly figures, including new business for personal consumption and consumer car finance.

For more information, please consult the Eurofinas website.

# RESEARCH ON CONSUMER CREDIT: KEEP US INFORMED

• As reported in previous editions of the Consumer Credit Bulletin Europe, Eurofinas has dedicated a webpage to showcase national research findings on European consumer credit markets. By doing so, Eurofinas reinforces its role as the information hub on national consumer credit markets across Europe. This initiative should help Member Associations and the wider community to learn more about our industry at local level and can also be a source of inspiration to conduct similar research.

In order to enrich the information already available for eight European countries, we invite all Eurofinas Member Associations to keep us informed of any ongoing research on the consumer credit market conducted at national level or beyond.

For more information, contact c.low@eurofinas.org logalty

Open Forum

# DIGITAL TRANSFORMATION IN THE EUROPEAN CONSUMER CREDIT COMPANIES : CHALLENGE 2016

JOSE MANUEL OLIVA
Logalty Managing Director

• Are we talking about technology? Yes. But only about technology? Clearly, no. What does it mean to digitally transform a company? To answer this question, in the first place we should look where the consumer credit institutions in Europe are focusing on.

Logalty is participating in digital transformation processes in many financial and consumer credit institutions located in the EU territory. Its experience in these strategic projects has allowed to identify the main concerns of managers of such companies:

I. **Information** is a key resource for all companies **and information technologies** (IT) have a fundamental role in the strategy, and must create business value and benefit for companies.
II. **IT related risks** must be maintained to acceptable levels.
III. **IT application** must fulfil operational excellence, optimizing their cost.
IV. Companies must **continuously comply** with an increased number of laws, regulations, contracts and policies.
V. A **holistic reference model integrated** in the company should be applied, to establish an IT governance and management framework.

Therefore, **digital transformation** is not only about technology, it affects the company as a whole and all relevant stakeholders. This transformation impact companies from end to end and should not focus only on the "IT function", but it should be horizontally treated across all departments.

However, it is true that ICTs are at the core of this transformation in organizations, which is being **based on three main pillars**: (i) the digital shifting of business, especially in an environment of an accelerated market globalization that affects Europe in its relations with the rest of the world; (ii) the digitization of assets and processes and (iii) the multichannel self-service relationship model with consumers.

This latter aspect is very important, and we should not continue speaking about "multi-channeling", or even about the new term "omni-channeling", because the fact is that self-service processes are now in the hands of the customer; thus, companies must rethink business from an empowered customer point of view, because the relationship has been reversed and the most important thing is being present at all the points of contact the customer has with the company, which will be multiple and diverse, both in the digital and physical space.

" Digital transformation is not only about technology, it affects the company as a whole and all relevant stakeholders. "

How is Logalty helping companies in their digital transformation?

The Trust Services that are offered by Logalty are cornerstones to promote and protect organizations in their digital transformation path, by providing the essential legal guarantees for the digitization of businesses.

These **services generate legal evidence by interposing Logalty between contracting and communicating parties** with a global reach, providing organizations with a unique mechanism to formalize contracts, communications and other activities, with the most rigorous legal guarantees in distance-based business relationships, but also compliance with the requirements and peculiarities of each country where it operates.

To achieve these objectives, **Logalty meets the highest standards of applicable legal requirements**, and aligns with the provisions of Regulation (EU) No 910/2014 of 23 July, on electronic identification and trust services for electronic transactions in the internal market as well as international and European technical standards that allow conformity assessment with it, as ISO/IEC 27001 or ETSI EN 319 401.

Logalty services are technically prepared for the usage of electronic means of identification corresponding to substantial or high security levels, and they consume trust services such as advanced or qualified signature and seals, and qualified electronic timestamps. Also, Logalty has deployed its own registered electronic delivery service according to the aforementioned Regulation.

**This unique combination of global processes and local law adaptation is a factor of paramount value**, which enables organizations to accelerate the digital transformation of its operational processes, improve the multi-channel/multi-contact interaction with customers and access new markets with improved agility, having the confidence of knowing that their digital evidence assets will support their compliance needs with the best value and effectiveness.

# EUROFINAS' 2016 ASSOCIATE MEMBERS

- ACCIS
- BNP PARIBAS CARDIF
- cbp
- CRIF Together to the next level
- Experian A world of insight
- FICO
- Genworth
- logalty
- MetLife
- pwc
- Roland Berger Strategy Consultants
- QuickSign
- White Clarke Group

# INTERESTED IN BECOMING AN ASSOCIATE MEMBER OF EUROFINAS?

- Requests for information on Eurofinas' associate membership benefits should be addressed to Anne Valette, Head of Communications at a.valette@eurofinas.org

eurofinas

# SAVE THE DATE

events / meetings

- For latest updates on events and meetings, consult the calendar on Eurofinas' website home page.

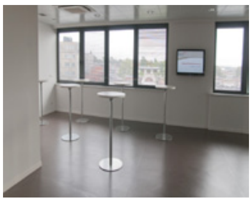
Internship at Eurofinas
find out more here

## INTERNSHIP OPPORTUNITIES

Eurofinas offers internship opportunities to fresh University graduates having demonstrated an interest in consumer finance (thesis, report, publication, etc.). For more information, please contact l.dhaene@eurofinas.org

### EUROFINAS OFFICE IN BRUSSELS

Blvd Louis Schmidt 87
1040 Brussels - Belgium
T +32 2 778 05 60
F +32 2 778 05 78
www.eurofinas.org

Eurofinas spacious meeting rooms and adjacent lounges, including Wi-Fi, are available for any Brussels meetings you may wish to organise. For more information, please contact a.valette@eurofinas.org

# EUROFINAS STAFF

LEON DHAENE
*Director General*
l.dhaene@eurofinas.org
T +32 2 778 05 61

NADIA HAZEVELD
*Legal Adviser*
Legal & public affairs
n.hazeveld@eurofinas.org
T +32 2 778 05 72

ISAK BENGTZBOE
*Legal Adviser*
Legal & consumer affairs
i.bengtzboe@eurofinas.org
T +32 2 778 05 73

CHARLES LOW
*Adviser*
Statistics & economic affairs
c.low@eurofinas.org
T +32 2 778 05 66

JURGITA BUCYTE
*Senior Adviser*
Statistics & economic affairs
j.bucyte@eurofinas.org
T +32 2 778 05 63

HAYLEY MCEWEN
*Senior Adviser*
Statistics & economic affairs
h.mcewen@eurofinas.org
T +32 2 778 05 71

ALEXANDRE GIRAUD
*Senior Legal Adviser*
Legal, prudential and consumer affairs
a.giraud@eurofinas.org
T +32 2 778 05 64

ANNE VALETTE
*Head of Communications*
Communications, marketing & media relations
a.valette@eurofinas.org
T +32 2 778 05 65

### YOUR FEEDBACK COUNTS!

To provide feedback on this newsletter, or to be added to/removed from our mailing list, please contact a.valette@eurofinas.org

INGRID VERMEERSCH
*Secretary*
Administrative support
i.vermeersch@eurofinas.org
T +32 2 778 05 60