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NOTICE TO MEMBERS

(3/2012)

Subject: Public Joint Event on Financial Advice provided by non-profit entities to consumers

On 7 February 2012 the European Commission, DG SANCO, and the European Parliament (Vice-President Gianni Pittella MEP (S&D, IT), IMCO Committee and ECON Committee) organised a Public Joint Event on Financial advice provided by non-profit entities to consumers. Vice-President Pittella opened the afternoon event and a key-speech was delivered by Commissioner John Dalli. Sharon Bowles MEP (ECON Chair, ALDE, UK) chaired the first panel discussion on “What problems do consumers face when seeking financial advice” and Malcolm Harbour MEP (IMCO Chair, ECR, UK) – the second panel on “What role can non-profit entities play in providing advice to consumers”. Prof. Dr. Udo Reifner (Scientific Director of IFF) made a presentation of the pilot project aimed at providing trainings to non-profit entities that provide financial advice to consumers. Apart from a number of distinguished speakers, around 70 representatives of consumer organisations, banking industry and Member States took part in the event.

Vice-President Pittella underlined the importance of financial education for ensuring that the Single Market brings direct benefits to Europe’s citizens and recalled his initiative for a pilot project in that respect, which was adopted by the European Parliament for the 2010 budget.

Commissioner Dalli stressed that the consumer dimension, in particular the drive to achieve fairness and welfare gains for consumers, should underpin the discussion on financial advice. He underlined that appropriate financial advice is crucial for consumers' choices. Finally, he announced the launch of the third phase pilot project, while thanking the European Parliament for its support.

Speakers from both panels highlighted that the financial services environment becomes

increasingly complex. Therefore financial advice is critical for consumers. Even though the financial services providers work under a regulatory framework, the quality of the advice provided can be questioned. Advice from non-profit entities can be helpful and tailored to consumers' needs; but it cannot always replace the recommendations made by financial services providers. Therefore, it is important that work is undertaken in both areas.

Members will find a summary of the debate below.

I. Opening speeches

Vice-President PITTELLA

Gianni Pittella referred to a number of Parliament's resolutions which dealt with financial education, as also did the Commission's Communication on the Single Market Act. He indicated that consumers have generally low level of understanding of financial matters and of basic economics. He also underlined the fast evolution of financial services, which increases the choice of products on a global scale. Mr Pittella believed that training of consumer organisations and other entities will help complementing consumer protection with financial education for the sake of the economy and society as a whole, and that this education should focus on important life planning aspects such as basic saving, debt, insurance and pension. Finally, he also expressed hope that stronger supervision of credit-rating agencies by ESMA will also improve the functioning of the financial market.

Commissioner DALLI

The Commissioner for Health and Consumers stressed that bad, misleading or biased advice can have a devastating effect on the life of consumers and that action at European level should aim to avoid 'horror stories'. He pointed at the goal of aware and empowered consumers who make choices best suited to their needs and circumstances. He also indicated that good financial advice from trusted sources can help consumers make the right decisions, while inherent conflicts of interest on the advisors' side might easily put consumers at risk of suffering losses. Commissioner considered that non-profit entities, such as consumer organisations or family-advice bureaux, can provide advice which is independent and in tune with consumers' needs. He finally referred to a recently concluded mapping study which showed that the demand for such services is high but the relevant entities often lack resources, training and expertise to fully meet the requests. Mr Dalli also outlined some of the basic aspects of the third phase of the pilot project which aims at providing training to non-profit entities that provide financial advice to consumers. Finally he asked participants to disseminate this project in the Member States to make it a success.

II. What problems do consumers face when seeking financial advice

Chairperson: Sharon BOWLES, MEP (ECON Chair, ALDE, UK)

Steven MAIJOOR, Chair of European Securities and Markets Authority (ESMA), stated that investor protection is a core task of ESMA and that under the new framework ESMA can take a more proactive and effective approach towards investors' protection. The usual problems which consumers face are: low advice quality, unsuitable products with high investment risk

coupled with opacity, complexity and lack of compliance with selling requirements, and inducements. These problems cannot be solved only with transparency, as too much information can confuse clients and lead them to bad choices. He added that ESMA has already and will continue issuing warnings for investors and that ESMA and national authorities will work together to deal with deficiencies of the market. Furthermore, he stated that ESMA is seeking to improve investors' organisation representation in the relevant consultative group and that in the ESMA Securities and Markets stakeholder group there are ten participants outside the financial services industry but that there is still margin for improvement. Finally, he said that development of sectoral legislation and proper enforcement of the current one can strengthen investors' protection.

Monique GOYENS, Director General of BEUC, said that until recently consumer protection in financial services was outside the scope of financial supervision. She stated that even in simple products (e.g. bank accounts, consumer credit) consumers may face difficulties due to the complex way they are presented. In addition, consumers who are in need of advice (e.g. indebted) often do not seek it. Ms. Goyens also made the point that financial education is not always useful and that consumers realise the effects of their financial choices only in the long term. She stressed that financial providers are there to sell products and not advise consumers so their role should be defined. She therefore suggested that such services should not be called 'advice'. Finally, she underlined that non-profit advice is not always independent advice.

Guido RAVOET, Secretary General of the European Banking Federation, stressed that a 'well informed consumer is a responsible consumer' and expressed his support for the EP and Commission's initiative. He said that consumers are entitled to receive transparent information and adequate explanation on the products. So the banking industry should ensure that this information is reliable. He underlined the importance of personal recommendation on specific products, tailored to the consumer's needs. Mr Ravoet indicated that a robust regulatory framework already exists in the area of financial services (MiFID), that conflicts of interest are being disclosed and that the provision of advice is subject to suitability assessment, which takes into account consumers' circumstances. He stressed that banks themselves have an interest to provide reliable advice as clients' relationships are essential and that banks are also tied with consumers, not only the other way around. In conclusion, he stated that education, information, explanation and, upon request, advice are important and that internal checks ensure the compliance with the regulatory framework.

Marek SZYMCZAK, Legal Adviser of the European Savings Banks Group (ESBG), introduced the role of ESBG. He recalled the 3R combination of savings banks: retail, regional and responsible, the latter being a powerful term in times of challenges as banks need to provide appropriate advice to consumers, which is in their interest. He described the aim of increased quality of services offered by the banking industry, and asked whether a fully independent advice can assure the same value and quality. Mr Szymczak underlined the importance of financial literacy and the initiatives taken by the savings banks. In conclusion, he warned against over-regulating financial markets, while saying that preventive measures are crucial

Hervé GUIDER, Secretary General of the European Association of Cooperative Banks, mentioned that already half of all European banks act in a cooperative status. Consumers operate in increasingly complex environment, while at the same time Member States make cuts in public pensions and healthcare. Consumers have to therefore assume greater responsibility when making financial decisions due to changes in the market and the economy but they do not have the necessary skills to do so. In addition, developments in technology and competition increase access to financial products. Therefore financial advice, together with financial education, is an important element. According to Mr. Guider, non-profit entities can contribute in helping consumers know what products are in the market and, together with financial providers, assist them to choose the right one. He observed that there is no competition between financial institutions and non-profit entities but they should be complementary. He stressed that the presence of banks at the local level, such as the cooperative banks which have local branches, is important. Finally, he gave the example of cooperative banks which foster dialogue with their members. This dialogue is based on trust and integrity, is outside the scope of regulation and should remain at the discretion of the bank.

Interventions from the floor and discussion

Questions and comments were made as regards inter alia:

- the possibility of giving the national authorities the ability to intervene at the financial advice level;
- the tight schedule of consumers making important financial decisions;
- the possibility for financial institutions to present competitive offers;
- how to distinguish between advice and selling methods;
- the definition of advice and its independence;
- the possible conflicts of interest when providing financial advice;
- the need of customer service to be the determinant factor for employees' remuneration;
- the need to move towards simpler financial products;
- the increased paper work related to more regulation.

III What role can non-profit entities play in providing advice to consumers

Chairperson: Malcolm HARBOUR, IMCO Chair (ECR, UK)

Prof. Dr. Udo REIFNER, Scientific Director of IFF, made a presentation of the Pilot project aimed at raising the capacity of non-profit entities to provide general financial advice to consumers (excluding recommendations of specific products and/or providers). He also drew attention to the fact that ‘the first adviser is the consumer himself’ and that he or she needs to know what the financial products do. The rule of ‘the higher the risk, the higher the profit’ was recalled. Prof. Reifner indicated increased discrimination between various groups of consumers, to the effect that broad access is an illusion. He also underlined the need for social responsibility of financial products. Finally Prof. Refiner gave a brief overview of the pilot project. Two-day trainings on financial services will be organised in all 27 Member States in their official language(s), aiming at building the capacity of the non-profit entities to provide a better service to consumers.

Tony HOBMAN, Chief Executive of the Money Advice Service (MAS; UK), said that the MAS is funded by a levy on the financial services providers and described the free and independent generic service that MAS is providing in various forms: on-line, via phone, and face-to-face. He underlined that education and information cannot on their own change the behaviour of consumers. He mentioned the success of a 'health-check' of financial planning made available on Internet in summer 2011 and that MAS estimates that 1million consumers will use their services 2013 onwards. He also said that people's attitudes to money are very different and that people are receptive to advice at key moments of their life. Finally, he commended the pilot project as beneficial to consumers.

Mick McATEER, Chairman of Financial Services User Group (FSUG), declared the existence of a new economic paradigm in Europe and beyond, where the financial returns of institutions and consumers are low. Consumers therefore need objective advice that would help maximise their income and control their expenditure. He also claimed that non-profit financial advice is needed as there is not an advice market in the commercial sector, but rather a sales industry. He indicated that advice from the non-profit sector can improve the standards and quality of advice in the commercial sector, as a result of a mixed economy competition. Furthermore, he stated that the non-profit sector can help consumers by providing education and awareness (which are though not effective per se), comparative information and by helping consumers with financial planning. Finally, he stated that the non-profit sector can be encouraged by more resources and capacity building, awareness raising, better regulation of advice and support to the development of innovative solutions.

Jean-François BIERNAUX, Test Achats (BE), introduced the role of Test-Achats in Belgium as regards the provision of financial advice, including the publication of two magazines relevant to budget and financing. Mr. Biernaux underlined that consumers ask for concrete help to make decisions and therefore Test-Achats services are directed to problem solving. Moreover, he stressed that market transparency and know-how are essential conditions for providing good personal advice. He continued by saying that Test-Achats has different experts for different financial products and it is therefore not possible to require consumers to have all this expertise. Finally, he stated that non-profit entities may encounter difficulties when providing advice on specific products as some types of advice are regulated (e.g. on investment).

Interventions from the floor and discussion

Questions and comments were made as regards inter alia:

- the lack of trust in financial markets;
- the lack of sufficient resources of non-profit entities and how this can be addressed;
- the need for a business-case for investing in financial advice;
- the possibility of multiplying the number of advice provided or the effects of advice through relevant channels;
- the co-ordination of non-profit entities in one country and the possible differences in the quality of the advice they provide;
- the conflicts of interests in private financing;
- the identification of needs followed by an appropriate allocation of limited resources.

IV. Closing remarks

Paola TESTORI COGGI, Director General for Health and Consumers (DG SANCO) indicated in her concluding remarks that the discussion demonstrated that advice is a complicated issue and that even though ideally consumers would always make an informed choice when buying financial products that is not the case in practice. She therefore highlighted the importance of the pilot project as one step to improve the current situation and thanked the European Parliament for providing the funding. She concluded by saying that the pilot project is not the end of the work on this field and that similar initiatives may follow in the future.

Malcolm HARBOUR, IMCO Chair (ECR, UK) closed the event shortly after 17h.