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Financial Stability, Financial
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European Commission
Rue de la Loi 200
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**RE: OPEN LETTER FROM BEUC, BETTER FINANCE AND FINANCE WATCH TO
COMMISSION
VICE-PRESIDENT VALDIS DOMBROVSKIS ON THE RETAIL FINANCIAL SERVICES
ACTION PLAN**

Dear Vice-President Dombrovskis,

We would like to draw your attention to the forthcoming Retail Financial Services Action Plan that the Commission should issue at the beginning of next year, which has the potential to improve the consumer experience in financial services.

Consumer confidence and satisfaction in financial services score very low year after year. Financial mis-selling scandals make newspaper headlines with worrying frequency. This is caused in large part by the growing complexity of products and inappropriate business models that focus on maximising sales rather than on providing what consumers need.

Traditionally EU policy-makers have relied on information disclosure rules. This implies that raising consumer awareness about financial products would be sufficient for consumers to take rational decisions. However, the reality today is that most consumers are lost in an ocean of complex products they do not necessarily need. In fact, an overwhelming majority of consumers have only basic needs in financial services, which include a current bank account with basic means of payment, a savings account, motor insurance, home insurance, and simple and cost-efficient investment products.

This is why BEUC, Finance Watch and Better Finance call on the Commission to present an ambitious Retail Financial Services Action Plan which has as outcome that consumers are offered more accessible, basic financial products, that financial advisors are paid in a way that does not negatively impact consumers, and that consumer protection rules are properly enforced.

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The EU has adopted over 40 measures during the 2010-2014 post-crisis period and most of these contribute to improved financial stability and better protection of taxpayers, even though the financial stability job is not completed yet.

Consumers have always played second or third fiddle to the interests of the financial institutions, even though some initiatives were taken including to help consumers choose which complex investment product to buy (PRIIPs), the review of MiFID, the introduction of a right to a basic bank account, the Mortgage Credit Directive and the revised Payment Services Directive. However, most of these measures are hardly visible to the average citizen and do not tackle the fundamental market failures that cause significant consumer detriment.

The Capital Markets Union places great emphasis on helping retail savers find a productive investment, usually long-term, in the EU. Your Action Plan should reflect this commitment to improved transparency and availability of better, standard, low-cost, basic products covering all retail financial services sectors.

The European Parliament, in its economic affairs committee report adopted on 11 October, clearly supports this approach. MEPs note that financial services are becoming more digitalised, that consumers need to rely more on financial markets for their retirement savings, that financial products are becoming increasingly complex, and that the quality of financial advice is often poor due to sales-driven remuneration of the advisers.

We therefore call on the European Commission to step up its ambition in retail financial services. The Commission should include measures in its forthcoming action plan to address the entire life cycle of financial services, from product design to distribution and enforcement:

PRODUCT DESIGN

- develop rules on simple, portable and safe financial products as well as set default product options. These products would not only improve financial inclusion by providing a standard fall-back option, but also serve as a benchmark for other products, challenging the sector to deliver a better deal;
- expand product disclosure rules for complex Packaged Retail and Insurance-based Investment Products (PRIIPs) to shares and other investment products;
- address the patchwork of consumer protection rules across 'vertical' financial services legislation;
- address consumer detriment in relation to payment transactions involving currency conversion and the use of Automated Teller Machines (ATM).

ADVICE AND DISTRIBUTION

- address the way financial advice is provided to consumers. Advice is mainly driven by sales commissions, meaning that consumers are likely to end up with products that suit the salesman, not them. This was not banned under MiFID II but restricted to cases where an advisor can prove that the money is used to improve the quality of advice given – rules which are nearly impossible to oversee and enforce in practice;
- take initiatives that improve financial services and competition for all consumers, not only those who are looking for cross-border services, and for consumers who do not use digital channels to avoid financial exclusion;
- end unjustified geo-blocking in retail financial services;
- regulate the creditworthiness assessment process to make sure that only necessary and relevant consumer data is used by lenders. More generally, the Commission should make sure the use of personal data and big data in financial services does not lead to consumer detriment.

ENFORCEMENT

- give more powers and resources to the European financial supervisors EBA, ESMA and EIOPA for consumer protection purposes;
- ensure out-of-court dispute resolution bodies are truly independent and adhered by all financial firms;
- assess the possibility of introducing a European system of collective redress.

For more information about these detailed proposals, please refer to our responses to your consultation on the Green Paper for Retail Financial Services.

Best regards,

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Secretary General
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C/c: Mr. Olivier Guersent – Director General – DG FISMA, Mr. Olivier Salles – Head of Unit – DG FISMA.