



Evaluations of the Directives on consumer credit and distance marketing of consumer financial services

Behavioural study on the digitalisation of the distance marketing and selling of financial services

**European Consumer Consultative Group (ECCG)
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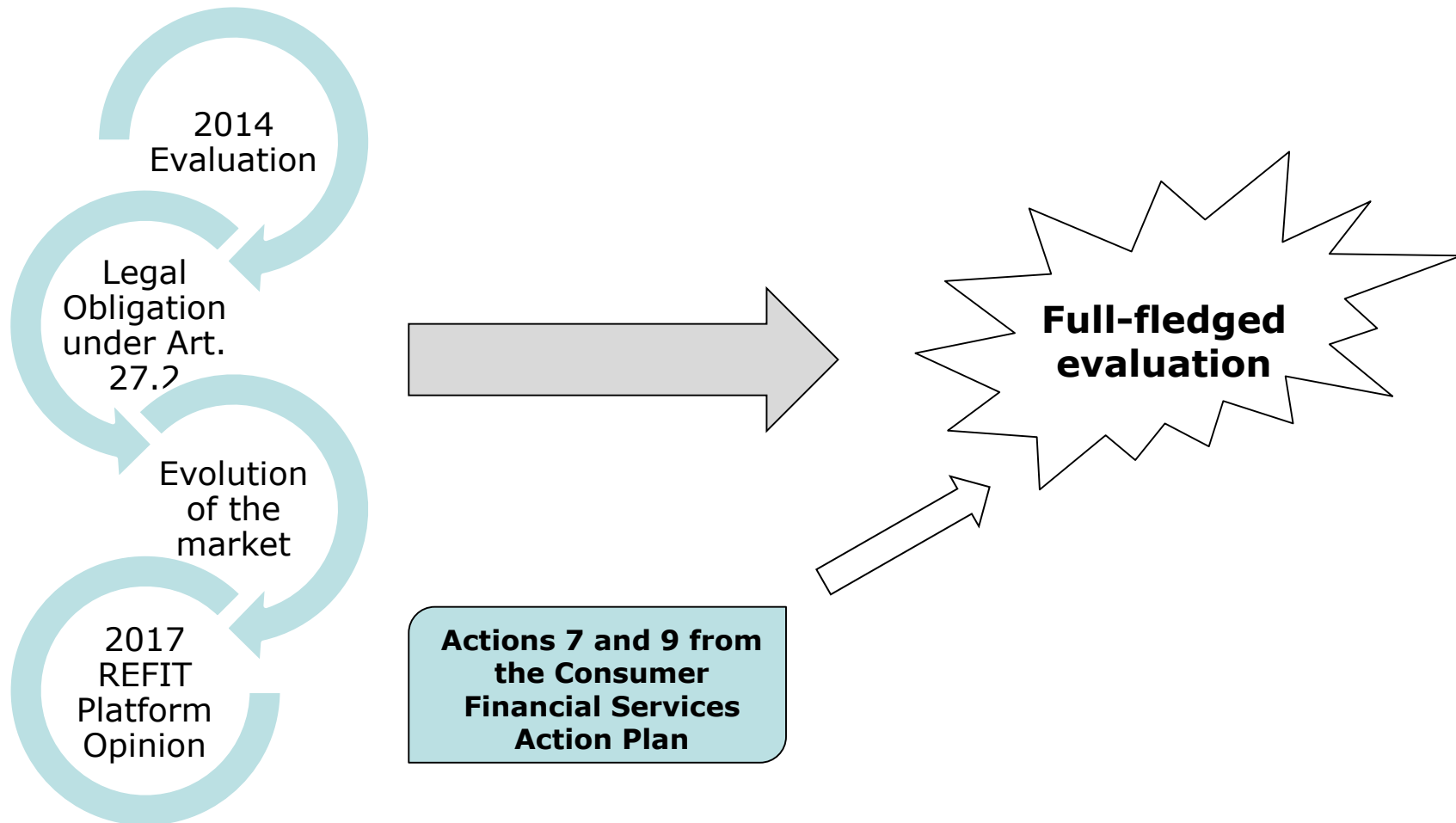
Evaluation of the Directive on Consumer Credit

Objectives and provisions

EU rules on consumer credit are designed to strengthen consumer rights in this sector and foster the creation of a single market for consumer credit, through:

- **Standardised information at the pre-contractual stage (SECCI)**
- **The provision of the annual percentage rate of charge (APR) – e.g. the total cost of the credit**
- **A 14-day right of withdrawal**
- **A right to early repayment**
- **Creditworthiness assessment**

General context



Timetable

**Finalisation in
Q1 2020**

Roadmap

- Open for consultation from 29/06/18 until 27/07/18

Supporting study

- Launched in November 2018
- Legal analysis, literature review, stakeholder interview, mystery shopping, quantification...
- Interim report in June and final report in September 2019

Consultation process

- Member States, stakeholders (meetings with industry, ECCG, FSUG)
- Targeted stakeholder consultation
- Public consultation (January – April 2019)
- Stakeholder event on 18/06/19

Stemming from

- Research
- Targeted consultations
- Open Public Consultation
- 18/6 stakeholder event with CEPS

Preliminary findings (I)

The objectives of the Directive remain relevant but the Directive could be improved

- **The CCD has succeeded in ensuring a high level of consumer protection, but enforcement remains an issue**
- **The rights of withdrawal and early repayment are generally deemed as very beneficial for consumers**
- **The CCD has not had a significant impact on the provision of cross-border consumer credit, due to fragmentation of rules and preferences**
- **Feedback received so far would point to the need to improve the CCD in light of the changes that have occurred on the market**

Preliminary findings (II)

The scope of the Directive is not entirely adapted to the current and future needs of the consumer credit market

- **A broader and better defined scope of application would improve its effectiveness**
- **Certain exempted credit products may be particularly harmful: a) loans below €200; b) leasing contracts; c) 0% interest rates credits; d) overdraft (not exempted but light regime)**
- **Clearer and broader definitions of “creditor” and “credit intermediaries” are also seen as necessary**
- **New services and players, such as Fintech and P2PL, entail new risks for consumers**

Preliminary findings (III)

Creditors are generally providing the required information at advertising and pre-contractual stage, which is considered to be still relevant, but some issues have been identified

- **Information requirements for advertising are considered burdensome for industry but also ineffective for consumers because of their lengths**
- **Digitalisation is impacting the way information is disclosed and consumers behavior (preference for fast end-to-end processes)**
- **The quality (rather than the quantity) of information is seen as important to ensure consumers understand the offers and can effectively compare. Less information provided at the right time and in the right way (prominently) during the consumer journey could be more effective.**

Preliminary findings (IV)

Creditors are generally complying with the obligation to perform creditworthiness assessments (CWA), although there are doubts as to whether CCD obligations are sufficient to avoid over indebtedness

- **Market practices are sometimes geared towards poor CWA, allowing vulnerable consumers to gain access to “risky” credit products**
- **The term “sufficient information” is considered to be too vague, and MS have interpreted it differently, leading to variations across CWA approaches in the EU**
- **Which information should be used for CWA?**

Those preliminary findings are feeding directly into the evaluation



Evaluation of the Directive on Distance Marketing of Financial Services

Objectives and provisions

2002 Directive aimed at ensuring the free movement of financial services in the single market by harmonising consumer protection rules through:

- **Information disclosure**
- **14-day right of withdrawal (for certain products)**
- **Ban of unsolicited services and unsolicited communications**

General Context

2009
evaluation

CCD, MCD,
MiFID, IDD,
PSD2 etc

Product
specific
rules

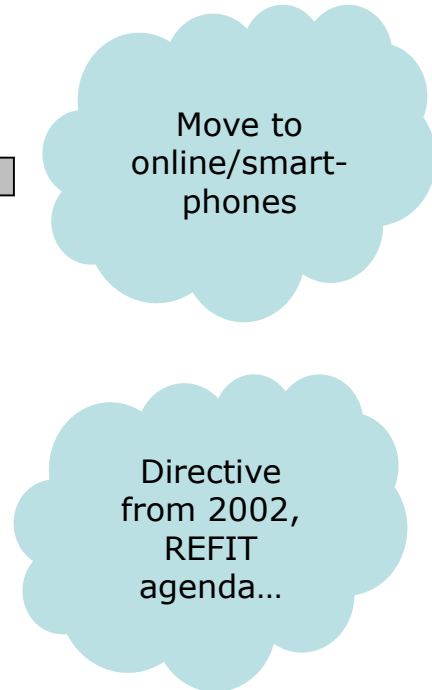
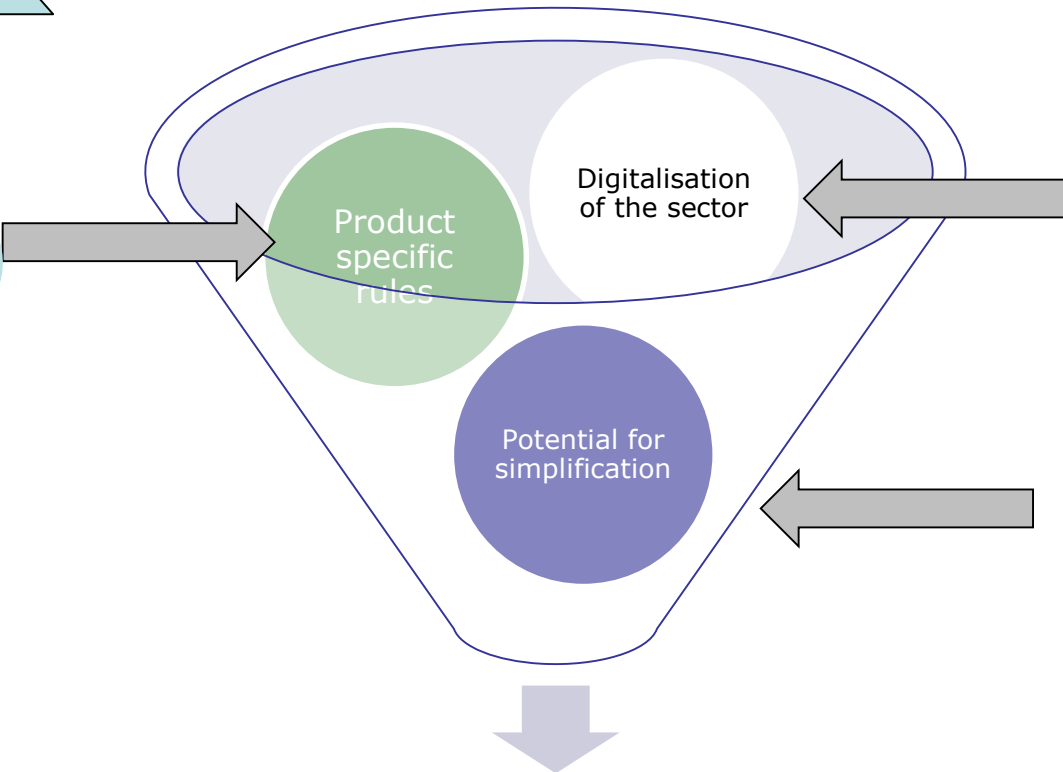
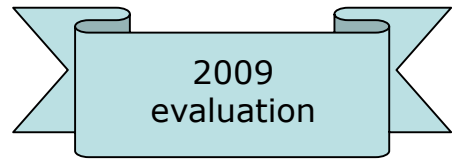
Digitalisation
of the sector

Potential for
simplification

Move to
online/smart-
phones

Directive
from 2002,
REFIT
agenda...

Full-fledged evaluation as
announced in the Commission's
Work Programme for 2019



Timetable

**Finalisation in
Q1 2020**

- Roadmap**
- Open for consultation from 07/12/18 until 4/01/19

- Supporting study**
- Launched in April
 - Thorough legal analysis and mystery shopping

- Consultation process**
- Member States, stakeholders (meetings with industry, ECCG, FSUG)
 - Targeted stakeholder consultation
 - Public consultation (April – July)



Behavioural Study on the digitalisation of the distance marketing and selling of financial services

Main objectives and approach

- *Study to identify risks faced by consumers arising from practices used by retail financial services providers to market and sell their products online. Objectives were to:*
 - **Depict the landscape of online retail financial services providers in the EU**
 - **Map and assess the commercial practices encountered online for retail financial services products**
 - **Identify and test drivers behind the effectiveness and propagation of these commercial practices as well as the corresponding remedies**
 - **Draw a set of policy recommendations**
- *3 Main Tasks:*
 - **Preparatory task (Task 1) including literature review, interviews with stakeholders, desk research and focus groups**
 - **Behavioural experiments and consumer survey (Task 2)**
 - **Development of conclusions and recommendations (Task 3)**

Commercial practices mapped

5 types of practices identified:

Ways in which information is provided to the consumers (e.g. benefits emphasized while costs are hidden, key information missing or difficult to find)

Features aimed at accelerating the consumers' purchase decision (e.g. one-click products, offers limited in time)

Targeting and personalisation

Design of the offers (e.g. pre-ticked boxes and bundles)

Tools made available to consumers to assist in the decision making process (e.g. calculators, progress bars)

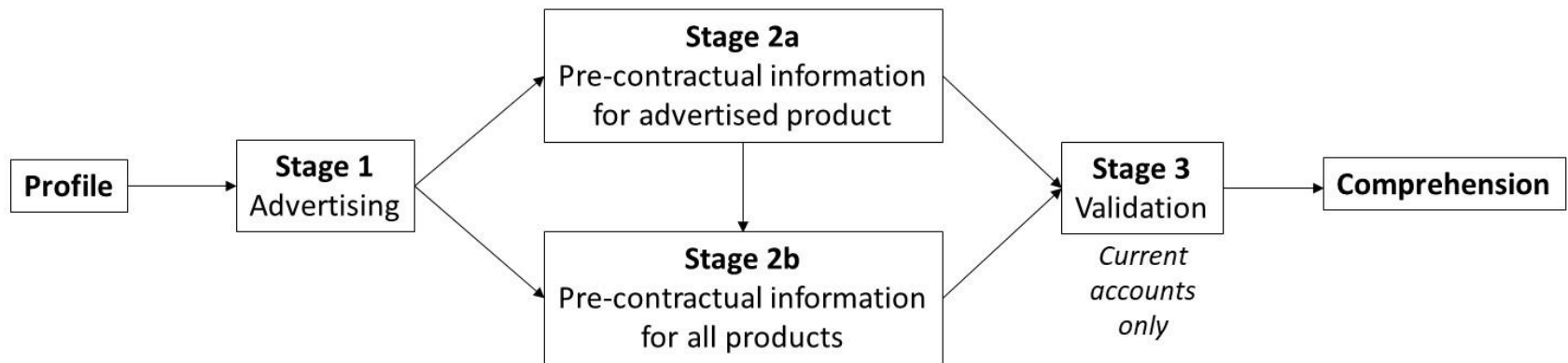
Design of the behavioural experiments

Two products:

- Current accounts
- Personal loans

Two environments:

- Mobile
- Desktop



6 EU Member States with 8,451 respondents

Design of the behavioural experiments


Amazonia Webshop | Maelstrom... Compare loans and find y... +

<https://www.amazonia-shop.com/household/appliance/washing/maelstrom%20w5-sk.html>

Amazonia What are you looking for?... Basket | My accounts | Stores

Household > Appliances > Washing Machines > Maelström

Maelström W5-SK – 6KG – 20 Min quick wash



MAELSTRÖM

Product features:

Capacity:	6 kg
Annual energy consumption:	195 kWh
Annual water consumption:	10870 litres
Spin speed:	1400 rpm

£750

Add to basket

BY CREDIT

*For £43.17 per month**

*APR: 8.3% for £750 loan, contract duration 18 months. Nominal interest: 4.5%. Arrangement fee £20. Total amount payable: £797.60.

Example - Advertising stage, personal loan experiment, desktop environment



Example - Pre-contractual stage, current account experiment, mobile environment

Practices and remedies tested (examples)

Practice tested: emphasising benefits over costs at the advertising stage

Current accounts experiment		Personal loans experiment	
Treatment variant		Treatment variant	
1. Highlight features: Highlight the features and costs most advantageous for the advertised account	✗ Practice	1. Key selling points only: Only the key selling point of the advertised loan is shown	✗ Practice
2. Social proofing message: Message that customers like them compare offers	✓ Remedy	2. Example: Representative example is shown	✓ Remedy
3. EU law message: Message that EU law give them the right to compare offers		3. Warning: Representative example is shown	✓ Remedy
4. “Think carefully” message: Message that they should think carefully about whether the account is right		4. Warning: Representative example also costs money” are shown alongside the	✓ Remedy



BYY CREDIT

*For £43.17 per month**

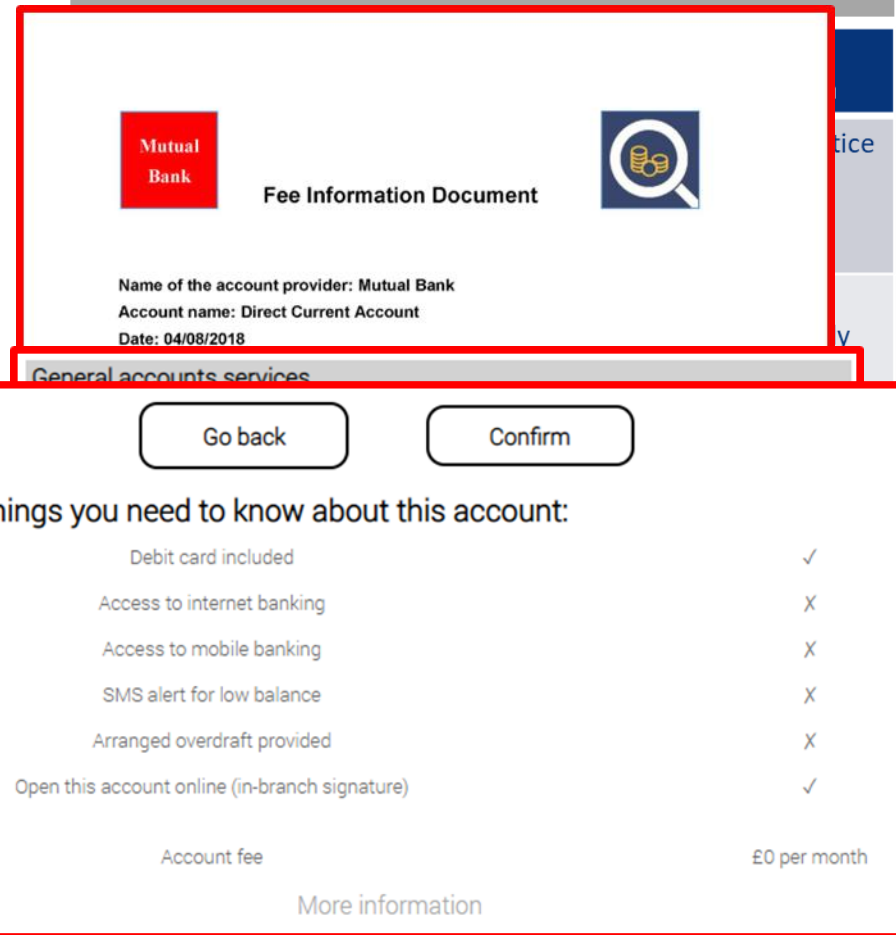
*APR: 8.3% for £750 loan, contract duration 18 months. Nominal interest: 4.5%. Arrangement fee £20. Total amount payable: £797.60.

Practices and remedies tested (examples)

Current accounts experiment

Treatment variant	Benefits highlight	Info hidden
1. Highlight benefits: Only the best aspects of the advertised account were presented upfront, important information was placed behind a button at the validation stage	✗ Practice	✗ Practice
2. FID (validation): As per 1, except the FID was provided upfront at the validation stage	✗ Practice	✓ Remedy
3. FID (validation and pop-up): FID was provided upfront at the validation stage & via a pop-up at the pre-contractual stage	✓ Remedy	
4. Comparison table: Upfront comparison table in style of FID was provided at the validation and pre-contractual stages	✓ Remedy	
5. Comparison table (colour): Upfront colour-coded comparison table in style of FID was provided at the validation and pre-contractual stages	✓ Remedy	
6. Calculator: Calculator provided to help identify the best account	✓ Remedy	

Personal loans experiment



Mutual Bank

Fee Information Document

Name of the account provider: Mutual Bank
Account name: Direct Current Account
Date: 04/08/2018

General accounts services

Go back Confirm

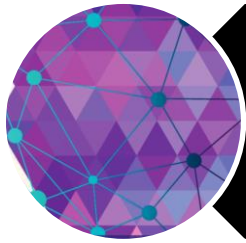
These are the things you need to know about this account:

- Debit card included ✓
- Access to internet banking ✗
- Access to mobile banking ✗
- SMS alert for low balance ✗
- Arranged overdraft provided ✗
- Open this account online (in-branch signature) ✓

Account fee £0 per month

More information

Main findings and conclusions



Digitalisation has impacted the business model of traditional providers and has allowed the emergence of digital-only providers (Fintech).

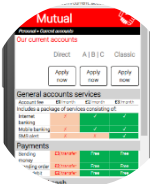


The digitalisation of retail financial services has given rise to a wide range of commercial practices.



Some of the identified practices may be legally problematic.

Main findings and conclusions



Better information has powerful beneficial impacts. It needs to be provided upfront, saliently, early enough in the process and in an engaging format that helps comparison.



Information documents (FID, SECCI) do help consumers make the best choice of product, even more so when there is a direct interaction with them.



However, simple tables are even more effective, especially for vulnerable consumers (low financial and digital literacy) and in the mobile environment, demonstrating the need to adapt information to the users' device.

3000 CREDI.

For £43.17 per month¹
% for £750 loan, contract duration
nominal interest: 4.5%. Arrange
ment payable: £797.60.

Remedies at the advertising stage (such as representative example) are effective at that stage and bring consumers to compare offers.

Main findings and conclusions



Slowing down the decision-making process has a positive effect on consumer choice.



Some marketing practices have a counter-intuitive effects. When told to « hurry » to benefit from an offer, respondents actually took more time and made better choices.



The benefits of targeting and personalisation of offers are unclear but there is a general support for more transparency.



The effectiveness of tools available to assist consumers is somewhat mixed.



The DMFSD continues to be relevant but would require an update.

Main recommendations

Ensure existing
legislation is
enforced

Improve the
quality of
information
provided to
consumers
(How? When?
What?)

Take measures
to protect
vulnerable
consumers

Ensure that the
speed of the
purchasing
process does
not lead to poor
decision-making

Increase
transparency
around
personalisation
and targeting

Ensure that
tools provided
to help
consumers are
fit for purpose
and user-
friendly

Monitor
technological
development
and design
technology-
neutral
legislation

Your comments and questions?