

An interview with Pedro Guijarro Eurofinas Chairman

(Interview published on www.consumerfinance.net)

Eurofinas is the voice of specialised consumer credit providers at European level. Pedro Guijarro, who was appointed Chairman of Eurofinas on 4 October 2009 for a two year mandate, last worked at Santander Group (Senior Vice-President) where he held a number of top managing positions in the consumer credit sector in several European countries for the last 20 years.

1. As the new Chairman of Eurofinas, could you briefly outline your priorities for Eurofinas?

One of my key priorities is to keep strengthening the representative voice of Europe's specialised consumer credit providers in Brussels and further afield. Among others, I intend to promote an active participation of all Eurofinas member associations in order to increase the level of expertise made available to the Federation. Through real team work and a reinforced cooperation, I am confident that we will enhance Eurofinas' action when dealing with the EU institutions and other relevant international bodies. This is particularly important in light of some of the regulatory challenges our industry faces in these changing times, including *inter alia* responsible lending, credit mediation and the implementation of the Consumer Credit Directive (CCD).

2. How have consumer credit providers performed in the first half of 2009?

During the first half of 2009, the consumer credit market covered by Eurofinas members experienced a further deterioration.

Total Eurofinas lending contracted, shows a decline of -15.6% in terms of new loans granted while the portfolio of outstanding loans remains stable at +0.6%.

The firms represented through Eurofinas members reporting in the Federation's 2009 biannual survey, granted total new loans worth over €159 billion in the first half of

the year with a portfolio reaching €727 billion. Out of these total new loans, 75% were granted to consumers in the form of revolving credit, direct personal lending and point of sale lending for both vehicles and consumer goods and services.

Total Eurofinas new consumer lending for personal consumption, (i.e. consumer credit excluding consumer vehicle finance) decreased by 12.5%, with a majority of members experiencing sharp drops in their new business. The period was equally difficult for consumer car finance activities, with new loans decreasing by almost 10% for used car finance and by just under 14% for new cars.

A notable exception was the German market however which experienced a solid increase in new consumer lending for personal consumption and a particularly strong growth for new car lending. This is thought to be the result of the effective vehicle scrapping scheme put in place by the German authorities, with similar schemes in other countries having had less of an effect on the lending sector.

3. The transposition date of the Consumer Credit Directive is fast approaching. What are your views on the transposition process?

The CCD must be transposed into the various national legal frameworks by 11 June 2010. Its provisions will bring major changes to current business practices in many European markets on areas as diverse and important as advertising and marketing, APRC calculations and early repayments. These changes will force lenders to review their marketing tools, documentation and IT systems and require intensive staff training. So far only Germany and Portugal have transposed the CCD. Most of the other EU Member States are late. This will result in most consumer credit providers finding it extremely difficult to be CCD-compliant as of 11 June 2010.

The short implementation period is increasingly problematic in the current economic situation. Lenders are currently operating in exceptional economic circumstances and the industry's capacity to make the necessary changes to business systems is seriously undermined. The small number of IT suppliers still in business who can build the required systems is testament to this situation.

Eurofinas is the only European Federation that has repeatedly called for an extended implementation deadline. Unfortunately all our appeals have so far fallen on deaf ears.

What advice would you therefore give to the industry?

Lenders should liaise with their national association and try and anticipate the forthcoming requirements as much as they can. Senior management should be made aware of the situation and compliance teams be provided with all necessary means in order to ensure prompt reaction in due course.

4. Policymakers are increasingly focused on improving transparency and standardisation of processes. Has Eurofinas witnessed this in practice?

There is a clear trend towards more disclosure of business practices to customers. This poses a serious problem as regards the confidentiality of the lenders' business models.

Credit scoring transparency is often at the centre of these discussions.

Eurofinas is extremely concerned about a recent initiative taken by ISO, the International Organisation for Standardisation, to develop a proposal for standardisation of consumer credit scoring processes. It seems that ISO's idea is to provide requirements for creditworthiness assessments in the retail business, with credit scorecards as its main focus.

It is a widely shared view in the industry that such a project is wholly inappropriate, not least due to concerns over the fraudulent use of the data that would need to be disclosed under any such standard. At the time of writing, such data would include weightings within scoring systems.

What has been the reaction at national level on this issue?

Eurofinas position is far from being isolated. The German, Swedish and Dutch standard setters have adopted elements of our position as their reasons for not voting in favour of the ISO proposal. This was not sufficient however to stop the whole project which is still ongoing.

Our position is that there is simply no need for such a standard; not to mention that the timing is particularly ill-chosen with the industry already being under severe regulatory pressure at European and national levels.

How can the wider industry help fight this initiative?

ISO members are the national standard setter/institute in each country. As ISO gets its input directly from its members, it is essential the national standard setters be contacted and told about the ill-suited character of the ISO initiative and the negative impact that the contemplated new standard would have on both the industry and the consumers. A model letter with key arguments can be obtained from the Eurofinas Secretariat.

5. What other issues do you believe will affect the industry in the coming months?

A European study will soon be undertaken in the field of national interest rate restrictions. This initiative concerns all types of mechanisms, including interest rate caps and limits to interest rates variability.

We have reasons to believe that the study could be undertaken by a consultancy well-known for its strong support to interest rate ceilings. If so, it may call into question the unbiased character of its future findings.

While the European Commission's intentions in this field are still unclear it is important that we anticipate possible future developments and start developing a well documented position on the subject matter.

This initiative must be seen in the wider context of the European Commission's current reflection on the far-encompassing issue of responsible lending and borrowing.

Eurofinas agrees with the Commission that borrowers should be 'empowered' in such a way that they can take informed decisions and make sustainable choices. We believe that consumers' financial literacy is crucial in that regard and that financial education is a must.

Putting words into action, Eurofinas has recently developed an e-publication on the issue of financial education. The publication offers a unique overview of financial education initiatives launched by the consumer credit industry across Europe.

Mindful that consumer credit providers have an important role to play in the field of financial education, we hope that the various initiatives and case studies described in the publication will be emulated in the future and serve as a benchmark in years to come.

This publication should be seen as a sign of industry support for the Commission's aim to restore consumer confidence and can be consulted on the Eurofinas website.

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