



1. What were the main subjects for EUROFINAS in 2006?

The review of the Consumer Credit Directive was undoubtedly the main subject dealt with by EUROFINAS' Legal and Consumer Affairs Committee (LCAC). Other important subjects dealt with by the LCAC were the third Anti-Money Laundering Directive, the Distance Selling Directive and the European Commission's financial services strategy 2005-2010.

EUROFINAS' Economic Affairs Committee (EAC) concentrated on the implementation of the Capital Requirements Directive (CRD) following its adoption in September 2005. This included making sure the industry's voice was heard in the consultation process lead by the Committee of European Banking Supervisors. The Committee focused its efforts on raising awareness on one implementation issue in particular, that of local data protection laws entering into conflict with certain CRD requirements resulting in the inability of institutions to appropriately apply the Directive.

2. What will be the main subjects for 2007?

The review of the Credit Consumer Directive will remain at the top of the agenda of the LCAC during the course of 2007.

In a note sent in early 2007 to the members of the Council's Working Party on Consumer Protection, the German Presidency makes clear its intention to advance in this dossier during the 6 month term of its mandate. There will therefore be no time to rest. Eurofinas has already met the German Presidency in an informal manner. Going forward, we intend to multiply the contacts with relevant stakeholders. To the extent possible we will lead/join industry coalitions to make our case stronger. The Consumer Credit Working Group of the European Banking Industry Committee (EBIC), which we chair, is an excellent platform for doing so. Whenever required however, we will not hesitate to promote our interests on our own. It is indeed crucial that the specific needs of the consumer credit providers be expressed loud and clear, well understood and accommodated.

Other very important issues for the LCAC will be credit intermediation and the review of the consumer 'acquis'.

In its financial services strategy for the next five years (2005-2010), the European Commission indicated its intention to investigate the area of credit intermediaries. This is an important issue and we intend to actively contribute to the upcoming debate. We have already had some contacts with the Commission's services on that matter and will intensify them going forward. An *ad hoc* Working Group will be set up in the coming weeks to further elaborate the industry position.

The Commission is determined to reduce the current regulatory fragmentation in the area of consumer protection. It intends to achieve this objective by proposing a framework instrument addressing horizontal issues that are of relevance for all consumer contracts (definition of 'consumer', 'professional', length of cooling-off periods, etc.). The Commission is expected to publish a Green Paper on the consumer 'acquis' (a set of eight Directives among which distance selling, doorstep selling and unfair terms) in early 2007. Responding to the Green Paper will be a priority for EUROFINAS, actively participating in the ensuing debate will be even more important.

As EU institutions begin applying the Standardised Approach of the CRD, it is likely that practical problems will be revealed. The EAC will therefore continue to work on (consistent) implementation of the Directive in 2007.

The Committee of European Banking Supervisors will be dealing with the conflicts in CRD implementation brought about through national data protection requirements via its members in 2007. The EAC will monitor progress and intervene if required.

Other work for the EAC is likely to involve the investigation of current practices relating to the amount of information credit providers have to disclose to consumers on the scoring process or its results. Members will also examine best practices for dealing with fraud, in particular identity theft in point of sale finance.

On a more general note, we intend to better explain who our (members') members are, what they do, how they do it and what sets our members apart from, *inter alia*, the universal banks. Also we intend to improve the image of the Federation and increase its visibility.

3. What are your expectations for the Consumer Credit Directive in 2007 ?

EUROFINAS welcomed the decision of the Finnish Presidency not to try and force through an agreement on the Consumer Credit Directive at the Competitiveness Council of 4 December 2006. Indeed the latest text put forward by the Finnish Presidency would not have achieved the objective of the original Commission's proposal to create a single market for the provision of credit to consumers. In that context, passing the file over to the German Presidency was probably the best thing to do. Clearly, quality takes precedence over speed.

Whether or not an agreement will be struck in 2007 under the German or Portuguese Presidency is difficult to predict.

The endless story of the CCD review evidences the difficulty to fully harmonize consumer protection legislation at EU level. It also highlights the tendency of Member States to favour a minimum harmonization approach which gives them the opportunity to add national requirements on top of the EU-wide harmonized rules. Although not really surprising, this attitude of the Member States is regrettable. It should indeed be clear by now that minimum harmonisation is not conducive to the creation of a single market for retail financial services.

Numerous studies have shown the benefit to be derived from a single market in retail financial services. EUROFINAS considers the proposal for a Consumer Credit Directive as a test case of the willingness of the EU Institutions to create such a market, in line with their Lisbon commitment.

EUROFINAS remains hopeful that the full harmonisation approach will eventually win the day as far as the key elements are concerned. It looks forward to furthering the constructive dialogue it has entered with the German Presidency and Consumer Protection Commissioner Kuneva's services on the subject matter.

The impact assessment commissioned by the European Parliament's Internal Market Committee should be made available in March or April 2007. It will (should) constitute an important piece of the jigsaw. The Member States and the European Commission will need to give proper consideration to its results.

Full harmonization apart, the text as it currently stands has many flaws and is particularly detrimental to consumer credit at the point of sale, a core activity of many EUROFINAS' members. For example, provisions on the right of withdrawal, linked credits, and joint and severable liability (to name just a few) need to be changed.

4. Do you expect any further changes in legislation for consumer credit on a European level?

As noted above the European Commission plans to review the so-called consumer 'acquis' and to investigate the area of credit intermediaries. The European Commission needs to demonstrate its commitment to the principles of better regulation; legislative changes should therefore not be assumed.

5. Do you expect new memberships from the new EU member countries in the east?

To the extent that exist credit associations in central and eastern European countries exist, we invite them to join EUROFINAS. In 2006, we were very pleased to welcome the Polish and Czech Credit Associations as new members of the Federation.

In countries where no such association exists, we are willing to lend our full support to credit providers planning to set up a national association.

6. Can you describe the main differences in the use of consumer credit in the member states?

EUROFINAS collects statistical information from its members on their markets twice yearly. These are available on the Federation's website (www.eurofinas.org) and contain detailed breakdowns of consumer credit product types.

At the end of June 2006, consumer credit outstandings represented via EUROFINAS increased by 8.6% compared to the previous year, slightly above the Euro-zone growth rate for consumer credit loans to households of 8.4%, proof that specialized consumer credit providers are top performers in the overall consumer lending market.

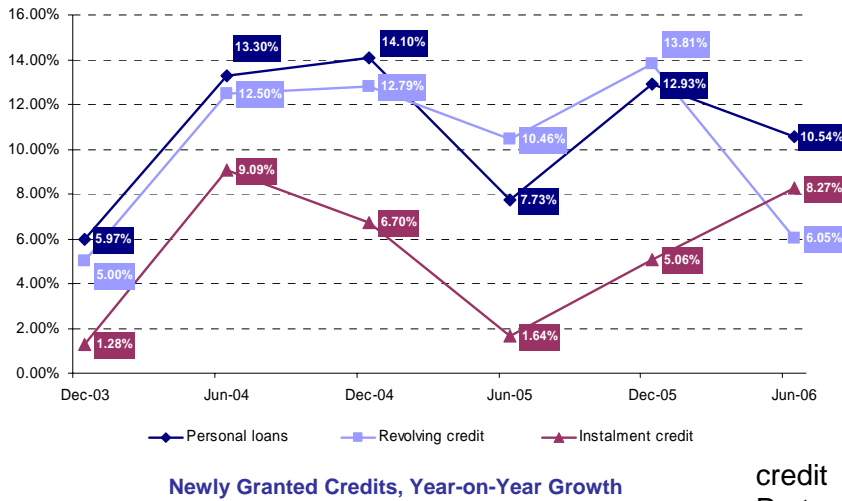
The Biannual Statistical Survey for end June 2006 reveals that the differences in performances of the various markets where our members are present were large, ranging from an annual increase of over 30% in terms of outstanding consumer credit (excluding motor finance) in some countries (Spain, Sweden) to a decline of nearly 4% in the largest market, the UK.

Of the various products included in the consumer credit loans represented by EUROFINAS, personal loans performed the best overall, with members' companies granting 10,5% more new credit compared to June 2005.

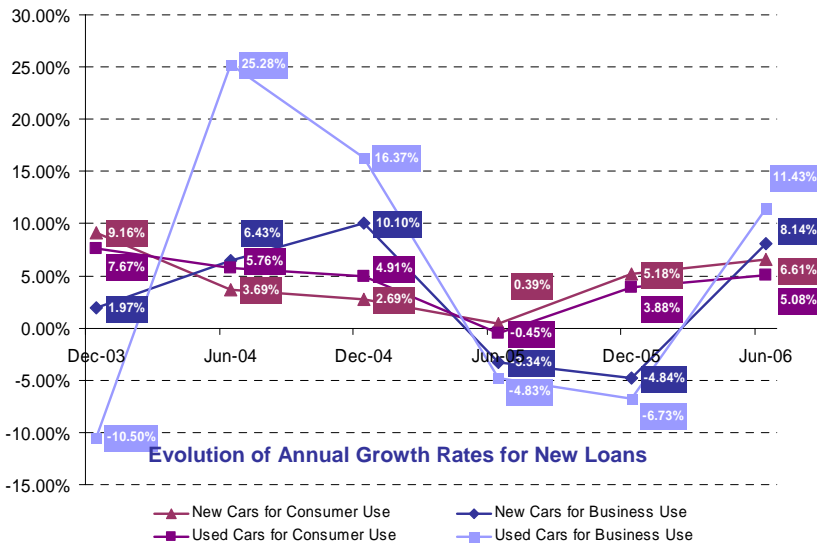
Point of sale finance picked up compared to previous surveys, to reach an annual increase of new business of 8.3% (compared to a 5.1% increase in the 2005 Annual Survey) while revolving credit, including credit cards, performed less well than in the past, growing by 6.1%.

The majority of consumer credit loans for personal consumption are granted the form of revolving credit in the Spanish, French, Finnish, Portuguese, Swedish and UK associations

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Overall, vehicle finance increased by 7.8% but this was particularly due to a large increase in commercial vehicle finance (vans, etc.) provided by certain members as well as increases in car financing to businesses. Car finance for consumer use increased by just under 6% (for new and used car segments taken together).

While the average household debt to GDP ratio is constantly on the rise in the Eurozone, reaching slightly above 58% in the second quarter of June 2006¹, this figure still remains

well below the levels of countries such as the UK and the US where the ratio is around 100% and 80% respectively². Nevertheless, the European Central Bank's outlook for the continuing capacity of consumers to repay their debts remains largely positive. From these two facts, one can deduce that there is still room for consumer credit activities to develop in the Euro countries.

¹ Financial Stability Review, European Central Bank, Dec 2006

² Figures for end 2005, Financial Stability Review, European Central Bank, June 2006

While only the French and German markets can even begin to rival the UK market in terms of absolute size, these markets, and in particular the small but fast growing Italian market, have great potential. Indeed, Italian household debt per capita is around 4 times less than in the UK, with the ratio being less than half of UK levels in France and Germany³. Again, such figures show that the Continental European consumer finance market has a definitive scope for growth in coming years.

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³ Figures based on EUROFINAS survey of its members on household consumption, June 2006