



REPORT ON EUROFINAS WORKSHOP ON POINT OF SALE FINANCE BRUSSELS, JULY 4, 2008

INTRODUCTION

On the 4th of July 2008, Eurofinas organised a workshop on the distribution of consumer credit at the point of sale in Brussels with representatives of the European Commission. The aim of this event was *i)* to explain to EC officials the processes and specificities of point of sale finance, *ii)* to allow EC officials to ask questions directly to practitioners (including motor dealers and retailers) and *iii)* to identify how Eurofinas could provide further expertise on the subject matter.

Eurofinas is best placed to talk about POS as a distribution channel as this channel represents around 40 % of total consumer lending by its Members.

Eurofinas' ultimate objective was to explain to the EC how different motor dealers and retailers involved in the distribution of credit at the point of sale are from credit brokers and that a differentiated approach is therefore needed.

The Workshop was organised in such a way as to allow practitioners to show their own way of doing business by providing very concrete examples, something EU policy makers usually find very informative and valuable. It was therefore not aimed at giving a complete picture of POS finance in EU27.

The Workshop provided the EC officials with the opportunity to ask numerous questions, which they did. The EC officials praised the very practical approach adopted for the Workshop and found it most instructive. Eurofinas remains in close contact with the EC on the subject of credit intermediation.

This report provides a brief overview of the main points presented and discussed at the Workshop.

THE EUROPEAN CONSUMER CREDIT MARKET AND THE POINT OF SALE AS A DISTRIBUTION CHANNEL

A first presentation was given by Umberto Filotto, chair of Eurofinas' Statistics Committee on *i)* the share of consumer credit in the total lending to households, *ii)* the types of products offered and the distribution channels used by Eurofinas members and *iii)* the share of indirect lending in three large markets (UK, IT, DE).

In 2006, consumer Credit represented between 6% (NL) and 21% (UK) of total lending to households and from 4.3% (SE) to 16.4% (UK) of gross domestic product.

After a significant growth between 2004 and 2005, consumer credit across EU15 is now decreasing and represents approximately 5% of all types of lenders' outstandings. This decrease is strongly linked to global economic difficulties which has an impact on the level of consumption.

Firms represented *via* Eurofinas members grant a wide range of consumer credit products including instalment loans (personal loans and linked credits) and revolving credit (credit lines and credit/store cards). In 2007, Eurofinas members financed new consumer credit of over 294 €billion. The amount of outstandings was 431 €billion at year end, representing approximately 41 millions loan transactions.

These products are distributed *via* direct and indirect channels. Direct channels include *inter alia* branch offices of specialised firms, banking network of parent firms or phone and internet. Indirect channels include *inter alia* brokers, agents and retailers/motor dealers.

Retailers/motor dealers represent the point of sale channel. The percentage of Eurofinas new consumer credits distributed via the POS was 43% in 2003 and 37 % in 2007.

Looking at three large markets, Eurofinas 2007 statistics show that 32% of total new credits were granted through indirect channels in the UK, 64% in Italy and 70% in Germany. **POS finance represents between 86% (UK) and 92% (DE) of total new consumer credits granted through indirect channels.**

Between 62% (IT) and 76% (DE) of credit granted at the point of sale were linked to the purchase of a car.

The main benefits of POS finance were presented as follows:

- POS finance facilitates consumers' access to goods and services
- Financial products offered at the POS can be tailored to meet consumers' needs. For instance products offered at a motor dealer's showroom would typically be adjusted to the customer's use of his vehicle.
- POS finance is particularly useful in non-mature markets. It is often a starting point for establishing and developing a consumer credit market and it allows consumers to finance previously inaccessible goods thereby contributing to improving their socio-economic standing and living conditions. Clients acquired through merchants represent a strategic segment to convert in direct customers.
- POS finance enhances consumption to fuel the economy.

- POS finance is of strategic importance to Eurofinas constituency. Consumers often request a finance solution when purchasing a good or a service at the point of sale. Specialised consumer credit providers have put in place PoS finance processes and developed PoS distribution channel in order to meet consumer's needs.
- POS finance plays an important role in increasing competition and the development of the Single Market. It allows specialised credit providers to reach a potential customer base as large as possible. It greatly contributes to the growth and expansion of credit and consumption goods distribution in the EU.
- In theory, credit providers do not necessarily need to create local subsidiaries or branches to grant credit in new markets as they can distribute their products via POS. In that sense, PoS finance may facilitate the provision of consumer credit cross-border. In practice however, most credit providers do cross-border business by creating local subsidiaries or branches in other European markets. The role of PoS finance in the development of cross-border credit has, therefore, still to be demonstrated.

ACCESS TO POINT OF SALE FINANCE MARKET: A NEW ENTRANT'S EXPERIENCE

Representing a new entrant in the motor finance sector in Belgium, Ugo Setti presented Cetelem Belgium's (newly BNP Paribas Personal Finance) experience of entering a new consumer credit market *via* the POS channel.

A description of the Belgian consumer credit market environment was presented. The number of new vehicles registration along with the different rates offered by lenders in the automotive sector for new and used cars along with balloon finance product were discussed.

All the industry participants agreed that Belgium's motor finance market was highly competitive with all the traditional players present.

The main reasons why a new competitor would ever decide to enter such a highly competitive market were identified as follows: i) the weight of motor finance in consumer credit (75% in Belgium), ii) the necessity of such a service for motor dealers and manufacturers alike in the sale process and iii) high customers expectations (customers request a credit solution for the purchase of their car).

In order to enter this new market, Cetelem went through a step by step approach which can be summed up as follows:

- A preparatory phase in which several market surveys were carried out.
- A development phase which included the creation of IT tools such as on-line credit application, on-line credit simulation-reporting, the creation of commercial tools (finance products, rate charts etc.) and training courses for motor dealers.
- A phase of prospecting licensee and importers.
- A phase of starting up with selected partners and basic products.

- A phase of optimisation in which new products and complementary services were designed and launched.

After having discussed the overall process of entering a new consumer credit market *via* the POS channel, the participants had the opportunity to focus on a retailer's experience of POS finance.

A RETAILER'S EXPERIENCE OF POINT OF SALE FINANCE

With more than 700 department stores in 15 countries, Media Markt Saturn is the European leader for White and Brown goods supply. Valère Somers, Media Markt Saturn Country Manager for Belgium and Luxemburg shared his experience with POS finance.

Credit offered at the POS is essentially a commercial tool for the retailer. While it represents a minor part of his net sales, it is a crucial need for 'big' tickets (goods sold for more than 500 Euros).

Two distinct products are offered at the point of sale at the client's request: Media Markt Saturn-MasterCard, a co-branded credit card and a linked credit for particular purchases.

Special 0% APRC credit focusing on big white and brown goods is offered twice a year. In such cases the cost of the credit is borne entirely by the retailer with the customer getting free credit. It was mentioned that such a practice is well developed and depends mainly on the retailers' marketing and commercial strategies.

The finance products are offered in a separate office located at the front end desk of the store. In-store and Internet advertising is checked and pre-approved by the credit provider.

The overall process in-store can be summed up as follows:

- The clients present themselves spontaneously at the store front end desk.
- Clients may ask information to the sales staff in-store. If so they are automatically directed to the front-end staff.
- The front-end staff explains the available offer (i.e. credit card or linked credit), collects data and fills in the online application form provided by the lender. The contract is prepared only after credit approval by the lender.
- In case of a credit card application, a temporary card is provided to the customer after the lender's approval. The final card is provided to the client several days afterwards.

The acceptance rate is around 75 %.

A limited number of staff members is in charge of finance products (maximum 5 members of staff per store). Trainings on the credit product and on the IT tool are provided by the lender to front end staff. The lender's district managers and the front-end staff meet two to four times a month. A dedicated hotline is at the disposal of the staff in case of any difficulties during the credit application process.

The risk of fraud (e.g. falsification of signatures or ID documents by applicant borrowers) is very limited. It can happen however despite the vigilance of both the lender and the retailer.

STORE CARDS: THE DISTRIBUTION PROCESS AT THE POS

Eric Van Der Straten, Belgium Managing Director for RBS (newly Santander), speaking in own name, presented the distribution process of store cards at the POS taking the example of the "Comfort Card" product offered in several European countries (Netherlands, Germany, Austria and Belgium).

The "Comfort Card" is a private label store card with a payment function and a revolving credit facility mainly used for the purchase of White, Brown and Grey goods. For what concerns the Belgian business it represents a total of revolving credit production of 118 €millions, a total of revolving credit portfolio of EUR 137 €millions and a total card portfolio of 360K.

The potential functions and facilities of store cards were described as follows:

A basic store card typically has a limited acceptance network which inevitably corresponds to limited purchase abilities. A store card may offer an ATM access and can be co-branded VISA/MasterCard. In this latter case, the purchase possibility is considerably extended thanks to the existence of a worldwide acceptance network.

The store card offers a revolving credit facility which corresponds to an overdraft facility without fixed end date. Reimbursement is monthly based and represents either a fixed percentage or a fixed amount of minimum EUR 25 Euro per month. This enables close monitoring of the customer behaviour and constitutes an excellent early warning system in case problems arise. It was stressed that no charges apply in case of early settlement.

In terms of usage and average tickets, the basic store card is characterised by a low frequency of transactions i.e. 1 purchase every 15 months with a first average purchase of EUR 800 and a repeat average purchase of EUR 400. A store card with ATM access is more often used because of the cash transactions facility. Usage is more intensive when the store card is co-branded VISA/Master Card.

Store cards are a marketing tool for up-sale and the customer profile is far more diverse than one would expect: 60% of users are considered as belonging to upper middle to upper social categories and acceptance ratio can go up to 80%.

In-store procedure

It was further explained that the distribution of store cards at the POS is based on a clear allocation of responsibilities between parties. On the one hand, the retailer, who is tasked with gathering all required data, must inform customers properly regarding the credit facilities, contractual agreements, credit and card features. The retailer has no responsibilities or influence on credit decisions. On the other hand, the credit provider who has exclusive ownership of credit policy, credit decision and

follow-up of credit files, is charged with checking all data, update, inform, coach retailers and is in charge of relationship with the borrower including follow-up, monitoring etc.

SELECTION AND MONITORING OF RETAILERS & DEALERS

Selection of retailers & motor dealers

The creation of a commercial partnership with a retailer or a motor dealer follows several steps which were presented by Sandra Daussoigne from Cetelem Belgium (newly BNP Paribas Personal Finance). The overall selection process starts with the identification of the contact person in charge of financing in the retail company or in the motor dealership. After a first contact, a wide range of information is then taken into account (solvability, reputation as well as the overall environment of the shop) in order to assess the potential degree of risks such partnership would entail. A careful selection of retailers and motor dealers, using all available data, is conducted to ensure high-quality partnerships.

Collaboration might then be proposed in the form of a dedicated partnership. Nature of the partnership (exclusive or non exclusive) along with products pricing policies, APRC policies, duration of agreement will then be discussed and agreed. It was highlighted that when it comes to national or international chain stores, negotiations are usually not restricted to one shop but concern all shops at regional or national level.

Legal authorisations are then asked to the competent authority (if required), following which staff's training and a first testing phase are conducted.

Monitoring of retailers & dealers

Following the start of a collaborative initiative, a close monitoring of retailers and motor dealers by the lender takes place. This monitoring is regular and includes visits of the store and reviewing business. Periodical statistics analysis is produced in collaboration with the store.

As a complement, a yearly risk assessment is conducted.

Ad hoc monitoring in case of specific risks identified by the lender is performed as often as deemed necessary.

All procedures cumulatively result in lenders being quick to identify any problem related to fraudulent applications.

The monitoring of retailers/motor dealers covers all aspects of the relationship.

CREDIT PROVIDER'S ASSISTANCE TO RETAILERS & DEALERS

Training and assistance are at the very crossroad of both lenders and retailers/motor dealers expectations. Depending on the size of the retailer/motor dealer (small shops, international stores) and the type of products offered at the point of sale, training schemes will inevitably vary. Guy Schellinck, Citibank Belgium Loan Director, presented the training and assistance schemes put in place by his company.

The starting point is, for the lender, to assess and understand the retailers/motor dealers' expectations.

The expectations of the latter are usually i) rapidity of credit decision and file disbursement, ii) regular visits of key account managers, iii) advertising and legal support and iv) concrete training sessions.

In order to assist their partners, all lenders have dedicated teams to support retailers/motor dealers in their POS finance activity. This results in high quality services being provided to the customers. At Citibank Belgium 22 dedicated staff members are in charge of the relationship with local shops, the review and disbursement on daily basis of incoming files and the assistance to dealers.

The key actor is the so-called key account manager or district manager who notably follows the progression of the retailers/motor dealers, provides training, explains the system, IT tools and credit rules, expand the lenders' relationship with existing retailers/motor dealers and assist them in organising commercial actions, open door days or special events.

In addition, the Dealer Support Centre provides an accessible hotline and welcomes calls from dealers, handles marketing material orders from dealers and is a help desk for all questions related to products, commercial campaigns and credit decisions.

Retailers/motor dealers can contact the Dealer Support Centre at all times.

What is happening behind the scene?

Online application processes tend to become the general rule. High automation responds to the need for speed for quality and operational risks management. The fact that a credit decision is taken quickly does not mean that lenders are not behaving in a responsible manner. This is because the credit decision process includes a very high number of checks (up to 100 for certain companies). Hence **the speed of the credit decision has no impact on its quality.**

All marketing and advertising materials are reviewed if not provided by Citibank (contractual obligation). The review includes legal and compliance checks by Citibank's legal department.

All contracts, products, processes are first approved by the lender's legal department. Retailers/motor dealers are informed of all legal changes cumulatively *via* Internet messages, personalized mailings, newsletters and key account managers when visiting. The involvement of key account managers in informing and explaining legal changes is essential for retailers/motor dealers' understanding.

The wide variety of retailers/motor dealers and environment differences require customised training programs that the lender is best placed to provide.

National dealer managers and key account managers are responsible for the training which can cumulatively or alternatively include: individual trainings on site, classroom trainings and dedicated trainings for new staff. In addition, training manuals along with practical information is always available on the Intranet and updates on the online credit application welcome screen.

The key account manager ensures at all times that trainings/corrections are provided/made whenever needed/required.

CREDIT APPLICATION PROCESS: A CASE STUDY

Having been a retail manager for more than 10 years, Gary Toner, GE Money Bank's operational compliance leader presented the various steps of a credit application process. The online application used for the demonstration is the one used by one of GE Money's retail partner.

Retail finance is based on transparency and fairness. The credit product is offered at till point and the process is completed either through online application or through standardised application form. In the latter case the retailer has to call the lender for decision. Both application processes are underpinned by training and testing programmes, regulatory requirements and regular controls.

Given their speed, efficiency and built-in security, online applications tend to be the lenders and retailers/motor dealers' preferred working method.

In-store process

Prior to entering the on-line system the retailer will first make sure that the customer is at least 18 years old and is in permanent paid employment. He will have to connect to the online application form by filling in his store identification number and his personal employee identification number. Such a step is often required in big chain stores where several dedicated staff can be in charge of POS finance in order for the lender to ensure a complete monitoring of the credit applications.

The retailer is required to inform the customer that GE Money will use a credit bureau to help make the decision and that a credit search will therefore be carried out, the record of which will be kept by the credit bureau.

The retailer will then collect numerous information including, *inter alia*, the customer's ID number, identity, address and home phone number.

The newest online application tools confirm instantly if the ID number and the address are valid and linked to the applicant. In such a case, the system might not allow the retailer to continue the online application process unless the data is changed.

All the information collected on the applicant is checked by the lender before any credit decision is made, should it be instantly during the online application as

explained above or, later on, after the retailer has communicated all useful data to the lender.

Information on the applicant's household income will then be collected in order to check his ability to repay. In case of a credit card application, the information will be used by the lender to fix the card credit limit.

The ability to repay and/or the credit limit are never driven by the retailer but by the lender (through IT scoreboards). **Retailers play no role in the credit granting decision.**

If the application is accepted, the retailer will print and give the customer a contract. Once the customer has agreed and duly signed the said agreement he advises the customer that his card will arrive within 7-10 working days and issue the customer with a temporary card.

The borrowers address all questions they might have directly to the lender, should it be to get additional information on products or procedures, to complain or in case of any difficulties arising during the duration of the contract. Lenders are in charge of dealing with potential customer's complaints, early settlements and debt recoveries.

If the application is refused, the retailer will issue the customer with a decline leaflet which explains why the application might have been refused and how he can get more information. Customers can get explanations by contacting the lender or in addition the credit bureau to find out about their credit history file. Retailers are asked not to enter into a discussion as to why the application has not been accepted and requested to refer customers to the lender. In any event retailers are not, de facto, in possession of any information on the motivation of the credit decision.

MOTOR FINANCE SPECIFICITIES

Patricia Wolfe, Mercedes Benz Financial Services UK General Manager for Car Groups Brands, presented the specificities of the Motor Finance sector. Mercedes Benz Financial Services UK has a wide network including 139 Mercedes outlets and 48 Smart outlets and is a member of the Financial and Leasing Association (FLA).

Figures on the UK passenger car market and on the UK finance market were first given. The high level of competition in the UK consumer credit market was stressed. The UK motor dealer finance market is dominated by major bank-owned finance companies (GE Money, Black Horse etc.) and captive finance companies (Ford Financial, Banque PSA Finance, Toyota FS, Mercedes Benz FS etc.).

How does Motor financing at the point of sale work?

All FLA motor finance business at the POS is conducted through intermediaries. The finance company offers finance to the consumer *via* the motor dealer. In 2007, FLA members provided 11.9 £billion of consumer motor finance via all types of channels and financed more than 47% of all private new car registrations in the UK.

Finance companies are either financial subsidiaries of motor manufacturers known as "captives" or independent finance companies. Captives operate through a franchised network. The presence of captive finance companies is certainly one of the main characteristics of the POS motor finance environment along with the absence of exclusivity agreements between motor dealers and lenders. Motor dealers usually work with several lenders at the same time which allows customers to have a real choice whenever they request a finance solution for the purchase of their car.

Lenders and dealers are subject to the FSA's Treating Customer Fairly (TCF) principles. In addition the FLA Lending Code applies to all consumer credit products offered by its members. It sets standards of good practice such as promoting fair, reasonable and responsible dealings with customers.

All credit providers comply with consumer credit and financial crime regulations. Mercedes Benz Financial Services participate in the FLA's SAF programme for raising professional standards and improving skills in the motor finance industry.

It was stressed that the purchase of a car is always an important event for a customer. The purchase of a car usually includes several visits at the POS and customers take time to compare financial products. Most of them are proactive and tend to be already well informed of the financial products available on the market.

Non-POS finance is not necessarily tailored to the specificities of the purchase of a car. One of the main advantages of POS finance is precisely the adjustment of the finance products to meet the requirements of the customer. Products offered at the POS include hire purchase (fixed payment over an agreed term), hire purchase with balloon payment (fixed payments + a final lump sum), finance lease (fixed monthly rentals with further options at the end of the contract) or agility products for which the future value of the car is guaranteed, which keeps payments low while the decision by the customer to own, sell or rent the car is taken at a later stage.

The finance product is always linked to the purchase of the car. Its selection takes into account the customer's expectations, his budget, the professional or personal use of his car and is based on an "investment approach" to motor financing.

Mercedes Benz Financial Services retail portfolio shows that traditional hire purchase financing is declining but that 'Agility' product offers differentiation in the financing market by providing greater flexibility for the consumer (around 60% of portfolio).

Acceptance rate is high – always over 75 % and up to 90%. The average of a loan is around EUR 35.000 and 89 % of credit decisions are made within 15 minutes. **Motor dealers have no role in the credit granting decision.** It was stressed during the discussions that the level of dispute is extremely low.

Motor dealers performance and respect of standards are regularly reviewed along with best practices monitoring. All aspects of the relationship are covered by business reviews.

The recruitment process of business managers in charge of credit offering in Mercedes Benz showrooms includes standardized questions and on line assessments. Trainings, updates, business reviews and monitoring are then regularly conducted.

LIVE DEMOS AT RETAILER/MOTOR DEALER

In order to make things even more concrete, two live demos were organised for the Workshop participants.

One in a D'Ieteren showroom (motor finance) and on in a Media Markt department store (white and brown goods finance).

List of Participants

Participant	Organisation
DUCOULOMBIER Eric	European Commission – DG MARKT
HAUNER Christine	European Commission – DG MARKT
ILVES Maris	European Commission – DG MARKT
MONTESINOS-TRIGO Maria-Dolores	European Commission – DG MARKT
TSVETANOVA Aglika	European Commission – DG SANCO
DAUSSOGNE Sandra	BNP PARIBAS PERSONAL FINANCE (BE-LUX)
FILOTTO Umberto	ASSOFIN (IT)
SHELLINCK Guy	CITYBANK (BE)
SETTI Ugo	BNP PARIBAS PERSONAL FINANCE (BE -LUX)
SOMERS Valere	MEDIA MARKT METRO GROUP (BE-LUX)
TONER Gary	GE MONEY BANK (UK)
VAN DER STRATEN Eric	SANTANDER (BE)
VAN HEERS Jean-Philippe	D'IETEREN (BE)
WOLFE Patricia	MERCEDES BENZ FINANCIAL SERVICES (UK)
VAN DE WERVE Tanguy	EUROFINAS
GIRAUD Alexandre	EUROFINAS
SVRCKOVA Maria	EUROFINAS