



# ***Study on the functioning of the consumer credit market in the EU***

Presentation to EBIC consumer credit working group

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**LE**  
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# Background

- The report comprises seven parts:
  - Part I provides background information on the study
  - Part II presents an overview of the consumer credit market in the EU
  - Part III focuses on lenders and the CCD
  - Part IV discusses consumer empowerment and the CCD
  - Part V reports on consumer satisfaction in the consumer credit market
  - Part VI discusses the thresholds and exclusion foreseen by the CCD
  - Part VII sets out a number of conclusions
- The presentation focuses on parts II to V – will briefly touch on conclusions

# Key facts about the consumer credit market in the EU



- At the end of 2011, the total value of outstanding consumer credit in the EU was €1,041 billion, which amounts to 8.2% of EU's GDP
- The level of consumer credit outstanding varies markedly across the EU
- Evidence that, over the period 2000-2011, the level of consumer credit outstanding on a per-capita basis is converging
- Relative importance of credit institutions (i.e. banks) and specialist lenders in the provision of consumer credit varies across the EU
- Most common forms of consumer credit in the EU are authorised overdrafts, credit cards and personal loans

# Key facts about the consumer credit market in the EU



- Information on default rates is very patchy
- Assessing robustly the level of market concentration in the consumer credit market is not possible
- Cross-border provision of consumer credit remains very low
  - But, the vast majority of lenders do not feel that barriers are preventing cross-border provision
  - Moreover, consumers are not of the view that the quality of cross-border credit is different from that of domestically provided credit

# Key facts about the consumer credit market in the EU



- Cost of consumer credit varies markedly across countries
  - For example, the annual percentage rate of charge (APR) ranges from 6% or less in a number of Eurozone countries to more than 20% in a number of Member States from Central Europe
- Net consumer lending rates (the consumer lending rate minus central bank lending rate) are converging slowly among the EU27 Member States over the period 2000-2011
  - Recent financial crisis does not appear to have interrupted, at least so far, this trend
- Largest differences between the APR and the interest rate were observed in Ireland followed by the UK, Poland and Slovakia

# Lenders and the CCD

- An important element of the CCD is that it gives consumers a number of rights such as the right to withdraw and the right to repay early a consumer credit
- For these rights to be really effective, it is important that lenders are aware of the rights of consumers and inform consumers of these rights
- Results of the survey show that, according to the regulators, consumer credit providers, or at least a majority of lenders, are aware of their general obligations to inform consumers
- However, the results of the mystery shopping exercise yield a totally different picture, especially with regards to specific information which the CCD requires to be given to potential borrowers
  - Only less than half of all mystery shoppers received information on their rights
  - In particular, the right to withdraw from the contract within the first 14 days of signing the credit agreement was not communicated to the mystery shoppers

# Lenders and the CCD

- Majority of consumers are in general aware of their rights of withdrawal and early repayment
- But, they often are not aware of the specifics of their credit contract such as, for example, whether penalties apply in the case of early repayment and if the APR was provided
- Main source of information about consumer credit used by consumers is the consumer's home bank and the second most commonly cited source is another lender
  - But, less than 40% of consumers sought information from more than one lender

# Lenders and the CCD

- Nine out of ten consumer-survey respondents were of the view that creditors were very open and shared information easily
- A similar proportion of respondents felt that lenders were willing to answer questions and that information provided to them by lenders was comprehensive and clear
- But, only about 60% of mystery shoppers indicating that they had received all the necessary information to make a decision
- However, the majority of the mystery shoppers stated that they did not have problems understanding the information which was given to them



## Lenders and the CCD

- The results of the analysis of these advertisements show that, overall, nearly a third of all advertisements gathered did not include any financial information and, therefore, did not have to meet the informational requirements
- Among those advertisements which did contain financial information, only 22% fulfilled all the informational requirements as set out in Article 4 of the CCD
- In over a third of cases, the information contained in the representative example was insufficient to be able to re-calculate an APR
- In slightly less than a third of cases the calculated APR did not match the stated APR
- Comparator websites performed particularly poorly in terms of providing all the required information

# Lenders and the CCD

- Mystery shopper exercise show that the CCD pre-contractual information requirements are very frequently not met:
  - Well over half of all mystery shoppers did not succeed in obtaining SECCI, even after prompting the credit provider for this information
  - Nearly 80% of all mystery shoppers were not informed how the APR was calculated
- On the positive side:
  - Only 15% of mystery shoppers were not told the level of the interest rate
  - Only 16% of mystery shoppers were not told whether the interest rate was fixed or variable

# Consumer empowerment and the CCD



- As measured objectively in the consumer survey, consumer financial literacy is extremely low (survey experiment)
- But, subjective self-assessment of the mystery shoppers is strikingly better than the objective level of financial literacy found in the consumer survey
- Consumers' awareness of financial details of their own credit contracts is uneven
  - Less than two-thirds of respondents (64%) knew whether the APR was mentioned in their contract, with 84% being aware of the type of interest rate (i.e. fixed or variable) and 74% being aware of whether an early repayment might be associated with a penalty charge
  - With regards to awareness of the rights of early repayment and withdrawal within the first 14 days of signing a contract, 73% and 71% of consumer survey participants were aware that creditors have to provide pre-contractual information on these rights respectively. But considerable cross country variation

# Consumer empowerment and the CCD

- Usage of rights varies markedly:
  - Only about 1% of all consumers in the consumer survey attempted to withdraw from their contract within the first 14 days after signing the contract. 60% of the 1% were successful
  - But, 22% of consumer survey participants tried to repay their loan early, of which nearly nine out of ten succeeded
- Note: while survey participants report a relatively high rate of early repayment, the majority of lenders who responded to the lenders' survey were of the opinion that the introduction of the CCD has had no impact on the volume of loans which are repaid early

# Consumer satisfaction in the consumer credit market



- Nearly 10% of respondents to the consumer survey encountered at least one problem with their lender in the past five years
- In many cases, problems remain unresolved. On average, problems raised with lenders were solved in 41% of the cases while problems raised with third parties were resolved in 28% of the cases

# Consumer satisfaction in the consumer credit market



- However, a large majority of consumer survey respondents in the EU as a whole and in all Member States were satisfied (very and somewhat) with the quality of the customer service for their current loan and with the direct contact with the provider of the loan
- EU-wide, more survey respondents were satisfied (very and somewhat) than dissatisfied with the choice of offers and the level of fees charged for the credit.
  - But, in the case of the level of fees charged, in four Member States (Bulgaria, Hungary, Iceland and Slovakia), a majority of survey respondents were dissatisfied (very and somewhat)
- All consumer associations: no change in consumer satisfaction
- More than 50% of consumer protection bodies and ombudsmen who replied to the survey: slight increase in consumer satisfaction
- Majority of lenders: no change in consumer satisfaction

# Conclusions

- Two overarching general conclusions
  1. Impact of the CCD as a driving force towards a Single Market in consumer credit through increased cross-border provision is likely to be limited in the current financial and economic circumstances
  2. Better enforcement of the CCD would contribute to ensure that consumers reap the full benefits of the CCD