

"Consumer in Financial Crisis: Lessons Learned and Ways Forward"

# Plenary III: Providing essential services for consumers, including the vulnerable - Thoughts from the European Coalition for Responsible Credit

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# Key Points

- **Financial services can be necessary or useful but also dangerous and risky for consumers. This is why only access to responsible financial services is a valuable goal as promoted by the worldwide Coalition for Responsible Credit (ECRC/NCRC) with its seven principles.**
- **Consumer protection concerns all consumers. This is why we must look at the vast majority of consumers in financial services who are, will and should be served by the mainstream economy. Alternative offers from small providers and projects, within alternative mechanisms can serve as a laboratory or a source for innovative research, but its extension and quantitative importance for all consumers justifies the political and social attention.**
- **Consumer protection has to be inclusive. At first place mainstream banking has to prove that it serves the whole of the community with adequate products and not only the rich and wealthy. Secondly, the use of financial services must empower people to improve their well-being and enable them to use general financial services.**

# Credit for the Vulnerable

## Needs

- Payday Problems
- Longterm purchase
- Unemployment
- Selfemployment
- Purchase
- Illness/Divorce
- Overindebtedness

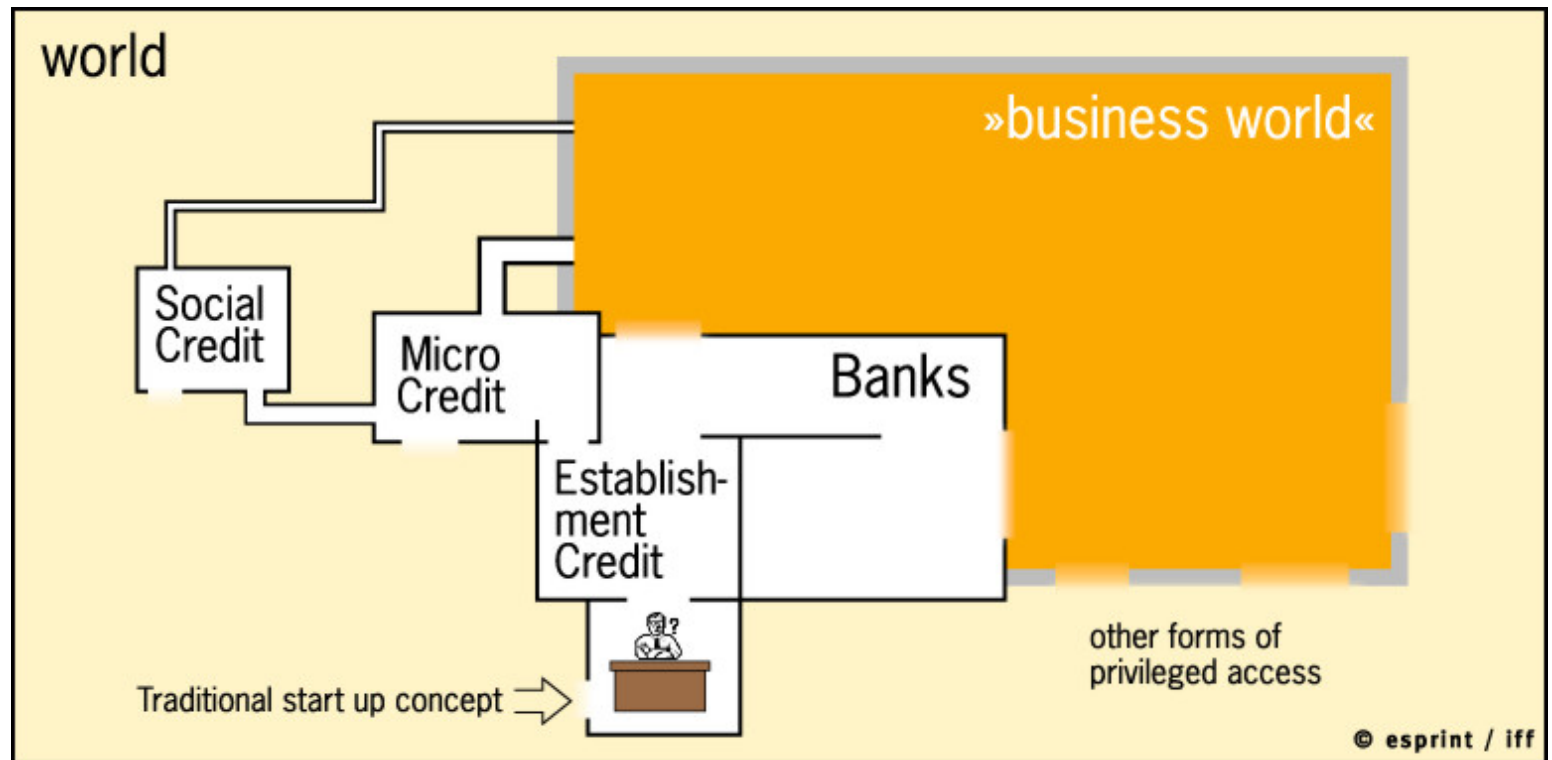
## Offers

- Overdraft Credit
- Instalment Loans
- Hire Purchase
- Microlending
- Bank Credit Cards
- Welfare Loans
- Empl. Advances
- P-Account
- (Basic Bank Account)

## Exploitation

- Door Step Loans
- Payday loans
- Secured Credit Cards
- Store/free Cards
- Overriding of the Bank Account
- Refinancing with PPI
- Small Business Loans
- Mobile Phone Credit

# The System of Credit



# Purpose of Microlending

	<b>Social credit</b>	<b>Micro credit</b>	<b>Establishment credit</b>
typical clients	<ul style="list-style-type: none"> <li>• trying to find a way into work</li> <li>• no or very limited experience</li> </ul>	<ul style="list-style-type: none"> <li>• in or beyond start up phase</li> <li>• some business experience or business plan</li> <li>• too small, new and risky to be bankable</li> <li>• businesses with modest aspirations for growth</li> </ul>	<ul style="list-style-type: none"> <li>• nearly bankable</li> <li>• want to develop from micro to small firm</li> </ul>
Services offered	<ul style="list-style-type: none"> <li>• grants and subsidised loans</li> <li>• a high level of support and mentoring</li> </ul>	<ul style="list-style-type: none"> <li>• small stepped loans</li> <li>• on the job advice on financial management</li> </ul>	<ul style="list-style-type: none"> <li>• loan packages</li> <li>• co-operation with specialised support agency</li> </ul>
organisational examples	ADIE, PBT, Working Capital	ACCION, Fundusz Mikro, Finnvera Micro Loans	ART, Finnvera small firm loans, ICOF

# ECRC-Principles

## [www.responsible-credit.net](http://www.responsible-credit.net)

- **P1: Responsible and affordable credit must be provided for all.**
  - a. Credit is essential for people to participate fully in society b. Banks should not discriminate and should provide real access. c. Credit to Consumers and Small Businesses must be supervised.
- **P2: Credit relations have to be transparent and understandable.**
  - a. Competitive transparency requires a standardized mathematically correct form of “one-price” disclosure (the Annual Percentage Rate of Charge or APRC). b. Social transparency requires a standardized pre-contractual payment plan. c. Consumers should be provided with adequate time for reflection and with access to independent advice. d. Consumers should have access to independent financial, credit and debt advice. e. Both parties in the credit markets have to take part in a mutually productive process of financial education
- **P3: Lending has at all times to be cautious, responsible and fair.**
  - a. Credit and its servicing must be productive for the borrower b. Responsible lending requires the provision of all necessary information and advice to consumers and liability for missing and incorrect information. c. No lender should be allowed to exploit the weakness, need or naivety of borrowers. d. Early repayment, without penalty, must be possible. e. The conditions under which consumers can refinance or reschedule their debt should be regulated.
- **P4: Adaptation should be preferred to credit cancellation and destruction.**
  - a. There is a need for effective protection against unfair credit cancellation. b. Default charges should be adequate to cover losses only.
- **P5: Protective legislation has to be effective.**
  - a. Credit regulation has to cover all non-commercial users. b. Credit regulation has to cover all commercial forms of credit provision. c. Credit regulation has to cover the whole process of credit extension as experienced by its users. d. Credit regulation has to encourage efficient social and economic effects of credit extension.
- **P6: Overindebtedness should be a public concern.**
  - a. Profit-driven systems cannot cope with over-indebtedness. b. Consumers should have a right to discharge. e. Bankruptcy procedures should lead to rehabilitation and not to retorsion.
- **P7. Borrowers must have adequate means to defend their rights and be free to voice their concerns.**
  - a. There should be adequate individual as well as collective legal procedures to enforce borrowers’ rights. b. Critical public awareness is crucial for the development a fair and responsible distribution of credit and this requires disclosure of bank services and consumer credit lending patterns to disadvantaged communities.