

ZPS FINFORUM 2010, 20th of May, 2010

**CONSUMERS IN THE FINANCIAL CRISIS: LESSONS LEARNED AND WAY
FORWARD**

CONCLUSIONS

The Financial forum, organized by the Slovene Consumers' Association ZPS in partnership with European Consumers' Organization BEUC and Transatlantic Consumer Dialogue TACD, has successfully brought together many stakeholders with an interest in financial services for consumers from the EU and USA. 29 speakers, presenting the views of governments, industry and consumer organizations have discussed relevant issues with the audience. To name but a few, from the European Commission, both DG Health and Consumer Protection and DG Internal market were participating, while high representatives of the UK Financial Services Agency, the UK Financial Ombudsman and the Slovene Central Bank, consumer associations from both sides of the Atlantic, and of the EU banking, mortgage and insurance associations were taking part.

Main topics discussed were the efficiency of government measures in reducing the impact of the financial crisis on consumers and the extent of reforms still needed to be considered in the financial sector to prevent consumer detriment and financial exclusion.

The forum has concluded that that the cause of the crisis was the idea that financial markets have no failures and the supporting theory of perfect financial markets pushing for deregulation, maximizing only the shareholders' wealth and leaving aside the social corporate responsibility. Inadequate fiscal and monetary policy was a key factor of the financial crisis. In the end, the burden fell on the consumers. The measures taken by the regulators to protect the consumers came too late, while a stronger and effective regulation of the financial markets, including consumer protection, is very much needed in order to prevent market failures in the future.

For assuring financial services that are safer for the consumer and better meet their needs, several fields for action were recognized besides the need to provide clearer and more harmonized product information that should make financial services more understandable and

comparable, also across sectors where these serve the same purposes. Lively discussion has focused on labeling of products with simple risk warnings such as a traffic light system and possible limits of these systems when taking into account differing consumer needs and individual capabilities. Other proposals emphasized the need for times of reflexion, assessment of credit worthiness and accessibility and efficiency of dispute resolution mechanisms.

The way products are sold and the advice the consumer gets is key for the quality of choice of financial services. At the centre of discussion was the need for and barriers to moving to non-commission based sales structures that would contribute to a more balanced and independent advice. As possible solutions for such advice that is more costly, time consuming and maybe undesired by some consumers, standardized low-risk products were discussed where no advice is needed, as well as information on the “invisible” costs of commission-based advice. An effective and enforceable legislation was proposed to avoid the present disparities in standards on sales practices for different kinds of often comparable products, as well as the need for stricter licensing of sales people and advisors. Financial education was recognized as an important tool for improving consumer decisions, but not as a substitute to other needed measures. The main challenges in the field of financial education identified were how to reach consumers at a particular point in their life when needing to make a particular financial decision and how to reduce the diminishing effects of marketing and sales practices on consumers’ financial capability. Liability of financial services providers and distributors was stressed as an important private enforcement tool to influence corporate incentives and compensate consumers in case of mis-selling.

Many challenges lie ahead of achieving effective and balanced regulatory solutions that will serve the interest of all financial markets’ participants. Regulation should, apart from prudential rules, also take into account protection of consumer interest by looking into information standards, performance levels, choice and confidence in the markets in a cross-sectoral perspective. Pre-emptive measures stated in the discussions were not to deal only with sales and distribution practices, but also with looking into product life-cycles and risks of arising business models and products. Discussion focused around the question whether certain products or product features should be banned for at least certain consumer groups, also by a pre-approval process carried out by the regulators. One of the aspects of product regulation was whether it can lead to negative results by decreasing the level of supply and hindering financial innovation. The benefit of growing complexity of financial products for consumers

was debated, as well as the relevance of financial regulation-independent incentives to innovation such as tax policy and technological innovation. A balanced approach of developing public regulation as well as private enforcement and product liability was proposed.

In the field of financial inclusion, there was agreement over the fact that access to basic financial services, including the vulnerable consumers, should be an objective of public policies. Financial inclusion should be a right of every consumer, and it should be driven by availability of simple products and rules on responsible provider behavior. The role of alternative business models basing on social responsibilities to their communities was recognized, while the need was expressed that their principles of operation also are adopted in the rest of the financial system.

The conference was concluded with the presentation of the Ljubljana declaration, a joint list of proposals for reforms in the financial sector supported by consumer associations from both sides of the Atlantic.