

**Response of the Ministry of Finance, Czech Republic,
to the questions posed
in the Green Paper on Retail Financial Services in the Single Market**

1. Do you agree with the objectives and priorities set out in this paper?

We do not have any objections to the aims and priorities set out in the Green Paper on retail financial services in the single market (hereinafter, Green Paper). In general, the Czech Republic welcomes the proposed steps leading to facilitating the provision of cross-border financial services, which would mean a benefit for the consumers. Specifically though, we would prefer above all, to raise the level of financial literacy and capability of the consumers.

2. Are there issues that are not covered in this Green Paper, which are important for the integration of retail financial markets and to which the Commission's attention should be drawn? For example, are consumers in their everyday life confronted with requirements or limitations from either financial services providers or other stakeholders (employers, social security, administrations, businesses, etc.) which restrict their ability to use cross border financial services (such as an obligation to have a bank account or insurance policy in one specific country, etc.).

In our opinion the Green Paper covers all of the basic points of view in the area of retail financial services.

We are not aware of the fact that consumers have a restricted possibility of taking advantage of cross-border financial services or that they are confronted with an excessive number of requirements on the side of the providers of the financial services or other stakeholders (employers, social security authorities, etc.). However, the conclusion that this problem does not exist, arises from the fact that at the present time, only a very small number of the available cross-border financial services are being taken up.

Despite the fact that we live in a time of easy internet access and internet banking, consumers continue to demand physical contact with a financial service provider or its branch. As well as that, consumers regard as the most serious obstacles to cross-border provision of financial services, most especially the ignorance of a language other than their mother tongue, an inadequate knowledge or complete ignorance of another Member State's law etc. These reasons can be considered as natural objective barriers to cross-border activities; nevertheless, the Green Paper does not mention them.

3. The Commission has undertaken several initiatives to improve consultation with consumers and to secure their input into its policy making. Should further steps be taken and, if so, what steps?

The first thing that we consider to be necessary is to ascertain the opinion of the wider population. We therefore suggest undertaking an opinion poll by means of the Eurobarometer. That could possibly be repeated on a regular basis and this way we could assess the progress. The poll should be aimed at identifying the real motives of the foremost or possibly not the foremost consumers, in the cross-border usage of financial services, and what, according to them, are the existing basic obstacles, etc.

Apart from this, when organising public consultations, the European Commission should collaborate more with responsible authorities at the national level, who could contribute to better co-ordination and cover a wider area when informing the public.

The exchange of ascertained knowledge between Member States could thus also be strengthened.

4. Is consumer choice unnecessarily limited by restrictions on the providers and channels through which they access retail financial services. What are, in your experience, these restrictions?

We are not aware of any restrictions that are placed on the providers and distributors of financial services or of which as a consequence, a negative influence of consumer choice from the selection of financial products would ensue.

5. Despite efforts, in particular the creation of FIN-NET, the handling of cross-border consumer complaints in the field of financial services still remains problematic. The Commission would welcome input as to the ways to improve the current situation. For example, should Member States be obliged to ensure that alternative dispute resolution (ADR) schemes are in place? Should providers be obliged to adhere to an ADR scheme? Should they be contractually obliged to offer ADR mechanisms to their clients?

We consider the resolution of cross-border consumer complaints by means of a reliable pan-European system of alternative dispute resolution scheme, as a very significant matter. We incline to the fact that Member States should be obliged to secure an effective functioning of an alternate dispute resolution (ADR) system on domestic level. This obligation should be grounded in all of the European Community Directives that set out the provision of financial services. If the now existing provisions of Directives (for instance, “*Member States shall promote the setting up or development of adequate and effective out-of-court complaints and redress procedures for the settlement of consumer disputes concerning financial services provided at distance.*”) were to be replaced by a clearly stated obligation (as it is in the new Directive on payment services in the internal market and in the Modified proposal for a Directive of the European Parliament and of the Council on Credit Agreements for Consumers), it would also contribute to generally improving the effective functionality of the system of out-of-court dispute resolution within the European Union.

As a significant weakness of the existing system, we consider the fact that the majority of consumers do not have sufficient awareness of the dispute resolution mechanisms that are operated within the individual Member States, let alone of the possibilities of resolving cross-border disputes by means of the FIN-NET networks.

We think that the consumer should already be made aware of the possible methods of dispute resolution in the pre-contractual phase, by the financial services provider. Apart from that the clear and comprehensibly formulated provisions of the possibilities of dispute resolution should also be contained in the contract itself, on the basis of which the financial service is provided. As well as that, we recommend also considering other possibilities of advertising the FIN-NET networks and strengthening the collaboration between the systems of out of court dispute settlement within the individual Member States.

6. The creation of the Single Euro Payments Area (SEPA) offers challenges and opportunities for businesses and consumers alike. What do stakeholders think of SEPA's impact on consumers? Should consumers be more involved in the governance and the preparation of SEPA?

First of all, it is necessary to say that the impacts of the SEPA products on consumers will not be the same throughout the European Union. Differences will appear between

the euro-zone and non-euro-zone countries. Specific benefits have not been quantified at this stage. In the case of the non-Euro countries, it is also not quite clear how these countries will operate with SEPA. Therefore, we would welcome specific instructions as to how to proceed in this matter.

As far as the preparation stage is concerned, first and foremost, it is definitely necessary to implement the Directive on the payment services in the internal market properly. From the point of view of its practical introduction, it is essential to realise that the SEPA products will undoubtedly be new to the consumers and therefore an advertising campaign, not only on the part of the State but also above all, on the part of the sector, will be essential.

In the case of the Czech Republic, where at the time of its introduction, SEPA will only apply to cross-border payments, the possibility of widening the campaign for the transfer to a single currency by the SEPA topic as one of the possible benefits of joining the euro-zone, will arise.

7. With view to the launch of its study on credit intermediaries, later this year, the Commission would like to know whether stakeholders believe the current legislative framework to be sufficient and if consumers face any particular problems in dealing with credit intermediaries, particularly on a cross-border basis.

The Czech Republic welcomes the European Commission's activities concerning a study of the legislative framework regarding credit intermediaries. We consider this study to be of fundamental importance. Credit intermediaries are not particularly regulated in the Czech legislation. As an ideal arrangement, we see a unified framework for credit intermediaries on a European level including professional qualifications, the performance of supervision and registration or possibly even considering making use of co-regulation. In this regard it is also essential to mention the issues of unified information standards, which these intermediaries should observe. All of these aspects would no doubt be of benefit to the activities on a cross-border basis.

8. The Commission believes that it has an important role to play in developing a competitive, open and effective market for long-term savings, retirement and pension schemes that meet consumers' needs. Do stakeholders agree and how could the Commission contribute? Could an optional legal EU-wide regime ("28th regime") for savings and/or 3rd pillar pension products be envisaged?

The pension schemes of the individual Member States are completely different. For this reason, we believe that the area of long-term savings products should not be unified at the present time. We look upon the 28th regime with certain reservations. More meaningful discussions are still necessary and we expect a clearer point of view on the part of the Czech Republic after the pension reforms have been carried out. We agree with a higher level of information and professionalism in the field of distribution of financial services.

Then the following question also arises. How are we to deal with Article 137 par. 4 of the Treaty establishing the European Community, wherein the right of the Member State to organise its own system of social security, is guaranteed. It could be as simply as with a recommendation – what to include in these systems and how to enable the citizens of the Member States to take advantage of the services of enterprises which offer these products in various European Economic Area countries, i.e. how to utilise not only their active but also passive authority. This issue however, collides with a variety of taxation systems established in individual Member States and therefore the danger of double taxation and the problem of the transfer

of the accumulated amounts between individual systems and between individual Member States.

9. Do you think that there could be benefits for both banks and consumers, if banks would have the opportunity to offer an optional simplified standardised product, which would have a good level of consumer protection, would be easy to understand, and could be offered across borders without the need to be modified to fit local rules?

In our opinion there is no significant need to publicly promote the introduction of simplified and standardised financial products. We consider this activity to be rather too costly and possibly with uncertain results in the consumers' financial decision making, the more so, on a cross-border basis. Secondly, we think that any standardisation designed by regulatory authorities can endanger consumers' efforts in looking for the right products and services in accord with their individual needs and capacity.

10. The Commission believes that more could be done to improve consumers' financial literacy and capability. Possible measures include developing guidelines or promoting best practices. The Commission would welcome input on how this policy should be further developed at the European level.

The consumers' financial literacy and capability are without a doubt the key area to the consumers' protection on the financial market and therefore we support any action that will raise their level.

As suggestions for specific measures it is possible to mention:

- a) undertaking a public opinion poll aimed at finding out where the level of financial literacy actually is. The poll could be a part of the inquiry that we are suggesting to carry out as part of the answer to question 3.
- b) the effective exchange of best practices,
- c) working out recommendations on the part of the European Commission for the minimum standard of financial literacy for individually targeted groups. For this purpose we recommend taking maximum advantage of the OECD activities in this area and simply adjusting their output to the cultural and systemic differences of the European Union.

11. Do you think that, as they stand, the provisions on consumer information contained in financial services directives are adequate and consistent with one another? Were it not the case, how could the Commission ensure that information requirements are set at the right level, ensuring proper information but without creating any overload? Do you think that informing consumers is sufficient or that advice should also be provided? If yes, should that be compulsory or on request?

In our opinion, the provisions regarding the provision of information to consumers in the directives regulating financial services are not consistent. Even though some of the new directives (e.g. the Directive on Credit Agreements for Consumers, Directive on Markets in Financial Instruments or the insurance regulating Directives) already include, in our opinion, more or less adequate requirements for the provision of information, there is still certain room for improvement. In other sectors there is a quite obvious asymmetry in information obligations. For instance, in the banking sector we can see the greatest shortcomings. We would welcome, as long as the European Commission was to approach the regulation of information requirements, systematically across the whole of the financial market.

As a basic problem, we consider, above all the fact that no clear borderline exists between providing financial advice and being an intermediary, through which certain information is provided. In our opinion the consumer should get from the distributor, above all the relevant information about a specific financial product. Financial advice (in the area of any sector of the financial market) should be considered as a separate activity for the performance of which it should be necessary to complete specific qualification requirements that differ from those requirements that are expected from the distributor (this does not prevent one person from carrying out both of these activities at the same time). Nevertheless, we disagree with the distributor being duty bound to provide financial consultation.

12. Measures to improve lenders' access to credit data will be discussed in the context of the forthcoming White Paper on Mortgage Credit. The Commission believes that more could be done to promote the accessibility of credit data, in particular on a cross-border basis. Who should be able to access consumer credit data? How could the cross-border transferability of consumer credit data be improved, ensuring in particular that mobile credit data follows increasingly mobile consumers? Could a memorandum of understanding, ensuring smooth data circulation between credit bureaus, be a workable solution?

We can regard the limited access to the credit register as a barrier to the cross-border provision of credits. We are not sure to what extent the memorandum of understanding would solve the smooth exchange of information between credit registries however; it may be the first step before the creation of a pan-European creditor database. Even so, we consider the project of a pan-European creditor database as too ambitious. We will support it as long as its introduction does not threaten the interests of the consumers and/or how it will affect the possible price increases as a consequence of increased costs and also for instance, to secure a sufficient level of protection of personal information.

For the development of the cross-border provision of credits it is essential to ensure access to the databases on a non-discriminatory basis and the principle of reciprocity. Together with this it would be appropriate to bring the arrangements of the national databases more into line, especially concerning the character of the recorded information. In the Czech Republic only those companies which contribute to it, have access to information from the register. At present the Czech Republic is seeing the linking up and exchange of information between the already existing credit registries.

13. Fragmentation of retail insurance markets, for example in the field of motor insurance, does not allow consumers to reap full benefits of EU integration in this area. Do you think that more should be done at EU level to address this fragmentation?

Cross-border activities in insurance are relatively low. The consumer even often chooses a local insurance company because of the easier claim liquidation. Also in motor vehicle insurance it is very difficult to compare the premiums because each individual Member State varies in its range of cover and risk factors. There are also differences in the legal area (conditions of carriage, registration etc.), taxes and fees and also the costs of repairs. The greater use of the single European passport also prevents the insurance companies in their duty to contribute in the form of an "enrolment fee" into the Guarantee Fund of the given Member State.

Up to now it has also not been possible, within the framework of the European Union, to eliminate the significant difference in the legal set up of the insurance premium contracts. It would be appropriate to map all these differences and one by one, address

their causes. We think, however, that some of the obstacles to the cross-border provision of services in insurance are of an objective character and basically cannot be eliminated.

14. Customer mobility and competition are closely associated. The Commission would welcome input as to how customer mobility could be enhanced. In particular, in the field of bank accounts, and as a follow-up to the Expert Group's work, would stakeholders see merits in, for example, having EU wide account switching arrangements? Will SEPA have an impact on customer mobility?

We agree with the European Commission's efforts to decrease the obstacles to customer mobility. However, at the same time we note the fact that to measure the level of mobility by numbers or rather the ratio of clients who have switched product or provider is not appropriate. We think that the measuring should aim at monitoring the obstacles for potential switching. A low number of switches do not necessarily only reflect the existence of obstacles, but also the fact that the clients are satisfied with their existing providers and have no intention of changing them.

SEPA can, in any case, slightly reduce for instance, the learning costs, which represent one of the obstacles. In order to ascertain the actual impact, it would be necessary to carry out some opinion polls aimed at discovering the factors, which lead to the decision in the choice of a financial service provider. It will then be possible to assess how much SEPA actually contributes to the cross-border buying of financial services. In any case we will welcome the European Union's proposals for wide switching arrangements.