Roundtable meeting of EU representatives of banks, non-bank lenders and insurers with consumers and businesses stakeholders
28 May 2020

Proposals by financial user representatives

BEUC, AGE Platform Europe, Finance Watch, BETTER FINANCE, COFACE Families Europe and ECDN propose the below measures that need to be taken by the EU financial industry to alleviate the impact of COVID-19 on consumers, with the support of EU policymakers to ensure that this is feasible.

While we welcome Vice-President Dombrovskis' initiative to launch a dialogue with the industry and consumers, the needs of retail financial services users are more diverse than the examples listed in the concept note. The financial users' organisations are thus happy to contribute to this dialogue but recommend that this dialogue should be structured around consumers' needs rather than types of industry actors to ensure that there will be no important consumers issues left aside in the envisaged joint statement.

Furthermore, while it was clear that the present roundtable is not meant to address more systemic issues, long term measures or macro-economic and structural problems, financial user representatives wish to ask where those issues will be discussed, if not with the Commissioner in charge of economic affairs. While we fully understand the need for a structured dialogue, it leaves out arguably the most important issues which go beyond patching the immediate economic and financial damage from the coronavirus, and looking at the longer term consequences for the economy more broadly.

While this opportunity for discussing the relief measures is welcome, it comes a little late given that it has been over two months since confinement measures have been implemented, and many countries are slowly ending the confinement. Many of the recommendations below should have been implemented directly, in the first weeks of confinement. Consulting financial user representatives in order to help devise the relief measures would have been more effective rather than waiting for the end of confinement and ask financial user representatives for evaluating the measures put in place afterwards.

Credit deferral

Since the outbreak of COVID-19, public and/or private initiatives providing temporary relief to borrowers have been implemented in most EU countries. While those measures are welcome, they are fragmented, do not cover all EU countries, and are not always well-calibrated. In order for all distressed consumer borrowers to be treated fairly and in a coherent manner, the following measures need to be implemented by financial institutions in all member states:

- EU borrowers in financial difficulties should have the right to defer monthly repayments of their credits for at least six months.
- The right to deferral should apply to mortgage credit and all types of consumer loans, secured and unsecured (car loans, personal loans, credit cards, overdrafts, leasing, etc.) provided by banks and non-banking lenders. It is important to keep in mind that many low-income citizens use consumer loans to meet their daily consumption needs. Helping such vulnerable borrowers is therefore crucial.
- Deferral should cover the repayment of both the loan principal and interest.
- No interest and fees should accrue during the deferral period. The addition of interest accrued to the capital during the deferral period would increase the total cost for consumers and would require paying interest on top of interest.

- Eligibility conditions for the deferral right should not be too strict so as not to exclude or discourage vulnerable borrowers from availing of this right. The precise conditions could be discussed with national consumer organisations.
- The procedure for getting a repayment deferral should be fast, hassle-free and free of charge.
- There should be not be a disproportionate impact on the credit rating of consumers who avail of the deferral right, so that consumers are not prevented from obtaining loans in the future.
- The assignment of creditors' claims to third parties (debt collectors) during the COVID-19 crisis should be prohibited.
- Inform consumers with credit protection insurance of their right to use it where possible, for instance, in the case of a loss of income, and facilitate its implementation.

Insurances and pensions

- Insurance firms should consider the value of their products[1] in light of the exceptional circumstances arising out of COVID-19. In case firms are no longer able to provide contractual benefits or if the underlying insurance event is less likely to occur, then product manufacturers should consider reimbursing insurance premiums to consumers[2].
- While many insurance providers offer the possibility for insurers to defer payments in case of payment difficulties, such payment deferrals are often down to the insurer's discretion. All insurance policyholders who wish to do so, should have the possibility to defer monthly repayments for essential insurance policies, such as life insurance policies.
- Covid-19 could have a significant impact on the solvency of the European insurance industry. Insurance guarantee schemes provide essential cover or compensation for losses to consumers in the event of the insolvency of an insurer. However, rules on insurance guarantee schemes differ significantly between EU Member States, and several countries have no existing schemes in place. The EU should introduce mandatory harmonised EU rules for insurance guarantee schemes in all Member States.
- When the COVID-19 crisis started, many older persons were forced to cancel their trip and asked their travel insurance company to be refunded. The insurers often answered that their travel insurance was limited to cancelation due to illness of the passenger who needs to send a doctor's certificate stating that the person was unable to travel on the planned date. Most airliners refused to reimburse non-refundable tickets but offered vouchers to be used within a few months. While these initiatives of the airlines are welcome, the issue remains for specific vulnerable groups such as older persons who will not be able to use the vouchers they received in compensation within the set deadline, because they are asked to remain confined and not allowed to travel until at least the end of the year. Yet they had purchased a travel insurance covering the risk that they may not be able to travel for health reasons. The EU should issue recommendations to insurers to review their strict interpretation of the health coverage in travel insurance in order to include public health risk such as COVID-19 or other pandemics and lockdown measures imposed by public authorities. This will be necessary to rebuild trust and encourage consumers to book their holidays and other trips.
- The European Insurance and Occupational Pensions Authority and National Competent Authorities should closely investigate any consumer protection issues arising from the impact of COVID-19 and take corresponding measures in case of evidence of consumer harm. Careful attention, in particular, should be paid to:

[1] See for example guidance by the UK Financial Conduct Authority on product value: https://www.fca.org.uk/publications/guidance-consultations/product-value-coronavirus-draft-insurance-firms
[2] See for example a press release by Belgian consumer organisation Test-Achats: https://www.test-aankoop.be/action/pers%20informatie/persberichten/2020/autoverzekeringen

- evidence of delayed pay-out of claims by insurers;
- a lack of a consistent approach to exclusions in insurance contracts;
- the pricing and accessibility of (essential) insurance contracts.

Main short term issues regarding life insurance and pensions:

- A sharp increase in “financial repression” on pension savers: The collapse of worldwide and European equity markets has an immediate and direct impact on nearly all pension products. The suppression of dividends adds further damage. The vast Corona-induced fiscal and monetary stimulus packages will deepen financial repression, with negative or close to zero real interest rates becoming the norm for many years to come: so fixed income portfolios will also take a hit. The unprecedented money creation, combined with tensions in the logistics chains that are developing right now, could generate a significant upsurge in inflation, further eroding the purchasing power of pension savings and income.
- Some Member States are now even trying to exceptionally allow pension savers to redeem some or all of their pension money to address immediate consumption needs, sacrificing again the long term sustainability and adequacy of pensions to short term issues, especially for the most vulnerable people.
- Especially worrying in countries like France where life insurance is by far the most widely used personal product for pension purposes: Life insurers are more and more restricting access to offering capital guaranteed products, de facto forcing financially illiterate citizens to buy much more complex, riskier and expensive products just at the very time when capital markets have collapsed and have become much more volatile.

Payments

- The lockdown has been quite challenging for many older persons who can no longer use cash to pay for their groceries nor visit a local bank branch to access cash or get bank staff’s support to pay their bills. In some countries more than 40% of older persons do not use digital means of payments nor online banking due to their lack of accessibility, an issue the European Disability Act seeks to address. NGOs are raising concerns about older persons not being able to access essential goods such as food and medicines because they can no longer pay with cash nor ask a neighbour to shop for them and reimburse them with cash afterwards. While welcoming the initiative taken to raise the threshold, contactless cards are not helpful since the threshold is too low to enable them to pay for their weekly groceries at once. Yet higher thresholds increase the risk in case of fraud. A solution is urgently needed because older persons are identified as being at higher risk of developing severe forms of COVID-19 and persons aged 65+ are asked by public authorities to remain confined for much longer than the younger generations and to limit their visits outside to essential needs. The payment industry should consult seniors’ and persons with disabilities’ organisations to develop adequate solutions to enable easy payment for those who face challenges since COVID-19 measures on retail payments have been introduced.
- There are reports of increased scamming of vulnerable persons in particular older persons since the crisis started. New initiatives to better protect them are needed and will be welcome.
- In many Member States the no-PIN contactless card payment limit has been raised to EUR 50. While these measures are justified by higher risk of getting virus via

physical contacts, rules should be clarified for the post-COVID-19 period[3]. The European Commission should consider bringing back the contactless card payment limits to the pre-crisis levels (around EUR 30 in most countries), to mitigate the effects related to possible fraud, notably in case of theft of the card. Consumer could possibly also be allowed to choose their own limit within EUR 50 threshold.

Debt prevention and debt relief

In order to provide perspectives to existing and newly overindebted households any strategy must include measures that aim at debt prevention and debt relief. We consider the measures hereunder crucial to any COVID-19 response:

- providing (digital) tools to households to better organize their finances autonomously;
- making sure that by way of good cooperation between stakeholders, households with problematic debts are quickly brought into contact with debt relief agencies;
- making better use of budgeting services so as to ensure payments take place and basic needs are met;
- promote and assist in the formulation of agreements between creditors and debt relief agencies with the goal of debt settlements, e.g. settlements by which debts are resolved.
- In particular for already over-indebted households:
    - Suspend all new enforcement measures (foreclosures on primary residence, seizures of goods and money, assignment of wages, etc.) in view of the current difficulty or even impossibility for individuals of exercising legal remedies;
    - Suspend households the limitation periods and the time limits for appeal, from 1 March until the end of the crisis situation.
- Explore and promote ways to prevent vulnerable groups from having to use short-term credit to cope during the current crisis. The use of additional credit by these vulnerable groups could otherwise lead to a massive increase in over-indebtedness in Europe and prevent demand from being met when the economic recovery needs it most.
- Ensure that the strategy for economic recovery does not rely solely on jump starting the economy via debt, especially private debt, where it is consumers and small businesses who are asked to take all the risks. Policy makers should consider the use of monetary policy instruments which are not debt based.
- As the main strategy for relief measures so far relies on governments taking on more debt, it is important to underline that ultimately, this debt will be borne by citizens via increased taxes, which will put just as much pressure on their financial situation as private debt.

[3] Please also note the following publication from the BIS, which warns that there is an issue over use of credit card terminals and PIN pads (if contactless limits are breached, people are not able to avoid all contact at the terminal, etc), which carry a higher risk of transmission than cash: https://www.bis.org/publ/bisbull03.htm