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IMPACT ASSESSMENT REPORT

Accompanying the

Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on consumer credits

{COM(2021) 347 final} - {SEC(2021) 281 final} - {SWD(2021) 171 final}

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1. INTRODUCTION: POLITICAL AND LEGAL CONTEXT

Political context

Directive 2008/48/EC on credit agreements for consumers ("the Consumer Credit Directive" or "the Directive") aims at securing a consistently **high level of protection** across the EU for consumers taking out loans, thus contributing to consumer confidence. The Directive also seeks to create the best possible conditions for the **free movement of credit offers** and to establish a level playing field for providers in different Member States.

The Commission **evaluated** the Directive in 2018-2019, following a 2017 REFIT Platform opinion on Article 4 of the Directive regarding standard information to be provided when advertising consumer credit agreements. In 2020, the Commission presented the results of the Evaluation in a Staff Working Document and an Implementation Report to co-legislators on the Directive, as well as an externally contracted study.[1] This full-fledged Evaluation, while establishing that the **objectives** pursued by the Directive **remain relevant**, highlighted a number of **areas for improvement**. The main **problems identified** include the restricted **scope** of the Directive, issues about the **content and disclosure of information** to consumers and insufficient safeguards to ensure **responsible lending**. The Directive also **lacks provisions** dealing with events of exceptional and systemic economic disruption (such as the one caused by the **COVID-19 crisis**).

The consumer credit sector has been profoundly transformed by the **digital transition**. New actors such as peer-to-peer lending platforms have emerged and traditional providers are increasingly using online sales channels. New products such as short-term high-cost loans, that can lead to significant costs for the borrower, are more and more marketed and sold online. The growing use of digital devices affects the way in which pre-contractual information is provided to consumers. Also, automated decision-making for credit scoring and the use of personal data not directly provided by consumers for assessing their creditworthiness raise questions in terms of consumer and data protection and potential discrimination from decisions based on opaque algorithms. Finally, the COVID-19 crisis has greatly impacted the credit market and consumers, especially vulnerable ones, leading to an increased financial vulnerability of many EU households.

The von der Leyen Commission through its Work Programme 2020[2] recognised the significant impact of the digital transition in everyday life and included the need for a Europe fit for the digital age among its headline ambitions. The Commission also committed to giving a new push for European democracy, including by aligning consumer protection with contemporary realities - notably cross-border and online transactions - to empower consumers to make informed choices and play an active role in the digital transformation of society.

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[1] These documents published in November 2020. See the CCD Evaluation Better Regulation webpage and the DG JUST webpage on consumer credit.

[2] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Commission Work Programme 2020, A Union that strives for more, COM(2020) 37 final.

In this context, **the Commission decided to review the Consumer Credit Directive**, in line with Better Regulation principles, to ensure enhanced consumer information and understanding of consumer credits, and to better protect consumers from irresponsible lending practices. The Consumer Credit Directive's review was included in the REFIT annex of the 2020 Commission Work Programme, with a potential new legislative proposal scheduled for the second quarter of 2021.[3] The Directive's review is apposite to ensure better consumer empowerment and protection in synergy with other simultaneous initiatives that the Commission is undertaking.

First, the **New Consumer Agenda**,[4] which presents a vision for an EU consumer policy from 2020 to 2025, includes the key priority areas accompanying the digital transformation and of taking into account specific needs of consumer groups susceptible of being vulnerable. Therefore the agenda already highlighted the intention to revise the Consumer Credit Directive (action 10) but also to devise actions to enhance debt advice services in Member States (action 15). The Agenda also highlights the synergies of such actions with the ongoing review of other existing legislation, such as the **Mortgage Credit Directive**, the **Payment Account Directive** and the **Distance Marketing of Financial Services Directive.**

Secondly, in September 2020, the Commission adopted a **Digital finance package**, including a **Digital finance strategy** and **legislative proposals on crypto-assets and digital resilience**, for a competitive EU financial sector that gives consumers access to innovative financial products while ensuring consumer protection and financial stability. The package supports the EU's ambition for a recovery that embraces the digital transformation. In 2020, the Commission also published a **White Paper on Artificial Intelligence** presenting options to promote the uptake of Artificial Intelligence but also to address the risks associated with certain uses of this new technology, followed by a **Proposal for a Regulation laying down harmonised rules on artificial intelligence (Artificial Intelligence Act)** published in April 2021.

In addition, the **new Capital Markets Union action plan,** published in September 2020, proposes several actions to support a green, digital, inclusive and resilient post COVID-19 economic recovery, including an action on empowering citizens through financial literacy. The action plan also announces a **renewed sustainable finance strategy** that the Commission will put forward to increase private investment in sustainable projects and activities.

Finally, the continuous efforts of the Commission towards **deepening the Economic and Monetary Union (EMU) by 2025** are to be supported by an increased cross-border integration and risk reduction in the banking system, notably as regard non-performing

[3] See Annexes to Adjusted Commission Work Programme 2020

[4] European Commission, 2020, Communication: New Consumer Agenda Strengthening consumer resilience for sustainable recovery, COM/2020/696 final.

loans. In 2019 consumer lending non-performing loans (NPLs) represented more than 25% of household NPLs and roughly 10% of total NPLs.[5]

Legal developments

The Directive, which was **adopted in 2008**, covers consumer credit **between EUR 200 and EUR 75 000**[6], such as loans granted for personal consumption, including automotive vehicles, household goods and appliances, travels, as well as some overdrafts and credit cards. Overdraft facilities to be repaid within a month, interest-free credits, leasing agreements without an obligation to purchase are among the main types of credits excluded from its scope.[7]

The main objectives of the Directive are to ensure that all consumers enjoy a high and equivalent level of protection across the Union as well as to create a genuine internal market for consumer credit (Member States cannot maintain or introduce in their national law provisions diverging from those laid in the Directive for harmonisation purposes). This means that, where no such harmonised provisions exist, for example due to scope limitation, Member States remain free to maintain or introduce national legislation, and most of them did so.[8]

Along the years, a number of relevant pieces of legislation complementing the CCD have been enacted, for instance, the Mortgage Credit Directive (MCD)[9] or the General Data Protection Regulation (GDPR). In fact, there are a number of similarities between the Consumer Credit Directive and the Mortgage Credit Directive: they both share a number of similar definitions and both pieces of legislation are currently struggling with certain similar definitions (example: whether peer-to-peer lenders fall under the definition of 'creditor' or 'creditor intermediaries'). Both pieces of legislation set rules on creditworthiness assessment, with the MCD adopting a more prescriptive approach (ban on negative creditworthiness assessment and more precise text of possible data used for the assessment). The MCD also provides safer and sounder rules with regard to responsible lending, protection of over-indebtedness and regulates practices till now not fully regulated by the Consumer Credit Directive (example: product tying practices, advisory service and knowledge and competence of staff). The GDPR is of particular importance when lenders are carrying out a credit assessment.

The application of the Directive revealed some **issues which were not clear**, as they rose in subsequent **case-law of the Court of Justice**. The main issues are the following:

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[5]In September 2019, NPL ratios were considerably higher for consumer credit (5.5%) than for mortgages (2.5%). The decrease in consumer lending NPLs (24%) since 2015 was significantly smaller than the overall decrease in total NPL volume (45%). EBA, Thematic note on consumer lending in the EU banking sector, 2020.

[6] and over when the credit is destined for the renovation of a residential property.

[7] See Art. 2 (2) of the Consumer Credit Directive.

[8] Support study to the Consumer Credit Directive Evaluation, Annex 1: Thresholds and scope, p. 148.

[9] Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010, OJ L 60, 28.2.2014, p. 34

Right of withdrawal: Article 14(1) provides the consumer with a 14 calendar day period in which to withdraw from the credit agreement without giving any reason. The date of commencement of the 14 calendar day start either from the day of the conclusion of the credit agreement, or from the day on which the consumer receives the contractual terms and conditions and information in accordance with Article 10 of the Directive. This latter situation has given rise to a number of pending preliminary rulings for one Member State, namely Germany. The question raised by the national court concern, in particular, whether the right to withdrawal can be invoked forever whenever Article 10 of the Directive is not fully complied with.

Creditworthiness assessment: The **Evaluation** of the Directive highlighted the **Member States' variant interpretations of the creditworthiness assessment** provisions, which created a diverse landscape as regards the requirements for such assessment. The use of new technologies and alternative types of data has led to concerns about personal data protection, particularly about transparency, relevance, proportionality and fairness. There are also concerns, predominantly expressed by consumer organisations in the context of the surveys accompanying the Evaluation and Impact Assessment support studies conducted by external consultants, about granting loans despite a negative creditworthiness assessment. According to the Court of Justice, the obligation to assess the borrower's creditworthiness is intended **to protect consumers against the risks of over-indebtedness** and bankruptcy.[10] It has also been ruled that **national rules obliging the creditor to refrain from granting credit if there is a lack** of the consumer's creditworthiness, **are compliant with the Directive**.[11]

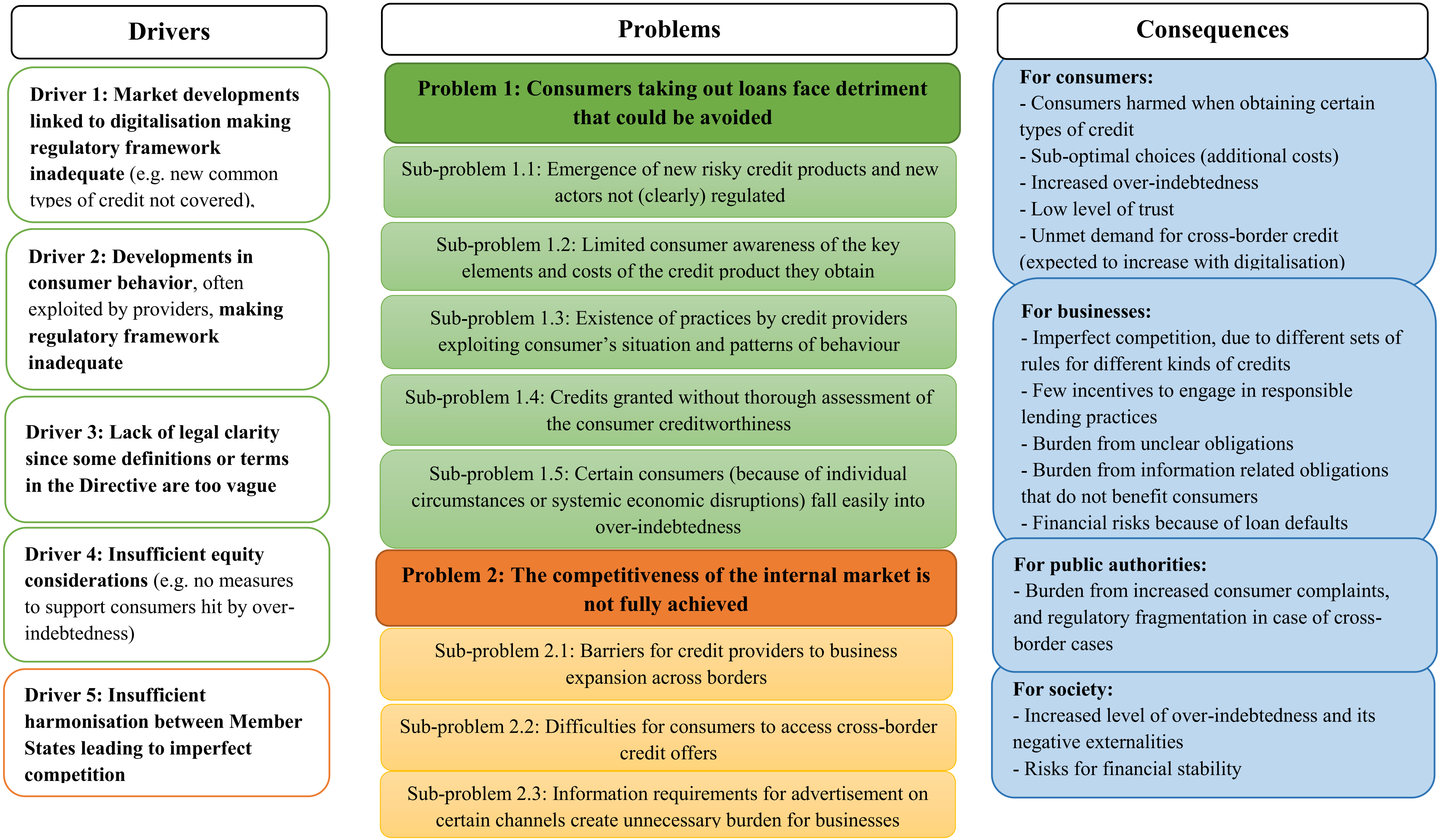
In May 2020, the European Banking Authority (EBA) published Guidelines on loan origination and monitoring, applying as of 30 June 2021. These guidelines aim to bring together the prudential framework and consumer protection aspects of credit granting.

2. PROBLEM DEFINITION

As demonstrated by the Evaluation,[12] the Directive's objectives, namely ensuring high standards of consumer protection and fostering the development of an internal market for credit, have only been partially achieved. The link between problems identified in this Impact Assessment as well as in the preparatory study, their drivers and their consequences is visualised in the **problem tree** below.

[10] Judgment of 5 March 2020, *OPR-Finance*, C-679/18, ECLI:EU:C:2020:167, paragraph 21.
[11] Judgment of 6 June 2019, *Schyns*, C-58/18, ECLI:EU:C:2019:467, paragraph 48.
[12] ICF, 2020.

Figure 1 Problem tree



2.1 What are the problem drivers?

There are five key **problem drivers** why the Directive's two main objectives were only partially achieved:

1) Since the entry into force of the Directive, the **digitalisation** has led to new market developments which are not adequately captured by the current limited scope of the regulatory framework: for instance, short-term high cost loans frequently provided online are often below EUR 200. The digital transformation is radically changing consumers' lives and its wider implications cut across the other problem drivers.
2) **Consumer behaviour and preferences have evolved** over the past ten years, and for instance a greater emphasis seems to be put on factors like fast access to credit.[13] Behavioural biases are not adequately addressed by the current Directive and this has resulted in consumer protection gaps - for instance, against exploitative practices like cross-selling of expensive payment protection insurances not needed by the consumer.
3) Some of the Directive's **definitions have not withstood the test of time**, **leading to legal uncertainty** (e.g. peer-to-peer lending platforms are not explicitly captured in the definition of 'creditor' or 'credit intermediary').
4) The **Directive does not address** adequately **equity considerations** in the sense that, apart from a recital (Recital 26) alluding to the problem, the legal text does not establish measures to support consumers vulnerable to over-indebtedness.
5) Finally what hampered the full achievement of the two objectives is **insufficient harmonisation between Member States**, allowed by the vague provisions of the Directive, **leading to an unlevel playing field**.

These five drivers have led to two overarching problems. On the one hand, when consumers take out loans some of them may engage in very costly credit agreements without being fully aware and/or may become unable to pay back their credit, leading to unexpected fees, and possibly to a dramatic deterioration of their financial situation and to over-indebtedness. On the other hand, the competitiveness of the internal market is not yet fully achieved, and the market for consumer credits remains largely fragmented. Each of these problems is divided into sub-problems, described below.

2.2 What are the problems?

Problem 1: consumers taking out loans face detriment that could be avoided

In the light of market, technological and behavioural developments since the Directive's adoption, some consumers taking out loans are not adequately protected from arrangements that will become unsustainable for them. Ill-suited credits can prompt debt spirals and over-indebtedness, which have become serious social issues in some EU regions. In 2019, **2% of EU households had arrears on hire purchase instalments or other loan payments**, and were at risk of over-indebtedness, with big discrepancies among Member States.[14] The number of over-indebted households is expected to increase due to

[13] See Annex 6 Market developments – Impact of digitalisation.
[14] See Annex 6 Market developments.

the COVID-19 crisis, which has deeply disrupted the EU economy in the beginning of 2020. Many consumers have already faced important income losses.[15] A recent survey published by the Commission on 12 March 2021 shows that on average 38% of consumers have concerns on how they are going to pay their bills next month and the situation varies greatly among Member States (from 7% to 71%)[16].

As shown by the Market Monitoring Survey 2019, just **under three quarters of EU27 consumers trust the loans, credit and credit cards marke**t, and **9% of them experienced problems**.[17] Of those who experienced a problem, 4 in 10 experienced financial detriment as a result (around 7 in 10 for consumers who find it very difficult to manage financially), and around three in four experienced other, non-financial impacts. The **sources of consumer detriment** include: insufficient protection e.g. because of loose creditworthiness assessments allowing consumers to take out credits even when this is not warranted by their financial situation; practices and business conduct of credit providers enticing consumers to take out credits they cannot afford; unclear and non-transparent disclosure of prices and fees limiting consumer understanding of the real costs of the credit; and inappropriate use of personal data.[18]

The underlying problems are presented below.

Sub-problem 1: Emergence of new potentially or actually risky credit products not necessarily covered by the Directive and new actors not (clearly) regulated

The consumer credit market changed considerably since 2010, as a result of the strong impact of digitalisation, and of the growing presence of **new products**, such as payday loans,[19] often offered by non-bank lenders.[20] The share of non-bank lending to households has seen a dynamic growth over the recent years.[21] Even though the market for consumer credit is still led by traditional operators**, new market players**, in particular fintech companies,[22] have also appeared on the market.

One of the most important credit products provided by fintech companies is unsecured loans through **peer-to-peer (P2P) lending platforms**.[23] These platforms seek to match individual borrowers with individual lenders, often tapping onto a segment of consumer lending underserved by banks (e.g. because they received a negative creditworthiness assessment). Some of the most successful in Europe are Auxmoney in Germany, Mintos in

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[15] Survey conducted by Kantar for the European Parliament, November 2020.
[16] https://ec.europa.eu/info/sites/info/files/future_financial_concerns_-_country_distribution_0.pdf
[17] Including loss of time, anger or frustration, stress, anxiety and other negative impacts on mental health. This is higher than the proportion of consumers who had problems with bank accounts or insurances (7%) who however were more likely to make a complaint. Market Monitoring Survey Report 2019/2020.
[18] FinCoNet, 2019a.
[19] Payday loans warrant particular attention due to the risk of relatively higher detriment that they may imply given, among other factors: typically high interest rates and additional fees.
[20] See Annex 7: Glossary.
[21]See Annex 6: Market developments – Evolution of the consumer credit market over the recent years.
[22]See Annex 7: Glossary.
[23] The global volume of P2P consumer credit in 2018 was USD 195 billion (32 billion, excluding China), Cambridge Centre for Alternative Finance, 2020.

Latvia and Bondora in Estonia.[24] P2P lending may be a convenient and quick way to access credit, however, it may involve important risks for consumers. The fast processes may lead to rush decisions.[25] Since this new type of lending is not explicitly mentioned in the Directive, proper creditworthiness assessments may not be carried out, even when platforms act as creditors or intermediaries (i.e. receive a fee for facilitating the transaction) for professional lenders. Furthermore, consumers might be unsure about their rights and possible recourse in case of problems. Evidence from several Member States confirms that consumers are reporting issues.[26]

The available data on the share of households using a particular product falling under the category of consumer credit is quite fragmented. The **most common types of consumer credit** in the market are predominantly **credit cards** (owned by 44% of EU citizens), and **personal loans** (owned by 13% of EU citizens).[27]

The Directive establishes that **loans below EUR 200** and above EUR 75 000 are outside its scope of application. Evidence shows that **small loan borrowers** often have **more than one loan.** This is **particularly dangerous, since their creditworthiness is never assessed.** They are therefore likely to experience early payment problems. Concerns raised about the minimum threshold of EUR 200 in the Directive also relate to the fact that **in some Member States** EUR 200 represent an **important share of the monthly income**.[28] In 2019, in Ireland around 300 000 people borrowed from moneylenders.[29]

Short term high-cost (STHC) credit, **including payday loans,** are quick and easy-access personal loans which may be useful for consumers seeking to obtain a loan in a simple and rapid way. These loans have a clear **growth potential in a digitalised market with a stronger cross-border element**. They **can however rapidly lead to a financial detriment**, in particular for consumers with low or unpredictable incomes. STHC loans are often likely to be **very expensive**, far beyond the rate necessary to integrate the credit risk resulting from the borrower profile and the refinancing costs reflecting the monetary policy stance. In a recent mystery shopping exercise conducted in Ireland, Spain and Romania, the average APR for the small value (below EUR 180) payday loans analysed was found to be 2 543%. Payday loans are popular in some countries (e.g. Lithuania) and have been growing fast in others (e.g. Sweden, Poland and Czech Republic), also thanks to digitalisation that allows for quicker, automated processes.[30] Since the amount borrowed is

[24]See Impact assessment support study.
[25] In a 2021 mini-sweep on consumer credit, two P2P lending instances were checked and both were flagged for suspected irregularities related to the standard information in advertising, as the initially displayed credit cost was not presented in a clear, intelligible and unambiguous manner while inclusive of all additional costs.
[26] See Annex 6 Market developments.
[27] Eurobarometer 443 figures, indexed for 2018. Credit cards can have either a “next month full debit” option or a “monthly partial repayment” option – allowing consumer to make partial payments every month.
[28] See Annex 6: Market developments.
[29] Moneylending loans are short-term high-cost loans, often for low amounts, with APR of 23% or more. https://www.irishtimes.com/business/personal-finance/high-interest-irish-moneylenders-experience-big-drop-in-activity-1.4491071
[30] 74% of the operators offering STHC credit in the EU are new operators. LE Europe *et al., 2019.*

typically **lower than the minimum threshold of EUR 200, these loans often fall beyond the scope of the Directive.**

In the absence of EU rules covering small amount STHC loans, most Member States have adopted rules to address the **design of credit products**, denoting the perceived importance of the problem at national level. The most common measure is the introduction of **interest rate or APR caps**, adopted by 23 Member States.[31] However, the typology of caps and their level vary significantly. Caps have led, in some cases, to lowered default notices and to the disappearance of potentially risky products such as payday loans (e.g. Belgium, Slovakia).[32] STHC loans are growing in Member States with no or high caps and they are the main reason for consumer complaints in some of them (e.g. Bulgaria, Malta).[33]

Revolving credit including credit cards warrant attention too.[34] The term revolving credit encompasses any credit that is automatically renewed as debts are paid off, including thus credit cards. The Directive's evaluation estimated that **up to 20 million EU consumers face problems with their credit card** in terms of unrequested extensions of the credit line.[35] Revolving credit and credit cards raise concern among consumer associations because of the potential harm that can stem from the flexibility of these contracts due to behavioural biases.[36] The situation of consumers under the impression of having unlimited credit possibilities from the moment they pay back a part of their debt every month, can suddenly become unsustainable because of high costs non-transparently disclosed.[37] These credits frequently amount to less than EUR 200, and are hence exempted from the Directive's obligations. In France, revolving credit was identified as a key factor behind over-indebtedness linked to credit. Since the introduction of specific rules in 2010, over-indebtedness related to revolving loans decreased by 47%.[38]

Loans above EUR 75 000 are excluded from the Directive's scope. However, the Mortgage Credit Directive has widened the scope of the Consumer Credit Directive in the sense that the latter shall apply to credit agreements the purpose of which is the renovation of a residential immovable property involving a total amount of credit above EUR 75 000.[39] However there is no comprehensive data on such big amount loans.

There are also **other credit agreements, described below, which fall outside the scope of the Directive** and can entail risks for consumers:[40]

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[31] See Annex 6 Evolution of the consumer credit market over recent years.
[32] ICF, 2020 (Legal analysis); FinCoNet, 2017.
[33] See Annex 6: Market developments – Evolution of the consumer credit market over the recent years.
[34] In a 2021 mini-sweep on consumer credit, 5 out of 16 revolving credit products (31%) were identified with potential irregularities related to the presentation of information in advertising, including because of the likelihood of the main characteristics of the credit and its costs/special price advantage to mislead consumers.
[35] See Annex 4: Consumers affected in the status quo.
[36] Optimism bias, myopia, cumulative cost neglect. Annex 6: Market developments – Impact of digitalisation
[37] EBA Consumer Trends Report 2020/2021, EBA/REP/2021/04.
[38] National authority.
[39] See article 46 of Directive 2014/17/EU. 22% of the respondents to the survey performed for the Directive's Evaluation said they had got a consumer credit for housing renovation.
[40] See Article 2(2) of the Consumer Credit Directive.

Credit agreements where the **credit is granted free of interest and without any other charges and credit agreements** where the **credit has to be repaid within three months and only insignificant charges are payable** are not captured within the scope of the Directive (Article 2(2)(f)).[41] These are generally used to finance the purchase of products such as household appliances, in the form of **point of sale financing**, concluded between the consumer and the retailer selling the good, acting either as a credit provider or intermediary. Moreover, new digital financial tools that let consumers make purchases and pay them off over time, i.e. '**Buy Now Pay Later**' products,[42] are growing fast in the EU, and raise concerns among consumer organisations.[43] The number of **EU citizens who have contracted an interest free loan** has been estimated to be **around 7 million.**[44]Although interest free credits may appear as very convenient and having low or no costs linked to them, since the lender is paid by the merchant (via a fixed or variable fee), they may entail high fees for late or missed payments.[45,46] The risk lies in the fact that consumers are often poorly informed about the conditions of the credit,[47] frequently very strict on delays. Moreover, such financial products promote quick decisions, enticing people to overspend and putting them at risk of taking on financial commitments that they may not be able to honour.[48] Concern at national level is shown by the decision of certain Member States to apply some of the Directive's provisions to all consumer credits, regardless of the interest rate charged.[49]

Overdraft facilities allow consumers to mobilise amounts for their immediate financial needs, which exceed the balance in their current account. Usually, overdrafts entail high costs if they are not repaid within a certain period, especially for unarranged ones.[50] If the period does not exceed a month, the credit is not covered by the scope of the Directive (Article 2(2)(e)).[51] Overdraft facilities are an example of loans widely used. The number of **EU citizens with an overdraft facility** is estimated **between 20 and 40 million**[52].

[41] Depending on whether there are considered to be without 'charges' or 'insignificant charges'.
[42] See Annex 6: Market developments – Evolution of the consumer credit market over the recent years.
[43] Sveriges Konsumenter, https://www.sverigeskonsumenter.se/nyheter-press/nyheter-och-pressmeddelanden/klarna-ar-otydliga-och-lockar-till-konsumtionslan/, consulted on 23 February 2021.
[44] Based on Eurofinas data (2019) on consumers taking consumer credit at PoS extrapolated to the EU-27. See Annex 4: Consumers affected in the status quo.
[45] ICF, 2020; EBA, 2019a.
[46] For 'Buy Now Pay Later' providers that charge late payment fees the revenue from such fees can make up a significant portion of the firms' overall revenue. UK FCA, 2021.
[47] For instance, low fees are usually mentioned by the retailer but not provided in an APR calculation.
[48] Eurofound, 2020a.
[49] e.g. Germany applies the right of withdrawal. ICF, 2020; Finance Watch, 2018 and 2019.
[50] In the UK, for unarranged overdrafts, the price regularly exceeds the equivalent of an interest rate of 10% per day and are more likely to be used by vulnerable consumers, see Annex 6 Market developments.
[51] The Directive introduces specific obligations in connection with overdraft facilities (Art. 12). For overdrafts where the credit has to be repaid on demand or within three months, and in the case of credit agreements in the form of overrunning, lighter regimes apply (Art. 2(3) and (4), and Art. 18).
[52] As of 2018, overdraft facilities made up 30% of a consumer outstanding debt in SE, followed by 15% in IT and DE while in most of the other countries this share was typically below 10%. Deloitte, 2019.

National data suggest that they more likely to be needed, and therefore frequently used, by lower income households,[53] resulting in detriment for the more vulnerable consumers.[54]

According to Article 2(2)(d) of the Directive, **leasing agreements** where an obligation to purchase the object of the agreement is not laid down either by the agreement itself or by any separate agreement, do not fall under the scope of the Directive. Finance Watch estimates that "hire purchase", a common type of leasing agreement which envisages but does not require the purchase of the good, represents around 12% of the total credit provided to households, although it accounts for 26% in Member States who joined the Union as of 2004.[55] Leasing agreements are being increasingly used to finance automotive purchases. The number of **EU citizens with a car leasing agreement is potentially high** as 13 million new passenger car registration are done in the EU annually.[56] In France, the number of leasing transactions increased by more than three times between 2008 and 2019. In Ireland, it represented the largest amount of personal financing by value in 2019, at approximately EUR 3.1 billion.[57] Risks for consumers in taking such financing solution are linked to the absence of information enabling them to compare offers (for example a basic consumer credit arrangement could be less costly) as well as to opaque fees structures.[58]

Credit provided by **pawnbrokers/pawnshops,**[59] offering secured loans using personal property as collateral, is still widely used across the EU, especially by vulnerable consumers who cannot resort to more formal sources of credit (e.g. banks).[60] Consumers are not always clearly informed about the applicable conditions or about the absence of equivalent consumer protections when entering into unregulated agreements. They are often unaware of the high interest rates usually attached to these contracts[61] and they do not always receive the 'surplus' money that they are owed in cases where the pawnbroker sells the collateral for a price above the redemption value.[62] It is important to stress that the pawnshop collateralised has no evident cross-border potential.

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[53] In France, while 22% of lower-income households (first quintile) uses overdrafts frequently, only 12-13% of middle-income households (second and third quartile) does so. INSEE, 2016.

[54] According to the UK FCA 2018 study, a strong, positive correlation between vulnerability of consumers and unarranged overdraft charges can be established.

[55] They include Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovenia and Slovakia. Finance Watch, 2020a, Basic Financial Services.

[56] https://www.acea.be/statistics/tag/category/by-country-registrations.
If 30% of new car buyers use a lease agreement, this potentially represents 12 million people with a 3 years lease ongoing for their car.

[57] ICF, Impact Assessment support study.

[58] Typical fees and costs include: documentation fees, interest surcharge for missed repayments, penalty fees for missed or late payments, completion fee for ownership of the goods to pass to consumers, rescheduling charge, or a charge if the goods are repossessed. Citizens Information, 2020. Hire purchase agreements.

[59] Art. 2(2)(k) excludes from the Directive's scope credit agreements upon the conclusion of which the consumers are requested to deposit an item as security and their liability is limited to that pledged item.

[60] See Annex 6 Market developments – Evolution of the consumer credit market over the recent years.

[61] CIVIC Consulting, 2013.

[62] UK Financial Conduct Authority, 2018, Pawnbroking sector review.

In the light of the above described problems, in order to ensure effective protection of consumers taking out loans, some Member States opted to extend the Directive's rules to credit below EUR 200,[63] leasing agreements,[64] or to all overdraft facilities.[65]

Sub-problem 2: Limited consumer awareness of the key elements and costs of the credit product they obtain

Articles 4 and 5 of the Directive indicate the **elements of the consumer credit agreement about which consumers must be informed** before entering a credit agreement. Article 4 concerning **standard information to be included in advertising** was the object of a REFIT Platform Opinion in 2017.[66] Article 5 specifies that **pre-contractual information** must be presented in good time before signing the agreement by means of a standard form (SECCI). The Evaluation found that these articles have succeeded in positively impacting the overall level of consumer protection and ensuring a certain level of harmonisation in how information is provided, notably through the adoption of the SECCI. Nevertheless, there are elements that hamper their effectiveness, especially on digital means.[67]

With regard to Article 4 of the Directive, although it establishes that information in advertising must be presented to consumers in a 'clear, concise and prominent way', it **does not establish exactly how the information should be provided**. Many national authorities, mentioned that even though credit providers are generally complying with their obligation to provide standard information at advertising stage, key information is often not prominently displayed.[68,69] By presenting certain information in (non) prominent way, the advertising message can become misleading. In a mystery shopping exercise[70] conducted in 2020, in almost 20% of cases, malpractices were experienced in advertising material, and in particular for revolving credits online. It is estimated that **around 10 million borrowers may be affected by misleading advertising.** Consumers are also concerned about profiling and higher prices linked to targeted advertising based on pervasive tracking and monitoring.[71]

From the perspective of consumers, when credits are **advertised through certain communication channels** such as radio or TV broadcasts, with important information either shown for a very limited amount of time or spoken very quickly, they do **not have the time nor the necessary attention span to process detailed information**.

[63] BE, BG, CZ, DK, EE, FI, HU, IT, LV, PT, SK extended some or all provisions of the Consumer Credit Directive to credits below EUR 200, see ICF, 2020.
[64] AT, EE, HU, IT, FI, FR, PT, see ICF, 2020.
[65] AT, BE, FI, PT, FR, see ICF, 2020.
[66] The Directive's Evaluation analysed the potential for simplification of the advertisement without harming the consumer protection objective of the Directive, but this could not be ascertained.
[67] In a 2021 mini-sweep on consumer credit, for websites checked on smartphones (27 out of 118), the suspected infringement rate was 44%(mostly related to advertising), higher than the average (36%).
[68] ICF, 2021.
[69] In a 2021 mini-sweep , 36 out of 91 personal loans (nearly 40%) were suspected of infringements, mostly as regards the requirements on information in advertising. In most cases, the main characteristics of the offer, were omitted or presented in an unclear, unintelligible or ambiguous manner.
[70] Finance Watch, 2021.
[71] Regarding online targeted advertising 68% consumers are concerned that their online data is collected / a profile is made about them. Consumer Conditions Survey 2021: Consumers at home in the single market.

Moreover, the **lengthy and complex information disclosed to them at pre-contractual stage appears not to be entirely effective** in helping them to properly process the information they need in order **to compare offers** and reach decisions that are in their best interest. For instance, only 46% of the participants to the Finance Watch mystery shopping[72] reported they could compare consumer credit products before making a decision to take out a loan. Behavioural insights show that various factors play a role in this issue: **information overload**, the **complexity of the information provided to consumers**, and **practical limits to the full efficiency of the "rational consumer concept"** due to the numerous behavioural and cognitive biases affecting consumers.[73] Moreover, Art. 5 aims to ensure that consumers are given enough time to reach an informed decision **"in good time before**" signing an agreement. However, this open worded text has led to a situation whereby consumers are, sometimes, given very little time, or no time at all, to decide. In fact, quite often pre-contractual information is provided at **the same time as the signature of the credit** contract.[74] It is estimated that **up to 9.8 million** consumers **find the SECCI unhelpful** or very unhelpful, and **up to 29 million** consumers **do not seem to understand credit offers**.[75]

As generally agreed by stakeholders,[76] the need to **avoid information overload and to adapt the requirements to digital means of communication** are key issues to be addressed. With the further use of digital tools to take out credit, (currently 36% of consumers are doing so online)[77] it can be expected that the risks associated to online models will increase.

Sub-problem 3: Existence of practices by credit providers exploiting consumer's situation and patterns of behaviour

Over the years, **consumers' decision-making processes to take up credit have changed** as a result of digitalisation and the transformation of consumption habits. Nowadays, the consumer journey is often multichannel (both offline and online) and quicker. Consumers place greater emphasis on factors such as fast provision done from start to end by a single provider (end-to-end processing of the credit agreement) over the location of the physical branch (e.g. in relation to their home location).[78] In context of non-physical interaction between traders and consumers, practices exploiting consumer biases and nudging them into sub-optimal choices, including through dark-patterns[79] can be particularly dangerous for the financial sustainability of consumers, in particular the most vulnerable ones.

[72] 42% were able to compare different offers when purchasing a payday loan and 29% different revolving credit offers. Finance Watch, 2021.
[73] See Annex 6 Market developments – Impact of digitalisation.
[74] 40% of respondents to the CCD Evaluation consumer survey indicating that they received it on the day they signed the contract. ICF, 2020; LE *et al.*, 2019; ECRI, 2018a.
[75] Based on share of consumers with a credit agreement marking understanding as complicated in the CCD Evaluation consumer survey (19%). ICF, 2020. See Annex 4: Consumers affected in the status quo.
[76] See results from interviews and online survey in Annex 2: Stakeholder consultation.
[77] CCD Evaluation consumer survey.
[78] ECRI, 2018.
[79] User-interface designs aimed at manipulating consumers. New Consumer Agenda Communication, European Commission, 2020.

Such practices include **pre-ticked boxes** or making credit products available quickly, in a small number of clicks (products advertised as **'one-click' credit**). Consumers with low digital or financial literacy are particularly vulnerable in this context.[80]

Another practice employed by credit providers, or intermediaries, which may lead to unsuitable choices for consumers, is **cross-selling**. Cross-selling is where an additional product is sold together with the loan, as either a mandatory (tying) or an optional element (bundling). It represents a highly profitable practice for credit providers or intermediaries, who usually have agreements with insurance companies and receive commissions when they sell these products.[81,82]

The sale of tied insurance policies,[83] especially **payment protection insurance (PPI)** has raised concerns[84] in some Member States as it is linked to a number of mis-selling scandals in the sector.[85] The Directive deals with cross-selling only to a certain extent: it establishes that when a consumer is obliged to purchase another product together with the credit, the cost of that product must be taken into consideration in the calculation of the APR. However, PPIs can entail disguised high costs which do not always appear to be included in the calculation of the APR. Product tying is considered as very problematic and some Member States adopted measures to limit or ban it.[86]

Unsolicited credit offers may entice consumers to take credits which are not suitable for their situation. The current Directive text does not address these practices, instead leaving it to the Member States or other Union instruments, such as the e-Privacy Directive (2002/58/EC) or the Distance Marketing of Financial Services Directive (2002/65/EC) to regulate them to different extents.[87] While some Member States have imposed a ban or heavily regulated unsolicited credit offers (e.g. Belgium, France, Ireland), they are still common practice in many Member States (e.g. Slovenia, Slovakia), in particular for certain types of products such as credit cards, sent to consumers who have not requested them or whose limit is increased without an explicit request.[88]

The Directive does not provide full protection for consumers from making unsuitable choices also because, while under Article 5(6) of the Directive credit providers are obliged to provide 'adequate explanations' to consumers before the signature of the contract, it **does not impose to advise consumers** for example on suitable credit products in the case of ancillary services bundled with a credit agreement**.** The lack of personalised advice is

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[80] LE *et al.,* 2019.
[81] Usually credit cards, personal loans, and payday loans. FinCoNet, 2017; Finance Watch, 2018 and 2019. The revenue generated is substantial See Annex 6: Market developments
[82] ICF, 2020; LE, 2013.
[83] In a 2021 mini-sweep on consumer credit, in 1 of 6 cases when the conclusion of an insurance contract was compulsory, this was not stated in the advertising in a clear, concise and prominent manner.
[84] Financial Services User Group (FSUG), 2019, Opinion on responsible consumer credit lending.
[85] See Annex 6: Market developments – Evolution of the consumer credit market over the recent years.
[86] DE and FR introduced obligations to ensure that consumers are provided with clear explanations of the additional costs. PT banned product tying and introduced guidelines on the design and marketing of PPIs.
[87] For instance, in Belgium, unsolicited marketing is strictly regulated and credit sales desks in public places such as railway stations, shopping centres is prohibited. FSUG, 2019a.
[88] FSUG, 2019a.

one of the key problems that consumers face nowadays, according to consumer organisations.[89] The Directive **does not include conduct of business obligations** when providing credit to consumers either. This is especially relevant given that the performance of staff members of most financial services companies is generally assessed based on their volume of sale.

Without a harmonised approach on the design and marketing of credit products, certain credit providers are expected to continue potentially misleading practices, not in line with responsible lending principles.[90] Further Member States may also adopt measures to limit the incentives for credit providers to make use of them in a non-coordinated manner.

Sub-problem 4: Credits granted without a thorough assessment of the consumer creditworthiness

The Directive, in Article 8, imposes an obligation on the creditor to assess the consumer's creditworthiness on the basis of sufficient information, where appropriate obtained from the consumer and, where necessary, on the basis of consultation of the relevant database. It also mentions in Recital 26 that creditors should not engage in irresponsible lending or give out credit without prior assessment of the consumer's creditworthiness. The CJEU has on different occasions highlighted that the article on creditworthiness assessment is fundamental, as it aims at avoiding over-indebtedness, and that the creditors should ensure that this assessment be carried out.[91] There are different reasons hindering the Directive's creditworthiness assessment provision effectiveness in ensuring the suitability of credit sold to consumers:

- It **does not specifically establish whether the assessment should be** creditor-focus (i.e. risk assessment) or **borrower-focused** (i.e. affordability assessment done in the interest of the consumer, as confirmed by the CJEU);
- It **does not specify the categories of data** that should be considered when conducting a creditworthiness assessment.[92] This has led to the use of personal data by some data controllers (credit lenders, credit bureaus) which may not be necessary and proportionate to the purpose of conducting a creditworthiness assessment. Moreover, a majority of Member States established further requirements, establishing the minimum information to be taken into account or setting out formulas e.g. debt-to-income.[93]
- It **does not establish the consequences of a negative creditworthiness assessment**, for example some Member States have prohibited the granting of credit following a negative creditworthiness assessment (e.g. Belgium, the Netherlands).

[89] Impact Assessment support study. According to the Finance Watch study, only 2% of the clients in the study received advice on the affordability of the credit, Finance Watch, 2021.

[90] In 2013, the UK's Office of Fair Trading found that 28% of the loans were rolled over at least once, and that around half of lenders' revenues were linked to rollover practices, with 19% of the revenues coming from a 5% of loans rolled over four or more times. FSUG, 2019a; ICF, 2020; FinCoNet, 2017.

[91] C- 679/18, OPR-Finance s. r. o vs GK, 5 March 2020, ECLI:EU:C:2020:167, paragraph 21, CA Consumer Finance, 18 December 2014, C-449/13, EU:C:2014:2464, paragraph 43.

[92] Currently, these aspects are covered by the EBA guidelines on loan origination, which National Competent Authorities usually apply to financial institutions. EBA, 2020c.

[93] European Commission, 2018a.

Creditworthiness assessment practices are still seen as a problem area in many Member States, with important issues raised by stakeholders in at least 12 of them.[94] According to the Finance Watch mystery shopping exercise,[95] creditworthiness assessments are **worse in the online than in the offline consumer credit market**, and **worse amongst non-banks than banks**. **Poor creditworthiness assessment** seems to be especially common in certain segments of the consumer credit market, in particular for **payday loans** and loans provided via **peer-to-peer lending platforms**.[96]

Furthermore as already discussed, digitalisation has transformed the process of collection and analysis of consumer's information. Credit providers make large use of **automated decision-making techniques**, including **machine learning, for credit scoring.[97]** In addition, lenders are making use of different data sources found throughout the digital ecosystem. When carrying out creditworthiness assessments, lenders, through big data analytics, are increasingly making use of large numbers of data points, most of which are either not necessarily provided by the consumer or unknown to the consumer. This use is particularly common among certain non-traditional operators such as peer-to-peer lending platforms,[98] but this practice is not restricted to new operators.[99] The 2020 EBA report on big data and advanced analytics[100] shows that 34% of business respondents declared using or planning to use big data for risk scoring. The use of such technology seem to result in a wider access to credit for consumers, but it raises **fundamental rights** concerns, in terms of potential infringements of the right to the protection to personal data, privacy and issues concerning direct or indirect discrimination.[101] If left unaddressed, the risks associated with the use of machine-learning technology are expected to worsen since the use of innovative digital tools by credit providers is expected to grow.

Sub-problem 5: Certain consumers (because of individual circumstances or systemic economic disruptions) fall easily into over-indebtedness

Over-indebtedness refers to a situation in which a household is not able to meet its economic and financial obligations over a sustained period.[102] The latest European Union Statistics on Income and Living Conditions (2018) shows that on average, more than 30% of EU households were unable to meet an unexpected expense, with figures nearing 50%

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[94] BE, CZ, EE, IE, LT, LV, NL, PL, PT, SE, SI, SK. Issues with creditworthiness assessment were the main source of enforcement decisions in some Member States (IE, PT, CZ). Impact Assessment support study.
[95] Finance Watch, 2021.
[96] ICF, 2020; Cherednychenko, Meindertsma, 2019.
[97] The most common methods used to assess credit applications are regression, decision trees and statistical analysis to generate a credit score using limited amounts of structured data. However, lenders are increasingly turning to new data sources, including social media activity and mobile phone use. EBA, 2020a.
[98] ICF, 2020; EBA, EIOPA, and ESMA, 2016.
[99] ICF, 2020; BEUC, 2017.
[100] EBA, 2020a; Results from the EBA risk assessment questionnaire 2019.
[101] For example, in April 2019, the Finnish Data Protection Ombudsman ordered financial credit company Svea Ekonomi to correct its creditworthiness assessment practices, considering that an upper age limit was not acceptable as a factor, since age does not describe solvency or willingness to pay.
[102] Including the difficulty to make ends meet, see Annex 7. Eurozone's households in the age bracket 35-44 had the highest debt-income ratio (144.6 compared to 78.9 and 54.1 for the age brackets 45-54 and 55-64).

in some countries.[103] According to the latest European Quality of Life Survey (2016) 14% of people (over 18) reported they were unable to make scheduled payments related to rent or mortgages, consumer credit, loans from family or friends, or utility or telephone bills (with differences between Member States). Overall, that proportion rises to 21% for people not in arrears but who have trouble making ends meet. Over-indebtedness often arises from **unexpected changes in individual circumstances**, usually as a result of a combination of circumstances (e.g. unemployment, personal circumstances such as divorce, illnesses, etc.), [104] but can also be linked to irresponsible lending and borrowing practices. **2% of total EU households**, and 3.9% of single parents with dependent children, have **arrears on loan payments**. However, looking at lower **income households with arrears (bottom quartile), 10% of them have arrears on consumer credit.**[105]

In France, debts linked to consumer credit count for 37% of the total debt of over-indebted households. 75% of over-indebted households have debt linked to consumer credit, and 62% of them to a revolving credit.[106] In Sweden, around 70% of those taking out a credit below EUR 195 already had a debt with the company that issued the loan. The majority of new small loan borrowers have at least two loans.[107] **Over-indebted households are often also in arrears with consumer credit payments, which can lead to debt spirals**.

Several tools are available in Member States to assist consumers at risk or already over-indebted, including the provision of **independent debt advice services**,[108] **forbearance measures**,[109] or **financial education** (as a preventive tool). None of those tools are explicitly included among the Directive's obligations.

Systemic economic disruptions such as the COVID-19 related crisis often have a direct impact on the financial stability of households, by affecting the income at their disposal and the availability of credit for consumers. For instance the widespread retrenchment in credit that followed the 2008 financial crisis, in combination with the job losses and the economic downturn, resulted in increased financial difficulties for European households.[110] At the end of 2020, **six in ten consumers had experienced financial problems since the start of the pandemic**, and around **four in ten reported a difficult financial situation**.[111]

[103] For instance, CY, EL, HR, LI, LV, RO. Eurofound, 2020a.
[104] For instance, studies in France and Austria show that unemployment was the basis for over-indebtedness in 23% and 43% of cases. Centre for European Policy Studies (CEPS), 2016.
[105] EU SILC survey, 2019.
[106] Banque de France, 2020.
[107] Finansinspektionen, 2019.
[108] Independent professionals who provide information and advice to debtors, not funded by creditors. 9 Member States have a well-established debt advice service; Eurofound, 2020a.
[109] Forbearance measures are a widely used tool to support over-indebted consumers, especially during crises (BBVA Research, 2017). They can take different forms and be implemented over different timescales.
[110] EQLS surveys from 2007 and 2011.
[111] Survey conducted by Kantar for the European Parliament, November 2020. https://ec.europa.eu/info/sites/info/files/future_financial_concerns_-_country_distribution_0.pdf .

However, **this crisis is not affecting all population groups equally**. Vulnerable groups have less savings,[112] were often already in a precarious situation before the crisis, and may be the most in need to obtain credit to cover their regular expenses, pushing them to obtain higher cost and potentially detrimental credit because they do not have access to alternative, less expensive, products.[113] When asked about the impact of the COVID-19 crisis, up to 5% of consumers surveyed in 7 EU countries in June 2020 said they had to raise the limit on their credit card, up to 14% had to borrow money from family or friends to make ends meet, and up to 15% had to postpone paying at least one bill. Among low-income consumers surveyed, up to 23% had to postpone bill payments, and up to 20% had to borrow from family and friends.[114] Those who are unemployed or working part-time are most likely to say that COVID-19 has already impacted on their personal income.

Amid the COVID-19 crisis, Member States have adopted a series of relief measures that seek to alleviate the financial burden of citizens and households, such as **loan repayment moratoria** that were generally extended to consumer credit, next to other credit forms.[115] Most of them have introduced deferrals of loan repayments, but for different periods and with different conditions, as regards for instance eligibility or responsibility for extra costs. Some of these measures had an effect on consumer protection, while **the Directive does not address the impact of systemic economic disruptions on consumers**. While Member States initiatives proved to be beneficial,[116] the divergence between national measures taken on consumer credit to alleviate the consequences of such disruption should not lead to an uneven consumer protection level.

The majority of respondents to the **New Consumer Agenda public consultation** believe that EU-level action is needed to safeguard the interests of lenders and borrowers in exceptional and systemic economic disruptions.[117]

Problem 2: the competitiveness of the internal market is not fully achieved

One of the key objectives of the Directive is to facilitate the **emergence of a well-functioning internal market**, through a higher degree of legal harmonisation across the EU on certain key elements of consumer credit (Recital 7). Further harmonisation would level the playing field for **credit providers** regardless of where they are located and facilitate the provision of credit to consumers in other Member States both **directly cross-border or via establishment of subsidiaries**, allowing them to **broaden the number of their customers,** and potentially **benefit from economies of scale**. From the perspective of consumers, **effective competition in the internal market would increase their choices and enable them to shop around for the offer that best suits them**. Higher

[112] A recent study published by the Joint Research Centre found that in all Member States, a majority of households have only liquid savings worth EUR 1 000 or less. In some countries (CY, HR, HU, SI, but also IT, LV, PL, SK), the proportion of households with no savings or indebted is particularly high.
[113] Social Europe, 2010.
[114] IPSOS, Covid-19: attitudes and behaviours in the EU, 2020 – confidential.
[115] See Annex 8: Mapping of national measures to support borrowers amid the COVID-19 crisis.
[116] EBA, 2020b.
[117] 61% of companies, 56% of business associations, 100% of consumer organisations, 98% of citizens, 95% of NGOs and 83% of national authorities (multiple choice question). Only for 18% no EU action is needed.

harmonisation should also decrease national market segmentation, allowing better competition among the different players and lower interest rates, especially on smaller national markets which are very concentrated, with the top five main financial institutions representing up to 97% of assets at national level (65% on average in the EU).[118]

More harmonisation and legal clarity should facilitate more financial institutions to provide credit across borders, and this would clearly be beneficial to competition.

Despite a high level of harmonisation of the prudential framework under which banks operate and the creation of the Banking Union in the Euro Area, the **consumer credit market has remained highly fragmented**. **Direct cross-border activities in consumer credit**, by a legal entity established in another Member State, **remain low**. ECB data on outstanding positions of cross-border loans to households provided by monetary financial institutions show that these represented less than 1% of total household loans for the period 2008-2019 (0.8-0.9%) and has not evolved.[119] In 2015 fewer than 3% of European consumers purchased banking products such as credit cards in another Member State, and 5% purchased their loans from abroad.[120] The Directive's Evaluation confirmed that direct cross-border operations represent 5% or less of credit agreements concluded by the credit providers consulted.[121] **This is due to external factor** influencing offer and demand, but also to **different consumer protection rules,** linked also to the **way the Directive has been implemented at national level** (regulatory choices, vagueness of some provisions). This increases the burden associated to the consumer credit distribution across borders but also reduces incentives for smaller operators to establish cross-border. Moreover, the Directive's provisions cover only some areas related to the protection of borrowers (for instance they do not harmonise insolvency procedures).

It is to be expected that the **increasing role of fintech companies as providers of consumer credit will have an impact on the level of cross-border operations**. Contrary to traditional providers of credit, these companies tend to target consumers in various Member States.[122] Their market share is currently small, but in the future their contribution to the development of a cross-border market could be potentially significant. As the **digital transition** makes **cross-border credit operations easier,** we can already observe an increasing trend of such operations. For instance, the Latvian **peer-to-peer consumer lending platform** Mintos is operating in several EU countries (e.g. Denmark, Poland, Czech Republic). Similarly, the Estonian platform Bondora allows users to invest in loans granted through the Bondora Group to borrowers in Estonia, Finland and Spain.

Moreover, a **fast and radical change could occur, if major actors of the digital economy, such as BigTech companies, start operating in the area of consumer credit**.

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118 https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200608~4613968937.en.html, consulted on 21 February 2021.

119 See Annex 6 Market developments – Impact of digitalisation.

120 European Commission, Key facts on Consumer Finance.

121 ICF, 2020.

122 As confirmed, there is an increasing amount of cross-border activities across the EU as regards peer-to-peer consumer lending (Cambridge Centre for Alternative Finance, 2020).

This development can be observed already today outside the EU. In China, the major e-commerce platform Alibaba has widened its portfolio and started offering consumer credit directly on its website to consumers buying products there. In the US, Amazon Lending offers revolving credit for small and medium sellers in the Amazon e-commerce platform.[123] This trend has not yet reached the EU, even though **BigTechs are already partnering up with traditional providers to offer financing options**.[124]

This possible tendency is recognised by the Commission in the 2020 Digital Financial Strategy, which says that risks stemming from potential large-scale lending operations by firms outside the banking perimeter should be addressed.

Sub-problem 1: Barriers for credit providers to business expansion across borders

Different regulatory approaches on a number of key Directive's articles[125] have resulted in different obligations for credit providers depending on the Member State in which they operate. Moreover, it is plausible to assert that legal fragmentation due to the differences in scope of application in the different Member States and different implementation of key terms of the Directive (e.g. 'sufficient information' in Art. 8 on creditworthiness assessment) hindered the development of cross-border lending; legal fragmentation can often discourage credit providers from serving consumers in other Member States, either directly or via establishment trade. In fact, credit providers' lack of knowledge and/or confidence in other Member States' regulatory framework is singled out as a significant barrier hindering expansion across borders by the business sector.[126]

The issues of **enforcement and penalties** are another source that leads to high complexity and lack of confidence in the regulatory framework. The choice of sanctions (effective, proportionate and dissuasive) remains at the discretion of Member States (Art. 23). With regard to penalties, Member States have generally established civil and administrative sanctions for infringements of the national provisions transposing the Directive; in addition, some can issue criminal sanctions. As a result, there is considerable disparity in the types and levels[127] of sanctions. With regard to the responsible enforcement authorities, a large number of Member States appointed several bodies to ensure correct implementation of the different aspects of the Directive. Sometimes, the competent authority depends on the type of the credit provider, namely whether it is a bank or a non-bank lender.[128] Having multiple competent authorities with varying sanctioning powers

[123] Using Amazon's own capital or bank partners' funding. Oliver Wyman, Big banks, bigger techs? 2020.
[124] In 2020, Barclaycard Germany announced a partnership with Amazon to offer financing for purchases made through Amazon.de. https://home.barclaycard/press-releases/2020/11/Amazon-partners-with-Barclaycard-Germany/ consulted on 23 February 2020.
[125] Art. 2 on scope, Art. 4 on advertising, Art. 16 on early repayment. European Commission, 2020, Report on the implementation of Directive 2008/48/EC on credit agreements for consumers, COM(2020) 963 final.
[126] ICF, Impact assessment support study, business organisations survey.
[127] The range of monetary fines for both natural and legal persons is very broad, ranging from EUR 26 (BE) to EUR 5 million (NL, SE). In some Member States, fines imposed on creditors are linked to their annual turnover (up to 5% of the creditor's annual income in CY, HU and LT, 10% in IT).
[128] For instance, the creditworthiness assessment requirements are generally enforced by the consumer authority (in BE, EE, EL, FR, IS, LV, PL; for non-bank lenders in DK, SE, SI and regional ES authorities),

and competent authorities depending on the type of operator has had an impact on the level-playing field between different providers and the consistency of enforcement.

Furthermore the Consumer Protection Cooperation Regulation (N°2017/2394) which is supposed to cover cross border infringement to the consumer legislation included in its annex (including the Consumer Credit Directive), could not be of much assistance in view of the important variations in national implementation of the Directive.

Another aspect to be considered is **access to credit databases across borders**. Art. 9 of the Directive establishes the obligation on the Member States to ensure access for creditors from other Member States to databases used in that Member State for assessing the creditworthiness of consumers. While the Directive has set up this obligation, it is silent on who is to run the database (publicly run and/or co-exist alongside privately run ones) or what categories of data are to be processed. The result is that the content of such database varies between countries and can include only negative data (e.g. missed payments) or, both positive (e.g. ongoing financial commitments) and negative data, coming from various sources and updated according to different timescales depending on the database.[129] An additional hurdle to the establishment of a well-functioning cross-border database access, is the **reciprocity principle**. Many credit registers operate on the reciprocity principle, implying that credit providers are to supply the same type of data that they wish to access through the credit database.[130]

However, there are **external factors relating to aspects going beyond the Directive** elements hampering the cross-border offer of credit. These include legal and technical barriers (know-your-customer requirements as per anti-money laundering requirements, difficulty in checking the identity of consumers, insolvency regimes, contract law relating to the validity of credit agreements) leading to regulatory and market fragmentation, post contractual issues not covered by the Directive, language barriers and questions around applicable law.[131] Some entities may not qualify to obtain existing EU passports and have to ask authorisation in each Member State where they want to offer credit.

Sub-problem 2: Difficulties for consumers to access cross-border credit

The Directive's Evaluation has shown that there is a growing interest among consumers for cross-border credit offers. **Around one third (29%) of the respondents to the consumer survey conducted for the Evaluation said they had looked for a credit from a creditor located in another EU country.** This compares to only 2% respondents to a 2011 Eurobarometer who said that they would potentially buy a personal loan in a foreign EU country.[132] This is a marked increase in comparison to the past and demonstrates that

the financial supervisory authority (in EE, FR, NL, PL, UK; for bank lenders in DK, SE) or the national central bank (in CY, CZ, ES, HU, IE, IT, LT, PT, RO, SK; for bank lenders in ES, SI).

[129] European Commission, 2018a. The data points present in almost all credit registers are: mortgages, personal loans and credit and store card. Beyond this, they include information on: credit lines on a current account, leasing, point of sale credit, payday loans, energy and water bills, etc. ACCIS, Facts and Figures.

[130] ICF, 2020; European Commission, 2009.

[131] See European Commission, 2020.

[132] Please note that there could be some limitations in the comparison between 2019 and 2011 data, due to difference in the size of the sample and in the methodology between the consumer survey performed for

consumers are showing a growing interest to take credits in other Member States. However, as mentioned above, very few of them actually go so far as concluding one.

There are **several external obstacles and factors** that deter consumers from obtaining a credit from a provider established in another Member State:[133]

- **Geographical restrictions,** imposed by providers to limit access only to domestic consumers, to avoid additional administrative burden related to creditworthiness assessment in another economic environment and credit management, especially in case of default. They include requiring to provide an ID number, address, telephone number or tax declaration from the country where the creditor is based as pre-requisite for the transaction to be accepted, and are often based on **geo-blocking techniques**.[134]
- **General consumer preferences**, like finding the offer in the national market sufficient, and preferences for obtaining a credit locally.
- **Low trust** due to the lack of knowledge among consumers of available redress mechanisms and of applicable legislation in case of cross-border purchase.
- **Lack of awareness**, since credit providers rarely target consumers in other Member States, many consumers are not aware of the possibility to access credit cross-border.
- **Language and cultural barriers**.

However, **differences in the protection guaranteed by the Directive** in different Member States could also play a role in hampering cross-border access.

Moreover, it is important to stress the Directive does not include a specific provision on preventing **discrimination on the basis of "nationality or place of residence** or by reason of any other ground as referred to in Article 21 of the Charter", contrary to the Payment Account Directive (Art. 15).

Digitalisation and the change in consumer preferences are expected to lead to an increase in cross-border operations. New digital actors such as fintechs generally target consumers in various Member States more than traditional operators. This strengthen the need to ensure a high and consistent level of consumer protection among Member States.

Sub-problem 3: Information requirements for advertisement on certain channels create unnecessary burden for businesses

The Directive was evaluated following a 2017 REFIT Platform Opinion focusing on the perceived burden caused by standard information that has to be provided when advertising consumer credit agreements in particular on radio. In the Opinion, radio industry stakeholders flagged that **current information requirements at advertising stage entail substantial continuous costs** for advertisers, which have to pay for additional airtime, and

the Evaluation (based on 3886 responses from the EU-28) and the Special Eurobarometer 373. Also, the survey questions were asked to consumers who had entered into a credit agreement in the past three years.

[133] This was confirmed by the Evaluation mystery shopping exercise and by stakeholder feedback.

[134] Geo-blocking techniques are used online by credit providers to re-route consumers or prevent the conclusion of a transaction, effectively denying access to credit for cross-border consumers. Although a new Regulation on geo-blocking was adopted in 2018 (Regulation (EU) 2018/302), financial services have been specifically excluded from its material scope for the time being.

in turn create losses for them because companies choose to advertise on other media channels.[135]

On the other hand, those requirements have seem to have a sub-optimal effects in their main objective of informing consumers. Research carried out by the association of radios in France and in the UK shows that **only 3-4% of radio listeners recall the total amount payable** immediately after hearing a radio advertisement with a consumer credit offer.[136]

This issue was confirmed by most business representatives consulted during the Evaluation (which however could not clearly ascertain whether the Directive could be simplified[137]), and also more recently for the Impact Assessment. Business associations and credit providers stressed that the reduction of the amount of required information in advertisement and marketing would have a positive impact on the industry. They also indicated that **information requirements are among the main issues they face because they are burdensome and not necessarily fit for purpose**.

Reducing the information provided at advertising stage on certain channels and streamlining information displayed to consumers at advertising and pre-contractual stage could reduce burden for businesses while helping consumers to better understand the main elements of the credit. The Unfair Commercial Practices Directive already recognises that the limitations of the communication medium have to be taken into account when defining whether a commercial practice has to be regarded as misleading (Art. 7).

2.3 What are the consequences of the problems?

The problems identified lead to a variety of consequences for different stakeholders.

- **Consumers** are harmed when they take a credit not corresponding to their needs, financial situation and repayment possibilities. The detriment concerns higher interest rates paid, or interest rates paid when they should not have been granted the credit (but the assessment of their creditworthiness was not performed thoroughly) and the possible unexpected degradation of their debt situation. In addition a worsening of their situation can have a lot of moral damage on the consumers and on their facilities. Because of ineffective information provision and processing (due to information overload), and practices nudging them, consumers end up making sub-optimal choices, which lead to additional costs incurred and lower level of trust.[138] The lack of provisions to assist consumers when necessary, enhance their financial literacy or address the impact on consumers of systemic economic disruptions, can lead to an increase in over-indebtedness. Insufficient harmonisation between Member States, also reduces the competition and increases the concentration of markets which leads to price

[135] The business association Radiocentre estimated that the annual lost revenues to radios in the UK due to the complexity of credit advertisement information requirements in terms of reduced investment from advertisers amounts to around EUR 19 million.
[136] Radiocentre, 2016. SIRTI et al., 2016.
[137] According to Better Regulation principles, opportunities to reduce regulatory costs and to simplify the existing legislation should not affect negatively the achievement of the underlying policy goals.
[138] Consumer trust seems to be positively correlated with GDP per capita. See: https://ourworldindata.org/trust-and-gdp

increase and lower choices for consumers. **Vulnerable consumers**, such as low-income or over-indebted consumers, are particularly affected by the identified problems.

- **Businesses** can easily exploit the gaps in the system to develop irresponsible lending practices. With competition being strong on certain less regulated segments of the market, there is an incentive for the less responsible lenders to set (bad) market standards. Different sets of rules for different kinds of credits and unclear obligations also prevent both the expansion of direct cross border lending and establishment trade by smaller credit institutions, and lead to an unlevel playing field. Moreover, unclear obligations and information related obligations that do not benefit consumers create unnecessary burden for businesses. **Uncompliant providers** or **providers offering products not in the scope** have a competitive advantage because they do not bear compliance costs than other operators do bear.
- The burden on **national authorities** enforcing the Directive increases as a result of consumers being exposed to irresponsible practices that lead to more consumer difficulties that in turn lead to more complaints to be processed. **EU public authorities** face many requests for preliminary rulings submitted to the CJEU, because of the vagueness of the Directive, an increased number of consumer and stakeholders' complaints and need to provide more assistance to enforcers.
- Consequences for **society** are the negative externalities of increased level of over-indebtedness, risks for social inclusion, but also risks for financial stability.

2.4 How will the problem evolve?

In case of no EU intervention (baseline scenario), the current market trends can be used as benchmark.

Even though the consumer credit market is at the moment still led by traditional operators[139], **digitalisation** is already changing its landscape considerably. Fintech companies have expanded significantly in the last decade and are expected to develop further in the future.[140] In 2018, the total value of the **peer-to-peer consumer lending** market in Europe remained limited (around EUR 2.4 billion), but grew by 89% year-on-year from 2017.[141] Looking at global developments, peer-to-peer lending to consumers is expected to grow,[142] however the impact of the COVID-19 crisis both on creditors and consumers is unclear.[143] Since peer-to-peer consumer lending is excluded from the scope of the recently adopted EU Crowdfunding Regulation ((EU) 2020/1503) and it is not explicitly under the Directive scope, this development could increase the presence of unregulated risky products. Big Techs such as Google, Facebook, Alibaba or Amazon, who

[139] ICF, 2020; LE *et al.*, 2019,

[140] In 2019 the value of fintech transactions – of which credit still represents only a minor share - was estimated to EUR 682 billion, with a forecasted growth rate of 13.3% by 2022. ICF, 2020; LE *et al.*, 2019.

[141] USD 2.9 billion. Cambridge Centre for Alternative Finance, 2020; Jørgensen, 2018.

[142] Alternative finance activities declined in China, but in the rest of the World saw growth.

[143] Because of the crisis, banks might tighten their lending standards and consumers could turn to alternative forms of credit. However, peer-to-peer lending platforms might tighten their lending standards, too.

are already offering their own version of mobile wallets, as well as loans and credit lines through store cards in third countries, might enter the EU consumer lending market too.[144]

Growing use of digital tools would also exacerbate the problem of limited consumer awareness of the key elements and costs of the credit product they obtain, because the Directive information requirements are not adapted to digital tools. Online practices from credit providers nudging consumers into making unsuitable choices, not regulated by the Directive at present, would be likely to continue and grow. The use of **automated decision-making** , including **machine learning, for credit scoring** is expected to increase too, as well as the use of **alternative categories of data** (such as social media data), since digitalisation makes the process of collecting and analysing consumer's information faster and easier. This raises questions as to what data will be used in the future for assessing consumers' creditworthiness and highlights the risks of discrimination from decisions based on algorithms.[145] Moreover, this could worsen the problem of credits granted without thorough assessment of the consumer creditworthiness.

Another aspect to be taken into account for the future market developments is the **medium- to long-term societal and economic impact of COVID-19**, which will take time to emerge. In the course of 2020, EU economies were supported by an unprecedented level of economic support packages.[146] When this support phases out, the wider cost of COVID-19 will appear. Consumers are concerned about the worsening of their financial situation. Initial data shows that low-paid workers have been particularly affected by the crisis.[147] There were 6.1 million fewer people in employment in Q2 2020 than in Q4 2019, with temporary employees affected the hardest.[148] Challenges in repaying the credit or accessing new credit, may appear in this subset of consumer's segment first.[149] This is expected to aggravate the problem of consumers falling into over-indebtedness.

As regards the **impact of COVID-19 on the consumer credit market specifically**, banks expect a continued net tightening of credit standards.[150] The weaker the contraction in output and faster and more robust the recovery is, the more contained the impact of COVID-19 would be ('V-shaped recovery'). Conversely, deep recession and prolonged recovery spread over longer period of time ('L-shape recovery') would be more detrimental for consumer credit markets. The data from the 2008 crisis shows that originations were noticeably lower soon after the crisis and recovered only in recent years to 2008-levels. However, many consumers in financial difficulties due to the crisis are

[144] See Annex 6 Market developments – Impact of digitalisation.
[145] The Commission White Paper on Artificial Intelligence (Feb. 2020) mentions algorithms' opacity issues.
[146] In the five largest economies of the EU, one in five employees has been on public temporary unemployment schemes for which the state pays some share of the wages. The Economist, 2020.
[147] IPSOS, Covid-19: attitudes and behaviours in the EU, 2020 – confidential.
[148] Eurostat, Labour Force Survey.
[149] Finance Watch 2020a, Basic Financial Services.
[150] ECB, June 2020, Q2 Bank Lending Survey.

expected to seek consumer credit, and irresponsible lending practices from certain credit providers in the COVID-19 context can put them at risk.[151]

Insufficient harmonisation between legislative frameworks of the Member States leading to unlevel playing field would continue to create **barriers for credit providers to business expansion across borders and difficulties for consumers to access cross-border credit offers**. **The negative effect of concentration of national markets will continue to negatively affect competition conditions and in particular interest rates levels.**

Finally, **green loans** for energy efficient renovation of houses are expected to rise, especially in some Member States, as well as available public funding directed towards green investment in the coming years.[152]

[151] UFC-Que Choisir, 2020, Consumer credit and COVID-19 UFC-Que Choisir alerts against a sharp rise in soured loans.

[152] See Annex 6 Market developments – Evolution of the consumer credit market over the recent years.

2.5 Intervention logic

The problems presented above have key regulatory drivers leading to the problems and their effects on consumers, credit providers, public authorities and the society. Those are presented in the **problem tree** (Section 2). An **objective tree** is also included in Section 4. The intervention logic diagram, links the policy options with the objectives and the identified problems.

Table 1 Intervention logic diagram

DRIVERS of the PROBLEMS addressed by this initiative

1. Digitalisation
2. Developments in consumer behaviour
3. Lack of legal clarity
4. Insufficient equity considerations
5. Insufficient harmonisation leading to imperfect competition

PROBLEMS

1. **Consumers taking out loans face detriment that could be avoided**
2. **The competitiveness of the internal market is not fully achieved**

SUB-PROBLEMS

1.1 Emergence of new risky credit products and new actors not (clearly) regulated
1.2 Limited consumer awareness
1.3 Practices exploiting consumer's situation and patterns of behavior
1.4 Credits granted without thorough creditworthiness assessment
1.5 Certain consumers (because of individual or systemic circumstances) fall easily into over-indebtedness

2.1 Barriers for credit providers to business expansion across borders
2.2 Difficulties for consumers to access cross-border credit offers
2.3 Information requirements for advertisement on certain channels create unnecessary burden

GENERAL OBJECTIVES

1. **Reduce the detriment of consumers taking out loans in a changing market**
2. **Facilitate cross-border provision of consumer credit and the competitiveness of the internal market**

SPECIFIC OBJECTIVES

1. Reduce the detriment arising from unregulated credit products
2. Ensure consumers taking out a credit are empowered by effective and timely information on the risks, costs and impact of credit on their finances, also via digital means
3. Ensure that credit granting is based on thorough assessment (both from credit providers and consumers) of the consumer best interest
4. Prevent that specific individual or systemic situations exacerbate consumer detriment and increase over-indebtedness
5. Reduce barriers for providers offering credit across borders while enabling more choice for consumers
6. Simplify the existing legal framework and reduce unnecessary burdens

POSSIBLE OPTIONS TO FULFILL THE OBJECTIVES OF THE INITIATIVE

Option 0: Baseline scenario – status quo

Option 1: Non-regulatory intervention

Option 2: Targeted amendment of the Directive to increase legal clarity

Option 3: ***Extensive amendment of the Directive***

Option 3a: to include certain **new provisions, in line with existing EU acquis**

Option 3b: to include certain **new provisions, going beyond existing EU acquis**

3. WHY SHOULD THE EU ACT?

3.1 Legal basis

The Treaty on the Functioning of the European Union (TFEU) confers upon the EU institutions the competence to lay down appropriate provisions that have as their object the **establishment and functioning of the internal market** (**Article 114 TFEU**).

Article 169 TFEU, related to consumer protection, also states that to promote the interests of consumers and ensure a high level of consumer protection, the Union shall contribute to protecting the health, safety and economic interests of consumers, as well as to promoting their right to information, education and to organise themselves in order to safeguard their interests. Article 169(2) TFEU **specifies that these objectives can be reached through measures adopted pursuant to Article 114 in the context of internal market completion.** Thus, a thorough examination of the possible legal basis was conducted and the one concerning consumer protection (Article 169 TFEU) points towards Article 114 TFEU.

This is in fact the approach adopted in this initiative. The objectives set out in Article 169 TFEU are attained through Article 114 TFEU, which serves as the legal basis for this Proposal, thus following the same approach as Directive 2008/48/EC. Article 114 TFEU remains the most appropriate legal basis also in light of the objective and necessity to strengthen the cross-border element. In fact, as digitalisation makes cross-border credit operations easier and the possible entry into the credit market of BigTechs companies in the EU market becomes a reality, the cross-border element is expected to increase. Thus, anchoring the revision of the Directive on Article 114 TFEU will ensure the continuity of ensuring a high level of consumer protection and at the same time allowing for the strengthening of the cross-border element.

3.2 Subsidiarity: Necessity of EU action

The revision of the Directive aims to modernise the current regulatory framework and fix the areas that the Evaluation has flagged as inefficient. The two overarching objectives of the current Directive, namely to ensure that all consumers in the EU enjoy a high and equivalent level of protection and to create a genuine internal market, remain relevant.

So as to remedy this partial achievement of two overarching objectives of the Directive, legislative amendments to the current framework at EU level are required to attain further harmonisation which could lead to a higher and more uniform level of consumer protection, whilst facilitating the development of cross-border activities. These legislative amendments, including improving certain definitions, such as ‘creditor’ and/or ‘credit intermediary’ laid down in Article 3, widening the provision concerning the scope of the Directive and ensuring that key articles, such as on creditworthiness assessment, will be drafted in a clear and unambiguous manner. Thus amending current provisions of Directive 2008/48/EC by ensuring added clarity and legal certainty, the objectives laid down in the Directive will be rendered more effective.

EU action is also needed to introduce new provisions to cater for situations not envisaged in 2008. Provisions, rather than a recital, on responsible lending and provisions on ways to combat exploitative behaviour will ensure that the Directive keeps ensuring a high level of consumer protection whilst improving EU cross-border uptake of credit agreements.

While the figures concerning the conclusion of cross-border credit agreements has remained constantly low, the aim of the revision of the Directive is to propose a **forward-looking** legislation which facilitates its two principal objectives. What is more, it is important to stress that most Member States have enhanced the level of consumer protection by adopting **measures that go beyond** the Directive's current requirements. This indicates that more efficient EU action is ever more important and necessary to intervene, where national legislation cannot sufficiently protect consumers. The **dynamic market developments** of recent years, especially in the light of digitalisation, show an increasing or likely to increase number and type of cross-border providers of consumer credit. As explained earlier, with new market players (e.g. peer-to-peer lenders) and possible market developments (BigTechs' entry in the consumer lending market), the figures concerning the conclusion of cross-border credit agreement are expected to increase. Since **digitalisation crosses across the different Member States** and in an effort to ensure a revised Directive that is dynamic, EU action becomes necessary.

3.3 Subsidiarity: Added value of EU action

Directive 2008/48/EC is a full harmonisation instrument in the areas it covers; thus, Member States could not maintain or introduce national provisions other than those laid down in the Directive in said areas. However, where no such harmonised provisions exist, Member States are free to maintain or introduce national legislation.

With regard to scope, all Member States, except Greece and Cyprus, have adopted transposing measure that extend the scope of the Directive in this sense. Indeed, 15 Member States[153] removed the minimum and/or the maximum threshold (fully or partially) when transposing the Directive in their national legislation. Similarly, most Member States (15)[154] extended the scope of application of the Directive (or certain of its provisions) to consumer credit not covered by the Directive, so as to include leasing agreement and/or overdraft facilities, revolving credit, mortgages, zero-interest rate and pawnshop agreements. However, in respecting the principle of subsidiarity, the proposal does not extend the scope of the Directive in instances when either cross-border potential is low (e.g. pawnshops) or when no comprehensive data and evidence of major consumers issues have been detected (e.g. loans above EUR 75 000). Thus, the principle of subsidiarity points to the option of not including pawnshops and loans above EUR 75 000 in the scope – it has not been obvious that EU action would have an added value in that regard, nor has it been proved that such extension would be beneficial for consumers.

Regarding creditworthiness assessment, most Member State (15)[155] have already laid down further provisions about the creditworthiness assessment, defining how the assessment is to be

[153] BE, BG, CZ, DE, DK, EE, ES, FI, FR, HU, IT, LV, PT, RO, SK.
[154] AT, BE, BG, CZ, EE, FI, FR, HR, HU, IT, NL, PT, RO, SI, SK.
[155] BE, CZ, DK, ES, FI, HU, IT, LV, LT, NL, PL, RO, SI, SK, SE.

conducted and imposing other obligations on creditors. These two examples (on the issues of scope and on the creditworthiness assessment) show that most Member States have felt the need to go beyond the current regulatory framework provided by the Directive in order to enhance the level of consumer protection. However, in so doing, their actions have impacted the objective of ensuring a level playing field for creditors, also leading to different levels of protection for consumers. Therefore, action by Member States alone will not solve the problems identified above, particularly as regards scope and creditworthiness assessment. In addition, widening the scope by removing thresholds and improving the article regulating creditworthiness assessment will increase effectiveness in attaining the objective of facilitating cross-border provision of credit agreements, as a harmonised approach will improve the credit providers' knowledge of the regulatory system in other Member States.

In light of the situation as developed over the past 12 years, improving the current regulatory framework can only be achieved at EU level, as different Member States took different approaches (e.g. when regulating creditworthiness assessment, extending the scope of application of the Directive in differing ways and for different consumer credit products). The EU added value of doing so would be to bring a clearer legislative framework that ensures legal certainty, achieved through more harmonization.

Regulatory fragmentation among Member States was highlighted as a key issue by all stakeholder groups. Stakeholders tend to agree that the fragmentation negatively impacts both consumers and the development of a cross-border credit market. Consumer organisations mainly raised the need to adopt more prescriptive measures, which was echoed by national authorities, to protect consumers against over-indebtedness.

The recent COVID-19 pandemic has also illustrated that while Member States might be better placed to take specific measures in the area of consumer credit agreements, it is of fundamental importance not to lower the consumer's level of protection. To cater for any possible situation leading to exceptional or systematic economic disruptions, the revised Directive is an opportunity to clarify and ensure that the rights provided to consumers (such as the right to information) are not lost or mitigated, even in exceptional circumstances which the EU might have to face. Such goal of ensuring that all citizens across the EU enjoy the rights provided by the Directive, even in case of national measures responding to a pandemic, cannot be achieved solely by Member State action.

Further to the above reasons why Member States alone would not achieve the objectives, is the impact of digitalisation. The use of digital tools is not limited to a single Member State. Rules fit for the digital age are needed to foster cross-border activity and competition. Hence, action on provisions of the Directive that are digitally relevant, such as improving how pre-contractual information is displayed online, can be achieved better at EU level: unilateral actions from Member States on this cannot deliver the same fruits as EU action.

4. OBJECTIVES: WHAT IS TO BE ACHIEVED?

Table 2 Objective tree

General objectives	Specific objectives

Reduce the detriment of consumers taking out loans in a changing market	1) Reduce the detriment arising from unregulated credit products (problem 1.1)
	2) Ensure consumers taking out a credit are empowered by effective and timely information on the risks, costs and impact of credit on their finances, also via digital means (problem 1.2)
	3) Ensure that credit granting is based on thorough assessment (both from credit providers and consumers) of the consumer best interest (problem 1.3, 1.4)
	4) Prevent that specific individual or systemic situations exacerbate consumer detriment and increase over-indebtedness (problem 1.5)
Facilitate cross-border provision of consumer credit and the competitiveness of the internal market	5) Reduce barriers for providers offering credit across borders while enabling more choice for consumers (problem 2.1, 2.2) 6) Simplify the existing legal framework and reduce unnecessary burdens (problem 2.3)

4.1 General objectives

The general goals of the Directive's review are to **reduce the detriment of consumers taking out loans** in a changing market and to **facilitate cross-border provision of consumer credit and the competitiveness of the internal market**. This is in line with the original objectives of the Directive, namely securing a consistently high level of consumer protection across the EU, thus contributing to consumer confidence, and facilitate the emergence of a well-functioning internal market in consumer credit, creating the best possible conditions for the free movement of credit offers. The Evaluation showed that the Directive is only partially effective in meeting its objectives and pointed to scope for improvement.

4.2 Specific objectives

The specific objectives (SOs) of the review are detailed below.

- **SO1: Reduce the detriment arising from unregulated credit products** by ensuring better regulatory coverage of the consumer credit products raising problems for consumer protection (addressing sub-problem 1.1).
- **SO2: Ensure that consumers are empowered by effective information on the risks, costs and impact of credit on their finances, also via digital means**, and have enough time to process information prior to commitment (addressing sub-problem 1.2).
- **SO3: Ensure that credit granting is based on thorough assessment of the consumer's best interest, both on the part of credit providers and consumers**, by:
    - o Countering practices exploiting behavioural biases to nudge consumers – in particular vulnerable ones, such as those at risk of poverty and social exclusion - into sub-optimal choices and conduct of business problems (sub-problem 1.3);
    - o Improving the creditworthiness assessment process, including in the context of automated decision-making for credit scoring (addressing sub-problem1.4).
- **SO4: Prevent specific individual or systemic situations from exacerbating consumer detriment**, by helping indebted consumers to better cope with adverse developments including the fallout from major economic crises, and lower their over-indebtedness (addressing sub-problem 1.5).
- **SO5: Reduce barriers for providers offering credit across borders while enabling more choice for consumers**, by fostering the level playing field for providers across the EU and competitive pressure from the cross-border provision of credit (addressing sub-

problems 2.1 and 2.2). Moreover, a competitive transparent and fair consumer credit market will improve the monetary policy transmission through the price and volume of credit offered to clients.

- **SO6: Simplify the existing legal framework and reduce unnecessary burdens**, without undermining the aims or benefits of the legislation, by simplifying information disclosure requirements through certain channels (addressing sub-problem 2.3).

5. What are the available policy options?

5.1 What is the baseline from which options are assessed?

The baseline from which options are assessed (Policy option 0) implies the continuation of the current situation, the 'status quo', and does not involve the introduction of any new measures, for the period 2021-2030. It would require the Commission to continue regularly monitoring how the Directive is being implemented at national level, and national authorities to continue monitoring and enforcing that credit providers act within the legislative framework.

As happened since the adoption of the Directive, efforts at national level to further develop the regulatory framework for consumer credit are expected to continue, through either legislative or non-regulatory measures. Enforcement authorities would continue to cooperate through the Consumer Protection Cooperation (CPC) network and the European Consumer Centres Network (ECC-Net) supported by the European Commission.

Similarly, the CJEU can be expected to receive further requests for preliminary rulings, through which it will continue to interpret the provisions of the Directive, shedding further light on some of the unclear provisions, if required to do so.

Several potential market developments are likely to influence the identified problems, as explained in section 2.4 (How will the problem evolve?).

The evidence collected for the Directive's Evaluation suggests that the share of consumers reporting problems decreased since 2010. More generally, there was a **reduction in the personal detriment of borrowers, also thanks to the introduction of the Directive**.[156] Although it is difficult to assess to which extent, it can be expected that this trend will continue in the future to some degree even in the absence of further EU-level action, especially if more Member States decide to adopt stricter measures to regulate issues affecting consumers in their territory; this would however contribute to increasing the uneven level of consumer protection across the EU.

The estimated **number of consumers affected by problems linked to key provisions of the Directive, varies from around 3 to 46 million people**, depending on the provision (see Annex 4). The detriment from products offered online which are not explicitly under the

[156] This was due to several factors, including the introduction of the Directive but also more stringent legislation in some Member States, development and trends of the consumer credit sector itself, increase in compliance and increased consumer awareness. Benefits in terms of reduction in consumer detriment due to the Directive since 2008 are estimated at EUR 2.6 billion, of which EUR 1.55 billion in reduced financial detriment and EUR 1.05 billion in reduced time losses. See Annex 9. ICF, 2020. Consumer Market Scoreboards.

scope of the Directive (e.g. loans from peer-to-peer lending platforms) would not be tackled. Moreover, the COVID-19 crisis can be expected to lead to higher levels of over-indebtedness in the near future, especially among economically vulnerable consumers, which are disproportionally affected by the crisis. Finally, existing barriers for accessing databases across borders would remain and there would be no decrease in costs stemming from the Directive incurred by providers willing to offer credit cross-border.

Stakeholder consultation seems to confirm this analysis. The responses to the validation survey on the policy options suggest only a minority of respondent believes that Option 0 would be effective in addressing the initiative's objectives. The objectives relating to the scope of the Directive and to responsible lending/borrowing are those least effectively tackled by Option 0.[157] With regard to its impact on the level of over-indebtedness, most stakeholders consulted indicated that no change should be expected under this option.[158] Consumer representatives, in particular, indicated that this option would not solve the problems that consumers are currently facing. Nevertheless, several industry stakeholders noted that the regulatory stability provided by Option 0 would be beneficial to them, particularly in the COVID-19 context.

5.2 Description of the policy options

Besides the 2021-2030 **baseline scenario**, the policy options analysed in this impact assessment are the following:

Table 3 Summary of the options assessed in the impact assessment

<table>
<tr><th colspan="2">Option 1: Non-regulatory intervention</th></tr>
<tr><th colspan="2">Option 2: Targeted amendment of the Directive to increase legal clarity</th></tr>
<tr><th rowspan="2">Option 3: Extensive amendment of the Directive</th><td>Option 3a: to include certain new provisions, in line with existing EU acquis</td></tr>
<tr><td>Option 3b: to include new provisions going beyond existing EU acquis</td></tr>
</table>

The analysis of this multifaceted and complex subject was structured around **options that are (as much as possible) mutually exclusive**. So, while **Option 2 only addresses the provisions currently included in the Directive**, to clarify certain definitions and terms, and further develop several obligations contained therein, **Option 3a and 3b** focus on **new measures to be included in the Directive**. The latter options would also include **a limited number of relevant measures from Option 2,** where necessary **to cover any gaps** (i.e. to address problems not tackled by new provisions, such as enlarging the Directive's scope).

As shown in the intervention logic, the options considered would address the problems identified with the aim to achieve the initiative's objectives (for more details see Annex 5).

157 Follow-up survey. 5 out of 20 respondents indicated that option 0 would effectively tackle problem 1.1 (4 out of 9 business associations, 1 out of 6 national authorities) and problem 1.3 (5 business associations).

158 Follow-up survey. Across all stakeholder groups, 13 indicated that the level of over-indebtedness would remain the same and 2 that it would increase.

Table 4 Policy Options considered

	Policy option 1 **Non regulatory measures**	**Policy option 2** **Targeted amendment of the Directive to increase legal clarity**	**Policy option 3a** **Extensive amendment to include certain new provisions in line with existing EU acquis**	**Policy option 3b** **Extensive amendment to include provisions going beyond existing EU acquis**
Unregulated products	**1.1:** Issue an official communication clarifying the definitions of 'credit provider' and 'credit intermediary' contained in Article 3 (including peer-to-peer lending platforms)	**2.1:** Remove the minimum and maximum thresholds **2.2:** Include currently excluded loans within its scope of application **2.3:** Amend the definition of some key terms which affect its scope	**3.1** Include a new provision addressing specifically peer-to-peer lending From other policy options: Policy option 2: measures **2.1, 2.2, 2.3**	
Information provision	**1.2:** Implement an awareness raising campaign through the European Consumer Centres providing clarity to consumers on elements that are identified as unclear (e.g. APR) **1.3:** Issue communication to clarify terms that may be subject to interpretation (e.g. 'in good time' and 'adequate explanations' concerning pre-contractual information)	**2.4:** Reduce the amount of information to be provided to consumers in advertising focusing on key information, when provided through certain channels (e.g. radio) **2.5:** Present key pre-contractual information in a more prominent way (without reducing the amount of information) **2.6:** Establish detailed requirements in relation to when the pre-contractual information should be provided **2.7:** Provide a more detailed definition of some key terms related to the obligations contained in the Directive **2.8**: Improve conditions for enforcement through the inclusion of a non-exhaustive list of criteria to be taken into consideration by competent authorities when issuing sanctions	**3a.2:** Establish detailed requirements in relation to the provision of adequate explanations (in line with Art. 16 MCD) **3a.3**: Improve conditions for enforcement by introducing an article on Competent Authorities' (in line with Art 5 MCD) **3a.4**: Introduce a provision referring to the 4% rule set in the Omnibus Directive for cross-border widespread infringements (Art. 8b(4) of Directive 93/13/EEC as amended by Directive 2019/2161) **3a.5** Include a provision on the presentation of information based on the principles of the European Accessibility Act (presenting information in an adequate and suitable way on different channels). From other policy options: **See: 3a.6, 3a.7** (advisory services)	**3b.2:** Include more details on the way information should be displayed to consumers at advertising and pre-contractual stage (e.g. format, font size) **3b.3**: Include an obligation on creditors to provide information about changes in the conditions of the credits in case special measures are applied following a systemic and exceptional economic disruption From other policy options: Policy option 3a: measure **3a.2** (adequate explanations), **3a.3, 3a.4** (enforcement), **3a.7, 3a.8** (advisory services), **3a.12** (prohibition pre-ticked boxes) Policy option 2: measure **2.4** (amount of information in advertising), **2.6** (when provide information)
Practices exploiting consumer's situation and patterns of behaviour	**1.4:** Implement an awareness raising campaign through the European Consumer Centres to promote responsible borrowing **1.5:** Establish EU-level guidelines on how to regulate aspects not harmonised which are	*By expanding the scope of the Directive and strengthening information provision requirements and creditworthiness assessment requirements, practices exploiting consumer's situation and patterns of behaviour will be tackled*	**3a.6:** Establish a legal obligation for credit providers and intermediaries to promote responsible lending (in line with Art. 7(1) MCD) **3a.7:** Establish an obligation upon credit providers to inform consumers whether	**3b.4:** Establish the obligation upon Member States to set interest rate/APR caps, without specific rules or guidelines on how these should be calculated **3b.5:** Establish an obligation for Member States to adopt measures to

	relevant to ensure responsible lending (e.g. limiting cross-selling practices, setting interest rate caps, establishing an obligation for credit providers to advise consumers on suitable products, limiting or banning rollover practices)		advisory services can be provided (in line with Art. 22(1) MCD) **3a.8:** Adopt standards on the provision of advisory services to consumers (in line with Art. 22(3) MCD) **3a.9:** Prohibit product-tying practices (in line with Art. 12 MCD. **3a.10:** Establish conduct of business rules on remuneration policies to ensure that it does not promote irresponsible lending (in line with Art. 7(3) MCD) **3a.11:** Establish an obligation upon credit providers and intermediaries to ensure that staff members have the proper set of skills and knowledge (in line with Art. 9 MCD) **3a.12**: : Prohibit the use of pre-ticked boxes when offering consumer credit (in line with the CRD)	limit the additional costs/interests that credit providers can charge when a credit is rolled over **3b.6:** Prohibit unsolicited sale of credit <u>From other policy options:</u> Policy option 3a: measures **3a.6** (responsible lending), **3a.7, 3a.8** (advisory services), **3a.9** (ban product tying), **3a.12** (prohibition pre-ticked boxes)
Creditworthiness assessment (CWA)	**1.6:** Providing guidance on the type of information that should be assessed during a CWA, in line with the EBA guidelines on loan origination **1.7:** Establish guidelines on the use of automated decision-making to conduct CWA See: **1.3** ('sufficient information')	**2.9:** Provide more detailed requirements in relation to how CWAs should be conducted See: **2.7** ('sufficient information'), **2.8** (enforcement)	**3a.13:** Indicate that CWAs should be carried out based on information on financial and economic circumstances, necessary, sufficient and proportionate. Member States shall ensure that the procedures and information on which the assessment is based are established, documented and maintained (in line with Art. 18 MCD) **3a.14:** Include a provision on the use of alternative sources of data to conduct creditworthiness assessments reflecting the principles of the GDPR (data minimisation, accuracy and storage limitation, Art. 5 GDPR) **3a.15:** Include a provision establishing the right of consumers to receive an explanation on how and on	**3b.7**: Introduction an obligation to consult databases to perform CWAs <u>From other policy options:</u> Policy option 3a: measures **3a.13, 3a.15** (strengthened CWA + explanations)

			what basis a decision on their creditworthiness was reached (i.e. reflecting the GDPR principles concerning automated decision-making) See: **3a.3, 3a.4** (enforcement)	
Individual circumstances or systemic economic disruptions leading to over-indebtedness	**1.8:** Increased support to capacity building of consumer organisations and public bodies via funding on financial education, debt advice and assistance **1.9:** Establish EU-level guidance on measures that can be adopted by Member States to support indebted consumers whose financial situation is impacted by an external economic disruption (e.g. temporary moratoria on credit payments)	*Expanding the scope of the Directive and strengthening information provision requirements and creditworthiness assessment requirements, will help creating a more resilient framework for consumer protection also in the event of individual situations or systemic economic disruptions, while helping to prevent over-indebtedness*	**3a.16:** Establish an obligation on Member States to promote financial/digital literacy initiatives, without establishing minimum requirements on the availability and the content of these initiatives (in line with Art. 6(1) MCD) **3a.17:** Establish an obligation on the Commission to regularly assess national financial education/digital literacy initiatives and identify best practices, and to publish the findings (in line with Art. 6(2) MCD) **3a.18:** Establish an obligation upon Member States to adopt measures to encourage creditors to exercise reasonable forbearance, limiting the charges on default payments (partially in line with Art. 28 MCD) See: **3a.3** (availability advisory services), **3a.12** (preventive action through CWA)	**3b.8:** Establish an obligation upon Member States to provide – directly or indirectly – debt advice services for over-indebted or otherwise vulnerable consumers **3b.9:** Establish an obligation upon creditors to inform low-scoring consumers that debt advice services are available, in particular if credit is granted following a negative outcome of the consumer creditworthiness assessment **3b.10:** Establish an obligation to include specific contractual clauses intended to cover cases of exceptional and systemic economic disruptions (e.g. debt relief/payment moratoria) <u>From other policy options:</u> Policy option 3a: measure **3a.17** (financial literacy**)**, **3a.18** (forbearance)
Cross-border offer	*Recommendations and guidelines would create more even conditions for the provision of consumer credit across borders*	**2.10**: Obligation for credit databases to hold certain reliable negative data, to enhance reciprocity. See: **2.1, 2.2, 2.3** (extension scope)	See: **3a.3, 3a.4** (enforcement) <u>From other policy options:</u> Policy option 2: **2.1, 2.2, 2.3** (extension scope), **2.10**	**3b.11:** Centralised databases, holding (at least) reliable negative data recording late payments, would be set up by Member States <u>From other policy options:</u> Policy option 2: : **2.1, 2.2, 2.3** (extension scope)
Cross-border access	*Non-regulatory measures under option 1 would create a stronger EU framework for consumer protection facilitating cross-border access*	See: **2.5, 2.6** (pre-contractual information), **2.7** (clarify definitions and terms), **2.9** (CWA)	See: measures **3a.2** (adequate explanations), **3a.5** (responsible lending), **3a.6, 3a.7** (advisory services), **3a.8** (ban product tying); **3a.12**	**3b.12:** Introduction of a basic credit product that providers should make available to consumers See: **3b.4** (APR caps), **3b.6** (ban unsolicited sale),

			(strengthened CWA), **3a.15, 3a.17** (financial education, forbearance)	**3b.8, 3b.9** (debt advice) From other policy options: Policy option 3a: measures **3a.2** (adequate explanations), **3a.6** (responsible lending), **3a.7, 3a.8** (advisory services), **3a.9** (ban product tying), **3a.13** (strengthened CWA) Policy option 2: measure **2.4** (amount of information in advertising), **2.6** (when provide information)
Simplification and burden reduction	*Recommendations and guidelines would improve legal clarity for businesses and reduce administrative burden.*	See: **2.4** (amount of information in advertising), **2.5** (presentation of key pre-contractual information in a more prominent way)	See: **3a.5** (presentation of information on different channels)	See: **2.4** (amount of information in advertising)

Option 1: Non-regulatory intervention

Policy option 1 envisages the adoption of non-regulatory measures that seek to provide clarity on certain aspects of the Directive or to address elements that are currently not (sufficiently) covered in the Directive:

- Issue a recommendation to Member States clarifying the definitions of ‘credit provider’ and ‘credit intermediary’, specifying the new types of consumer credit (e.g. peer-to-peer lending) that fall under the scope of the Directive.
- Clarifying the terms of the Directive that may be subject to interpretation (e.g. information to be provided ‘in good time’, ‘adequate explanations’ on pre-contractual information).
- Implement awareness raising campaigns through the European Consumer Centres to promote responsible lending and borrowing, and providing clarity to consumers on elements that are identified as unclear (e.g. APR).
- Issue a recommendation on how to regulate aspects not harmonised by the Directive which are relevant to ensure responsible lending (e.g. limiting cross-selling practices, setting interest rate caps, establishing an obligation for credit providers to advise consumers on suitable products, limiting or banning rollover practices).
- Issue a recommendation on the type of information that should be considered for creditworthiness assessments, including on the use of alternative sources of data and automated decision-making, in line with the EBA guidelines on loan origination and monitoring.[159] Establish a recommendation on measures that can be adopted by Member States to support indebted consumers whose financial situation is impacted by an external economic disruption (e.g. moratoria on credit payments), based on existing best practices.

[159] EBA, 2020c.

- Increase support to capacity building of consumer organisations and public bodies via funding on financial education and debt advice.
- Establish a recommendation on the type of negative information that credit databases should contain to improve reciprocity and cross-border provision of credit.

Option 2: Targeted amendment of the Directive to increase legal clarity

Option 2 includes targeted amendments to the Directive's provisions, to clarify certain definitions and terms, and further develop several obligations contained therein.

Under this option, the **lower and upper thresholds** of application of the Directive (EUR 200 and EUR 75 000) **would be removed**, so the Directive's obligations would be extended to cover small value loans which are currently creating risks for consumers (e.g. short-term high-cost loans) and **all** loans above EUR 75 000 (at the moment, only loans above EUR 75 000 whose purpose is the renovation of a residential immovable property are included in the scope of the Directive,[160] as amended by the Mortgage Credit Directive). Moreover the credit products currently excluded from its scope of application (including but not only, leasing agreements, overdraft facilities, loans granted free of interest, pawn shops) would be included. A **more detailed definition of some key terms which affect its scope** of application (e.g. 'credit provider', 'credit intermediary') would also be provided, to address market developments linked to digitalisation (e.g. peer-to-peer lending).

The amount of information to be provided to consumers **in advertising** would be adjusted to focus on key information when provided through certain channels (audio advertisement on radio broadcasts), therefore increasing its effectiveness for consumers and leading to simplification and burden reduction for providers and for certain media channels. The presentation of **pre-contractual information** would be made more effective through a 'tiered disclosure' approach, i.e. a summary of few key elements helping consumers to compare offers provided on top of the SECCI, which would remain unchanged to provide all the necessary information to consumers while avoiding burdensome changes for providers. **Detailed requirements** in relation to **when the pre-contractual information would be provided**, through a clarification of "in good time before the consumer is bound by any credit agreement or offer", and on how information should be provided in a "**prominent**" way would be included too.

The revised Directive would also provide a **clarification of some key terms** related to the obligations contained in the Directive (e.g. **'sufficient information', 'prominently', 'adequate explanations'**), improving legal clarity and fostering harmonisation between the implementation of the Directive at national level, thus enhancing competition between providers across borders and creating a stronger EU framework for consumer protection facilitating cross-border lending.

The revised Directive would provide **more detailed requirements** in relation to how the assessment of consumer creditworthiness should be conducted, by defining which categories

160 Article 2 (2a) of the Consumer Credit Directive.

of personal data may be processed. It would also include an obligation for credit databases to hold certain reliable negative data, to improve cross-border access based on reciprocity.

To improve conditions for enforcement, with regard to the penalties applicable to infringements of the national provisions adopted pursuant to the Directive, under Option 2 the revised Directive would complement current Article 23 with non-exhaustive and **indicative criteria** that enforcement authorities may take into account **for the imposition of penalties**. Article 20 on regulation of creditors would also be reinforced.

By expanding the scope of the Directive, strengthening information provision requirements and creditworthiness assessment requirements, and strengthen enforcement, practices exploiting consumer's situation and patterns of behaviour would be tackled. These changes would also help to create a more resilient framework for consumer protection, also in the event of specific individual situations or systemic economic disruptions exacerbating consumer detriment, especially of vulnerable consumers, while helping to prevent over-indebtedness.

Option 3: Extensive amendment of the Directive

Option 3 (through its two sub-options) would address the problems identified and meet the objectives through an extensive amendment of the Directive, including new provisions and obligations in line with existing EU acquis or going beyond it.

Option 3a: Extensive amendment to include certain new provisions, in line with existing EU acquis

Option 3a consists in amending the Directive to include **new provisions and obligations in line with other relevant EU legislation**, in particular the Mortgage Credit Directive ('MCD') rules in order to address similar issues.[161] This option **would also include all the relevant measures from Option 2, where necessary to cover any gaps** (i.e. address problems that not addressed by additional provisions).

In line with Option 2, certain definitions and terms would be clarified, the scope of application of the Directive extended through the deletion of lower and upper thresholds and the inclusion of credit products currently excluded from the its scope of application. Furthermore, a **new provision** addressing specifically **peer-to-peer lending** would be included.

To enhance consumer empowerment through effective information, a provision tailoring the principles of the European Accessibility Act (Directive (EU) 2019/882), in particular on the display of information in an adequate way on different channels, to consumer credit would be included and detailed requirements would be established to provide adequate explanations, drawing on provisions in the MCD.

[161] More information on the provisions in line with the Mortgage Credit Directive can be found in Annex 5.

Moreover, to ensure consumers are not nudged into sub-optimal choices, the revised Directive would request express consent from the consumer, banning the use of pre-ticked boxes, in a way similar as provided for under Article 22 of the Consumer Rights Directive (2011/83/EU). It would also prohibit product-tying practices (similar to Article 12 of the MCD), establish conduct of business rules (similar to Article 7 of the MCD) and a legal obligation for credit providers and credit intermediaries to promote responsible lending (i.e. to act honestly, fairly, transparently and professionally, taking account of the rights and interests of consumers), and adopt standards on the provision of advisory services (similar to Article 22 of the MCD).

Also drawing on the MCD, under Option 3a, new rules would oblige Member States to ensure that the procedures and information on which the creditworthiness assessment is based are established, documented and maintained. In addition, the revised Directive would provide **more detailed requirements on how to conduct the consumer creditworthiness assessment**. However, differently from the MCD, credit can be granted following a negative outcome of the consumer creditworthiness assessment.

The revised Directive would include a provision concerning the use of **alternative sources of data** to conduct creditworthiness assessments reflecting the General Data Protection Regulation ('GDPR', (EU) 2016/679) principles, in particular the principles of data minimization, accuracy, storage limitation as laid down in Article 5 of the Regulation (EU) 2016/679. Furthermore, it would establish a right of consumers to request and receive an explanation on how and on what basis a decision on their creditworthiness was reached, mirroring the GDPR principles concerning automated decision-making.

With regard to the penalties applicable to infringements of the national provisions adopted pursuant to the Directive, under option 3a, the revised Directive would introduce, in case of a cross-border provision of credit constituting a widespread infringement in the sense of the CPC Regulation, [162] the possibility for the supervisory authority to issue a fine whose maximum amount would be at least 4% of the trader's annual turnover in the Member State or Member States concerned. This rule is inspired from the Omnibus Directive on Consumer Protection ((EU) 2019/2161, Articles 1, 3(6), 4(13)). The revised Directive would also complement Article 20 on regulating creditors with an article on 'Competent Authorities', inspired from Article 5 ('Competent Authorities') of the MCD.

To prevent that specific individual or systemic situations exacerbate consumer detriment, Option 3a would introduce obligations on Member States to adopt measures encouraging creditors to exercise **reasonable forbearance**, including by limiting the charges on default payments, and to **promote financial education/digital literacy initiatives** and require that the Commission monitors and assesses them.

These measures, drawing on the MCD, would empower consumers to fully understand and make the best of available choices, and contribute to prevent over-indebtedness situations.

[162] Namely when penalties are to be imposed in accordance with Article 21 of Regulation (EU) 2017/2394.

As in Option 2, a non-exhaustive list of categories of data, including **reliable negative data** of the consumer, **to be collected by credit databases** would be proposed, in order to improve access to databases cross-border, based on a reciprocity principle. The non-exhaustive list may include instances of repetitive failure of repayment by the consumer of a credit. The possible non-exhaustive list of categories of data will be based on the principle of necessity and proportionality and in line with data protection principles, in particular the principle of purpose limitation and the processing of lawfulness, fairness and transparency.

Option 3b: Extensive amendment of the Directive to include provisions not addressed by the EU acquis

Option 3b consists in an extensive amendment to include **additional obligations and provisions that go beyond the alignment with other relevant EU legislation**, either because they cover new aspects (e.g. interest rate/costs caps, unsolicited credit) or because they go beyond what is established in other relevant EU legislation (e.g. further requirements for financial education initiatives). **This option would also include any relevant measures from Options 2 and 3a, where relevant to cover any gaps** (i.e. address problems that would not be addressed by more detailed provisions) or complement the legislative action.

Option 3b would be aligned with Options 2 as regards the extension of the scope of application of the Directive, the clarification of definitions, and the new provisions on information disclosure at advertising and pre-contractual stage.

More detailed requirements on the way information should be displayed at advertising and pre-contractual stage (e.g. **format, font size**), and an obligation on creditors to provide **information about changes in the conditions of the credits in case special measures are applied** following systemic and exceptional economic disruptions would be included.

Furthermore, an obligation upon Member States to set **interest rate/APR caps** would be introduced, to avoid excessive rates far beyond the rate necessary to integrate the credit risk resulting from the borrower profile and the refinancing costs, together with an obligation to adopt measures to limit to the additional costs that credit providers can charge when a credit is rolled over. To prevent exploitation of consumer biases and irresponsible borrowing, **unsolicited credit sales would be prohibited**.

Moreover, it would also **include relevant measures from Option 3a concerning responsible lending and business conduct obligations**, standards for advisory services and detailed requirements in relation to the provision of adequate explanations, ban of product-tying practices and pre-ticked boxes, the creditworthiness assessment process, and forbearance. When granted to low scoring consumers or following a negative creditworthiness assessment, **an obligation would be imposed on banks to monitor the situation of vulnerable debtors and redirect them to debt advice services** (‘**early detection**’).

To support consumers vulnerable to over-indebtedness, the revised Directive would establish an obligation upon Member States to provide – directly or indirectly – **independent debt advice services for over-indebted or otherwise vulnerable consumers** (including consumers with a low credit scoring), and adopt minimum standards for the provision of these services. It would also include an obligation for creditors to inform consumers at risk of over-indebtedness that debt advice services are available, and include an obligation on Member States to promote **financial education/digital literacy initiatives, in line with Option 3a.**

Finally, the revised Directive would include an obligation to include **specific contractual clauses** intended to cover cases of <u>exceptional or systemic economic disruptions</u> (e.g. **debt relief/payment moratorium**).

To enhance <u>cross-border</u> provision of credit and access for consumers, a **basic credit product** that providers should make available to consumers would be introduced to enhance their trust in credits purchased abroad, and **public centralised databases at national level**, holding (at least) reliable data recording late payments and containing identification of national residents, would be **set up by Member States**.

5.3 Options discarded at an early stage

The case for **(partial) repeal of the Directive does not seem supported**. The Directive is a full harmonisation instrument in the areas it legislates, building on a 1986 Directive regulating consumer credit (repealed by the 2008 Directive). As confirmed by the Evaluation, the **Directive's added value** lies in **strengthening consumer confidence in the use of consumer credit across the EU** by ensuring the development of a specific and robust legal framework to protect consumers concluding a credit agreement. Thus, repealing the Directive, or parts of it, would lead to **regulatory fragmentation**. Concretely, this could lead to different formulas for the calculation of the annual percentage rate of charge and different requirements in terms of content and format for creditors to provide information, while the SECCI has proved very effective. In addition, with the lack of harmonised consolidated rights, such as the right of withdrawal and the right of early repayment, Member States could decide to abandon these rights or adopt less protective provisions. For instance, before the Directive, Member States applied very different timeframes and procedures for consumers to withdraw from a credit agreement. Finally, even though the current creditworthiness assessment rules resulted in limited harmonisation, and in a variety of rules applied at national level, this is rather an argument to reinforce the provision.

The EU economy needs strong household consumption (accounting for around 53% of EU GDP) and part of this consumption (around 12%) is financed by credit. Accordingly, repealing the Directive or its parts would **affect** both the objective of **ensuring a high and consistent level of consumer protection** and the objective of **fostering a cross-border consumer credit market.** In addition, stakeholders consistently agree that consumer credit, and consumer protection pertaining thereto, benefits from EU-level action. This was confirmed by the results of the Evaluation, by the 2020 public consultation, and by a 2019 European Economic and Social Committee survey, in which 83% of the respondents considered that the Directive increased transparency and fairness.[163]

[163] INT/884-EESC-2019-01055-00-00-ri-tra.

The option to adopt a **regulation** directly applicable under the national legislation of Member States **instead of a directive was also discarded at an early stage**, due to the possible non-compliance with the principles of subsidiarity and proportionality. A directive will enable Member States to amend the legislation in force (subsequent to the transposal of Directive 2008/48/EC) to the extent that is need to ensure compliance, containing the impact of such a reform on their legislative systems.

6. WHAT ARE THE IMPACTS OF THE DIFFERENT POLICY OPTIONS AND WHO WILL BE AFFECTED?

This section presents an overview of the impacts of each of the policy options, on different categories of stakeholders, against **three main criteria**:

- **Effectiveness**, i.e. how successful the policy option is expected to be in addressing the specific objectives outlined in the intervention logic. The effectiveness of each option is rated using a scale ranging from 0 (neutral) to +++++ (extremely effective).
- **Efficiency**: this assesses the impacts of the revision of the Directive on the stakeholder groups, which can be either positive or negative. The impacts were scored from -5 (very negative impact) to 5 (very positive impact). The attribution of scores and the description of the assessments are the result of an analytical exercise detailed in the supporting study which has examined, analysed and triangulated the evidence collected – also for the Directive's Evaluation - including the feedback expressed by stakeholders consulted. A wide array of economic, social, environmental, and overarching impacts have been considered. Based on their expected magnitude, likelihood and relevance for stakeholders,[164] **six main categories of significant impacts were selected** (see Annex 4). Since the policy options are expected to have a negligible effect on environmental impacts[165] (e.g. on environmental risk or climate change), those were not assessed.

Table 5 Selected significant impacts

	Main category of impacts
Benefits	Consumer trust, choices and behavior, and inclusion Consumer protection and reduced detriment Industry level playing field and cross-border sales
Costs	Industry compliance costs EU public administration costs for adoption and enforcement Member-State public administration costs for adoption and enforcement

- **Coherence**, which assesses how the measures planned would interact with existing EU legislation. The score ranges from 0 (no change to the level of legal coherence) to 5 (increase of EU legal coherence to a very great extent). It also includes a **legal feasibility** assessment including necessity, proportionality and subsidiarity.

[164] Specific impacts on SMEs have not been identified to be significant, so they have not been assessed separately.
[165] Even if they are expected to increase, green loans still account for only a fraction of the outstanding debt of households, see Annex 6 Market developments.

6.1 Policy option 1: Non-regulatory intervention

Overall, this policy option would allow the EU to make very limited progress towards the specific objectives laid down, hence it is deemed to be slightly effective. It could moderately enhance coherence with other EU legislation. Different categories of stakeholders would be affected, positively or negatively, to a very limited extent.

Effectiveness

Specific objectives addressed	Rating
SO1: Reducing the detriment arising from unregulated products	+
SO2: Ensuring that consumers are empowered by effective information	+
SO3: Ensure that credit granting is based on thorough assessment of the consumer best interest	++
SO4: Prevent that specific individual or systemic situations exacerbate consumer detriment	+
SO5: Reduce barriers for providers offering credit across borders while enabling more choice for consumers	+
SO6: Simplify the existing legal framework and reduce unnecessary burdens	0

+ *(Slightly effective)* ++ *(Moderately effective)* +++ *(Effective)* ++++ *(Very effective)*

Policy option 1 would allow to make very limited progress towards the initiative's specific objectives. It would somehow facilitate the interpretation of some Directive provisions. It would also provide a reference framework for Member States wishing to regulate aspects not covered by the Directive. However, two key limitations affecting its effectiveness have been identified: some of the issues identified (e.g. limited scope of the Directive) cannot be fully tackled through non-regulatory measures; and its effectiveness would ultimately depend on the will of national legislators and credit providers to follow the non-binding guidance. Increased support to financial education and debt advice initiatives could help reducing over-indebtedness. As regards awareness campaigns, to provide clarity on elements identified as unclear (e.g. APR) or to promote responsible borrowing, they could have a positive effect on the behaviour of consumers, especially if targeted to population groups with a lower level of financial literacy, but their effectiveness is not expected to be high. Option 1 would not be effective in simplifying the existing legal framework. According to the feedback gathered, industry representatives are the main group that believes that Option 1 would be effective in addressing the identified problems.

Efficiency

Main category of impacts	Score
Consumer trust (choices and behaviour) and inclusion	1
Consumer protection and reduced detriment	1
Industry level-playing field and competition and cross-border credit	0
Industry compliance costs	-1
EU public administration costs	-1
Member-State public administration costs	0

(from -5 to +5)

- *Consumers:* Compared to the baseline, Option 1 is expected to (slightly) improve the consumer trust and inclusion. Consumers could be more aware of the potential risks of credit, better understand information disclosed by credit providers and empowered to make better choices. Consumers could be better protected, thanks to strengthened creditworthiness assessments, enhanced responsible lending and borrowing but also in situations of exceptional systemic crises. However, the non-binding nature of most measures under Option 1 means that the impact on consumer choice should be quite low.
- *Society:* Supporting Member States' efforts to raise the level of financial literacy and provide debt advice, these measures could have a slightly positive impact on the level of over-indebtedness and inclusion of vulnerable consumers.
- *Businesses*: Option 1 is not expected to trigger major compliance costs for credit providers. Because the measures are non-binding, credit providers/intermediaries might avoid implementing any changes which would entail important costs (unless Member States decides to adopt national legislation/binding guidelines at national level, following the EU-level guidance). The clarification of the definitions contained in the Directive, would only impact providers who offer products currently under the Directive's scope. Option 1 would have a negligible impact on the level playing field and competition in the consumer credit market, as well as on the provision of cross-border credit.
- *Public administration*: EU public administration would be impacted by Option 1, given that non-binding guidance documents would require time and resources for their development, stakeholder engagement, dissemination and monitoring. The support to national organisations or the launch of awareness raising campaigns through the European Consumer Centres would generate costs too. The implementation of this option would require national authorities to dedicate time and resources to contribute to the development and implementation of the measures. On other hand, the clarification of obligations could benefit, to some extent, enforcement authorities by improving legal clarity and facilitating the interpretation of the Directive.

Coherence Score: 2 *(From 0 to 5)*

The implementation of Policy option 1 can enhance EU legal coherence as long as the measures envisioned are in line with existing EU legislation. For example, providing guidance on the type of information to be assessed in creditworthiness assessments, would complement the existing EBA guidelines on loan origination and monitoring. Similarly, establishing guidelines on the use of automated decision-making to conduct creditworthiness assessment would reflect the data protection principles established by the GDPR in Article 5. Nonetheless, their overall impact would be limited in addressing the problems identified due to their non-binding character.

6.2 Policy option 2: Targeted amendment of the Directive to increase legal clarity

This policy option is deemed to be quite effective in addressing the specific objectives highlighted in the intervention logic. It would enhance coherence with other EU legislation. The effects on stakeholders would vary per different category, but overall would be positive.

Effectiveness

Specific objectives addressed	Rating
SO1: Reducing the detriment arising from unregulated products	++++
SO2: Ensuring that consumers are empowered by effective information	++++
SO3: Ensure that credit granting is based on thorough assessment of the consumer best interest	++
SO4: Prevent that specific individual or systemic situations exacerbate consumer detriment	+
SO5: Reduce barriers for providers offering credit across borders while enabling more choice for consumers	++
SO6: Simplify the existing legal framework and reduce unnecessary burdens	+++

+ *(Slightly effective)* ++ *(Moderately effective)* +++ *(Effective)* ++++ *(Very effective)*

Policy option 2 would be particularly effective in reducing the detriment arising from unregulated products, by ensuring that products identified as particularly problematic (e.g. credits below EUR 200) are brought under the Directive's scope. This option would also tackle effectively the inadequacy of requirements for the provision of information, thanks to: the simplification of information provided at advertising stage on certain channels (in line with behavioural evidence on the way that consumers read and process information); detailed requirements on how and when the pre-contractual information should be provided; and the more detailed definition of 'adequate explanations'. The streamlining of information would also be effective in simplifying the current legal framework and reduce unnecessary burden.

Option 2 would improve the conditions for credit providers to lend responsibly by providing more clarity on the minimum requirements for creditworthiness assessment checks, including a more detailed definition of 'sufficient information'. However, it would not ensure a high degree of harmonisation, as it does not specify the information to be assessed. Option 2 would also moderately tackle practices exploiting consumer's situation and patterns of behaviour, and create a more resilient framework for consumer protection also in the event of individual situations or systemic economic disruptions, while helping to prevent over-indebtedness.

The broadening of the scope and the amendment of definitions are likely to be quite effective in levelling the playing field for providers by ensuring that the Directive's rules are applied to a greater share of credit providers across the EU.

Efficiency

Main category of impacts	Score
Consumer trust (choices and behaviour) and inclusion	2
Consumer protection and reduced detriment	2
Industry level-playing field and competition and cross-border credit	1
Industry compliance costs	-2
EU public administration costs	-1
Member-State public administration costs	0

(from -5 to +5)

- *Consumers:* The measures included in Option 2 would positively influence consumer behaviour and consumer choice. Consumers would receive information in a more effective way and have enough time to process it. As a result of the broadened scope, improved creditworthiness assessment and enhanced enforcement (thanks to improved legal clarity), consumer protection would increase, especially for vulnerable consumers, often using small value short-term high-cost loans. The price of consumer credit currently outside of the Directive's scope could increase as higher costs for providers would be passed on to consumers, but this should stabilise over time.

- *Society:* Several measures included in Option 2 could lead to stronger prevention of over-indebtedness, but no remedies are considered.
- *Businesses*: The measures featured in Option 2 are likely to entail implementation costs for businesses, but also to increase the level playing field within and across Member States, thanks to the reduction in legal fragmentation. Competition in the consumer credit market may decrease to some extent due to the impact on credit providers offering currently unregulated products, some of which may disappear from the market because of their business models,[166] will no longer be profitable. However, continued competition in the very competitive landscape of banks and non-bank lenders would mitigate this risk.
- *Public administration*: Any legislative amendment is expected to generate higher costs for EU authorities than non-legislative intervention (adoption, monitoring the transposition). However, the costs would mostly be one-off, while the benefits would be maintained over time. Similarly, national authorities are expected to incur some unavoidable costs (transposition, reporting, dissemination), even though higher legal clarity should facilitate enforcement and ultimately have a positive impact.

Coherence Score: 3 *(From 0 to 5)*

Policy option 2 involves a series of targeted amendments to provisions that are already included in the Directive. The proposed measures would build upon the existing principles of the Directive but change some of the elements that have proved insufficient or inadequate in achieving the main objectives of the Directive. Such intervention is deemed legally feasible, and necessary to avoid fragmentation of national regulatory regimes and provide a harmonised EU-level framework In general, the measures considered (scope extension, streamlining information, clarifying creditworthiness assessment) should not affect the EU legal coherence. However, the amendments to key definitions would reduce legal coherence with similar definitions in the Mortgage Credit Directive, currently under review.

6.3 Policy option 3a: Extensive amendment of the Directive to include certain new provisions, in line with existing EU acquis

This policy option would effectively address the initiative's specific objectives and would lead to the highest level of coherence. The effects on stakeholders would vary, with clearly positive effects for consumers, diverse impacts on businesses (significant compliance costs but increased level playing field) and moderate burden for public administrations.

[166] In certain cases, poor performance in repayment is considered part of a profitable creditor's business model i.e. revenues remain high despite high default rates. For example, the UK payday lender Wonga – also active in the EU - with a loss rate (part of revenues taken by the losses) of 41% and default rate of 9% (versus 16% and 2% for credit unions), still had a 27% profit margin (versus 35% of credit unions). See EFIN, Financité, 2015.

Effectiveness

Specific objectives addressed	Rating
SO1: Reducing the detriment arising from unregulated products	+++++
SO2: Ensuring that consumers are empowered by effective information	++
SO3: Ensure that credit granting is based on thorough assessment of the consumer best interest	++++
SO4: Prevent that specific individual or systemic situations exacerbate consumer detriment	+++
SO5: Reduce barriers for providers offering credit across borders while enabling more choice for consumers	+++
SO6: Simplify the existing legal framework and reduce unnecessary burdens	+

++ *(Moderately effective)* +++ *(Effective)* ++++ *(Very effective)* +++++ *(Extremely effective)*

Overall, this policy option is considered effective. In terms of reducing the detriment arising from unregulated products, Option 3a includes the same scope-related measures presented under Option 2, which would effectively reduce the detriment caused by these products. Moreover, this option would include a specific provision on peer-to-peer consumer lending, to effectively capture platforms offering this kind of credit. Concerning information provided to consumers, this option would introduce more details on the obligation to provide adequate explanations (drawing on Art. 16 of the Mortgage Credit Directive), and on the display of information in an adequate way on different channels (in line with the European Accessibility Act principles). The requirements on the presentation of information and the clarification of existing provisions, would create a more coherent framework for credit provision, improving legal clarity for businesses and leading to a moderate reduction of unnecessary burden.

The inclusion of certain provisions on responsible lending drawing on the Mortgage Credit Directive are expected to be effective in improving the protection of consumers, but they would not tackle responsible product design. The changes to creditworthiness assessment rules and provisions on the use of alternative data and automated decision-making would help ensuring that credit granting is based on thorough assessment of the consumer best interest. To strengthen the enforcement of these provisions, Option 3a would introduce a provision referring to the 4% rule set in the Omnibus Directive.[167]

On the protection and assistance of indebted and over-indebted consumers, the provision on forbearance measures is expected to be rather effective. Finally, on top of broadening of the scope and the amending of definitions, enhancing the level playing field, this option would reduce legal fragmentation and hence barriers for providers offering credit across borders.

Efficiency

Main category of impacts	Score
Consumer trust (choices and behaviour) and inclusion	3
Consumer protection and reduced detriment	3

[167] In cross-border cases, the possibility for a supervisory authority to issue a fine whose maximum amount is at least 4% of the credit provider/intermediary's annual turnover in the Member State(s) concerned. Considering that the Omnibus Directive covers consumer credit, the measure will not change drastically the way that the CCD is being enforced, but it may contribute to a more coordinated enforcement of provisions across the EU.

Main category of impacts	Score
Industry level-playing field and competition and cross-border credit	2
Industry compliance costs	-3
EU public administration costs	-2
Member-State public administration costs	0

(From – 5 to +5)

- *Consumers:* Policy option 3a is expected to have a positive impact on consumer trust, in particular new rules on business conduct and remuneration and on financial advice. Measures limiting practices exploiting consumers' situations and patterns of behaviour would influence positively consumer choice. Extended scope, measures on information to consumers and more precise rules on creditworthiness assessments would reduce consumer detriment. Moreover, those measures would increase legal certainty, making enforcement easier, and thereby further enhancing the protection of consumer rights. Option 3a is also expected to ultimately reflect positively on the reduction of consumer detriment across the EU (e.g. forbearance measures).
- *Society*: The promotion of responsible lending combined with the broadening of the scope is expected to contribute to limit over-indebtedness and to increase financial stability.
- *Businesses*: Several of the measures under this option would require businesses to familiarise themselves with the new legislative requirements (even though for the provisions which draw on the Mortgage Credit Directive the impact for lenders who offer mortgage credit, such as banks, would be lower than for those who only provide consumer credit), increase internal communication and training staff. These factors could create a high (albeit one-off) cost burden for industry. The relatively higher degree of harmonisation, together with the broadening of the scope, would result in a more level playing field for credit providers across borders.
- *Public administration*: This option would create a cost burden for EU public administrations, but since the amended provisions would be modelled after existing legislation, less resources to develop them would be required. National authorities will bear costs linked to the transposition of the revised Directive and to some of its obligations. However, the expected positive impact on enforcement due to enhanced legal clarity and alignment with other EU legislation would offset them.

Coherence Score: 4 *(from 0 to 5)*

Alignment with other EU legislation, is deemed beneficial because it allows for more uniform rules, improving legal clarity. The Evaluation found that the most common examples of legal incoherence mentioned by stakeholders concern the Mortgage Credit Directive, particularly its requirements for responsible lending and specific obligations in some areas that are relevant to prevent over-indebtedness. This option would also include measures in line with other EU legislation (e.g. GDPR or the Omnibus Directive).

6.4 Policy option 3b: Extensive amendment of the Directive to include provisions going beyond existing EU acquis

This option is deemed to be very effective in addressing the specific objectives. Even though it would guarantee more coherence than a set of national responses to the identified problems, it would lead to lower coherence than other options. Consumers would benefit from a very protective framework, but industry would have to face very high compliance costs. Public administrations would face significant costs, but benefit from efficiency gains in enforcement.

Effectiveness

Specific objectives addressed	Rating
SO1: Reducing the detriment arising from unregulated products	+++++
SO2: Ensuring that consumers are empowered by effective information	++++
SO3: Ensure that credit granting is based on thorough assessment of the consumer best interest	+++++
SO4: Prevent that specific individual or systemic situations exacerbate consumer detriment	++++
SO5: Reduce barriers for providers offering credit across borders while enabling more choice for consumers	++
SO6: Simplify the existing legal framework and reduce unnecessary burdens	++

++ (Moderately effective) +++ (Effective) ++++ (Very effective) +++++ (Extremely effective)

Overall, Option 3b would address effectively the initiative's specific objectives and is also expected to result in a decreased level of over-indebtedness.[168]

It would entail the broadening of the scope of application of the Directive in the same way as Options 3a, thus responding to the scope-related issues identified in an extremely effective manner. It is also deemed to be very effective in addressing issues related to the information-related requirements, facilitating offer comparison, and in reducing the chances that consumers are misled into buying products they do not need. Option 3b would also address aspects related to product design (e.g. APR/interest rate caps) which are expected to reduce the incentives to provide some of the products that are riskier for consumers. This policy option is also the most effective in terms of supporting and protecting indebted and over-indebted consumers. This is because it establishes obligations for Member States and credit providers concerning the provision of debt advice services, and it establishes an obligation for creditors to inform low-scoring consumers that debt advice services are available (early detection mechanism). At the same time, this option would only be moderately effective in reducing barriers for providers offering cross-border credit, and unnecessary burden for businesses (mostly due to the reduction of information provided in advertising on certain channels).

Efficiency

Main category of impacts	Score
Consumer trust (choices and behaviour) and inclusion	4

[168] Follow-up survey. Across all stakeholder groups, 3 indicated that the level of over-indebtedness would remain the same, 7 that it would decrease, and 4 that it would increase.

Main category of impacts	Score
Consumer protection and reduced detriment	4
Industry level-playing field and competition and cross-border credit	1
Industry compliance costs	-4
EU public administration costs	-3
Member-State public administration costs	-1

(From -5 to 5)

- *Consumers:* Bans on unsolicited credit offers or on the use of pre-ticked boxes, as well as provisions on the display of information are likely to impact consumer behaviour very positively by promoting a more informed and careful purchase decision-making process. Consumers would be significantly better protected against irresponsible or otherwise questionable lending practices and thanks to measures on debt advice services, including early detection. The establishment of APR/interest rate caps as well as the limits to the costs that can be charged for rollover practices are expected to lead to a reduction in consumer detriment, especially coupled with the extension of the scope of application of the Directive. This will have a particularly positive impact on vulnerable consumers, as they are the main group using high-cost credit.
- *Society*: This option is likely to originate the greater positive impact on the reduction of over-indebtedness, thanks to measures on product design and enhanced support to over-indebted people. It would also have a positive impact on increasing financial stability.
- *Businesses*: Some of the measures under Option 3b will require significant implementation costs as they are likely to lead to many changes. Price caps will also lead to lost revenue, in particular for providers offering products currently exempted from the Directive, and possibly push them out of the market, thus decreasing competition. Considering the high degree of legal harmonisation it offers, this option has the highest potential to facilitate the cross-border sales of consumer credit.
- *Public administration*: This option would generate important costs for EU public administration, the highest among the options considered. This is also true for national administration, but the fact that some measures set an obligation without establishing standards or precise details (e.g. debt advice services, price caps) would limit costs. Moreover, some of these costs are likely to be offset by the efficiency gains expected in relation to the enforcement of the obligations at national level, because of lower level of problems faced by consumers due to a very protective framework, and clearer provisions.

Coherence Score: 2 *(from 0 to 5)*

Measures proposed under this policy option are inspired by legal measures that have been implemented at national level and which go beyond the requirements of the Directive. For instance, caps on interest rate/APR have already been implemented by 23 Member States (even though they vary widely). These measures would ensure a high level of harmonisation across the EU and guarantee more coherence than individual, potentially heterogeneous initiatives to respond to the identified problems. However, they would lead to a lower coherence with existing EU legislation. The obligation to include specific contractual clauses to cover cases of exceptional and systemic economic disruptions might create the risk of possible future overlaps, since EU institutions might consider adopting horizontal legislation to address the same matters, in the light of the COVID-19 crisis.

7. How do the options compare?

This section compares the performance of the five policy options considered, based on the elements developed in Section 6.

7.1 Effectiveness: expected achievement of the initiative's objectives

The main objective of an EU-level intervention is to address the main problems identified in the field of consumer credit. Therefore, ensuring that the policy option proposed by the Commission effectively addresses the problems observed - in line with the specific policy objectives - is paramount to justify an EU intervention.

Table 6 Effectiveness (from 0 to +++++)

Specific objectives addressed	Option 1	Option 2	Option 3a	Option 3b
SO1: Reducing the detriment arising from unregulated products	+	++++	+++++	+++++
SO2: Ensuring that consumers are empowered by effective information	+	++++	++	++++
SO3: Ensure that credit granting is based on thorough assessment of the consumer best interest	++	++	++++	+++++
SO4: Prevent that specific individual or systemic situations exacerbate consumer detriment	+	+	+++	++++
SO5: Reduce barriers for providers offering credit across borders while enabling more choice for consumers	+	++	+++	++
SO6: Simplify the existing legal framework and reduce unnecessary burdens	neutral	+++	+	++
Total effectiveness (translated in a 0-5 scale)	**1**	**2.5**	**3**	**3, 5**

Option 1 would not achieve one of the specific objectives, while the other options would achieve all of them, to a varying extent. **Option 3b would be the most effective in achieving the initiative objectives**, especially in terms of guaranteeing a high level of consumer protection (SO1, SO3), thanks for instance to the introduction of APR/interest rate caps; but also on preventing that individual or systemic situations exacerbate consumer detriment (SO5), mainly thanks to the measure on debt advice services, which is deemed to be very effective in reducing the risk of debt cycles and remedying over-indebtedness. Option 3a would achieve all the defined objectives and especially ensure high consumer protection (even though to a lesser extent than Option 3b) and would improve the level playing field, and reduce legal fragmentation and barriers for offering credit across borders, but would address the objective on simplification only to a limited extent. Option 2 would also achieve all the defined objectives, but to a lesser extent than 3a and 3b in terms of consumer protection. However, it is the Option which is more likely to achieve the specific objective on simplification. All the legislative options would be very effective to achieve SO1 on reducing the detriment arising from unregulated products because of the extension of the scope to currently exempted risky products and the clarification of terms and definitions leading to enhanced legal clarity.

7.2 Efficiency: impacts on businesses and consumers

The decision to adopt EU-level measures should also carefully consider the potential benefits and costs of implementing it. To **compare the efficiency of the different options**, we have used a **Multi-Criteria Analysis** looking at a set of impacts: three benefits and three costs (see Section 6). The overall score for the efficiency of each of the options is made up of **six individual scores**, one for each impact assessed (see Section 6), which has been attributed a certain weight, depending on its importance.

We decided to **take a conservative approach**, allowing overall **50% of the total weight to benefits and 50% to costs**. It is rather conservative because in fact, **benefits should be expected to be more important than costs**. Better compliance and clearer procedures, mean **increased consumer confidence, and a more business friendly environment** (less problems, less litigation costs, less recovery costs, etc.). So the one-off costs to adapt to the revised Directive, on the longer run could be offset by a business gain. Moreover, the **measures to prevent/remedy over-indebtedness and increase social inclusion** are expected to generate positive externalities. However, with this approach we want to ensure our analysis would thoroughly address the compliance of the options with the proportionality principle, clearly striking a balance between the benefits for consumers and credit providers, and the costs for credit providers and intermediaries (eventually passed on to consumers[169]), and EU-level and national authorities. Each impact assessed has been attributed a certain weight:

	Benefits (50%)			**Costs (50%)**		
Impact category	Consumer trust, choices, behaviour and inclusion	Consumer protection and reduced detriment	Level-playing field and cross-border sales	Industry compliance costs	EU authorities costs	MS authorities costs
Weight	10%	30%	10%	40%	8%	2%

- Benefits for consumers and the **compliance costs which industry would have to incur** to achieve these benefits are balanced out, each representing 40% of the total weight.
- Within the two types of **benefits for consumers**, 'consumer protection and reduced detriment' is the main one and represents 30% of the total weight, while 'consumer trust, behaviour, choice and social inclusion' is secondary and consequently represents 10%. **Benefits for industry** in terms of level playing field and increased cross-border sales represent the remaining 10%.
- **Costs for national public administration**, and especially for the **EU public administration** are expected to be quite reduced. Public administrations are already in charge of the implementation and enforcement of consumer credit legislations, thus a

[169] The supporting study was not able to assess to what extent costs are passed on to consumers.

change in the legislation would give rise to a moderate one-off costs. Hence, those costs represent respectively 8% and 2% of the total weight.

Under the Multi-Criteria Analysis, **the policy option that would represent the best course of action is Policy option 3a (score of 0.16), followed by Option 2 (0.08)**. In contrast, the negative values for Options 1 and 3b, indicate that implementing them would be less efficient than the baseline option.

Table 1 Multi-Criteria Analysis (BRG #63)

Input matrix		Policy options									
		0		1		2		3a		3b	
Cost / benefit category	Weight	Performance	Weighted performance	Performance	Weighted performance	Performance	Weighted performance	Performance	Weighted performance	Performance	Weighted performance
Benefits											
Consumer trust, choices, behaviour and inclusion	0.1	0	0	1	0.1	2	0.2	3	0.3	4	0.4
Consumer protection and detriment	0.3	0	0	1	0.3	2	0.6	3	0.9	4	1.2
Level-playing field and cross-border sales	0.1	0	0	0	0.0	1	0.1	2	0.2	1	0.1
Costs											
Compliance costs	0.4	0	0	-1	-0.4	-2	-0.8	-3	-1.2	-4	-1.6
EU authorities	0.02	0	0	-1	-0.02	-1	-0.02	-2	-0.04	-3	-0.06
MS authorities	0.08	0	0	0	0	0	0	0	0	-1	-0.08
Total	1	0	0	0	-0.02	2	0.08	3	0.16	1	-0.04

Since there was **limited evidence** to determine the impact of different measures with regard to the baseline, in the supporting study only a **limited number of measures** (11 of around 50) were subject to a **<u>partial quantitative analysis</u>**, entailing a **non-exhaustive set of costs and benefits** for these measures for the period 2021-2030.[170] The model assessed **costs** of drafting and transposing legislation and for enforcement and monitoring (EU and national authorities) and the main type of compliance costs incurred by banks (e.g. staff training, costs of adapting IT infrastructure, incremental labour costs stemming from the adoption and ongoing implementation of a measure). However, the model did not take into account that the costs of implementing provisions which draw on the Mortgage Credit Directive for lenders who already offer mortgage credit, such as banks, could be mitigated by the fact that these lenders have already procedure in place for mortgages. Moreover, **it was not possible to determine to what exact extent, but it is expected that costs are going to be passed on to consumers**. **Benefits** were assessed in terms of reduction in consumer financial detriment and in time losses suffered by consumers, but **not in terms of benefits for industry stemming from**

[170] In practice, a given measure could entail a wider number of concrete benefits and costs, depending on number of factors e.g. the specificity of a national market and various responses from credit providers.

legal clarity or increased level playing field, so they are expected to be higher. Finally, the model **did not estimate specific costs for non-bank lenders**, **as well as consumer benefits that could be generated** because of a given measure implemented by non-bank lenders, which could be very important because those actors are often less regulated than banks and often offer products not covered by the Directive which can be risky for consumers. **For these reasons, this exercise should be interpreted prudently.**

According to this **partial quantification**, **most of the considered measures would be cost effective,** as benefits for consumers would outweigh costs for businesses: for instance, the removal of the minimum and maximum threshold (2.1), inclusion of some of the currently excluded loans within its scope of application (2.2), the reduction of the amount of information to be provided to consumers in advertising focusing on key information, especially when provided through certain channels (2.4), the presentation of key pre-contractual information in a more prominent way (2.5) and the prohibition of unsolicited sale of credit (3b.6).

The model finds that for few measures costs would outweigh benefits. The measures on amending the definition of some key terms which affect its scope of application such as 'credit provider', 'credit intermediary', and providing a more detailed definition of some key terms related to the obligations contained in the Directive such as 'sufficient information', 'in a timely manner', 'prominently', 'adequate explanations' (2.3 and 2.7, assessed together) would be quite costly for industry. **However**, as mentioned above, **the model does not capture benefits for industry in terms of increased legal clarity, level playing field, and increased consumer confidence** leading to **increased business development**. Those **could be very relevant for these measures**, which are included in all the legislative options, and are expected to be **very effective** in meeting the Directive's objectives. The measure establishing an obligation upon creditors to inform low-scoring consumers whether debt advice services are available (3b.9) would also entail a slightly negative net benefit.

Box 1: Case study on benefits stemming from improved creditworthiness

To illustrate in a simple way **how an improved assessment of the consumer creditworthiness could have a positive impact on consumers and on preventing non-performing loans**, we prepared a **case study based on simplified hypotheses** using data from Banque de France on outstanding revolving credit in 2019, including credit cards and overdrafts (currently covered by the Directive only to a certain extent). For this kind of products, better creditworthiness assessment would result from 1) the inclusion of currently exempted products in the scope of the Directive, since the lender would be subject to the obligation to perform an assessment of the potential borrower's creditworthiness before granting credit, and from 2) more precise requirements on how to assess consumer creditworthiness.

Lender	Outstanding revolving credit in France (in billion)*	Interest rate (%)*	Hyp1 Credits not at risk of default (%)	Hyp2 Reduced interest rate (%)	Hyp3 Higher cost for better CWA (%)
Bank	26	5,22	98	4,22	0,1
Non-bank	19,8	12,9	91	9,9	0,5

*data observed end 2019

- The amount of credits not at risk of default for banks is 98%, for non-banks is 91% (1st hypothesis).

- Better creditworthiness assessment (CWA) should reduce the amount of very risky credits granted by banks and non-banks, lowering their credit risk and in turn the interest rate imposed to consumers. It could lead to a decrease in the interest rate offered to consumers of 1% in case of banks and 3% in case of non-bank lenders (2nd hypothesis). This would lead to benefit for consumers with non-risky credits, who would save money on the interest rate paid, and for consumers with risky credits, who would not become indebted.
- Enhanced creditworthiness assessment would also lead to increased costs for credit providers, 0.1% of outstanding credits for banks and 0.5% for non-bank lenders (3rd hypothesis).
- Hypothesis for bank and non-bank lenders differ because non-bank lenders are more likely to offer consumer credit currently exempted from the Directive (e.g. loans below EUR 200), so a change in the scope of the Directive together with enhanced rules on creditworthiness assessment would have a bigger impact on them.

➢ Comparing benefits for consumers with non-risky credits whose interest rate has been reduced and avoided indebtedness for consumers with risky profiles on the one hand, and costs for providers because of more enhanced creditworthiness assessment on the other hand, we see that improving the creditworthiness assessment would lead to a clear benefit for consumers (for this specific simulation 1 049 million EUR for consumers and 125 million EUR for banks and non-banks, so a benefit/cost ratio > 8).

➢ Better creditworthiness assessment would also lead to lost interest for credit providers who would not grant risky loans anymore, but those loans should not have been granted in the first place. It would also lead to better prevention of over-indebtedness for consumers at risks and have a positive impact on the reduction of NPLs.

- As highlighted by EBA[171], the NPL ratio for consumer lending in 2019 remained significantly higher than the overall NPL ratio, also as a result of looser credit standards. There is still work to be done to reduce this ratio of NPLs.

The measure on setting up debt advice services (3b.8) was not among those assessed in the supporting study. However, the **potential benefits of deploying a universally available and freely accessible system of debt advice**, was calculated in a recent study by VVA and CEPS.[172] The study identifies the benefits of debt advice using ranges of estimated returns: **per EUR 1 spent this will provide between EUR 1.4 – 5.3 in terms of equivalent benefits**, mainly referring to the **social costs of over-indebtedness avoided**.[173] Debt advice has a **direct, beneficial impact** on consumers, helping them to resolve financial difficulties, to face employment issues and improving their quality of life and mental health.[174] Furthermore, it has also a very **positive impact on creditors**, since they improve the recovery of debt from the borrower and lower the cost of pursuing a debtor. [175]

7.3 Coherence with other EU legislation (and policy objectives)

Ensuring legal coherence with other EU legislation is an important consideration, since legal clarity and simplification of the regulatory framework are desirable. Among the options considered, **Option 3a is the one that would lead to the highest level of coherence** with other EU legislation, followed by Option 2 and 3b.

Table 8 Coherence (score from 0 to 5)

Coherence	Option 1	Option 2	Option 3a	Option 3b
Score	2	3	4	2

Moreover, looking at the coherence with **EU policy objectives**, such as its **digital priorities**, **Option 3a, together with Option 3b** would better guarantee a **future-proof approach**. In fact, on top of tackling information provision online and automated decision making used in creditworthiness assessment, they would tackle online practices exploiting consumer's situation and patterns of behaviour.

7.4 Stakeholder views on the options

This overview builds on different consultation activities (public consultation, interviews, surveys, workshops, bilateral exchanges).[176]

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[171] EBA, Thematic note on consumer lending in the EU banking sector, 2020.
[172] VVA and CEPS, 2021.
[173] VVA and CEPS 2021.
[174] In the UK, debt advice is associated with an annual productivity gain of at least GBP 67 million and a beneficial impact on health worth GBP 74 million a year. Europe Economics, the Money Advice Service, 2018.
[175] Decreased recovery costs amount to a net benefit of at least EUR 149 million annually for creditors active in the UK, where debt advice services are well developed. Europe Economics, the Money Advice Service, 2018.
[176] For a more detailed presentation and the full list of consultation activities, see Annex 2 and also the Supporting study for the impact assessment (ICF).

Consumer organisations favour an extensive revision of the Directive (Options 3a & 3b). They consider that including all types of credit under the Directive *scope* would benefit consumers and decrease the risk of over-indebtedness linked to risky credits.[177] They highlight the potential for positive impact on consumers if the effectiveness of the *disclosure of information* is improved, especially in the digital environment.[178] They also support further harmonisation in the *creditworthiness assessment* process, in alignment with the Mortgage Credit Directive, and a strong regulatory framework to ensure data protection, transparency and avoid potential discrimination.[179] Concerning measures to respond to *systemic and exceptional economic disruptions,* consumer organisations support the provision on forbearance measures (Option 3a), but they would favour a more ambitious EU approach in line with Option 3b.[180] From Option 3b they also consider very effective caps on *APR/interest rates* and *debt advice services*. Consumer organisations support a fully harmonised framework at EU level to ensure an equivalent level of protection to all EU citizens.

Most **industry representatives** favour non-regulatory intervention (Option 1) or targeted changes to the Directive (Option 2) to adapt it to the digitalisation developments. Some of them are in favour of *scope extension* to include credit below EUR 200, which would help tackling the unlevel playing field with creditors mainly offering products falling outside the current scope, such as certain non-bank lenders.[181] However, nearly half of business associations consider that the scope of the Directive should not be extended.[182] The large majority call for a *simplification and reduction of information* provided at advertising and pre-contractual stage.[183] With regard to *creditworthiness assessment*, industry representatives generally argue that a revision should follow proportionality principles, as too prescriptive measures would impose high costs on credit providers and potentially reduce access to credit.[184] However, some industry actors such as representatives of online lending platforms support the harmonisation of creditworthiness assessment rules across Member States. Creditors and in particular non-bank lenders are also opposed to *APR or interest rate caps* introduced in Option 3b; however, they appreciate the positive impacts of *debt advice* services on consumers and praise their cost effectiveness.[185] Concerning *exceptional and systemic disruptions*, industry representatives commonly indicated that national responses and self-regulatory mechanisms would be more adapted; in their responses to the public

[177] A common concern relates to creditors falling outside the Directive's scope, mainly non-bank lenders, as well as credits below EUR 200 and new types of credits (respectively 59% and 50% in public consultation replies).
[178] 78% of consumer organisations responding to the public consultation favour the adoption of standardised formats and the use of comparison tables.
[179] 72% of consumer organisation responding to the public consultation favour higher level of harmonisation in the creditworthiness assessment process.
[180] As shown in the public consultation, consumer organisations highly support the implementation of payment moratoria measures (78%) or measures encouraging creditors to exercise reasonable forbearance (56%).
[181] In the public consultation, 35% of companies are concerned with this type of creditors falling outside the scope of the Directive.
[182] Public consultation, 43% of business associations.
[183] Public consultation, 76% of business associations and 81% of companies.
[184] This was highlighted in the interviews with business associations and also in the feedback on the IIA.
[185] Follow-up survey with business associations.

consultation[186] they generally indicated that extra measures at EU level are not necessary. Regarding the cross-border provision of credit, industry representatives believe that low cross-border credit is predominantly due to external barriers (e.g. language, consumer preference for national products).

National authorities generally support a legislative amendment. Several Member States seem to favour an extensive legislative change to address the problems identified. Some of them also flagged the feasibility of certain measures, e.g. the extension of the Directive *scope*, because they have already been implemented in several Member States.[187] The majority supports the need to *adapt information* to digital tools and show it prominently.[188] In the public consultation, one third supported higher harmonisation in the *creditworthiness assessment* process. Several Member States highlighted the effectiveness of *APR/interest rate caps* (already implemented in 23 Member States) and that measures to improve the effectiveness and coordination of enforcement actions could help increasing compliance. National authorities also seem to agree that legislative measures on *debt advice* services would positively affect the level of over-indebtedness and support vulnerable consumers.[189] With regard to *exceptional and systemic disruptions*, national authorities appear to favour a national response, even though only a minority of those responding to the public consultation replied that EU action is not needed in these cases.[190] A majority of national authorities recognise that harmonising rules would support the development of the cross-border market.

7.5 Comparison of options and proportionality

Table 9 Ranking of policy options (from 1= better performing to 4=worst performing)

	Assessment	Ranking
Option 1	Option 1 would lead to a limited improvement with respect to the baseline, especially in terms of reduction of detriment from unregulated products. While it would contribute to increase legal coherence and reduce uncertainty due to Commission guidance, the gains in other areas are quite limited. Effectiveness: 4th | Efficiency: 3rd | Coherence: 3rd (same as 3b)	**4**
Option 2	Option 2 performs well across all assessment criteria. It ranks third in terms of effectiveness and it is approximately as efficient as option 3a. Overall, it is outranked by Option 3a, which also ensures a higher degree of legal coherence. Effectiveness: 3rd | Efficiency: 2nd | Coherence: 2nd	**2**

[186] Public consultation, 44% of business associations and 39% of companies.
[187] Feedback to inception impact assessment and online surveys of national authorities.
[188] In the public consultation, national authorities the provision of information at pre-contractual stage is expected to be improved by simplifying information, and focusing on key features of the offer (70%).
[189] ICF surveys with national authorities.
[190] In the public consultation, consumer organisations (78%) tend to claim for anticipative measures such as the implementation of payment moratoria measures (for national authorities this is only 27%), while industry representatives generally indicated that extra measures at EU level are not necessary given national responses and self-regulatory mechanisms prove to be more effective than prescriptive regulations (44% of business associations, 39% of companies).

Option 3a	Option 3a shows the best performance in terms of efficiency (close to Option 2) and, as could be expected, it ensures the highest degree of legal coherence with EU legislation compared to the baseline, but also with EU policy objectives (i.e. future proof framework for the digital transition). Its performance in terms of effectiveness is only second to Option 3b. Effectiveness: 2nd | Efficiency: 1st | Coherence: 1st	**1**
Option 3b	Option 3b is the legislative package that would lead to the most significant improvement in terms of effectiveness. In contrast, it performs comparatively worse with regard to coherence and efficiency, because of the new provisions not in line with EU legislation it would introduce, and because its highly ambitious approach would entail high costs. Effectiveness: 1st | Efficiency: 4th | Coherence: 3rd (same as 1)	**3**

The performed analysis highlights that even though **Option 3a ranks first**, **Option 2 scores similarly** to Option 3a **in terms of effectiveness and efficiency** (but still slightly lower under both criteria) **and lower in terms of coherence**. **Option 3a would entail higher costs, but would also constitute a more ambitious and future proof approach leading to higher benefits for consumers**.[191]

Option 3a is therefore the policy option considered optimal in this impact assessment. However, some measures from other options appear to be very cost beneficial, such as the prohibition of **unsolicited sale of credit**. Moreover, measures to **simplify information in advertising** and make **information provided** to consumers **at pre-contractual stage more timely and prominent**, not included in option 3a, would lead to burden reduction for businesses and would improve the effectiveness of information disclosure for consumers. According to recent studies, the setting up of **independent debt advice services** seems to **have a very cost beneficial impact on society.**

In accordance with the principle of **proportionality**, the proposed rules will not go beyond what is necessary in order to achieve the objectives set out in section 4. The initiative will cover only the aspects that Member States cannot achieve on their own (for example, the establishment of a uniform definition of creditor and/or credit intermediary in light of new forms of lending created by digitalisation or the widening of the scope of application of the Directive - these two measures will help reduce the detriment arising from unregulated products) and where the administrative burden and costs are commensurate with the specific and general objectives to be achieved (for example, the articles on improving conditions for enforcement by introducing an article on Competent Authorities' and reinforce enforcement coordination by introducing a provision in line with to the 4% rule set in the Omnibus Directive for cross-border cases will help achieve the Directive's two overarching objectives).

As such, proportionality will be embedded in the provisions of the Directive such as the article concerning the scope of application of the Directive, the rules on advertising, the rules on creditworthiness assessment and credit database and the article on penalties. None of the options analysed in this impact assessment goes beyond what is necessary to achieve the objectives. EU action is therefore justified on grounds of proportionality.

[191] Considering the limitations of the partial quantification exercise, which only focuses on certain measures and does not cover all the options, we will not include an estimate of costs and benefit per each option here, but more information on the individual measures can be found in Annex 3.

8. THE PREFERRED OPTION

Based on our analysis, and considering the support from consumer organisations and several national authorities for a comprehensive amendment of the legislation, the **preferred option is Option 3a**, i.e. an amendment of the Consumer Credit Directive to include new provisions, in line with existing EU acquis. Taking into account subsidiarity considerations, the scope of the Directive will be extended to cover (explicitly) peer-to-peer lending platforms, loans below EUR 200, interest free credit, all overdraft facilities and all leasing agreements (measure 2.1 and 2.2), but it will *not* be extended to pawnshops agreements or loans above EUR 75 000. Regarding pawnshops, the reason for their exclusion is that they do not have an evident cross-border potential, so an EU intervention would not be justified under the principle of subsidiarity. Similarly, no extension of the scope seems necessary for loans above EUR 75 000, since there has been no comprehensive data on such big amount loans that evidently call for EU action.[192]

Considering their **estimated cost effectiveness** and **impact on simplification**, the **following measures from other Options will also be included** in the preferred option

- Measure on the **reduction of the amount of information** to be provided to consumers in advertising focusing on key information (**2.4**), when provided through certain channels (e.g. audio advertisements on radio broadcasts) and on **how and when pre-contractual information** is presented to consumers to make sure it is done in a more prominent way (**2.5, 2.6**);
- Measure to **prohibit the unsolicited sale of credit products (3b.6)**; and
- Measure to enhance the **availability of debt advice** services (**3b.8)**. Although this measure was not subject to a comprehensive quantitative assessment in the support study, evidence from other studies demonstrate clearly the positive impact on consumers, creditors and the avoidance of social costs of over-indebtedness.

Considering the results of the partial quantitative analysis, the measure on introducing an 'early detection' mechanism (3b.9) will *not* be included in the preferred option.

Moreover, **the following one would be included as well**:

- Measure establishing the obligation upon **Member States to set interest rate/APR caps**, without specific rules or guidelines on how these should be calculated (**3b.4**).

Introducing an obligation to set interest rate or APR caps at national level (with national discretion at what level to put such caps) **has not been assessed quantitatively** due to lack of consistent data. However, **such caps have proved very effective in protecting consumers**, often leading to the disappearance of products which entail high risks for borrowers. Those benefits outweigh possible costs which should be very limited. Considering that such **caps have already been introduced by 23 Member States (plus four** with caps that apply to

[192] As explained under Sup-problem 1, the Mortgage Credit Directive has already widened the scope of the Consumer Credit Directive to credit agreements *for the renovation of a residential immovable property* involving a total amount of credit above EUR 75 000.

defaulted loans only), its implementation should not bring any additional costs for most national public administrations and for credit providers active in those countries, so no major impacts are expected.

The overall impact of the final combination of measures is very beneficial, as explained below under the overall effectiveness part (8.1). The selected measures from other Options were chosen because they are deemed to be very positive, based on the analysis performed. The additional measures that are added from other Options interact in a complementary, rather than an overlapping or contradictory way, with Option 3a. This beneficial overall impact renders reasonable and justifiable the composition of the preferred option. Thus, the preferred option may entail higher costs, but it also leads to higher benefits for consumers, and it is therefore considered to be proportionate.

8.1 The overall effectiveness of the preferred option

The preferred option is deemed to be very effective in tackling the problems identified and in achieving the initiative's objectives.

- It would be very effective in reducing the detriment arising from unregulated products (SO1), by expanding the scope of the Directive (measure 2.1 and 2.2). It would also amend the definition of some key terms which affect its scope of application (2.3) to make sure they are fit for purpose add a new provision addressing specifically peer-to-peer lending (3.1).
- It would also effectively ensure that consumers taking out a credit are empowered by effective information, also via digital means (SO2), in particular by establishing detailed requirements in relation to the provision of adequate explanations to consumers (3a.2). Moreover, measures simplifying the information requirements at advertising stage for certain channels (e.g. radio), and measures ensuring that consumers are presented with clearer information, shown more timely and prominently (2.4, 2.5, 2.6), would allow consumers to process and understand information more easily. The clarification of existing provisions and the reduction of information requirements at advertising stage on certain channels would also create a clearer and simpler legal framework for credit provision at EU level, and reduce burden on businesses (SO6).
- Credit granting based on thorough assessment of the consumer best interest (SO3), would be guaranteed by the obligation for providers and intermediaries to promote responsible lending (3a.6). Practices by credit providers exploiting consumer's situation and patterns of behaviour would be tackled through the ban of product tying (3a.9), on the use of pre-ticked boxes (3a.12) and on unsolicited sale of credit products (3b.6). They would be also addressed through the adoption of conduct of business rules on remuneration policy and on rules on ensuring that staff members have the proper set of skills and knowledge (3a.10, 3a.11), as well as via the adoption of standards on advisory services and an obligation for creditors to inform consumers whether such services are available (3a.7, 3a.8). The introduction of interest rate/APR caps at national level would ensure a high and consistent level of consumer protection, in particular for vulnerable consumers, in all Member States (3b.4). The initiative would also introduce new measures to make sure

credits are granted after a thorough assessment of the consumer creditworthiness, based on information on financial and economic circumstances that is necessary, sufficient and proportionate (3a.13). The issue of alternative sources of data will be tackled through a specific provision (3a.14), together with a right for consumers to receive an explanation on what basis a decision on their creditworthiness was reached (3a.15).

- To prevent that specific individual or systemic situations exacerbate consumer detriment and increase over-indebtedness (SO4), preventive measures such as an obligation on Member States to promote financial education/digital literacy initiatives (3a.16), and on the Commission to regularly assess such initiatives (3a.17) would be introduced, as well as remedies such as the obligation upon Member States to adopt measures to encourage creditors to exercise reasonable forbearance (3a.18). The measure regarding the setting up of debt advice services (3b.8), considered to be very effective in helping both consumers to resolve financial difficulties and creditors to improve the recovery of debt from the borrower, would also be included in the preferred option.
- The preferred option would also effectively reduce barriers for providers offering credit across borders while enabling more choice for consumers (SO5) via a non-exhaustive list of categories of data, including reliable negative data, to be collected by private and public credit databases (2.10), as well as through the new provisions in line with other EU legislation and the clarification of existing provisions, creating more even conditions for the provision of consumer credit across borders.
- Finally, it would also improve conditions for enforcement by introducing an article on Competent Authorities' (3a.3) and reinforce enforcement coordination for cross-border cases[193] (3a.4). This would improve the effectiveness of the Directive in achieving all the specific objectives, and in particular SO2, SO3 and SO5.

8.2 Impact on stakeholders

The preferred option would have different impacts on stakeholders (more details on the results and methodology of the partial quantification of a limited number of measures can be found in Annex 3 and Annex 9):

- The impact on **consumers** would be very positive. In particular both consumer trust, protection and reduction of consumer detriment would be affected positively. According to the limited quantification of some measures, the preferred option would entail a reduction in consumer detriment linked to products offered by banks of around EUR 1 990 million for the period 2021-2030, in particular thanks to the extension of the scope of the Directive, the prohibition of unsolicited sales of credit and pre-ticked boxes and the simplification of information disclosure. Moreover, the measures on debt advice and caps on APR/interest rates are deemed to be very beneficial measures for consumers.
- The impact on **society** is also deemed very positive, thanks to measures preventing and addressing over-indebtedness, thus improving social inclusion, such as those on

[193] The possibility for the supervisory authority to issue a fine whose maximum amount would be at least 4% of the trader's annual turnover in the Member State or Member States concerned.

strengthening creditworthiness assessments, and introducing forbearance measures and debt advice services. As mentioned above, per EUR 1 spent on debt advice, this will provide between EUR 1.4 – 5.3 in terms of equivalent benefits, mainly referring to the social costs of over-indebtedness avoided.

- The impact on **credit providers** would be less straightforward. In fact, on the one hand they would have to face most of the implementation costs of the new Directive, and some measures (e.g. caps) would be more costly for providers currently offering products not covered by the Directive. On the other hand, the enhanced legal clarity and the higher degree of harmonisation, together with the broadening of the scope, would result in a more level playing field for credit providers and to some extent facilitate the conditions to provide consumer credit cross-border. Moreover, the simplification of information requirements would reduce costs for providers on the longer run. The cost of the partially quantified measures for banks is estimated to be around EUR 1 460 million, in particular due to scope extension and more detailed definitions (but the model does not take into account benefits for industry in terms of level playing field and in terms of increased legal clarity).[194]
- **Public authorities** would also face costs. In particular, the EU administration would face costs for the legislative amendment of the Directive. National administration would also face a moderate burden, but the alignment with other EU legislation could facilitate enforcement, by simplifying the legislative framework applicable to credit. The costs of the partially quantified measures for public administrations would amount to around EUR 3 million. The provision of debt advice services in all Member States would amount to EUR 22.57 million per year,[195] so EUR 230 million until 2030. But the linked benefits would outweigh those costs (see above).
- Among **other market participants**, credit intermediaries would be affected by the changes included in the preferred option, in particular from the provisions on providing adequate explanation. The preferred option would also bring benefits to radio broadcasts.

8.3 Synergies with other legislation

The preferred option would include several measures in line with other EU legislation.

Several measures proposed under this policy option, e.g. the alignment on responsible lending requirements and the categories of data to be used for creditworthiness, have been inspired by the Mortgage Credit Directive ('MCD' 2014/17/EU) requirements. This would achieve a **more harmonised legal framework for credit agreements in general**.

The provision on the use of alternative sources of data to conduct creditworthiness assessments would reflect the General Data Protection Regulation (EU 2016/679, 'GDPR') principles in particular the **principles of data minimisation, accuracy, storage limitation** as laid down in Article 5 of the Regulation (EU) 2016/679. This measure, without prejudice to the GDPR, aims to address the concerns (e.g. processing of disproportionate amounts of

[194] It is expected that some of these costs are going to be passed on to consumers.
[195] VVA, CEPS, 2021.

personal data) identified in the processing of personal data that are specific to practices observed in the consumer credit market, i.e. the use of alternative sources of data for creditworthiness assessments or the transparency those assessments when they are carried via machine learning techniques. The preferred option would also include provisions in line with the Omnibus Directive (EU 2019/2161) and the Consumer Rights Directive (2011/83/EU). **Legal coherence between these legal instruments and the Directive would be increased**.

8.4 REFIT (simplification and improved efficiency)

The review of the Directive is included among the Commission Work Programme REFIT initiative.[196] As mentioned above, the Directive's revision would entail costs **for businesses**, but is also expected to **reduce burden** on them, **thanks to enhanced legal clarity**. Moreover, several measures considered in the preferred options (e.g. scope extension) are already implemented in several Member States, so businesses present there would not need to face additional costs.

The **potential for simplification of the proposed initiative** stems mainly **from measures simplifying information requirements**.[197] In fact, the initiative will **reduce the advertising costs** for credit providers/intermediaries (on certain channels e.g. radio) while ensuring that consumers are presented with clearer information, easier to process and understand. Credit providers would have to face some limited implementation costs, but would eventually benefit from cost reductions in advertising credits, together with the radio industry. Compliance costs to advertise consumer credit will be reduced thanks to simplified information requirements which could in turn lead to higher investment in advertising via radio broadcasts, hence in increased revenues for them. According to the supporting study, the potential for simplification of requirements for advertising consumer credit on radio broadcasts can be estimated at EUR 1.4 million a year, so **14 million over the period 2021-2030**.

The burden reduction of **adapting information requirements for digital use** is difficult to ascertain. Adapting the form for mobile use has an initial cost but once these have been prepared, it could be less burdensome to provide these online than the full SECCI (which would still need to be provided anyway, such as via e-mail). In view of the fact that 36% of consumers entered a credit agreement online[198] this **burden reduction** could ultimately impact **over 25 million personal bank loans annually**.

As regards **reduced burden for public administrations**, the higher degree of legal clarity and the simplified regulatory framework applicable to credit (also thanks to synergies with other existing legislation) is expected to reduce the number of complaints and increasing the level of certainty and compliance, which would render enforcement procedures more efficient. Specific measures to reinforce coordination and improve conditions for enforcement are also expected to result in **efficiency gains in relation to the enforcement** of the

[196] It also builds on the Evaluation which was conducted following a REFIT Platform Opinion focusing on Article 4 of the Directive (standard information to be provided to consumers).
[197] Most business representatives consulted indicated that information requirements are among the main issues they face because they are burdensome and not necessarily fit for purpose.
[198] CCD Evaluation survey of consumers (Q30).

Directive’s obligations. Moreover, the initiative should reduce the need for interpretation by the CJEU, ultimately reducing the burden on EU public administration.

9. HOW WOULD ACTUAL IMPACTS BE MONITORED AND EVALUATED?

The Commission will monitor the implementation of the revised Directive, if adopted, after its entry into force. A commitment to evaluate the impacts of the new legislation, will be included in the draft proposal. The indicators proposed to monitor the impacts of the new legislation focus on the achievement of the specific objectives, in order to be able to assess the Directive's effectiveness, but also on its efficiency and coherence. The Commission will be mainly in charge of monitoring the Directive's impact, based on the data provided by Member States authorities and credit providers, which will be based on existing data sources where possible to avoid additional burdens on the different stakeholders.

Indicators	Data source	Actors
GENERAL		
▪ Trust and comparability, problems and detriment and expectations and choice in the consumer credit sector for different categories of stakeholders ▪ Total costs of the CCD (breakdown per provision), per category of stakeholder ▪ Total benefits of the CCD (breakdown per provision), per category of stakeholder ▪ Number, share and type of case law that relate to clarity of CCD legislation ▪ Number of issues identified that relate to incoherence in the CCD itself, to incoherence with other national legislation or with other EU legislation	▪ Consumer market scoreboard ▪ Market monitoring surveys ▪ Enforcement authorities ▪ Surveys/interviews with relevant stakeholders at EU and national level ▪ Market studies ▪ Eurobarometer	▪ European Commission ▪ Member States
SO1 Reduce the detriment arising from unregulated credit products		
▪ Number and share of creditors that do not comply with specific elements of the CCD ▪ Share of stakeholders that consider that definitions in the CCD succeed in ensuring consumer protection and market performance ▪ Number and market share of new market developments for consumer credit ▪ Number/share of consumer complaints on new credit types coming into the market	▪ Enforcement authorities ▪ Stakeholder surveys/interviews ▪ Market studies ▪ Eurobarometer	▪ European Commission ▪ Member States
SO2 Ensure that consumers are empowered by effective information on the risks, costs and impact of credit on their finances, also via digital means		
▪ Share of stakeholders that consider information through advertising is accurate, clear, timely and free of charge, online and offline ▪ Evidence of the clarity of SECCI, online and offline ▪ Number of days in advance of a credit offer the consumer received the SECCI ▪ Number of consumers (in)directly charged for any information provided ▪ Share of stakeholders consulted that consider the APR helps consumers in comparing credit offers ▪ Number/share of consumer complaints concerning adequate explanations	▪ Enforcement authorities/CPC ▪ Stakeholder surveys/interviews ▪ Behavioural/market studies ▪ Consumer and creditor surveys ▪ Mystery shopping exercises (e.g. through EBA) ▪ Member States expert group on the implementation of the CCD	▪ European Commission ▪ Member States

▪ Number of CPC cases related to widespread infringements of the Directive’s provisions on information requirements		
SO3 Ensure that credit granting is based on thorough assessment of the consumer’s best interest, both on the part of credit providers and consumers		
▪ Number/share of consumer complaints relating to the conduct of creditors or credit intermediaries ▪ Number/share of consumer complaints relating to the provision of advisory services ▪ Number/share of consumer complaints on CWA ▪ Number/share of consumer complaints relating to explanations on how a decision on their creditworthiness was reached ▪ Number of national competent authorities testing AI methods used for credit scoring ▪ Number of CPC cases related to widespread infringements of the Directive’s provisions on creditworthiness assessments	▪ Enforcement authorities/CPC ▪ Stakeholder surveys/interviews ▪ Behavioural/market studies ▪ Consumer and creditor surveys ▪ Mystery shopping exercises (e.g. through EBA) ▪ Member States expert group on the implementation of the CCD	▪ European Commission ▪ Member States
SO4 Prevent specific individual or systemic situations from exacerbating consumer detriment		
▪ Number/share of consumers that are over-indebted ▪ Number/share of consumers in arrears with loan repayments ▪ Share of financial/digital literate consumers in the EU ▪ Number/share of loans to which forbearance measures are applied. ▪ Number of debt advice services set up by Member States ▪ Number/share of consumers redirected to debt advice services at an early stage	▪ Member States expert group on the implementation of the CCD ▪ Enforcement authorities ▪ Stakeholder surveys/interviews ▪ Market studies ▪ Consumer and creditor surveys	▪ European Commission ▪ Member States
SO5 Reduce barriers for providers offering credit across borders while enabling more choice for consumers		
▪ Number/share of consumer complaints on cross-border consumer credit offers and contracts ▪ Number/share of consumers that obtained credits in another Member State ▪ Market share of cross-border consumer credit ▪ Share of stakeholders that consider that there currently is a level playing field ▪ Number/share of consumers whose credit application is rejected on the basis of consultation of a database	▪ Enforcement authorities/CPC ▪ Stakeholder surveys/interviews ▪ Eurobarometer ▪ Market studies ▪ Consumer surveys ▪ Member States expert group on the implementation of the CCD	▪ European Commission ▪ Member States
SO6 Simplify the existing legal framework and reduce unnecessary burdens		
▪ Share of stakeholders that consider there to be scope for simplification and burden reduction ▪ Number/share of consumer complaints on advertising ▪ Evidence of burden reduction linked to simplification of information disclosure requirements for advertisement through certain channels	▪ Market studies ▪ Stakeholder surveys/interviews ▪ Market studies ▪ Member States expert group on the implementation of the CCD	▪ European Commission ▪ Member States

ANNEXES

Annex 1: Procedural information

LEAD DG, DECIDE PLANNING/CWP REFERENCES

- LEAD DG: DG JUSTICE AND CONSUMERS
- DeCIDE PLANNING: PLAN/2020/6978
- CWP 2020 – ANNEX II (REFIT INITIATIVE NO. 42)[199]

ORGANISATION AND TIMING

The impact assessment took place between March 2020 and December 2020 and was announced in the 2020 Commission Work Programme – Annex II Refit Initiatives. It was carried out by Unit E1 "Consumer Policy" of the Commission, DG Justice and Consumers.

Representatives from the Secretariat General (SG), the Legal Service (SJ), DG Justice and Consumers (JUST), DG Financial Stability, Financial Services and Capital Markets Union (FISMA), DG Competition (COMP), DG Communications Networks, Content and Technology (CNECT), DG Economic and Financial Affairs (ECFIN), DG Employment, Social Affairs & Inclusion (EMPL), DG Energy (ENER) and the Joint Research Centre (JRC) were appointed to the Interservice Steering Group.

The Interservice Steering Group met three times between April 2020 and December 2020. The first meeting was held on 6 April 2020, the second meeting on 16 October 2020 and the third meeting on 15 December 2020.

EXCEPTIONS TO THE BETTER REGULATION GUIDELINES

The Better Regulation Guidelines and Tools were followed without any exception.

CONSULTATION OF THE RSB

An upstream meeting was held with the Regulatory Scrutiny Board (RSB) on 17 July 2020, to informally discuss questions concerning how to prepare the best possible report for the Directive’s revision. The draft of the impact assessment was submitted to the RSB on 6 January 2021 and discussed at the RSB hearing of 3 February 2021. The RSB delivered a negative opinion on 5 February 2021. Following this development, a revised version of the draft impact assessment was resubmitted to the RSB on 26 March 2021. The RSB delivered a positive opinion with reservations on 23 April 2021. The comments formulated by the Board were addressed and integrated in the final version of the impact assessment, stemming both from the first and second opinion of the RSB.

1st RSB opinion:

- The Draft Impact Assessment was redrafted to better illustrate the expected evolution of the consumer credit market and why the EU should create a harmonised market for consumer credit while ensuring a protective framework for consumers.

[199] https://eur-lex.europa.eu/resource.html?uri=cellar%3Af1ebd6bf-a0d3-11ea-9d2d-01aa75ed71a1.0006.02/DOC_2&format=PDF

- Some parts of the problem definition were shortened, but risks associated with new types of credit and their cross-border potential are described with more granularity. New figures from recently published materials were added to substantiate the problems.
- The Draft Impact Assessment was redrafted to better demonstrate that while the conclusion of direct cross-border credit agreements is still low, this situation could change fast. Digitalisation is constantly changing the market and new market players are expected to change the consumer lending market. In this light, the subsidiarity argument was strengthened.
- The Draft Impact Assessment was revised to better explain the fact that a thorough examination of the possible legal basis has been conducted.
- The possibility to (partially) repeal the Directive has been added and there is an elaboration on why it should be discarded.
- The differing views of stakeholders are now more clearly presented.
- The description of the options in the main text has been enriched.
- The benefit estimates have been reviewed, based on the supporting study which has been revised by the contractor. The updated (partial) quantification analysis shows that there are only two measures with negative net benefit. The measure on improving definitions and terms of the Directive (but as explained in the Draft Impact Assessment, the model does not take into account benefits in terms of enhanced level playing field for industry thanks to further harmonisation); and the measure on 'early detection' (with a slightly negative net benefit). A case study based on simplified hypothesis, has been added to complement the quantification analysis and illustrate the benefits stemming from improved creditworthiness assessment.
- The comparison of the options looks at the three criteria considered: effectiveness, efficiency and coherence.
- In order to better reflect the costs of the different measures, a multi-criteria analysis has been performed for the efficiency analysis rather than for effectiveness, coherence and efficiency. In addition, the impacts considered in the multi-criteria analysis have been re-arranged to have a balanced approach between benefits and costs, and performance scores have been adapted. The analysis also balances the weights of costs and benefits (50% each).
- The preferred option (Section 8) has been adjusted to reflect the revised analysis, it now includes the measures on simplification of information and on the ban of unsolicited credit. Although a comprehensive quantitative analysis on it could not be performed in the support study, the measure on debt advice services remains part of the preferred option, because other evidence shows its high cost effectiveness. By contrast, the 'early detection' measure, showing a negative net benefit in the partial quantification, was removed. The proposal will be restricted to elements for which EU action is needed. For instance, the scope has been extended, but taking into account subsidiarity considerations, not to loans above EUR 75 000 or to pawnshop agreements.
- The report was revised to better present the potential for simplification of the proposed initiative, elaborating on reduced burden for businesses and public administration and including cost estimates where possible.

2nd RSB opinion:

- The report was reinforced to even better demonstrate the necessity for EU action, showing that national legislation cannot sufficiently protect consumers when the number and type of cross-border providers of consumer credit is increasing or is likely to increase, especially in view of digitalisation and recent market trends.
- The methodology was revised to take into account the Board's comments, following the first opinion. In particular, the assumed increase in the effectiveness attributed to certain measures was updated based on expert judgment. Following the second opinion, the report now better highlights the reasonable justification of the assumed effectiveness of individual measures in annex 9.
- The report now better illustrates the composition of the preferred option and highlights its proportionate character. The measures added from other options that compose the preferred option act complementarily and have a very beneficial impact overall.
- The non-extension of the scope of the Directive to pawnshops and to the removal of the upper threshold is better explained in the subsidiarity section and also in the beginning of the preferred option.
- Annex 1 now indicates how the comments and recommendations from the Board's first and second opinions have been taken into account.

EVIDENCE & EXTERNAL EXPERTISE

For the purpose of this impact assessment, Commission services collected data through various sources and consultation strands.

The impact assessment relies and builds on the **Evaluation of the Directive**, which took place in 2018-2019 and was announced in the 2019 Commission Work Programme, also following the commitment made in the 2017 REFIT Platform Opinion on Article 4 of the Directive. To this end, the Commission published an Evaluation Staff Working Document, an Executive Summary of the Evaluation, as well as a Report to the European Parliament and the Council on the implementation of the Directive. The Evaluation of the Directive received a positive opinion from the RSB.[200] The Commission previously outsourced to an external contractor a study supporting the Evaluation of the Directive, whose final report is also published.[201]

In 2020, the Commission outsourced a new **support study** to provide sound evidence and analysis for preparing this impact assessment for potential EU action to revise the Directive, of both quantitative and qualitative nature.

The Commission published the **Inception Impact Assessment** of the Directive and received public feedback on it from 23 June 2020 to 1 September 2020.

The Commission also based the impact assessment on the evidence gathered from the **New Consumer Agenda Public Consultation,** which included a section on the review of the Consumer Credit Directive, and was held from 30 June 2020 to 6 October 2020.

[200] The results of the Evaluation, including the Opinion delivered from the RSB, were published in the Better Regulation website of the Commission, see https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/1844-Evaluation-of-the-Consumer-Credit-Directive.

[201] https://ec.europa.eu/info/business-economy-euro/banking-and-finance/consumer-finance-and-payments/retail-financial-services/credit/consumer-credit_en

Two participatory workshops were organised with external stakeholders from both the consumer side and the industry side (in September 2020 and November 2020), to verify and validate impact assessment aspects and gather specific feedback on the problem definition and the assessment of policy options, i.e. in terms of expected effectiveness and efficiency.

The Commission consulted twice its dedicated **Member State Expert Group on the Implementation of the Consumer Credit Directive** (in May 2020 and December 2020). The first meeting was targeted to discuss the measures taken at national level in the area of consumer credit to face the COVID-19 crisis, considering preliminary lessons learnt from the crisis and discussing how to integrate them in the Directive's review. The second meeting discussed more broadly the impact assessment for the potential revision of the Directive.

A **stakeholder dialogue** was organised by the European Commission, in light of the **COVID-19** pandemic, to discuss inter alia credit payment moratorium measures. Two virtual roundtable meetings took place in May and June 2020, whose outcome was the adoption of a set of **Best practices in relation to relief measures offered to consumers and businesses in the context of the COVID-19 crisis**.

The Commission consulted the **Financial Services User Group** (FSUG) on the Directive's review, also holding in November 2020 a dedicated presentation regarding the Directive's impact assessment, enabling members of the FSUG to provide feedback on the Options.

The issue of financing the clean energy transition through consumer credit, and specifically credits for energy efficient renovation of buildings, were discussed at the **Citizens' Energy Forum 2020**, through a dedicated panel on the topic.

Annex 2. Stakeholder consultation – Synopsis report

INTRODUCTION & CONSULTATION STRATEGY

The stakeholder consultation collected information and feedback on various aspects of the Consumer Credit Directive ('CCD') and the consumer credit market from a wide range of key stakeholders representing consumers, industry, national authorities, researchers and other relevant interest groups. It included four online surveys and three short questionnaires, semi-structured interviews, the analysis of the responses to the questions related to the CCD in a Commission-run public consultation on the Consumer Agenda and two workshops organised by the contractor ICF at different stages of the study, for which the first covered the problem definition and the second aimed to validate the policy options. It also included the analysis of the feedback to the Commission's Inception Impact Assessment (IIA) as well as ad hoc contributions from stakeholders provided through other channels and consultation tools.

The aim of the stakeholder consultation was to gather feedback and information (qualitative and quantitative) from key stakeholders to support the definition of the key trends in the consumer credit market and problems faced by stakeholders related to the CCD. It also informed the development and selection of the policy options, with key stakeholders at EU and national level providing feedback on the impact of policy measures adopted by Member States and the preliminary policy options and measures developed.

CONSULTATION ACTIVITIES AND TOOLS

The impact assessment relies extensively on the evidence findings of the external supporting study prepared by the contractor ICF (Study on possible impacts of a revision of the CCD) which fed into the analysis of the Commission. The study was carried out under close guidance of DG JUST. The consultation strategy was underpinned by a number of key activities using multiple tools to target a wide range of stakeholders through different channels and gather insights from as many relevant stakeholders as possible.

Several **scoping interviews** with representatives from relevant EU institutions, i.e. the Directorates for Justice and Consumers (DG JUST), Economic and Financial Affairs (DG ECFIN) and Financial Stability and Capital Markets (DG FISMA) as well as several researchers from the Joint Research Centre (JRC) were conducted ahead of other consultation activities.

The **surveys and interviews** aimed at gathering views from the various key stakeholder groups. The four online surveys ran between end of July and mid-September. They targeted EU and national level representatives of consumer organisations, credit providers / intermediaries / other businesses involved in the marketing of consumer credit, business associations and national authorities. They sought to obtain data, supporting information and views on the recent and expected trends in the field of consumer credit, key problems faced by the various stakeholders, potential solutions to the problems and the expected impact of preliminary policy options and measures (including costs and benefits).

In addition to the online surveys, three **questionnaires** were developed targeting Alternative Dispute Resolution (ADR) bodies and members of the European Consumer Centres (ECC) and the Consumer Protection Centres (CPC) centres. The questionnaires focused on key issues faced by consumers and credit providers and the enforcement of CCD obligations. Feedback from ADR bodies was collected between mid-August and mid-September. ECC and CPC survey were distributed by the Commission in mid-August.

A **validation survey** was also developed targeting a specific group of stakeholders to gain feedback on the designed policy options. The validation survey ran from 11 November until 18 November. A total of 76 stakeholders were invited to complete the survey. In addition to attendees and registered participants to the validation workshop (49 stakeholders), discussed below, willing stakeholders who completed the survey in August or participated in an interview (27 stakeholders) were also invited to contribute to the validation survey.

Table 10 Stakeholder groups consulted (planned number in brackets)

Stakeholder group	Consultation method		
	Survey/online questionnaires	Interview	Follow-up validation survey
EU institutions	N/A	4 (3)	-
Credit providers (including 5 non-banks)	8 (100)	7 (10)	1
Credit intermediaries (including online and P2PL platforms)		0 (5)	0
Other business operators involved in the marketing and granting of consumer credit		2 (5)	1
EU-level business associations	23 (30)	2 (2)	3
National business associations		7 (10)	6
EU-level consumer organisations	14 (30)	3 (5)	1
National consumer organisations		4 (10)	2
National authorities (i.e. consumer enforcement authorities, responsible ministries and the relevant national regulatory and supervisory authorities)	32 (108)	5 (15)	6
ADR bodies	10 (69)	N/A	-
CPC members	10 (29)	N/A	-
ECC members	6 (30)	N/A	-
Researchers and thematic experts / academia	N/A	1 (3)	-
Total	**103 (396)**	**35 (68)**	**20**

Source: ICF assessment, impact assessment supporting study

The responses to the questions relating to the CCD included in a **public consultation on the New Consumer Agenda**, which ran from June to October 2020, were also analysed. The consultation received a total of 393 responses, and **250 respondents** answered at least one question in the CCD review section (including EU and non-EU citizens, business associations, business organisations/companies, public authorities, consumer organisations, NGOs, academic and research institutions, and others). Table 3 presents the profile of the respondents (stakeholder group) who answered this section of the public consultation, and the percentage of responses received from each group.

Table 11 Profile of respondents to the Consumer Credit Directive review section of the New Consumer Agenda public consultation

Stakeholder group	Percentage of responses
Citizens	27% EU, 1% non-EU
Business associations	22%
Companies / business organisations	14%
Public authorities	13%
Non-governemental organisations (NGO)	9%
Consumer organisations	7%
Other	4%
Academic / research institution	3%
Total	**100%**

Source: Factual Summary Report – public consultation on the New Consumer Agenda

Stakeholder feedback was received on the **Inception Impact Assessment** between June and September 2020, following the Commission Proposal to review the CCD as part of the REFIT Annex of the Commission Work Programme 2020. A total of 25 contributions were received, analysed and taken into account. Their input covered the assessment of the expected economic, environmental and social impacts of a potential EU action to revise the Consumer Credit Directive.

A **participatory workshop** was organised by ICF in September 2020. It gathered a total of 54 participants (20 active participants and 34 observers), mostly from EU-level organisations representing the interests of credit providers and intermediaries, consumers and other relevant businesses, but also a subject-matter expert. In addition, 11 representatives of the Commission joined and 4 members of the ICF study team. The workshop covered the key issues affecting consumers and credit providers (and other business operators involved in the marketing and provision of consumer credit), structured around five main problems, each of them broken down in sub-problems. The workshop also gauged stakeholders' preference in terms of policy solutions, ranging from non-regulatory measures to measures going beyond legislation.

A **validation workshop** was organised by ICF in November 2020. Invitations were extended to the participants of the first workshop, complemented by further national level organisations. It gathered participants from 58 organisations (21 active participants and 37 observers), mostly from EU-level organisations representing the interests of credit providers and intermediaries, consumers and other relevant businesses. The Commission was represented by 7 participants (2 active and 5 observers); 4 members of the ICF study team were also present. This second workshop built on the findings of the participatory workshop and gathered feedback on the policy options designed to address the problems that were refined based on feedback from the participatory workshop. The workshop offered participants a chance to discuss the various policy options, covering aspects such as their expected effectiveness and efficiency in addressing the problems identified and the impacts that they are likely to have on key stakeholders, and to vote for their preferred measures. In particular, discussions addressed both positive and negative aspects of feasibility, effectiveness and EU added value of the policy options, as well as the benefits and risks or costs on both consumers and industry. Other impacts were also addressed.

Ad-hoc contributions were received from the European Commission or directly from stakeholders. In addition, a few stakeholders provided their responses to the survey by email or shared their answers to the interview questions in writing. These contributions were not treated differently but analysed together with the others.

A presentation at the **Financial Services User Group** (FSUG) was held on 19 November 2020, enabling members to provide feedback on the Options. Specific views were shared (in writing) after the meeting.

The Commission also consulted its dedicated **Member State Expert Group on the Implementation of the Consumer Credit Directive** twice (May 2020 and December 2020). The first meeting was targeted to discuss the measures in the area of consumer credit taken at national level to face the COVID-19 crisis, and to consider preliminary lessons learnt from the crisis and discuss how to integrate them in the Directive's review. The second meeting discussed more broadly the impact assessment for the potential revision of the Directive.

A **mini-sweep exercise on consumer credit** took place in February/March 2021. Namely, a coordinated compliance check of online advertising and offers to purchase consumer credit products was conducted by a dedicated group of Consumer Protection Cooperation (CPC) authorities (members of the CPC network) ("Mini-sweep") . The activity was steered by the Commission pursuant to Article 29 of the Consumer Protection Cooperation (CPC) Regulation. In line with the strategic priorities of the New Consumer Agenda, the exercise of the CPC network has aimed to monitor and prevent proliferation of unfair practices in the consumer credit sector. This is to ensure that consumers who have found themselves in need of a credit in the midst of the COVID-19 crisis can rely on national public enforcement authorities to protect them in national as well as cross-border context. The primary objective of the Mini-sweep was to check on various technical devices (PC, tablets, smartphones), whether traders comply with EU consumer rules on standard information in online advertising of consumer credit, if the overall presentation of the consumer credit offers cannot mislead consumers, and if the offers do not aggressively exploit consumer vulnerabilities.

Other inputs were received through bilateral meetings with stakeholders, specific ad-hoc reports and data from consumer associations, industry representatives and researchers.

The evidence collection for the Staff Working Document is also based on the Commission's **experience in monitoring and implementing the Directive**.

EVIDENCE, SOURCES AND QUALITY

Thorough desk research and legal analysis were conducted.

The implementation of the stakeholder consultation encountered various challenges, some of which affected most consultation activities. The first obstacle observed relates to the impact of the COVID-19 pandemic. The uncertainty of the period generated new concerns and a shift of priorities for stakeholders. The low level of participation registered can also be attributed to multiple stakeholder consultations running simultaneously and the often limited resources to address these queries. The high level of responsiveness of industry representatives in the public consultation, compared to a low participation in surveys and interviews, may suggest that they considered their contribution to the public consultation sufficient.

The timing of the consultation also constituted an obstacle as it coincided with the summer period, when many stakeholders take their annual leave. Stakeholder fatigue may have also contributed to the low response rate. Most stakeholders had been already contacted in the previous year to participate in the Evaluation of the CCD and some of them argued that they had no additional time or new views to share over such a limited period of time.

MAIN STAKEHOLDER FEEDBACK PER CONSULTATION ACTIVITY

Interviews

The analysis of the interview responses shows that all groups of stakeholders have similar views on the *market trends in the field of consumer credit* during 2015 – 2020. Among all stakeholder groups interviewed, the digitalisation of the market was highlighted as the key trend. Other recurring trends mentioned by stakeholders refer to the low level of cross-border provision of consumer credit (i.e. consumer credit in the national market is still mostly provided by national banks, and the demand and supply for cross-border credit remains low) and the emergence of new types of credit and players.

The general opinion of all participants is that there are *other market trends* that follow technological advances, such as *new types of credit providers and the way consumers search for and access credit*. Industry representatives and consumer organisations agree that the CCD did not anticipate the technological disruption. The majority of **consumer organisations** highlight the negative impact on consumer protection resulting from, for example, unregulated new entities and the *overload of information*. **Industry representatives** also acknowledge the negative impact on consumer protection, but highlight the challenges related to the required information that needs to be provided, which imposes unnecessary costs and fails to protect the consumer. Industry representatives involved in advertising and marketing of credit called for a revision of Article 4 of the CCD, to reduce the amount of information that needs to be provided in advertisement, especially on radio.

Stakeholders generally believe that it is too early to predict the *impact of the COVID-19* pandemic and subsequent economic downturn. Nonetheless, most **national authorities** and **consumer organisations** interviewed expect it to lead to a reduction on the demand of consumer credit, an opinion which is shared only by a minority of **industry representatives**. A few national authorities noted a decrease in credit supply due to imposed national measures in response to the pandemic, such as decreased interest rates. Reflecting on the impact on *over-indebtedness*, a majority of consumer organisations also noted an increase of over-indebtedness among consumers as a result of the pandemic.

Regarding the *cross-border provision of credit*, a great majority of **consumer organisations** support a fully harmonised framework at EU level to ensure a level-playing field for credit providers and intermediaries and ensure the same level of protection of all EU citizens. Harmonisation would be beneficial with regard to creditworthiness assessments, regulations regarding access to databases and information requirements to avoid legal uncertainty. This opinion is shared by a majority of **national authorities** and national **industry representatives**, although a few of national industry representatives disagreed and do not see the need to revise the CCD.

When asked about the reasons explaining the *small share of the cross-border market* for consumer credit, **all stakeholder groups** highlight language or cultural factors as the main barriers preventing consumers to access credit cross-border. A majority of national consumer organisations put forward the low demand of cross-border credit from the consumer side. **Industry representatives** argue that supply is low due to the difficulty of credit providers to assess the creditworthiness of consumers resident in another country, the lack of specific skills and incentives to operate cross-border due to a low demand and the legal complexity inducing high costs (i.e. need legal experts). A **majority of national authorities** recognises the need to harmonise the rules to conduct a creditworthiness assessment and define clear guidelines in order to support the development of the cross-border market and tackle over-indebtedness. This was echoed by a **majority of consumer organisations**. However, national authorities also caution for over-prescriptive rules, which impose costs on credit providers and might lead to consumer discrimination.

Online surveys

The digitalisation of the consumer credit market and the prevalence of national credit providers in the national market are the *main market trends* observed in the past years across all stakeholder groups. A majority of **industry representatives** and **public authorities** also indicated that consumer credit in the national market is mostly provided by banks, as opposed to other non-bank credit providers. While the emergence/growth of new credit providers was highlighted by many industry representatives, national authorities and consumer organisations.

On *future market trends expected for 2025-2030*, respondents mainly indicated a continuation of the main trends observed in the past few years. Overall, all respondents commonly considered that technological advances will further change the way in which consumers search for and access consumer credit. The emergence or growth of new types of credit providers/ intermediaries is expected by the **majority of public authorities and consumer organisations**, contrasting with the **industry's view**.

There is a high level of consensus among stakeholders that the *demand for cross-border* consumer credit has not increased in their country since 2015, with language and cultural barriers playing an important role. While **all groups of stakeholders** also argued that consumers' lack of knowledge of the legal framework or a lack of confidence in redress mechanisms in other countries is an important obstacle in the cross-border provision of consumer credit.

A majority of all groups of stakeholders reported that their country has adopted rules at national level on not harmonised aspects by the CCD**.** The most common measures were interest rate or APR caps, the extension of the scope to other types of credit, and stricter rules concerning the process to perform creditworthiness assessments (CWAs) or the data to be used for the CWA.

On problems faced by credit providers, **industry representatives** agree that the requirements of information to be provided both at the advertising and at pre-contractual stage are the most challenging aspects. In addition, different regulatory approaches adopted by countries seem to undermine the level-playing field amongst credit providers in the view of industry representatives and national authorities.

When it comes to *problems faced by consumers*, **national authorities** and **consumer organisation**s generally argued that vulnerable consumers do not have the tools that would allow them to improve their financial situation and that that the information provided to consumers in advertising does not allow consumers to properly read and process the key information. While problems with the provision of information at pre-contractual stage are indicated by national authorities and consumer organisations.

On the *impact of different policy options on consumers***,** a possible amendment of the CCD to simplify the rules on pre-contractual information and legislative measures on debt advice services are believed to be the most beneficial for consumers, according to **consumer organisations** and **national authorities**. Respondents further elaborating their answer indicated that information requirements imposed by the CCD should be revised to ensure a balance between ensuring that consumers have all information and that they are able to understand all information provided, avoiding information overload. It is suggested by national authorities and consumer organisations that there is potential for very positive impact for consumers if the effectiveness of the disclosure of information is improved – while also considering the digital environment. When assessing the impact of potential policy options on **credit providers**, the simplification of rules on pre-contractual information and the non-regulatory measures to promote responsible lending are believed to be the preferred policy options as credit providers would eventually benefit from lower default rates.

Consumer organisations and **national authorities** tend to agree that legislative measures on *debt advice* services and amending the CCD to establish the obligation to provide debt assistance for over-indebted or otherwise vulnerable consumers would positively affect the level of over-indebtedness. Overall, stakeholders reported that the overall *level of compliance* among credit providers and intermediaries would remain the same irrespective of the policy option chosen. However, an important number of **national authorities** and **business associations** pointed to an increased level of compliance among credit providers in their Member State following the implementation of a simplification of rules on pre-contractual information and the adoption of measures related to the content and access to credit databases.

Additional questionnaires (CPC and ECC networks, ADR bodies)

The analysis of the **ECC survey** reveals that the main issues that consumers face when trying to access/obtain consumer *credit cross-border* relate to i) geographical restrictions imposed by credit providers; ii) lack of awareness about the possibility to obtain credit in other Member States; iii) fear of fraud or crimes; iv) lack of sufficient (online) information about credits in other Member States. Most stakeholders indicated that these issues are the result of the functioning of the market. Moreover, a group of stakeholders also identified the regulatory framework as a cause of the above-mentioned issues. Another group believed that these issues are also the result of external factors, namely the lack of knowledge, awareness and confidence of consumers in cross-border financial service providers.

Responses to the **CPC survey** show that the overall level of compliance with the CCD is considered to be high by a majority of respondents. Half of all respondents indicated that the level of compliance with other national rules is high. A large majority of respondents argued that there are several areas and/or specific obligation which are problematic in terms of compliance. A majority of them pointed to other issues strictly related to advertising, pre-contractual information, creditworthiness assessment and cross-selling. Some respondents reported that many credit providers and intermediaries do not comply with advertising requirements given the lack of information, the provision of misleading information, the absence of representative examples or misleading examples. As regards pre-contractual information, a few indicated that the SECCI form is problematic. A larger group found the creditworthiness assessment problematic as well. They highlighted the insufficient control over the information provided by the consumers, the increasing automation of the decision, the limited number of questions for a thorough creditworthiness assessment and the fact that a credit is often nevertheless granted, despite the debt to income ratio is negative. The overall view of respondents is that the three main issues brought up in enforcement decisions against national entities involve the information included in advertising, the creditworthiness assessment and the calculation of the annual percentage rate of charge.

ADR bodies participating in the survey did not refer to cross-border cases, but only to national ones. Most ADR bodies indicated that common issues on the provision of consumer credit found in their country relate to i) consumers' inability to pay back; ii) the provision of information to consumers at pre-contractual stage; iii) right of withdrawal; iv) right of early repayment.

Inception Impact Assessment (IIA)

Stakeholders' feedback on the IIA also pointed to the digitalisation of the market as the main trend. According to the contributions received, the overload of information available to consumers due to technological advances and the requirements for providing pre-contractual information for credit providers has led to a decreased level of consumer protection. Other market trends mentioned by respondents included: i) the emergence of new types of credit products and credit providers not covered by the CCD, ii) the availability of big data, including from alternative sources and iii) changing consumer behaviour in the way consumers search for and access credit.

Generally, respondents across **all stakeholder groups** and EU Member States agree that information provided to consumers in the advertisement stage and at pre-contractual level needs to be reduced, simplified and reflect the growing use of digital devices as it fails to achieve its objective to protect the consumer.

As opposed to other stakeholder groups, a majority of **industry representatives** expressed views against or not in favour of more prescriptive rules defining the creditworthiness assessment. Further standardisation of the assessment would increase credit provider detriment and consumer discrimination according to the respondents. A few industry representatives expressed their appreciation for stricter measures and an EU framework to support creditworthiness assessments and increase efficiency and effectiveness. Reference was made to the guidelines of the European Banking Authority to inspire new measures. In general, consumer organisations and national authorities are in favour to put in place specified criteria. Almost half of **consumer organisations** explicitly argued in favour of specific criteria and the inclusion of additional measures, such as sanctions for creditors not adhering to the rules and specific consequences for negative creditworthiness assessment outcomes.

A majority of **national authorities** and a few consumer organisations advocated for the adoption of policy measures to anticipate unforeseen market disruptions, such as those caused by the COVID-19 pandemic. Half of the **industry representatives** argued, however, that self-regulatory mechanisms are more effective than prescriptive regulations trying to account for exceptional circumstances.

While all **national authorities** and a great majority of **consumer organisations** expressed appreciation of the idea of extending the scope of the CCD to include harmful credit products and new credit providers, **industry representatives'** opinion diverged. Half of them agree to revise the scope and include either all types of credit or credit providers, while a minority are not in favour to extend the scope. Generally, they call for proportionality and to consider the cost-benefits of such measures. A Member State also flagged the effectiveness of national measures addressing revolving credit to reduce over-indebtedness linked to it, and stressed existing issues with 'buy now pay later' free interest rate credits.

Participative workshop

Discussions on the key problems in the field of consumer credit revealed that most participants agree that the scope of the CCD appears to be insufficient in addressing all risks identified. Some **stakeholders both from the consumer and industry side** also expressed concerns about the potential detrimental effects of the COVID-19 crisis and about the increasing risks of cross-selling practices observed. Stakeholders that commented on the cross-border market for consumer credit, also both from the consumer and industry side, agree that there are still several barriers that need to be tackled such as fragmented legislation, access to databases or a low level of demand.

In terms of *possible policy solutions*, the majority of stakeholders who intervened (from business associations and consumer organisations) indicated that they welcome a higher level of harmonisation in the way CWAs are conducted and stronger safeguards to ensure responsible lending across EU. On the contrary, **some representatives of the industry** warned about the risk of over-regulation. Several industry stakeholders raised concerns about the risk of creating an information overload for consumers if new information requirements are to be implemented. Finally, a great majority of stakeholders have expressed their preference for targeted legislative action (business associations), among which many have indicated a mix of different forms of extensive legislation action (majority of consumer organisations).

Validation workshop

Discussions on *the policy options* and their expected effectiveness and efficiency in addressing the problems identified and the impacts revealed that in general **business associations and credit providers** are in favour of either maintaining the status quo (policy option 0) or non-regulatory action (policy option 1) as it offers stability to the sector, which has already greatly been affected by the impacts of COVID-19, and was considered to effectively address the problems identified without imposing high costs on the industry. **To the contrary, consumer organisations** expressed to be in favour of extensive amendment to include provisions not addressed by EU regulation (policy option 3b) and even suggested to go beyond the proposed measures. Non-binding measures would not ensure a high level of consumer protection or effectively address the over-indebtedness and detrimental lending practices. **EU and national authorities** acknowledged the arguments and concerns of both stakeholder groups. **A few industry representatives** also referred to the recently published European Banking Authority (EBA) Guidelines that have introduced new measures and will already impose costs on the industry.

In terms of *feasibility*, for obvious reasons, non-regulatory measures would be easily implemented (policy option 1), while extensive amendment to include provisions not addressed by EU regulation would most likely receive resistance from the industry because of the additional costs imposed (policy option 3b). Extensive amendment of the CCD to include new provisions, in line with EU regulation (policy option 3a) would potentially encounter burdens in terms of feasibility risking an overlap with data protection regulation across member states.

In terms of *effectiveness*, stakeholders both from the consumer and industry side agreed that non-regulatory action will not achieve further harmonisation regarding, for example, the right of early repayment and withdrawal or the creditworthiness assessment. Including certain obligations on the information to consider during the creditworthiness assessments was not considered to be effectiveness in tackling consumer detriment and over-indebtedness.

Regarding *EU added value*, stakeholders (credit providers, business associations and consumer organisations) agreed extensive amendment of the CCD (policy option 3a and 3b) would contribute to the creation of a level-playing field for the industry and ensure same level of protection for consumers across the EU. A level-playing field would help reduce legal uncertainty and boost the development of a cross-border market offering benefits for both consumers and the industry.

In terms of *impacts on consumers and credit providers,* discussions confirmed that the more extensive the revision of the CCD, the more costs will be imposed on the **industry**, except with regard to amendments related to information requirements, which would lead to cost reduction. Extensive revision was considered to have a beneficial impact on consumers as expressed by the majority of **consumer organisations**. However, this does apply to the creditworthiness assessment. While consumer organisations argue in favour of stricter criteria, they also recognise the potential negative impacts on both consumers, such as consumer discrimination, and the industry, such as high administrative burdens.

Follow-up survey

Results of the follow-up survey revealed diverging views on preferred policy options between consumer organisations and business associations and credit providers. While **consumer associations** are in favour of extensive revision of the CCD (policy options 3a & b), the **industry** prefers non-regulatory action (policy option 1). However, stakeholders agreed on the need for amendment of the information-related requirements (policy option 2). Stakeholders who provided answers to the open-ended questions indicated that amendment would be favourable to simplify and reduce the amount of information that needs to be provided at pre-contractual stage, as well as with regard to the provision of information in the marketing of credit. Multiple stakeholders, including **national authorities** and **business associations** acknowledged the limitations related to policy option 1 in achieving regulatory harmonisation across EU member states. They appreciate the comprehensiveness of extensive revision of the CCD ensuring a high level of consumer protection (policy option 3a & b), while recognising the need to leave enough space for the implementation at national level. Nevertheless, the industry argues in favour of proportionality and the need to select relevant measures to adequately tackle the problems identified.

In terms of *feasibility*, **national authorities** and **consumer organisations** cautioned limitations related to policy option 1 in achieving regulatory harmonisation across EU member states. This could create legal uncertainty and curb the development of a cross-border credit market. A **minority of business associations** echoed the concern and highlighted the risk of unequal access to databases across member states resulting from regulatory fragmentation. The **majority of business associations**, as well as **credit providers**, highlighted feasibility issues with extensive review of the CCD (policy option 3a & b). A few stakeholders cautioned for aligning provisions in the CCD with the MCD without thorough analysis, proposed in policy option 3a. Finally, the industry also expressed resistance regarding the provision in policy option 3b to introduce APR caps.

In terms of *effectiveness*, non-binding measures would fail to achieve regulatory harmonisation across member states, according to all stakeholders who provided feedback.

This would result in legal uncertainty regarding the creditworthiness assessment, the issuance of credit and responsible lending. As opposed to consumer organisations, **business associations** consider policy option 2 to be effective in tackling the problems identified in particular with regard to creating a level-playing field for the industry and ensuring consumer protection. **Consumer organisations** and **national authorities** indicate that policy option 3b would be most effective to ensure sufficient level of consumer protection, including vulnerable consumers who are more likely targeted by harmful products.

In terms of potential *impacts on consumers*, analysis of the survey revealed positive to very positive impacts on consumers for policy options 3a and b, according to **national authorities** and **consumer organisations**. The results also show that the majority of national authorities indicates the positive impact of extensive revision on the industry. This contrasts with views of the industry. **Business associations** and **credit providers** highlight the negative impacts of extensive revision of the CCD imposing additional costs on the industry. Only the provision to reduce the amount of required information in advertisement and marketing was considered to have a positive impact on the industry.

CCD-related questions from the public consultation on the New Consumer Agenda

The public consultation questionnaire focused on the exploration of possible solutions to different issues identified. Responses to the public consultation showed that most stakeholder groups agree on the extension of the scope of the CCD, particularly to cover loans obtained via peer-to-peer lending and credits below EUR 200. Although this contrasts with the view of business associations, indicating that no scope extension is needed. In this regard, it was suggested that the extension of the scope of the CCD i) should be left to Member States considering differences in national markets; ii) and that better application of the existing rules would be more proportionate to the actual risk. While consumer organisations and citizens also argued to include all currently exempted credits.

The *provision of information at pre-contractual stage* is expected to be improved by simplifying information and focusing only on key features of the offer. The use of comparison tables is also commonly suggested, especially amongst consumer organisations and academic institutions. **Views across stakeholder groups differ** when it comes to the moment to provide pre-contractual information. While **industry representatives** prefer right before signing the contract, the **rest stakeholder groups** argued that pre-contractual information should be provided with a longer notice (one day or even five days in advance).

On the *provision of information at the advertising stage*, **consumer organisations, national authorities and citizens** supported the introduction of warning messages and that the information should be given particular prominence. While the reduction of information provided in all communication channels was mostly suggested by **business associations and companies**.

Respondents generally indicated that *rules on responsible lending* could be further improved by i) prohibiting the provision of credit in case of negative creditworthiness assessment; ii) introducing caps on interest rates; iii) preventing online credit purchasing without enough time for reflection; iv) introducing binding principles; v) and by banning unsolicited credit offers. However, a **significant group of business associations and companies** argued that no further measures are needed. It is observed that while industry representatives call for non-standardisation and higher flexibility, **authorities and consumer organisations** support further harmonisation of rules.

Views on the need of additional *EU rules on access to credit databases* are divided between stakeholder groups. On the one hand, **business associations and companies** commonly agreed that EU rules should not be changed neither for CWA nor for credit databases as the current principles-based approach provides a sound basis for responsible lending. On the other hand, the **other stakeholder groups** generally indicated that EU law should provide for common standards both on data/methodology for CWA and categories of data collected for CWA purposes.

On *standards and methodology* that should be used, respondents further suggested i) a common European database; ii) a minimum (mandatory) set of information to determine CWA for all credit products; iii) limitation of the use of data to avoid intrusive assessment (e.g. social media and online shopping data). As to categories of data that should be used, stakeholders generally referred to negative, positive, and historic credit data. In addition, they indicated to study best national practices.

Two groups of stakeholders can be distinguished when it comes to their opinion on possible measures to safeguard the interests of both lenders and borrowers in *situations of exceptional economic disruption* (e.g. COVID-19 pandemic). **Industry representatives** believed that no action at EU level is needed and/or that flexibility embedded in the prudential framework for banks could be used to facilitate lending. It was reported by a group of industry representatives that extra measures are not necessary, given national responses and the Commission's Best Practices, which captures the measures adopted to protect consumers. While **the rest** (consumer organisations, national authorities, citizens, NGOs, research institutions) generally supported i) the implementation of specific rules allowing Member States to enact payment moratoria measures; ii) the adoption by Member States of measures encouraging creditors to exercise reasonable forbearance when a borrower is in financial difficulty; iii) new measures to strengthen services to support over-indebted consumers.

Member State Expert Group on the Implementation of the Consumer Credit Directive

Feedback from national authorities was also gathered through the Directive's dedicated Member State expert group. Member States generally welcomed the review approach and generally seemed to favour a comprehensive amendment of the Directive, to address problems in terms of scope, information to consumers and creditworthiness assessment, but also to tackle other problems such as practices by credit providers exploiting consumer's situation and patterns of behaviour, especially in the digital context.

Citizens' Energy Forum 2020

The 2020 Citizens' Energy Forum had a dedicated panel on how to empower citizens to finance their transition to clean energy. The Forum acknowledged the importance of enabling consumers to finance sustainable projects, in particular through consumer credit. It also stressed that since substantial investment is needed to achieve climate neutrality in Europe, green loans can contribute to it while directly benefitting consumers, including vulnerable ones, thus enabling to finance sustainable consumption.

Mini-sweep exercise on consumer credit (2021)

13 Member States and 2 EEA countries participated in the exercise and **118 websites** were swept in total. A **cross-border** element was confirmed in 32 out of 118 cases (27 %) of traders, in 10 cases traders offering credit were established in another Member State. In 22 instances, the trader was established in at least two Member States.

Regarding **information in advertisement**, it appeared that online lenders often omit important information, such as the credit cost in the advertising of consumer credit, which can mislead consumers. In 35 cases out of 118 (30%), the advertising of consumer credit, which indicates an interest rate or any figures relating to the cost of credit, did not include all the standard information by means of a representative example in a clear, concise and prominent way as required by the Consumer Credit Directive.

Regarding **creditworthiness assessment**, in 29 cases out of 85 of checked creditor websites (34%), Member States mentioned that, based on the information on the creditor's website, it was unclear how the creditworthiness assessment is performed, including the personal data used for that purpose and the possible use of machine learning. It is noteworthy that discrepancies were noted regarding the lack of clarity in the information provided between different devices, for example, this seemed to be particularly problematic on smartphones.[202]

Regarding the **short-term high-cost products** swept, in 47% of the cases (8 out of 17 products that Member States identified as short-term high cost), the website/ad was flagged for further investigation for potential irregularities. In the vast majority of these cases, this was because the standard information required for advertising was not presented by means of a representative example in a clear, concise and prominent way.

Regarding the **COVID-19 crisis**, in cases where the Member States had adopted extraordinary measures related to consumer credit (such as payment moratoria), the mini sweep looked into if the required information was provided on the website. In 23 out of 36 cases (64 %), the information was not provided in a clear and comprehensible manner. However, in most of these cases (16 out of 23, nearly 70%) the trader was not required to inform consumers about the measures on its website under national rules and therefore, the website was not flagged for potential irregularities by the sweeper.

Participating authorities will follow up on the cases that were flagged for potential irregularities with EU consumer law based on their national rules on investigation and enforcement.

[202] For websites checked by smartphones (27 out of 118), the suspected infringement rate was 44%, higher than the average in the mini-sweep (36 %). In most instances, the suspected irregularity flagged by authorities related to the standard information in advertising (in 10 out of 12 cases).

Annex 3. Who is affected by the initiative and how?

Practical implications of the initiative

Consumers would be affected very positively. Consumer trust would increase thanks to measures tackling practices exploiting consumers' situations and patterns of behaviour and more effective information provision. New rules on business conduct and remuneration and on financial advice the streamlining of information would ensure better and more informed consumer choices. A higher consistent level of protection would be guaranteed for borrowers, thanks to the extension of the scope of the Directive, caps on interest rate/APR, better creditworthiness assessments and measures to support over-indebted consumers both at an early stage (strengthened prevention) and via remedies (debt advice). Consumer detriment stemming from currently unregulated products would be reduced, and the effectiveness of the Directive in ensuring the protection of consumers would be increased, thus leading to less problems encountered by consumers, and to reduced financial detriment and time losses.

The impact on *society* is also deemed to be very positive. The promotion of responsible lending practices combined with the broadening of the scope is expected to contribute to limit over-indebtedness. 90% of the over-indebted households in the EU currently have no access to debt advice, but might use it. Moreover, measures on debt advice would contribute to reduce over-indebtedness linked to consumer credit.

The impact on *credit providers* would be less straightforward. In fact, on the one hand they would have to face most of the implementation costs of the new Directive, as shown by the cost assessment of specific policy measures, to adapt their infrastructure and in terms of personnel costs. However, it can be expected that these one-off costs would be passed on to the customer and thereby covered by the profit margins credit agreements, and as such less burdensome for businesses. Caps on interest rate/APR would be particularly costly for non-bank lenders, since they are more likely to offer high-cost credit. On the other hand, the relatively higher degree of harmonisation, together with the broadening of the scope, would result in a more level playing field for credit providers and to some extent facilitate the conditions to provide consumer credit cross-border credit. It should be mentioned that the impact on bank and non-bank lenders could differ. Non-bank lenders are more likely to offer small value short-term high-cost loans below EUR 200, and seem to perform less thorough creditworthiness assessments and to be less compliant with the Directive. Hence, the extended scope of application, coupled with clearer rules on creditworthiness assessments and reinforced enforcement would affect those actors more than bank lenders.[203]

Public authorities would also face costs. In particular, the EU administration would face costs for the legislative amendment of the Directive, even though the legislative process could be facilitated by the fact that the amended provisions would be modelled after existing legislation, requiring less resources to develop them. National administration would also face a moderate burden. The revised Directive would need to be transposed into national law. Moreover, establishing conduct of business rules pertaining to remuneration policy may give

[203] Finance Watch, 2021.

rise to higher costs, since some national labour laws may also need to be amended. Public administrations would also be required to monitor compliance with the new requirements, and some of them might result in high costs given how complex the matter is (e.g. monitoring the use of alternative sources in credit scoring systems using machine learning). Further costs would stem from the provisions on financial education and debt advice. Member State-level public administrations would also bear ongoing costs associated with reporting to the EU and for enforcement of the requirements, but in this context the alignment with other EU legislation could facilitate enforcement, by simplifying the legislative framework applicable to credit.

As regards the impact on *other market participants*, credit intermediaries would be also affected by the changes included in the preferred option, in particular from the provisions on providing adequate explanation. Since the size of the intermediary market is not known, the costs on this market participants could not be estimated. However, the demand for credit intermediary services seems to be quite low: only 11% of consumers surveyed for Directive Evaluation accessed credit through a comparison website or intermediary.[204] The inclusion of a specific provision on peer-to-peer lending could affect peer-to-peer lending platforms acting as intermediaries (i.e. presenting/offering credit agreements, assisting consumers or concluding credit agreements on behalf of creditor(s), for a fee) by explicitly including them under the scope of the Directive. The preferred option would also have an impact on advertisers on radio broadcasts, whose costs to advertise consumer credit would be reduced thanks to simplified information requirements, which could in turn lead to higher investment in advertising via radio broadcasts, and so increased revenues for them.

Summary of costs and benefits

The tables below present the costs and benefits of some of the measures which are part of the initiative which have been identified and assessed during the impact assessment process.

Table 12 Overview of benefits (direct benefits only include benefits that could be generated as a result of a given measure implemented banks – and not by non-bank lenders)[205]

I. Overview of Benefits (total for all provisions) – Preferred Option		
Description	***Amount (qualified when unquantified)***	***Comments***
Direct benefits		
Better coverage of unregulated products by removing the minimum and maximum thresholds (**2.1**)	EUR 276.18 million (M)	Figures drawn from ICF supporting study estimates Beneficiaries: consumers (reduction in consumers' financial detriment and monetised time losses)
Better coverage of unregulated products by including some of	EUR 759.51 M	Figures drawn from ICF supporting study estimates.

[204] The consumer survey performed for the CCD Evaluation support study was based on 3886 responses from the EU-28.
[205] Some of the benefits have the same value because the benefit of each measure was calculated based on the assumed increase in the Directive's effectiveness in reducing consumers' financial detriment and monetised time losses attributed to the measure. In some cases, the assumed increase is the same for different measures.

the currently excluded loans within its scope of application (**2.2**)		Beneficiaries: consumers (reduction in consumers' financial detriment and monetised time losses).
Improving legal clarity by providing a more detailed definition of some key terms related to obligations contained in the Directive (**2.3/2.7**)	EUR 241.66 M	Figures drawn from ICF supporting study estimates. Beneficiaries: consumers (reduction in consumers' financial detriment and monetised time losses).
Improving transparency and consumer understanding through a right to receive an explanation on how and on what basis a decision on creditworthiness was reached (**3a.15**)	EUR 138.09 M	Figures drawn from ICF supporting study estimates. Beneficiaries: consumers (reduction in consumers' financial detriment and monetised time losses).
Regular assessment from the Commission of the financial education/digital literacy initiatives implemented in Member States, identification of best practices, and publication of the findings (**3a.17**)	EUR 34.52 M	Figures drawn from ICF supporting study estimates. Beneficiaries: consumers (reduction in consumers' financial detriment and monetised time losses).
Increased awareness of consumers through an obligation upon credit providers to inform them whether advisory services are or can be provided (**3a.7**)	EUR 20.71 M	Figures drawn from ICF supporting study estimates. Beneficiaries: consumers (reduction in consumers' financial detriment and monetised time losses).
Prohibition of product tying practices (**3a.9**)	EUR 138.09 M	Figures drawn from ICF supporting study estimates. Beneficiaries: consumers (reduction in consumers' financial detriment and monetised time losses).
Prohibit unsolicited sale of credit (**3b.6**)	EUR 172.62 M	Figures drawn from ICF supporting study estimates. Beneficiaries: consumers (reduction in consumers' financial detriment and monetised time losses).
Improve the effectiveness of information disclosed in advertising by reducing the amount of information to be provided to consumers focusing on key information, when provided through certain channels (radio only) (**2.4**)	EUR 138.09 M	Figures drawn from ICF supporting study estimates. Beneficiaries: consumers (reduction in consumers' financial detriment and monetised time losses).
	After the initial (limited) costs to adapt to the Directive, compliance costs to advertise consumer credit would be reduced thanks to simplified information requirements, which could in turn lead to higher investment in advertising via radio broadcasts, hence in increased revenues	Figures drawn from ICF supporting study estimates. Beneficiaries: advertisers and radios.

	for them. EUR 14 M	
Present key pre-contractual information in a more prominent way (without reducing the amount of information provided to consumers at pre-contractual stage) (**2.5**)	EUR 69.05 M	Figures drawn from ICF supporting study estimates. Beneficiaries: consumers (reduction in consumers' financial detriment and monetised time losses).
Obligation upon Member States to set interest rate/APR caps, without specific rules or guidelines on how these should be calculated.	Caps are likely to result in a reduction of consumers who end up in debt spirals.	ICF supporting study. Beneficiaries: consumers (reduction in consumers' financial detriment and monetised time losses).
Indirect benefits		
Obligation upon Member States to provide – directly or indirectly – debt advice services for over-indebted or otherwise vulnerable consumers.	Per EUR 1 spent debt advice will provide between EUR 1.4 – 5.3 in terms of equivalent benefits, mainly referring to the social costs of over-indebtedness avoided.	Extrapolation from the First Interim Report by VVA and CEPS on provision of actions to extend the availability and improve the quality of debt-advice services for European households (first task of a project to be completed in 2021). Beneficiaries: society.

The (partially) quantified benefits for consumers stemming from the assessed measures amount to around EUR 1 990 million.

Enhanced legal clarity is expected to reduce burden on businesses. Moreover, the burden reduction stemming from measures simplifying information requirements represent around EUR 14 million for advertising consumer credit on radio broadcasts. The burden reduction linked to adapting information requirements for digital use is expected to be quite relevant, because it would represent a reduction in costs for providers on at least 25 million personal bank loans annually (personal loans that consumer enter online).

As regards reduced burden for public administrations, the higher degree of legal clarity and the simplified regulatory framework applicable to credit (also thanks to synergies with other existing legislation), together with specific measures to improve enforcement, is expected to render enforcement procedures more efficient (reducing the number of complaints and increasing the level of certainty and compliance).

Table 13 Overview of costs (only including costs generated as a result of a given measure implemented banks – and not by non-bank lenders, in thousands of EUR)

II. Overview of costs – Preferred option							
Measure		*Citizens/Consumers*		*Businesses*		*Administrations*	
		One-off	*Recurrent*	*One-off*	*Recurrent*	*One-off*	*Recurrent*
2.1	Direct costs	-	-	23488	122696	15	167
	Indirect costs	Not available					
2.2	Direct costs	-	-	83081	667812	66	584
	Indirect costs	Not available					
2.3/ 2.7	Direct costs	-	-	70464	318623	54	500
	Indirect costs	Not available					
2.4	Direct costs	-	-	8235	-	20	73
	Indirect costs	Not available					
2.5	Direct costs	-	-	9065	-	22	73
	Indirect costs	Not available					
3a.15	Direct costs	-	-	21275	69957	23	67
	Indirect costs	Not available					
3a.17	Direct costs	-	-	-	-	48	957
	Indirect costs	Not available					
3a.7	Direct costs	-	-	6732	-	18	83
	Indirect costs	Not available					
3a.9	Direct costs	-	-	24495	-	32	167
	Indirect costs	Not available					
3b.6	Direct costs	-	-	37489	None	46	331
	Indirect costs	Not available					

Source: ICF support study to the impact assessment.

Some of the (partially) quantified costs for businesses (around EUR 1 460 million) are expected to be passed on to consumers.

Funding needs for debt advice services for all EU Member States - where such services are either well developed, available, sporadically available or need to be completely set up - would amount to EUR 22.57 million per year. For the period 2021-2030, costs linked to the setting up of debt advice services have been estimated around EUR 230 million.[206] They would be largely borne by public administrations.

[206] Extrapolation from the First Interim Report by VVA and CEPS on provision of actions to extend the availability and improve the quality of debt-advice services for European households (first task of a project to be completed in 2021).

Annex 4. Analytical methods used in preparing the impact assessment

Consumers affected in the status quo

Based on the data collected in the impact assessment supporting study the possible number of consumers affected for key provisions of the Directive, key types of credit and key elements of the measures presented in the options considered. A distinction has been made between personal loans and credit card, for which figures could be derived.[207] The figures below should be considered as indicative of the number of consumers affected by the issue. In addition, the figures do not distinguish between the different extents to which consumers are affected by the various issues, possible measures or credit products falling outside the scope of the Directive. As figures are based on different assumptions, and include extrapolations from the UK, which however was a member of the EU until 31 January 2020, they should be treated with caution.

Table 14: Consumers affected annually in the status quo (estimate) based on EU-27 figures

Provision	Estimate of consumers affected: based on personal loans	Estimate of consumers affected: based on credit cards	Explanation
Understanding of the CCD			
SECCI: Consumers that found SECCI unhelpful or very unhelpful	2.9 million	9.8 million	Based on share of consumers with a credit agreement finding SECCI unhelpful (4%) or very unhelpful (1%) based on ICF survey from the CCD Evaluation
Understanding offer: Consumers that indicated not to understand the offer	8.7 million	29 million	Based on ICF consumer survey from the CCD Evaluation with 15% of consumers with a credit agreement that disagreed or strongly disagreed that offer was easy to understand.
Understanding of credit offers: Offers rated as complex or very complex	11 million	37 million	Based on share of consumers with a credit agreement marking understanding as complicated or very complicated in ICF survey from the CCD Evaluation (19%).
APR: Consumers who have not heard about the APR	5.2 million	18 million	Consumers with a credit agreement, based on ICF survey from the CCD Evaluation, extrapolated for the EU-27.

[207] Based on the EU population older than 15 years, and on the assumption that the share of EU citizens with a personal loan is still unchanged at 13% and that the share of EU citizens with a credit card is 43%. Please note that the proportion of credit cards agreement under EUR 200, excluded from the current Directive's scope, is not known.

Provision	Estimate of consumers affected: based on personal loans	Estimate of consumers affected: based on credit cards	Explanation
APR: Consumers who have heard about the APR but do not know the rate	18 million	61 million	Consumers with a credit agreement, based on ICF survey from the CCD Evaluation, extrapolated for the EU-27.
Compliance			
SECCI: Consumers that did not receive SECCI	10 million	35 million	Based on 18% of consumers in the CCD Evaluation reporting not having been provided with SECCI[208]
APR: Consumers not informed about the APR	5.8 million	20 million	Based on 10% of consumers in the CCD Evaluation reporting not having been informed[209]
Credit intermediaries: Consumers affected by problems	4.1 million	NA	Based on share of consumers taking out a loan through a credit intermediary at 11% (ICF survey of the CCD Evaluation) and 1.5% (public consultation survey), and a problem incidence rate of 65% (2013 Commission study).
Creditworthiness assessment: consumers whose ability to pay was not verified	5.8 million	20 million	Based on 10% of consumers in the CCD Evaluation who indicated that their ability to pay was not verified.
Down payments: Consumers asked to pay a down payment	15.7 million	53 million	Based on share of consumers asked to pay a down payment (27%), based on the ICF survey in the CCD Evaluation.
Credit types			
Prevalence of zero-interest loans *(Options 2, 3A and 3B)*	7.2 million	NA	Based on Eurofinas data (2019) showing 12% of consumers taking consumer credit at PoS. Extrapolated to the EU-27 based on the number of consumers with a credit agreement.
Prevalence of pawnshop agreements *(Options 2, 3A and 3B)*	3.1 million	NA	Based on the 0.7% of UK citizens that have such an agreement. Extrapolated for the EU-27 based on the number of consumers with a credit agreement. Note: limited data, speculative figure.

[208] ICF survey, Q13
[209] ICF survey, Q10a.

Provision	Estimate of consumers affected: based on personal loans	Estimate of consumers affected: based on credit cards	Explanation
Prevalence of leasing agreements *(Options 2, 3A and 3B)*	Between 7 and 8.2 million	NA	The minimum number has been based on data from Finance Watch, showing this at 12% of total credit. This has been applied against our estimates for consumer credit. The maximum figure has been based on data from Eurofinas on the share of new car loans (44%) of the total number of car loans (which is 33% of total consumer credit).
Prevalence of overdraft facilities *(Options 2, 3A and 3B)*	21 to 46 million	NA	Based on figures from UK, NL and FR ranging from share of persons (37%) with an arranged overdraft (UK) to share of persons (80%) indicating in a survey they have an overdraft facility (NL). Based on the number of consumers with a credit agreement.
Prevalence of credits below EUR 200 *(Options 2, 3A and 3B)*	Between 6.4 million and 31 million	NA	Minimum figure based on figures of 34% of loans up to EUR 200 from a large non-bank lender in the EU. Bank figures are estimated to be at one third of these figures. This has been extrapolated for the EU. Based on the number of consumers with a credit agreement. Maximum figure based on figures from the Swedish Financial Supervisory authority, showing prevalence of consumer loans below EUR 200 at 53% but this figure includes revolving credit.
Prevalence of Short-term high-cost credit	20 million	NA	Based on the 4.4% of UK citizens that have such an agreement. Extrapolated for the EU-27. Note: limited data, speculative figure. Based on the number of consumers with a credit agreement.
Roll-over credit	20 million	NA	As per the above (STHC credit).
Linked credit: Major problems with exercising their right of withdrawal for linked credit agreements	Up to 17,500	NA	Based on 1% of consumers exercising their right of withdrawal, maximum 50% of new agreements being linked credit, 16% of those consumers reporting

Provision	Estimate of consumers affected: based on personal loans	Estimate of consumers affected: based on credit cards	Explanation
			problems, of which 41% are major problems. Based on the number of consumers with a credit agreement.
Cross-selling: Consumers affected by lender trying to sell additional products	24 million	NA	Based on 42% of consumers who indicated this been asked them in writing or orally when purchasing a loan.[210] Note: low sample size. Based on the number of consumers with a credit agreement.
Revolving credit: unrequested extensions of the credit line	NA	24 million	Based on estimated 44% share of consumers with a credit card (2018),[211] 12% share of consumers with problems.[212] Based on the number of consumers with a credit agreement.
Protection of consumers			
Interest rate caps *(Option 3B)*	*No data*		
Forbearance measures *(Options 3A and 3B)*	Up to 17,5 million	NA	Based on the share of consumers with credit having difficulties making ends meet (30%). The measure is considered useful for this entire subgroup but could – with changing circumstances – be useful for others, including those currently without a loan. The figure is therefore a lower bound estimate.
Debt advice services for vulnerable consumers *(Options 3A and 3B)*	Up to 17,5 million	NA	As above
Debt advice services for low-scoring consumers *(Option 3B)*	Up to 17,5 million	NA	As above
Prevalence of pre-ticked boxes *(Option 3A)*	*No data*		
Prevalence of unsolicited sale of credit *(Option 3B)*		Up to 24 million	Estimations based on the number of consumers with a credit card in 2018 (44%), of which 12%

[210] London Economics, 2013.
[211] Eurobarometer 443 figures at 43%, indexed for 2018.
[212] Based on UK figures and extrapolated for the EU.

Provision	Estimate of consumers affected: based on personal loans	Estimate of consumers affected: based on credit cards	Explanation
			experiencing problems.

Source: ICF assessment, impact assessment supporting study

Assessment of the policy options' impacts

With regards to the assessment of impacts, the Impact Assessment supporting study has considered a wide array of economic, social, environmental, and overarching impacts and determine their expected magnitude, likelihood and relevance for stakeholders. An overview of the score given to each impact for each of these elements is presented in the table below. Based on this table, nine main categories of significant impacts were selected (see section 6).

Table 15 Significance of impacts for all the policy options under consideration

Key: '●' low; '●●' moderate; '●●●' high

Impact type	Expected magnitude	Likelihood	Relevance for stakeholders	Comment
Economic impacts				
Growth and investment	●	●	●	Not assessed as the options are expected to have a negligible impact on growth and investment.
Sectoral competitiveness, trade and investment flows	●	●	●	Not assessed as the options are expected to have a negligible impact on trade and investment flows. Competitiveness is discussed, however.
SMEs growth	●	●	●	Not assessed separately, though effects of the Options in terms of the credit market are discussed.
Functioning of the Internal Market	●●	●●	●●●	This is discussed in terms of consumer choice, competitiveness and specifically in regards to the specific objective on the internal market (under effectiveness)
Increased innovation and research and Technological development	●	●	●	Not assessed as the options are expected to have a negligible impact on innovation and research
Business substantive compliance costs and administrative burden	●●	●●●	●●●	These are covered under industry costs

Impact type	Expected magnitude	Likelihood	Relevance for stakeholders	Comment
Costs for public authorities	●●●	●●●	●●●	These are covered under EU and MS-level costs
Consumer detriment	●●●	●●●	●●●	These are covered under consumer impacts
Consumer prices and choices	●●	●●	●●●	These are covered under consumer impacts
Consumer decision making process	●●●	●●●	●●●	These are covered under consumer impacts
Social impacts				
Employment	●	●	●	Not assessed as the options are expected to have a negligible impact on employment, though the impacts for industry of the options are discussed in terms of the credit market impacts.
Income distribution	●	●	●	Not assessed as the options are expected to have a negligible impact on their own.
Health (& safety)	●	●	●	Not assessed as the options are expected to have a negligible impact on health.
Education	●	●	●●	Not assessed as the options are expected to have a negligible impact on education itself, even if education measures are discussed in terms of their impacts on consumers.
Governance & good administration	●	●	●●	Not assessed as the options are expected to have a negligible impact on governance & good administration.
Consumer trust	●●	●●●	●●●	Not covered separately, but as consumer behaviour under consumer impacts.
Consumer protection	●●	●●●	●●●	These are covered under consumer impacts
Social inclusion	●●	●●	●●●	These are covered under consumer impacts, together with over-indebtedness.

Impact type	Expected magnitude	Likelihood	Relevance for stakeholders	Comment
Over-indebtedness	●●	●●	●●●	These are covered under consumer impacts, together with social inclusion.
Environmental impacts				
Minimizing environmental risks	●	●	●	Not assessed as the options are expected to have a negligible impact on environmental risks.
Climate change	●	●	●	Not assessed as the options are expected to have a negligible impact on climate change.
Overarching impacts				
Application of the EU legal consumer framework (enforcement)	●●	●●●	●●●	Covered under implementation, monitoring and enforcement.
Economic and social cohesion	●	●	●	Not assessed separately.
Sustainable development	●	●	●	Not assessed as the options are expected to have a negligible impact on sustainable development.
Fundamental rights	●	●●	●●●	Covered as part of social inclusion
Individuals, private and family life, freedom of conscience and expression	●	●	●	Not identified as a potentially significant impact.
Property rights and the right to conduct a business	●	●	●	Not identified as a potentially significant impact category.

Source: ICF assessment, impact assessment supporting study

Table 16 Selected significant impacts

Main category of impacts	Affected parties	Assessment

	Society	Non-vulnerable consumers	Vulnerable consumers	Complying enterprises offering credit within the scope of the CCD	Uncompliant enterprises offering products outside of the scope of the CCD	Companies offering products outside of scope of CCD	Public authorities (EU)	Public authorities (national)	Qualitative	Quantitative
Consumer trust, choices and behavior		●	●						full	
Consumer protection		●	●						full	
Reduced consumer detriment		●	●						full	partial
Social inclusion and over-indebtedness	●	●	●	●	●	●	●	●	full	
Industry compliance costs				●	●	●			full	partial
Industry level playing field and competition				●	●	●			full	
Cross-border sales of credit	●	●	●	●	●	●			full	partial
EU public administration costs for adoption and enforcement							●		full	partial
Member-State public administration costs for adoption and enforcement								●	full	partial

● *– overall positive impact, for all options*
● *– overall negative impact, for all options*
● *- positive or negative impact*

To ensure a balance representation of costs and benefits, some of these impact categories were merged:

When calculating the overall efficiency score, it uses the average score, which includes more benefits (consumer) items than costs (business and public authorities) items. Overall, there are only three cost items (industry compliance cost, EU public authorities, Member States' authorities) against six benefit items. Given that the benefits are also covered under the effectiveness score, this gives an unbalanced image.

Limitations and mitigation measures

Limited availability of updated, EU-level, comparable quantitative data

The limitations related to the lack of timely and comparable Member State data and the inconsistencies across Member States in the terminologies used for the data that was partially available, affected, among others, the assessment of key problems in the field of consumer credit and the assessment related to the baseline and future policy options conducted as part of cost and benefit analysis. In particular, patchy character of statistics (e.g. on prevalence of financial products, consumer complaints and operations of non-bank lenders) and other quantitative data underpinning the assessment of potential costs and benefits[213] stemming from the implementation of considered policy options limited the robustness of the quantitative assessment of the impacts, both in relation to measures already adopted in Member States, and in relation to the possible policy options developed by the study.

Furthermore, the heterogeneity, scope and large number of measures for each of the policy options that were subject of the assessment made the assessments of costs and benefits across for all of those more challenging. For instance, while the model applied for the assessment of measures captures broadly the costs' implications for banks, it does not capture the possible costs for non-bank lenders[214], which for some policy options would be likely to incur the majority of costs. And by analogy, benefits stemming from possible application of number of options are also underestimated due to the fact that consumers relying on non-bank lenders are not captured by the model. In the same vein, number of undertaken assumptions for baseline scenario and future policy options suffer from high uncertainty due to the lack sufficient data e.g. either because it is too early to extract accurate evidence (e.g. impact of the COVID-19 pandemic and the measures adopted by Member States) or because data is not collected at all (e.g. current and future prevalence of some type of consumer loans at the national/EU level).

To mitigate the impact of these limitations (to the extent possible), the team conducting the supporting study followed up directly with some of the authors of the reviewed literature to clarify selected aspects of interests, sought to access non-publicly available data from some stakeholders (e.g. national banking associations and ECRI), extended the timeline of the consultation process, resorted to peer reviews, and when feasible, attempted to corroborate the existing evidence underpinning the key assumptions by relying on alternative available data. In addition, for some options where quantification of costs and benefits was not feasible, a qualitative approach was chosen instead.

Low response rate from stakeholders targeted by the stakeholder consultation

Several factors explain the low response rate from stakeholders consulted for the impact assessment supporting study, notably: the impacts of the COVID-19 crisis on organisations'

[213] Even more problematic for benefits than for costs

[214] There is no consistent and comprehensive MS and EU level data on number of non-bank lenders (including disaggregation by their main types) available.

resources, the timing of the stakeholder consultation culminating over the course of the summer, the overlap with other consultation activities (e.g. public consultation, feedback on the Inception Impact Assessment) resulting in stakeholder's fatigue. In addition, data collection followed the Evaluation of the Directive carried out only last year decreasing an appetite of some stakeholders to contribute this year.

To boost the response rate, the deadlines to respond to the surveys and to participate in interviews were extended until mid-September and mid-October, respectively. In addition, several reminders were sent to stakeholders, including two additional reminders following the summer period (tailored in the national language where possible). Other mitigation measures included reaching out to relevant organisations with established contacts to encourage some of the most unresponsive stakeholder groups (i.e. credit intermediaries, P2PL platforms) as well as direct phone follow-ups.

Annex 5: Policy options detailed measures

The below diagram explains in detail the considered policy measures and shows how they would address the identified problems, and ultimately achieve the initiative's objectives.

Table 17 Policy options detailed diagram

Problems	**Specific objective (SO)**	**Policy option 1**	**Policy option 2**	**Policy option 3a**	**Policy option 3b**
		Non regulatory measures	**Targeted amendment of the Directive to increase legal clarity**	**Extensive amendment to include certain new provisions in line with existing EU acquis**	**Extensive amendment to include provisions going beyond existing EU acquis**
Problem 1: Consumers taking out loans face detriment that could be avoided					
Sub-problem 1.1: Emergence of new risky credit products and new actors not (clearly) regulated	SO 1: Reduce the detriment arising from unregulated products	**1.1:** Issue an official communication clarifying the definitions of 'credit provider' and 'credit intermediary' contained in Article 3 (including peer-to-peer lending platforms)	**2.1:** Remove the minimum and maximum thresholds **2.2:** Include some of the currently excluded loans within its scope of application **2.3:** Amend the definition of some key terms which affect its scope of application (e.g. 'credit provider', 'credit intermediary')	**3.1** Include a new provision addressing specifically peer-to-peer lending <u>From other policy options:</u> Policy option 2: measures **2.1, 2.2, 2.3**	
Sub-problem 1.2: Limited consumer awareness of the key elements and costs of the credit product they obtain	SO 2: Ensure consumers taking out a credit are empowered by effective information on the risks, costs and impact of	**1.2:** Implement an awareness raising campaign through the European Consumer Centres providing clarity to consumers on elements that are identified as unclear (e.g. APR) **1.3:** Issue communication	**2.4:** Reduce the amount of information to be provided to consumers in advertising focusing on key information, especially when provided through certain channels (e.g. audio advertisements on radio or TV broadcasts) **2.5:** Present key pre-contractual	**3a.2:** Establish detailed requirements in relation to the provision of adequate explanations (in line with Art. 16 MCD) **3a.3**: Improve conditions for enforcement by introducing an article on Competent Authorities' (in line with Art 5 MCD) **3a.4**: Improve conditions for	**3b.2:** Include more details on the way information should be displayed to consumers at advertising and pre-contractual stage (e.g. format, font size) **3b.3**: Include an obligation on creditors to provide information about changes in the conditions of the credits in case special

	credit on their finances, also via digital means	to clarify terms that may be subject to interpretation (e.g. ‘in good time’ and ‘adequate explanations’ concerning pre-contractual information)	information in a more prominent way (without reducing the amount of information provided to consumers at pre-contractual stage) **2.6:** Establish detailed requirements in relation to when the pre-contractual information should be provided **2.7:** Provide a more detailed definition of some key terms related to the obligations contained in the Directive (e.g. ‘prominently’, ‘adequate explanations’, ‘sufficient information’, ‘in a timely manner’) **2.8**: Improve conditions for enforcement through the inclusion of a non-exhaustive list of criteria to be taken into consideration by competent authorities when issuing sanctions	enforcement and reinforce enforcement coordination by introducing a provision referring to the 4% rule set in the Omnibus Directive for cross-border widespread infringements (Art. 8b(4) of Directive 93/13/EEC as amended by Directive 2019/2161) **3a.5** Include a provision on the presentation of information based on the principles of the European Accessibility Act (presenting information in an adequate and suitable way on different channels). <u>From other policy options:</u> **See: 3a.6, 3a.7** (advisory services)	measures are applied following a systemic and exceptional economic disruption <u>From other policy options:</u> Policy option 3a: measure **3a.2** (adequate explanations), **3a.3, 3a.4** (enforcement), **3a.7, 3a.8** (advisory services), **3a.12** (prohibition pre-ticked boxes) Policy option 2: measure **2.4** (amount of information in advertising), **2.6** (when provide information)
Sub-problem 1.3: Existence of practices by credit providers exploiting consumer’s situation and patterns of behaviour	SO 3: Ensure that credit granting is based on thorough assessment (both from credit providers and consumers)	**1.4:** Implement an awareness raising campaign through the European Consumer Centres to promote responsible borrowing **1.5:** Establish EU-level guidelines on how to regulate aspects not	*By expanding the scope of the Directive and strengthening information provision requirements and creditworthiness assessment requirements, practices exploiting consumer’s situation and patterns of behaviour will be tackled*	**3a.6:** Establish a legal obligation for credit providers and credit intermediaries to promote responsible lending (i.e. to act honestly, fairly, transparently and professionally, taking account of the rights and interests of the consumers) (in line with Art. 7(1) MCD)	**3b.4:** Establish the obligation upon Member States to set interest rate/APR caps, without specific rules or guidelines on how these should be calculated **3b.5:** Establish an obligation for Member States to adopt measures to limit the additional costs/interests that credit

	of the consumer best interest	harmonised which are relevant to ensure responsible lending (e.g. limiting cross-selling practices, setting interest rate caps, establishing an obligation for credit providers to advise consumers on suitable products, limiting or banning rollover practices)		**3a.7:** Establish an obligation upon credit providers to inform consumers whether advisory services are or can be provided (in line with Art. 22(1) MCD) **3a.8:** Adopt standards on the provision of advisory services to consumers (in line with Art. 22(3) MCD) **3a.9:** Prohibit product-tying practices (in line with Art. 12 MCD. **3a.10:** Establish conduct of business rules on the remuneration policy of credit providers and intermediaries to ensure that it does not promote irresponsible lending practices (in line with Art. 7(3) MCD) **3a.11:** Establish an obligation upon credit providers, credit intermediaries and appointed representatives to ensure that staff members have the proper set of skills and knowledge (in line with Art. 9 MCD) **3a.12**: : Prohibit the use of pre-ticked boxes when offering consumer credit (in line with the CRD)	providers can charge when a credit is rolled over **3b.6:** Prohibit unsolicited sale of credit <u>From other policy options:</u> Policy option 3a: measures **3a.6** (responsible lending), **3a.7, 3a.8** (advisory services), **3a.9** (ban product tying), **3a.12** (prohibition pre-ticked boxes)
Sub-problem 1.4: Credits granted without thorough		**1.6:** Providing guidance on the type of information that should be assessed during a CWA, in line with the	**2.9:** Provide more detailed requirements in relation to how CWAs should be conducted	**3a.13:** Indicate that CWAs should take appropriate account of factors relevant to verifying the prospect of the consumer to meet his	**3b.7**: Introduction an obligation to consult databases to perform CWAs

assessment of the consumer creditworthiness (CWA)		EBA guidelines on loan origination **1.7:** Establish guidelines on the use of automated decision-making to conduct CWA See: **1.3** ('sufficient information')	See: **2.7** ('sufficient information'), **2.8** (enforcement)	obligations under the credit agreement and should be carried out based on information on financial and economic circumstances which is necessary, sufficient and proportionate. Member States shall ensure that the procedures and information on which the assessment is based are established, documented and maintained (in line with Art. 18 MCD) **3a.14:** Include a provision on the use of alternative sources of data to conduct creditworthiness assessments reflecting the principles of the GDPR, in particular the principles of data minimisation, accuracy and storage limitation as laid down in Article 5 GDPR **3a.15:** Include a provision establishing the right of consumers to request and receive an explanation on how and on what basis a decision on their creditworthiness was reached (i.e. reflecting the GDPR principles concerning automated decision-making) See: **3a.3, 3a.4** (enforcement)	<u>From other policy options:</u> Policy option 3a: measures **3a.13, 3a.15** (strengthened CWA + explanations)
Sub-problem 1.5: Certain consumers	SO 4: Prevent that specific individual or	**1.8:** Increased support to capacity building of consumer organisations	*Expanding the scope of the Directive and strengthening information provision*	**3a.16:** Establish an obligation on Member States to promote that financial education/digital literacy	**3b.8:** Establish an obligation upon Member States to provide – directly or indirectly – debt

(because of individual circumstances or systemic economic disruptions) fall easily into over-indebtedness	systemic situations exacerbate consumer detriment and increase over-indebtedness	and public bodies via funding on financial education, debt advice and assistance **1.9:** Establish EU-level guidance on measures that can be adopted by Member States to support indebted consumers whose financial situation is impacted by an external economic disruption (e.g. temporary moratoria on credit payments)	*requirements and creditworthiness assessment requirements, will help creating a more resilient framework for consumer protection also in the event of individual situations or systemic economic disruptions, while helping to prevent over-indebtedness*	initiatives are implemented, without establishing minimum requirements on the availability and the content of these initiatives (in line with Art. 6(1) MCD) **3a.17:** Establish an obligation on the Commission to regularly assess the financial education/digital literacy initiatives implemented in Member States and identify best practices, and to publish the findings (in line with Art. 6(2) MCD) **3a.18:** Establish an obligation upon Member States to adopt measures to encourage creditors to exercise reasonable forbearance, limiting the charges on default payments (potentially include definitions as well) (partially in line with Art. 28 MCD) See: **3a.3** (availability advisory services), **3a.12** (preventive action through CWA)	advice services for over-indebted or otherwise vulnerable consumers (including low scoring consumers) **3b.9:** Establish an obligation upon creditors to inform low-scoring consumers that debt advice services are available (provided that these services do not influence the credit ranking of the consumer), in particular if credit is granted following a negative outcome of the consumer creditworthiness assessment **3b.10:** Establish an obligation to include specific contractual clauses intended to cover cases of exceptional or systemic economic disruptions (e.g. debt relief/payment moratoria or special assistance for consumers in these cases) From other policy options: Policy option 3a: measure **3a.17** (financial literacy), **3a.18** (forbearance)
Problem 2: The competitiveness of the internal market is not fully achieved					
Sub-problem 2.1: Barriers for credit providers to business expansion	SO 5: Reduce barriers for providers offering credit across borders	*Recommendations and guidelines would create more even conditions for the provision of consumer credit across borders*	**2.10**: Obligation for credit databases to hold certain reliable negative data, to enhance reciprocity. *The clarification of existing*	*New provisions in line with other EU legislation, including one on widespread infringements in line with the Omnibus Directive, and the clarification of existing*	**3b.11:** Centralised databases, holding (at least) reliable negative data recording late payments and containing identification of national

across borders	while enabling more choice for consumers		*provisions would create more even conditions for the provision of credit to increase legal certainty and avoid fragmented interpretation of consumer credit across borders* See: **2.1, 2.2, 2.3** (extension scope)	*provisions, creating more even conditions for the provision of consumer credit across borders* See: **3a.3, 3a.4** (enforcement) <u>From other policy options:</u> Policy option 2: **2.1, 2.2, 2.3** (extension scope), **2.10**	residents, would be set up by Member States *New provisions, and the clarification of existing provisions, would create more even conditions for the provision of consumer credit across borders* <u>From other policy options:</u> Policy option 2: : **2.1, 2.2, 2.3** (extension scope)
Sub-problem 2.2: Difficulties for consumers to access cross-border credit offers		*Non-regulatory measures under option 1 would create a stronger EU framework for consumer protection facilitating cross-border access*	*The clarification of existing provisions would enhance the comprehension/comparability of information for consumers and create a stronger EU framework for consumer protection facilitating cross-border access* See: **2.5, 2.6** (pre-contractual information), **2.7** (clarify definitions and terms), **2.9** (CWA)	*New provisions in line with other EU legislation, and the clarification of existing provisions would enhance the comprehension/comparability of information for consumers and create a stronger EU framework for consumer protection facilitating cross-border access* See: measures **3a.2** (adequate explanations), **3a.5** (responsible lending), **3a.6, 3a.7** (advisory services), **3a.8** (ban product tying); **3a.12** (strengthened CWA), **3a.15, 3a.17** (financial education, forbearance)	**3b.12:** Introduction of a basic credit product that providers should make available to consumers *New provisions, and the clarification of existing provisions, creating a stronger EU framework for consumer protection facilitating cross-border access (e.g. debt advice services)* See: **3b.4** (APR caps), **3b.6** (ban unsolicited sale), **3b.8, 3b.9** (debt advice) <u>From other policy options:</u> Policy option 3a: measures **3a.2** (adequate explanations), **3a.6** (responsible lending), **3a.7, 3a.8** (advisory services), **3a.9** (ban product tying), **3a.13** (strengthened CWA)

					Policy option 2: measure **2.4** (amount of information in advertising), **2.6** (when provide information)
Sub-problem 2.3: Information requirements for advertisement on certain channels create unnecessary burden for businesses	SO6: Simplify the existing legal framework and reduce unnecessary burdens	*Recommendations and guidelines would improve legal clarity for businesses and reduce administrative burden.*	*The clarification of existing provisions and the reduction of information requirements at advertising stage on certain channels would create a clearer legal framework for credit provision at EU level, and reduce burden on businesses.* See: **2.4** (amount of information in advertising), **2.5** (presentation of key pre-contractual information in a more prominent way)	*New provisions in line with other EU legislation (including new requirements on the presentation of information in an adequate way on different channels), and the clarification of existing provisions, would create a more coherent framework for credit provision, improving legal clarity for businesses.* See: **3a.5** (presentation of information on different channels)	*New provisions, the clarification of existing provisions and the reduction of information requirements at advertising stage on certain channels would create a clearer legal framework for credit provision at EU level, and reduce burden on businesses.* See: **2.4** (amount of information in advertising)

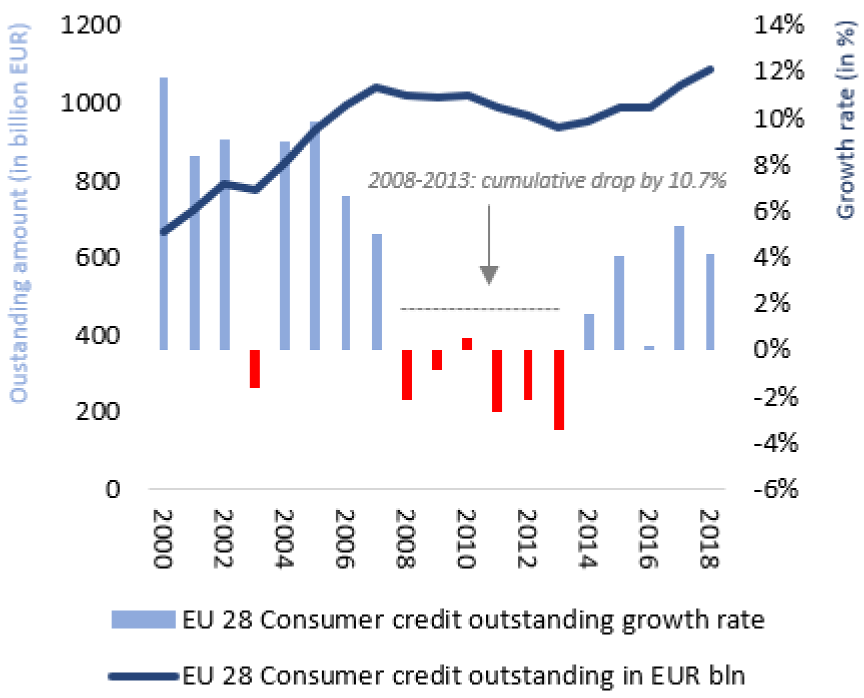
Annex 6: Market developments

Evolution of the consumer credit market over the recent years

1. ***Outstanding household debt and consumer credit specifically***

According to ECRI data, the value of **outstanding consumer credit**[215] in the EU-28 contracted in the aftermath of the Global Financial Crisis (GFC) with a cumulative drop of 10,7 per cent between 2008 and 2013. However, once the EU economies embarked on a firm recovery path, it kept rising steadily since 2014 with an average annual growth rate of 3.1% between 2014 and2018.

Figure 2 Consumer credit outstanding, in EUR billion, EU-28

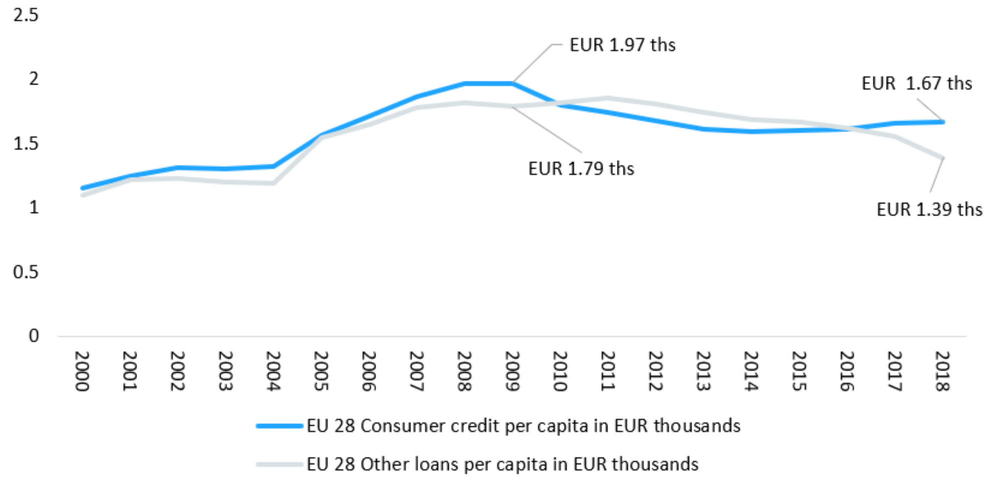


Source: ICF, based on data from ECRI

In **per capita terms**, ECRI data[216] shows that the EU 28 average value of consumer credit (excluding mortgage loans) stood at EUR 1670 in 2018 (0).

Figure 3: Consumer credit per capita, EUR thousands, EU-28

[215] Excluding mortgages but including loans for purchase of durable goods, car loans, credit cards and overdraft facility.
[216] Ibidem.



Source: ICF, based on data from ECRI

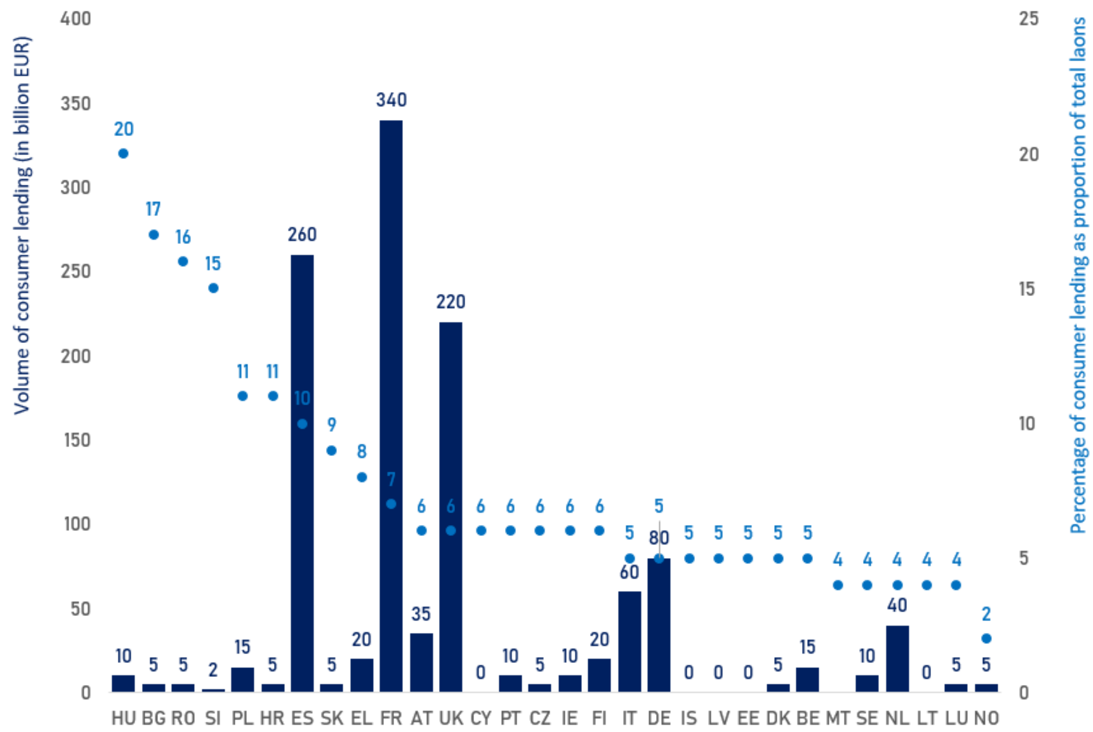
In 2019, the **outstanding value of consumer credit** including loans for purchase of durable goods, car loans, credit cards and overdraft facility reached **EUR 1.14 trillion**.[217] According to the European Banking Authority (EBA) data, this represented only **14.7% of the total outstanding debt of the EU households** that reached EUR 7.78 trillion in the same year. Mortgage loans accounted for the bulk of the remaining value of the outstanding debt of the EU households[218].

Across EU Member States, the outstanding value of consumer credit and its share in total household debt (including mortgages) varies significantly. Data from the EBA reveals that in September 2019, 75% of the total outstanding households' debt (including mortgages) in the EU was concentrated in just three countries: France (EUR 333 billion), Spain (EUR 260 billion) and the UK (EUR 219 billion). Germany (EUR 86 billion) and Italy (EUR 65 billion) also stand out from the most of other Member States in terms of the value of household outstanding debt that exceeded EUR 50 billion. Yet, the share of consumer credit specifically (excluding mortgages) with respect to total lending was generally higher among Central Eastern European (CEE) countries, particularly in Hungary (20%), Bulgaria (17%), Romania (16%) and Slovenia (15%) (0).[219]

Until 2020, consumer credit lending from banks was growing in most EU countries, thanks to GDP growth and decreasing unemployment driving the demand side, and low interest rates and a search for increased margins[220] by banks driving the supply side. According to the same EBA data, **the growth in consumer credit lending[221]** between September 2015 and September 2019 was mostly driven by Central and Eastern Europe countries, and to lesser extent by selected Eurozone countries such as Belgium, Spain, France and Italy. (0).

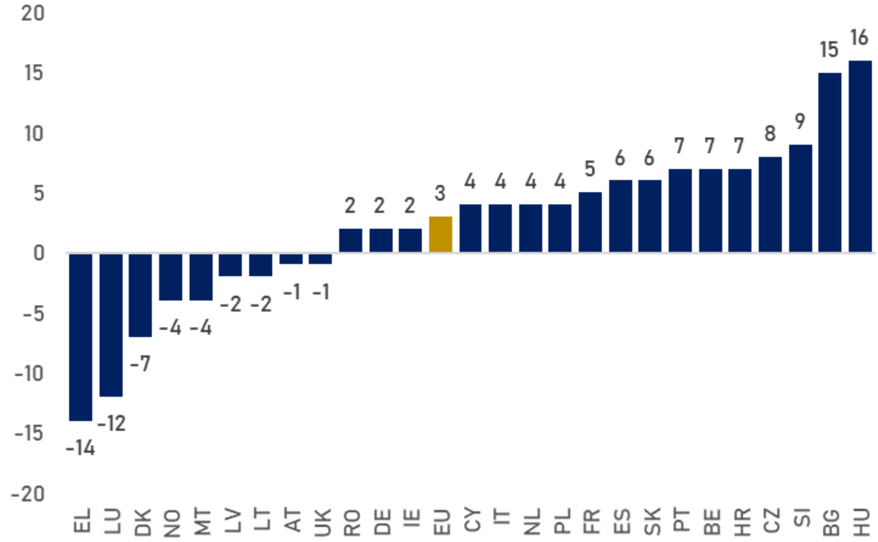
[217] European Credit Research Institute, 2019, Statistical Package 2019.
[218] Mortgage lending, on the other hand, amounted to €EU 5.29 trillion (68% of household lending).
[219] EBA, 2020, Thematic note on consumer lending.
[220] "A bank that allocates a relatively high proportion of its portfolio to consumer lending usually has a relat ively high net interest margin", ibid.
[221] Defined as "loans extended to individuals for personal use in the consumption of goods and services (e.g. vehicles and electronics), typically through credit cards", ibid.

Figure 4: Value of outstanding consumer lending (in EUR billion) and consumer lending as a proportion of total lending (in %), as of 2019.



Source: ICF, based on data from EBA Thematic note on consumer lending (2020) - Supervisory data

Figure 5: Annualised growth rates of consumer lending by country, September 2015-2019, (In percentage)



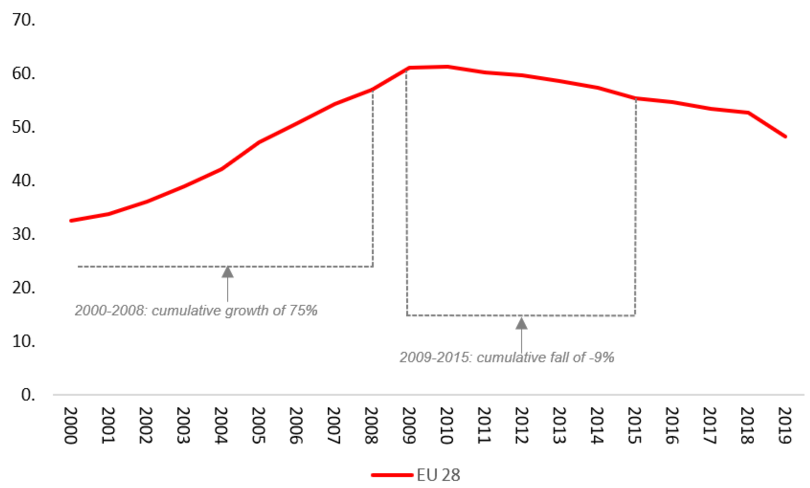
Source: ICF, based on data from EBA, Thematic note on consumer lending (2020) - Supervisory data
NB: Finland and Sweden have been excluded due to significant changes in the sample.

As reported by the EBA thematic note on consumer lending, between September 2015 and September 2019 the volume of **consumer lending non- performing loans** (NPLs) decreased by 24%, from EUR 83 billion to EUR 63,2 billion, much less than the overall decrease in total NPL volume (around 45%). In September 2019, 5.5% of EU banks' stock of consumer loans were non- performing, whereas the average EU NPL rate stood at 2.9%. One of the reasons identified for this high number of NPLs in this segment could be the loosening of credit standards. Differences among Member States are quite significant, with Greece and Cyprus reporting around 40% of consumer NPL ratio, and all other Member States reporting a single-digit NPL ratio for consumer credit exposures.

2. *Evolution of household indebtedness*

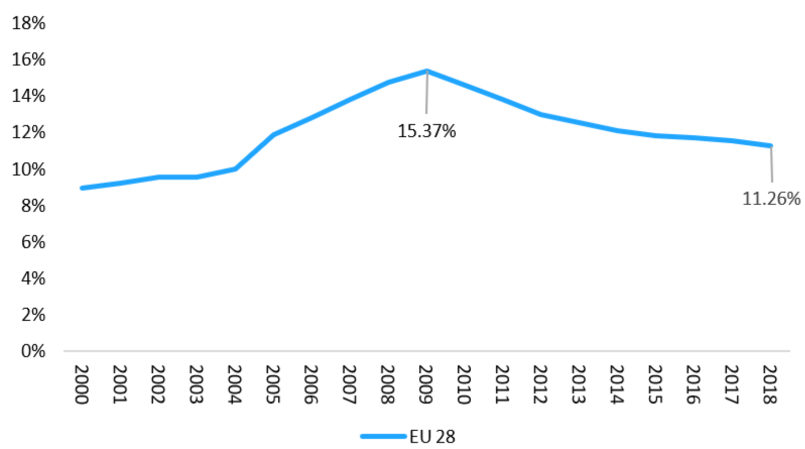
In the EU, the level of **household debt as a share of GDP** continued to decline in relative terms since the GFC from 61% in 2009 to 52.6 % in 2018 (0). In terms of the trajectory of **household debt as a share of final consumption expenditure**, a similar trend was observed with household debt as share of the final consumption expenditure declining from 15.4% in 2009 to 11.3% in 2018 (0).

Figure 6: Household debt as % of GDP, EU-28



Source: ICF, based on data from ECRI

Figure 7: Consumer credit as % of final consumption expenditure of households, EU-28



Source: ICF, based on data from ECRI

Part of the explanation for this trend is a 'consumption smoothing' of households reducing their debt exposure and increasing the reliance on their savings in the initial recovery phase following the GFC (similar trend is observed during COVID-19 pandemic)[222], as well as GDP growth rate across the EU exceeding the growth rate in debt consumption (in particular from 2015 onwards when EU economies grew relatively fast).

While no comprehensive data from the EU is still available at the moment, the most recent data from the US market on the **impact of COVID-19 on consumers' indebtedness** following first months of pandemic shows similar pattern to the one in the aftermath of GFC. Once the COVID-19 crisis hit, consumers have started adjusting their consumption by postponing discretionary spending such as cars and appliances[223] and reducing also the number of credit transactions, and on average, the level of indebtedness has shown some signs of decline[224]. And yet, there has been also a substantial heterogeneity across borrowers. In particular, reductions in both balances and transactions were driven by creditworthy borrowers, whereas outstanding monthly balances even increased for the riskiest borrowers in affected counties.[225] Generally, it is plausible that while average household indebtedness will fall, **for some segments of consumers, in particular low-income ones** disproportionately affected by COVID-19 (e.g. unemployment in tourism and hospitality sector), **level of indebtedness may increase**. In the US, the delinquency rates across most products between March and June decreased, though many consumers benefited from different form of consumer assistance over that period as well. Something that is not warranted later on as public support schemes will be gradually rolled back.[226]

Generally, household indebtedness that can also proxy the level of demand for debt appears to be significantly higher in countries with more developed financial markets.[227] This is illustrated in 0, which shows that household debt (including mortgages) relative to disposable income is greater in countries such as Denmark, Norway and Netherlands (with rates around 250%) than in new EU Member States such as Lithuania or Latvia (with rates close to 50%). This is explained by, among other factors, greater sophistication of the local financial markets and far higher prevalence of mortgage products in Western Europe compared to the Central and Eastern Europe Region.

Figure 8: Total household debt of net disposable income in 2019, in %

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[222] For instance, with COVID-19 measures restricting movement and leaving shops and restaurants closed, people's ability to spend was limited over the second quarter. In the UK, the household saving ratio – the average percentage of disposable income that is saved – increased to a record 29.1% by end of September 2020, up from 9.6% in the previous three months. See FT, September 30, 2020. BoE economist warns against pessimism after record drop in GDP. Available at: https://www.ft.com/content/fed4fe06-8c6a-4272-b0b3-a0759805eb64

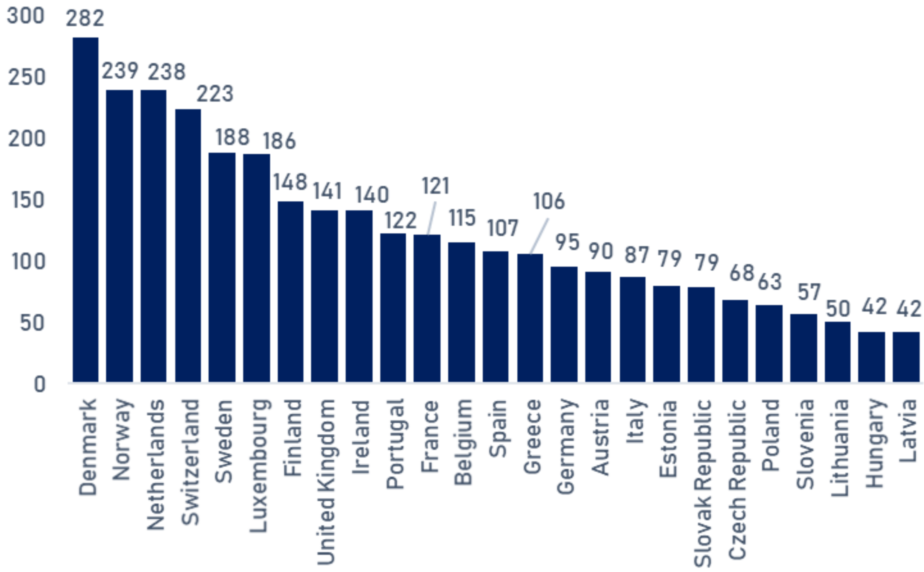
[223] McKinsey, June 2020, European Consumer finance: moving to next normal.

[224] Experian, 2020, COVID-19 impact: changes to consumer debt and credit.

[225] Vox, August 2020, The COVID-19 shock and consumer credit.

[226] Consumer Financial Protection Bureau, August 2020. The Early Effects of the COVID-19 Pandemic on Consumer Credit.

[227] Finance Watch, 2020a, Basic Financial Services.



Source: ICF, based on data from OECD, 2019

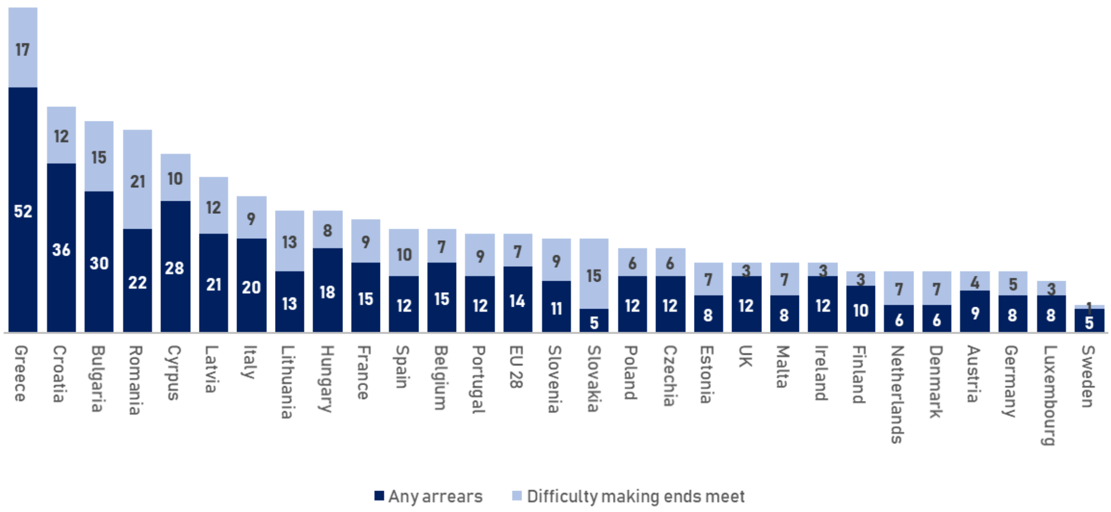
Over-indebtedness relates to situation when a household is unable to meet the debt repayment obligations but also other payments such as rent, utility bills, healthcare or insurance bills or taxes and/or fines.[228] There are different possible drivers of households' over-indebtedness, including macro-economic factors, cost of living, types of credit taken out by households, level of borrowing, and personal circumstances.[229]

A recent report published by Eurofound sheds some light on the percentage of people aged 18 or more at risk of over-indebtedness (0).[230] To do this, the report used data from the European Quality of Life Survey (EQLS) on the number of **people with arrears as well as those with difficulties making ends meet**.[231] The survey found that as of 2016, people in Southern and Central and Eastern European countries are more at risk of over-indebtedness. For example, in Greece and Romania 17% and 21% of people respectively claimed to experience difficulties to make ends meet, as opposed to only 1% of people in Sweden. This difference is also due to macro-economic factors, which are among the most important causes of financial difficulties. However, the Swedish Financial Supervisory Authority found that in Sweden in 2019 almost 10% of new non-mortgage

[228] In this context, over-indebtedness does not mean an occasionally missed payment but rather more structural payment problems e.g. several months of missed debt repayment obligations. Note that some differences in interpretation of the concept across the Member States exist.
[229] CIVIC, 2013.
[230] Eurofound, 2020a.
[231] Arrears could apply to rent or mortgage payments, consumer credit, loans from family or friends, or utility or telephone bills. Figure based on responses to questions 88 and 93 from EQLS 2016. This does not capture people with high levels of indebtedness without arrears and difficulties making ends meet for which if the context changes (increases in unemployment or interest rates) the situation may change drastically. Some high-income Member States have elevated levels of household indebtedness: Denmark (household debt was 128% of GDP in 2017), the Netherlands (106%) and Sweden (88%).

borrowers experienced payment problems within the first five months. The probability of early payment problems was higher for young and low-income borrows.[232]

Figure 9: Proportion (In percentage) of people aged at 18+ at risk of over-indebtedness: arrears or difficulties making ends meet, 2016, EU-28



Source: Eurofound - European Quality of Life Survey (EQLS) 2016.

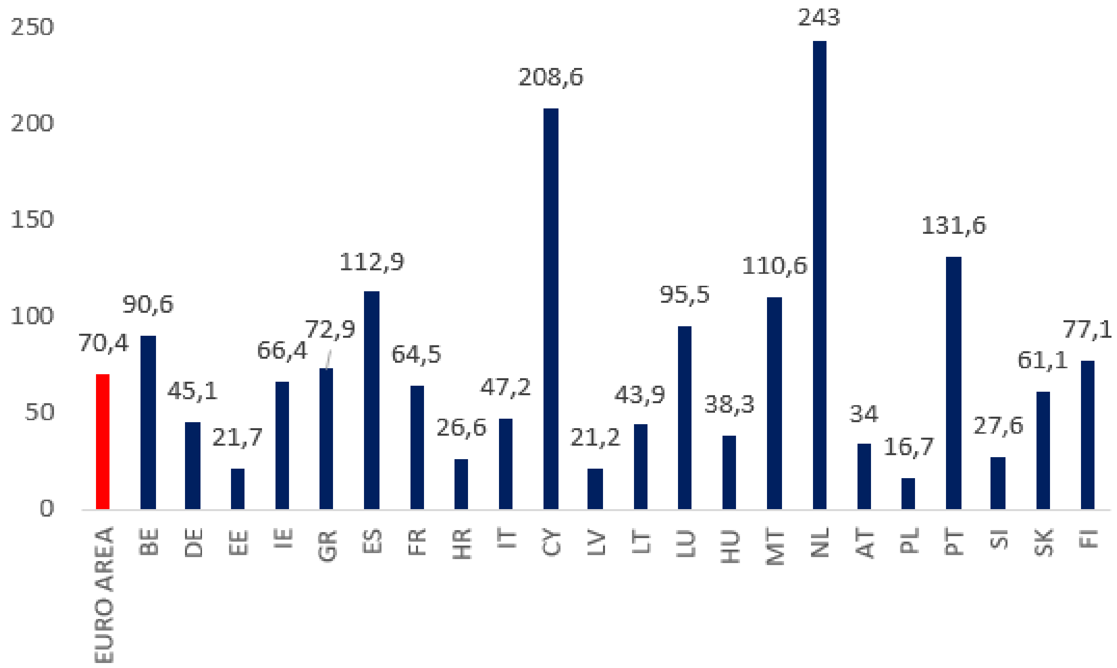
The over-indebtedness may be also proxied by the debt-income ratio[233] of households that provides information on the extent to which a household can service its debt on the basis of its income-generating capability. In principle, the higher the ratio, the higher the vulnerability of a given households, though for some Member States mortgages (linked to a property, and hence an asset) will stand for a bulk of outstanding debt. According to the latest available ECB data from 2017[234], the median debt-income ratio in the Euro-area in 2017 stood at 70.3% (compared to 72.8% in 2014) (0) with relatively highest ratio among the wealthiest and the poorest households. Age wise the households in Eurozone in the age bracket 35-44 had the highest debt-income ratio (144.6 compared to for instance 78.9 and 54.1 for the age brackets 45-54 and 55-64 respectively).

Figure 10: Median debt to income ratio – breakdowns, (in percentage)

232 https://www.fi.se/contentassets/c7fd1b52daa54371a869b74e4f56c276/fi-analys-29-betalningsproblem-sammanfattning_eng.pdf, consulted on 23 February 2021.

233 Calculated as the ratio between total liabilities and household annual gross income for indebted households

234 ECB, March 2020. The Household Finance and Consumption Survey: Results from 2017 wave. Available at: https://www.ecb.europa.eu/home/pdf/research/hfcn/HFCS_Statistical_Tables_Wave_2017.pdf?906e702b7b7dd3eb0f28ab558247efc5



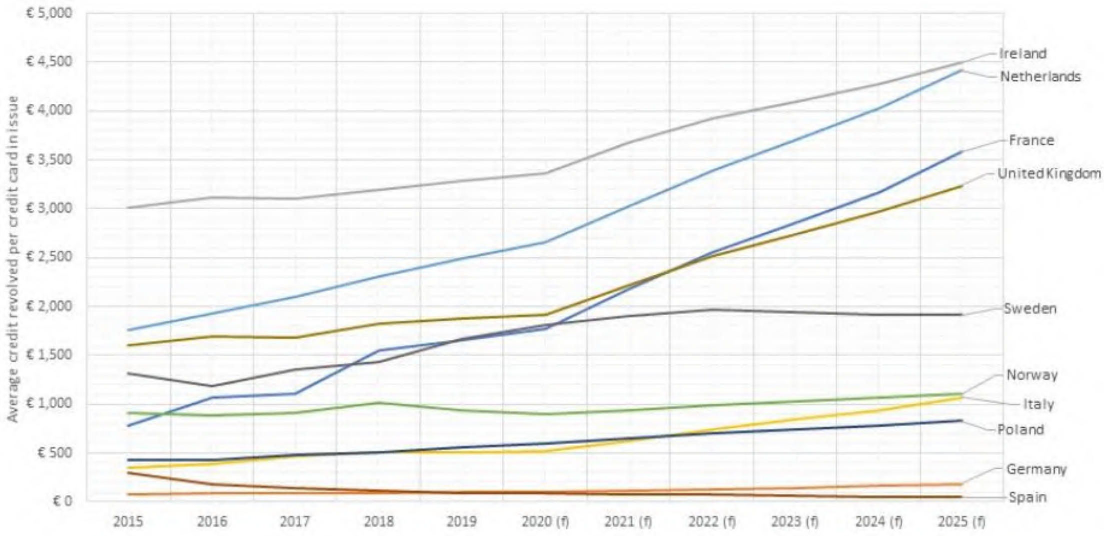
Source: ICF, based on data from ECB, March 2020. The Household Finance and Consumption Survey: Results from 2017 wave.

Some recent research suggests that **credit cards may be one of the products where repayment rate** will be **most severely hit by the impact of the pandemic**. The recent study[235] of the European Dunn & Company (EDC) used a modelling approach[236] to gauge the impact that lockdowns, furlough schemes and rising unemployment had on the average values revolved on credit cards across the major European markets. 0 illustrates the results of this modelling and impact on ten selected markets with the average amount on credit card not paid at the end of the statement period. As for different consumer segments, high heterogeneity across the countries can be also observed with consumers from Ireland and the Netherlands experiencing substantially more issues with repayment than those in other countries like Spain and Germany.

Figure 11: Amount of revolving credit not paid at the end of statement period, in EUR

[235] EDC, 2020. Are we heading for the new consumer debt crisis following the COVID-19 pandemic?

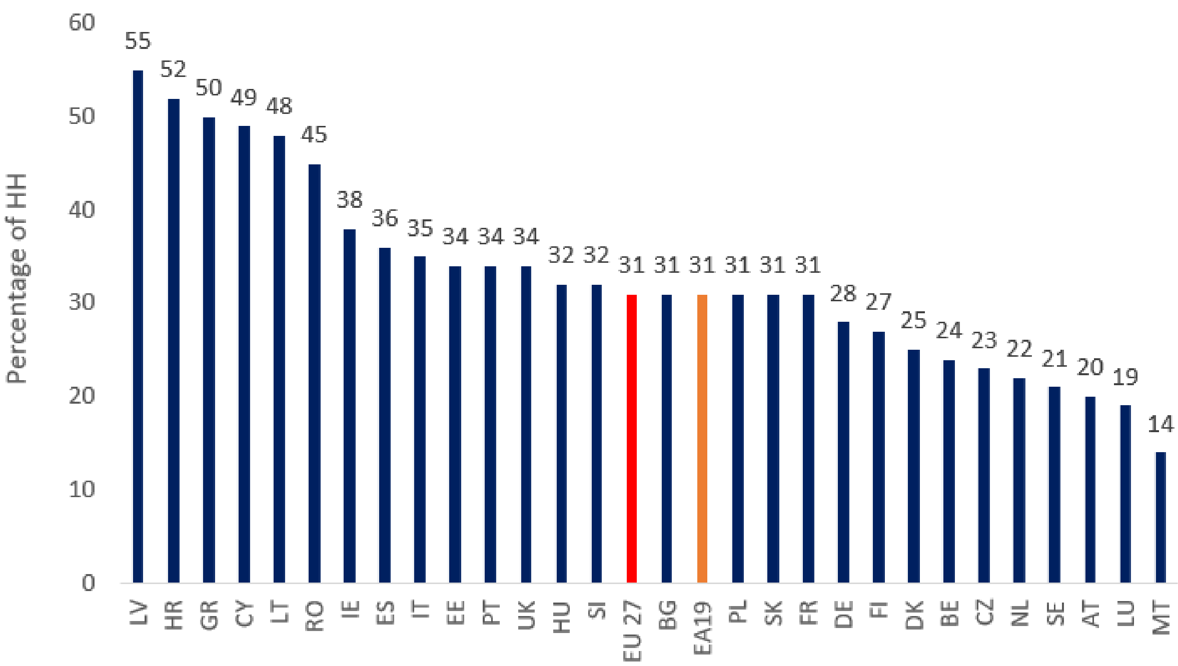
[236] EDC has modelled the impact that lockdowns, furlough schemes and rising unemployment had on the average values revolved on credit cards across the major European markets. using the adjusted GDP forecasts from the European Commission, and categorised them into 'high impact markets' (comprising of Italy, Spain, UK and France), 'medium impact markets' (comprising of Ireland, the Netherlands and Germany) and 'low impact markets' (comprising of Sweden, Norway and Poland). Each category has a different 'COVID factor' assigned, which was used to forecast the increase in the value of credit revolved.



Source: EDC, 2020.

In the same vein, a Bruegel study on the financial fragility of European households in the time of COVID-19[237] found that on in three EU households is unable to meet unexpected expense[238] during regular times, let alone pandemic. Yet, the financial fragility of households varies across the Member States (0).

Figure 12: Household inability to meet an unexpected required expense, all households, percentage shares, 2018



Source: ICF, based on data from Eurostat, EU-SILC.
Notes: EU27 displays the average of all EU member states after January 2020 (those exhibited except the UK). EA19 is the euro-are average.

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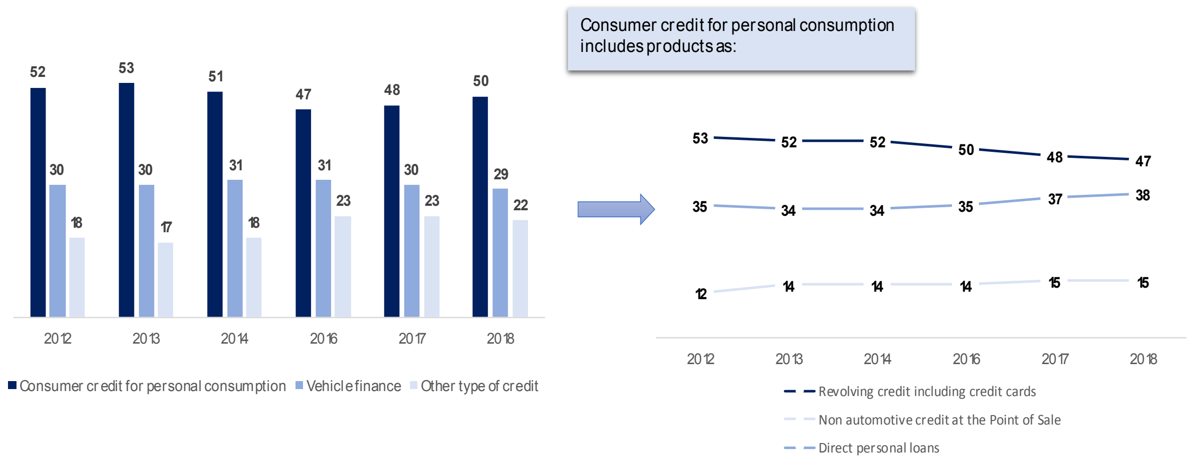
[237] Bruegel, July 2020.
[238] Examples of unexpected financial expenses include surgery, a funeral, major home repairs and replacement of durables such as a washing machine or car

3. *Evolution and share of the different types of consumer credit*

Since the Great Financial Crisis (GFC), three types of consumer credit namely, credit cards, non-automotive credit at point of sale (PoS) and personal loans, have seen some material evolution. 0 presents the percentage of granted consumer loan agreements provided by Eurofinas members between 2012 and 2018 and disaggregated by specific product and (consumer credit for personal consumption, car finance and other) along with the weight of the three specific products within consumer credit category (right axis). It shows that consumer credit for personal consumption accounted for roughly 50% of the total credit agreements granted during those years, albeit their share was declining over that period. Consumer credit for personal consumption includes credit cards and other revolving credit (accounting for around 47-55%), personal loans (between 34% and 38%) and non-automotive credit sold at the point of sale (representing approximately 15%).

Figure 13: Percentage of newly granted loans by sectors and for consumer credit products by Eurofinas members between, 2012-2018.



Source: Eurofinas facts and figures from 2012 to 2018. Note that 2015 data is missing.[239]

Figures for 2019 confirms this trend. Revolving credit and credit cards account for 47% of the total of consumer credit for personal consumption, personal loans represent the 39% and credit at the point of sale 14%.

Table 18 New consumer credit granted by Eurofinas members in 2019, breakdown per type of loan (in volume)

Loan Type	**Million EUR**	**Percentage of total credit granted by Eurofinas members**

[239] Eurofinas members do not account for the entire consumer credit market as they represent 17 Member Associations covering 17 countries (BE, CZ, DK, FI, FR, DE, IT, NL, NO, PL, PT, ES, SE, TR, UK) and LT and Morocco as correspondent members. Also, note that consumer credit for personal consumption (right axis) include leasing agreements (under non-automotive credit at PoS).

Consumer credit for personal consumption	241 892	52%
• *Personal loans*	*94 689 (39%)*	
• *Revolving credit including credit cards*	*112 974 (47%)*	
• *Credit at the point of sale*	*34 229 (14%)*	
o *Consumer goods*	*29 815*	
o *Other*	*4 414*	
Car finance	117 087	25%
Other	110 188	23%
TOTAL	**469 168**	

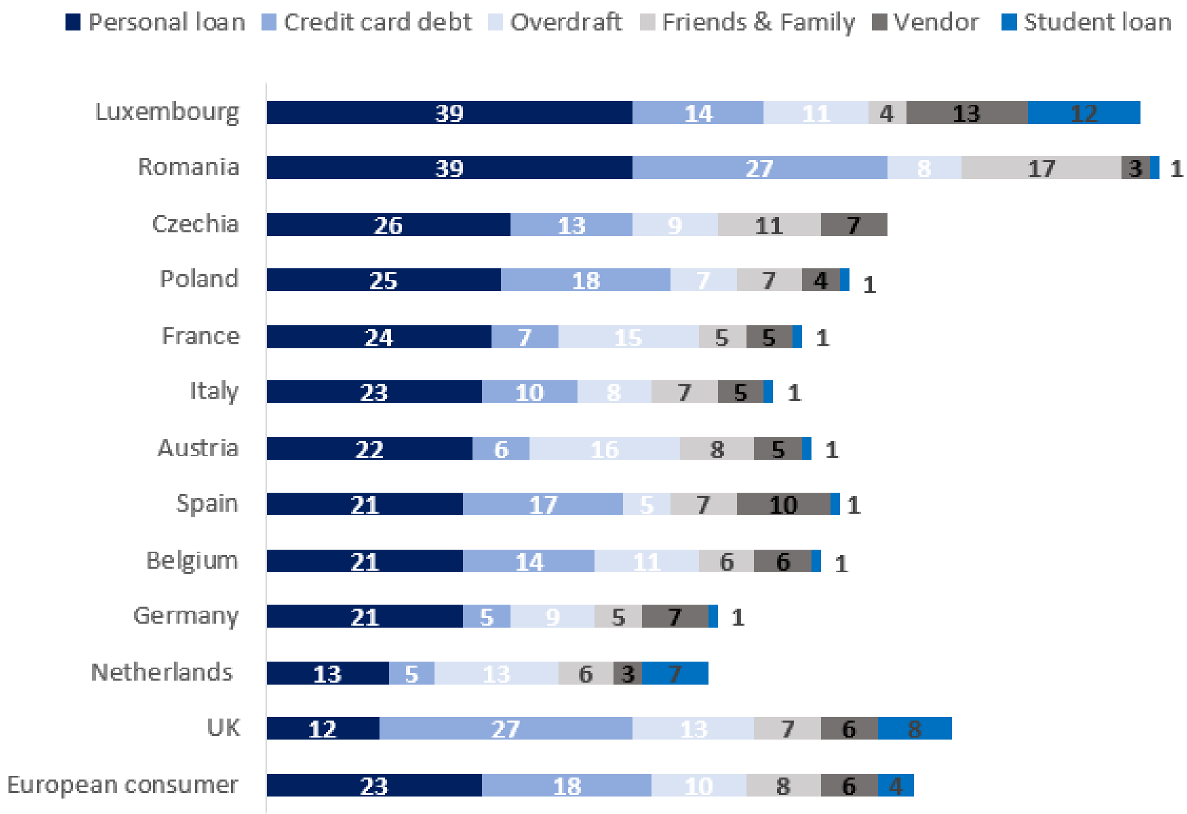
Eurofinas Annual Survey 2019

The available data on the **share of households using a particular product** falling under the category of consumer credit (excluding mortgages) is somewhat fragmented. One of the available sources of a comparable data are the special Eurobarometer surveys focusing on the use of selected financial products. 0 and 0 below show the results of the latest edition 446, which suggest that in 2016, an estimated 43% of EU-28[240] households held a **credit card** while the share of households with at least one **personal loan** stood at 11%.

Yet, these figures are somewhat in contrast with the results of a 2018 survey conducted by ING in a selection of 12 EU Member States (and other third countries). As illustrated in 0, personal loans were the most common product of consumer credit used by an average of 23% of the EU households with credit cards being the second most common product (18%).

Figure 14: Types of consumer credit products held by households (in percentage of households)

[240] Note that Croatia did not yet feature as part of Eurobarometer research even though the country joined the EU in 2013.



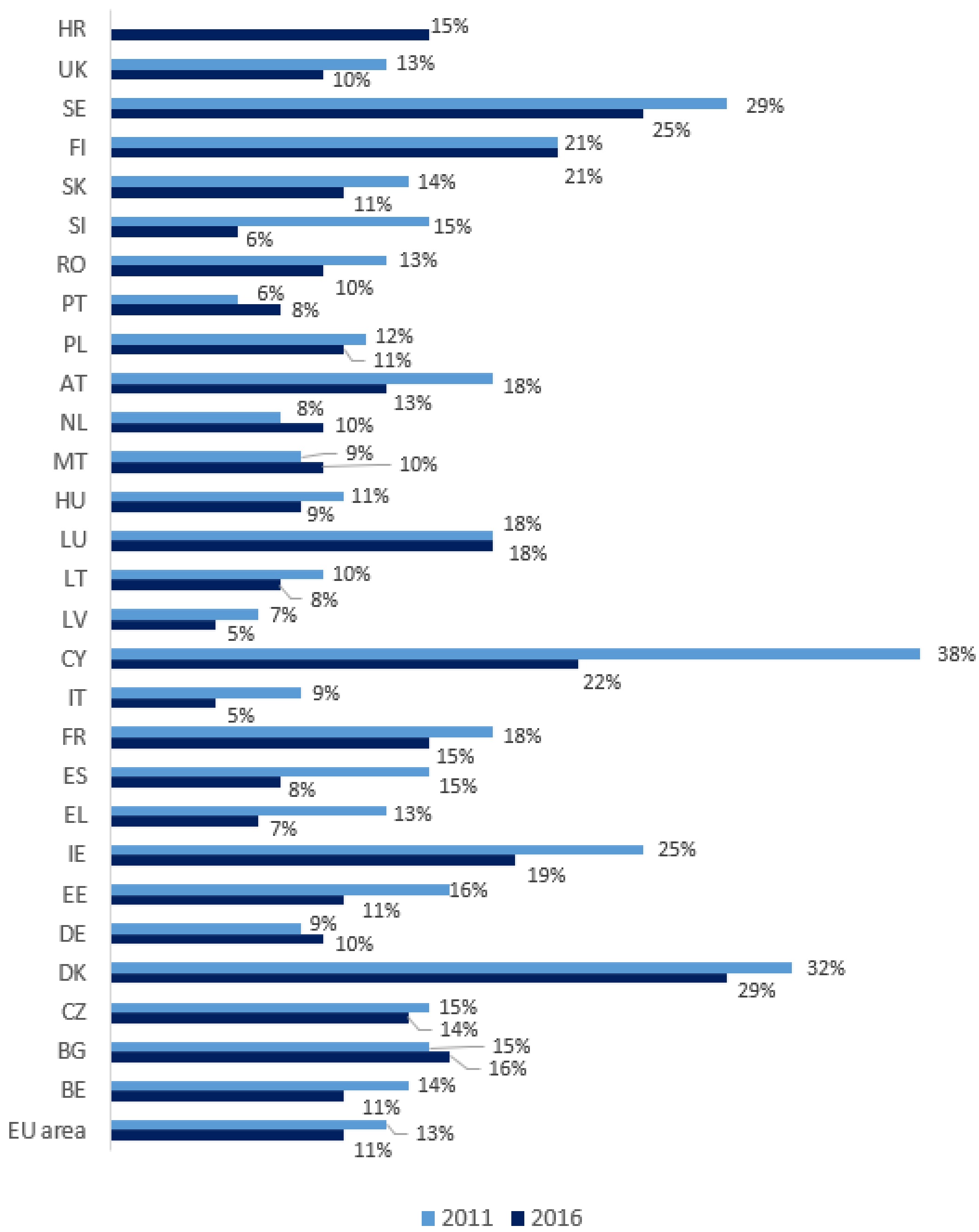
Source: ING International survey February 2018 "Saving comfort – a path to happiness. Examining money choices in Europe, USA and Australia" – extracted from the report Finance Watch "Is the human dignity of individual debtors at risk?", 2020.

Overall, it should be noted that consistent EU-wide data on the prevalence of specific types of consumer credit, including **overdrafts facilities, revolving credit, credit cards, student loans** and **car loans** is scarce. Nonetheless, the following section attempts to provide some insights into the importance of each of the products and their recent evolution.

Credit for consumption (or personal loans)

The share of EU citizens with a personal loan, as reported by the Eurobarometer survey, in 2016 was estimated at 11%, down from 13% in 2011, albeit up from 7% in 2005 (0).

Figure 15: Estimated share of EU citizens with personal loan in 2011 and 2016 (in percentage)



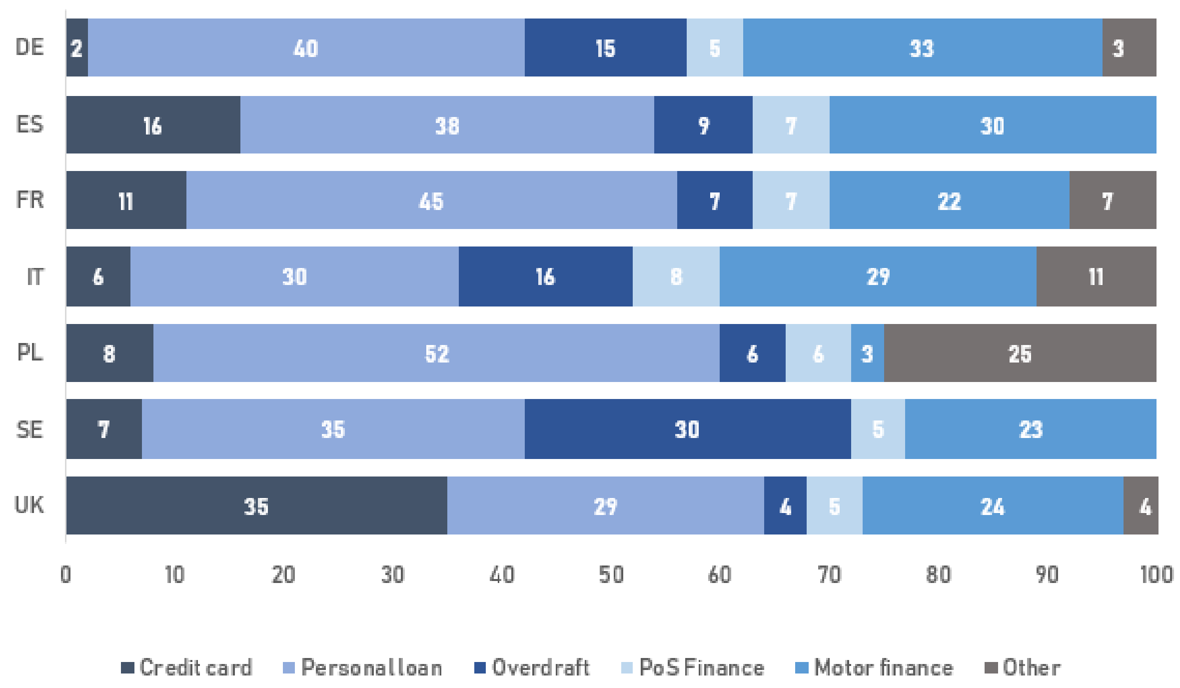
Source: Special Eurobarometer 373 and 446.
Note: Euro area data: EU-27 in 2011 and EU-28 in2016.

The importance of personal loans in the consumer credit product mix held by consumers varies across the EU Member States. A recent (2019) report prepared by Deloitte compiled the data, as of 2018, on the **share of various consumer credit products in the total outstanding of consumer credit** (excluding mortgages) held by an average consumer in selection of European countries, including France, Germany, Italy, Poland, Spain, Sweden and the UK (0).[241] The results show that personal loan is the most important consumer credit product used in all of these analysed countries, except the UK.

[241] Deloitte, 2019.

Its share ranged from 29% of the total outstanding debt portfolio held be an average consumer in the UK, to 52% in Poland.[242]

Figure 16: Product mix by geographic balance growth, 2018 (GDP 2017)



Source: Deloitte, based on compilation of data from central bank statistics and company reports

The same Deloitte report also suggests that the average outstanding value of the personal loan per capita in the largest EU markets varied from EUR 1 319, EUR 1 192, EUR 1 044 and EUR 1 032 in Sweden, France, Germany respectively, and the UK to EUR 582 in Italy. Given generally lower indebtedness level in the Central and Eastern Europe countries, the outstanding values of personal loan per capita are plausibly considerably lower in that region than in the largest European markets in Western and Northern Europe, though differences in income levels between regions should be borne in mind.

In line with the historical trends, it can be expected that the outbreak of the COVID 19 pandemic will temporarily decrease the uptake of personal loans and the average outstanding value per capita, though this may not be true for specific consumer segments (e.g. low-income category). For instance, some initial data shows that in March and April 2020 European consumer finance entities saw decline in lending to between 40 and 70% on the y-o-y basis. Decline was more pronounced for credit cards and unsecured loans than point of sale financing[243].

Personal loan category comprises various type of sub-products including also so-called **short-term high cost (STHC) credit** of which one example are payday loans. Payday

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[242] Personal loans represented 29% of the consumer credit product mix in the UK, 30% in Italy, 35% in Sweden, 38% in Spain, 40% in Germany, 45% in France and 52% in Poland.
[243] McKinsey, June 2020, European consumer finance: moving to 'next normal'.

loans are short-term credit agreements where a borrower is expected to repay the loan's principal from the next week/ month salary. Payday loans warrant particular attention due to the risk of relatively higher detriment that these products may imply given, among other factors: typically high interest rates and additional fees attached to such credit, complex credit terms and conditions[244], specific segment of more vulnerable consumers[245] who tend to resort to lenders offering payday loans and sometimes inappropriate creditworthiness assessment (CWA) favouring fast disbursement over the thorough check. A survey from the European Commission has reported that 60% of payday lending websites emphasize the speed and simplicity over price.[246] As noted in the CCD Evaluation, the risky nature of these products can be also reflected by the fact that payday lenders can still generate high revenues, despite comparatively high default rates.[247]

Payday loans have existed since the 1990s and for almost two decades, they were mostly restricted to the Nordic European countries and the US.[248] Since 2008, payday loans have become more common in the EU and are now available in many Member States,[249] although to varying degrees. Digitalisation seems to have contributed to this expansion as it has allowed automated processes enabling consumers to access credit online, often within a few minutes from the first click on the application. A recent study examining the digitalisation of the marketing and distance selling of retail financial services, which mapped 200 European providers of financial services and products, found that 74% of the operators offering STHC credit in the EU were new operators, as opposed to 26% offered by traditional credit providers.[250]

Comparable EU-level data on the average amount of money borrowed through payday loans is not available, but anecdotal evidence reveals that in the UK the average amount borrowed in 2013 was GBP 265-270, in the Netherlands it amounted to EUR 200 in 2011.[251]

A report of the Central Bank of Ireland highlights that moneylender customers are more likely to be in the lower-socio-economic group. Over one in five moneylender customers were making repayments to at least two separate moneylenders. This was confirmed by consumer surveys of the UK Financial Conduct Authority, which show that short-term credit users had an average income lower than the average, and that the main reason for

[244] Finance Watch, June 2019, The EU should tackle exploitative consumer loan head on.
[245] Generally vulnerable or already indebted consumers who would not have access to more favourable credit channelled through the more traditional credit providers.
[246] LE *et al.*, 2019.
[247] The Evaluation referred to anecdotal evidence presented in a 2015 study [Attaité, M., 2015] which pointed out that the biggest payday lender in the UK had a loss rate (denoting what part of revenues is taken by the losses) of 41% and default rate of 9%, with the company attaining a 27% profit margin, as opposed to 16%, 2% and 35% respectively for the average of credit unions.
[248] Evaluation of the CCD; Oswald Stoll [UK], 2019, Big And Small Differences In Payday Loans In Europe; New Statesman, 2014, The History of Payday Loans.
[249] 16 EU Member States were captured in a recent OECD report examining the provision of STHC credit in a selection of countries, of which 10 reported the presence of this type of credit product (AT, CZ, DE, DK, EE, LV, NL, RO, SK, UK), while six did not (EL, ES, FR, PT, SE, SI); OECD, 2019.
[250] LE *et al.*, 2019.
[251] Cherednychenko, Meindertsma, 2019.

taking out a loan was to pay for living expenses, followed by paying a bill.[252] Over 60% short-term credit users had outstanding non short-term credit debts (including 20% with credit card debt and 28% with overdraft debt). Around 75% of payday loan consumers take out more than one payday loan in a year. In 2017, 37% of UK relative low-income households had a payday loan, versus 22% of middle-income households and 14% of higher-income households - with the lower-income share between EUR 17 069 and EUR 34 138, middle-income between EUR 34 138 and EUR 56 897 and higher-income more than EUR 56 897.[253]

In Sweden, the volume of new consumer loans below 50 000 SEK (around 490 EUR) more than doubled between 2008 and 2018. In 2018, more than half of consumer loans (around 50%, including revolving credit) were below 2 000 SEK (around 195 EUR), with an extremely high APR (1 446% for non-bank lenders and 12% for banks). Moreover, the majority of new small loan borrowers have at least two loans.[254] The Swedish Financial Supervisory Authority found that borrowers of small loans experience early payment problems more often than borrowers of large loans.[255]

Payday loans are particularly common in Lithuania and the UK, where 37% of low-income households have resorted to this type of credit,[256] have been growing fast in countries like Sweden, Poland and Czech Republic, while the national market for payday loans in Germany is limited due to the wide availability of overdraft facilities.[257]

Some countries have taken actions (such as interest rate caps and/or required licensing for lenders) to regulate this type of products, which has impacted the evolution in the future of this product within the EU market. An example is the Netherlands which enforced new rules (requiring payday companies to apply for a license and a cost cap of 10% of the total loan) that have led to the number of payday loans falling from 89 000 in 2011 to 1 480 in 2013, reducing consequently the number of payday companies from 21 to 6.[258] Similarly, Belgium has virtually eliminated payday loans by extending the scope of the CCD to loans below EUR 200, as well as Denmark, which has enforced the new consumer code and has placed restrictions on showing payday loan ads in specific cases (such as next to gambling ads). The near disappearance of the payday loan market in Belgium is due to the combination of extending consumer credit legislation to loans under EUR 200 in combination with an interest rate cap, making them no longer commercially viable.

In some Member States EUR 200 represent an important share of the monthly income. As pointed out by the European Economic and Social Committee in their 2019

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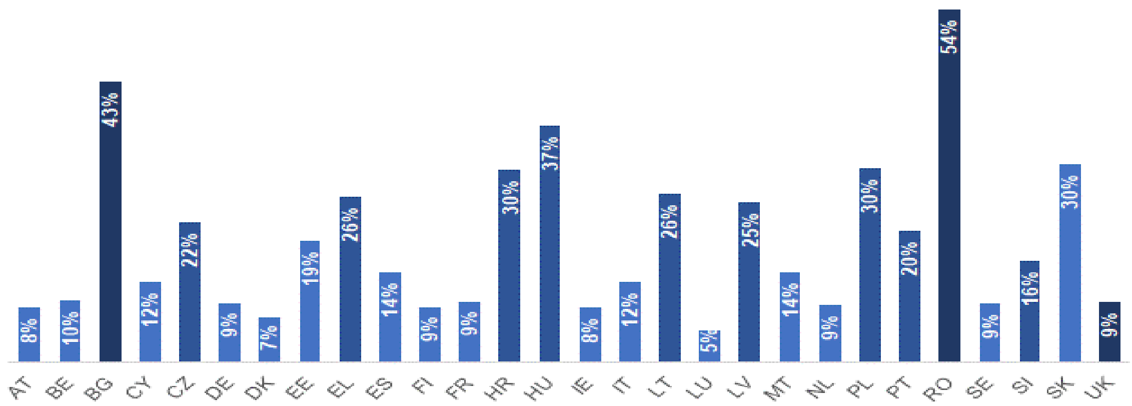
[252] FinCoNet, 2019a, 2019b.
[253] LE Europe *et al.*, 2019, Behavioural study on the digitalisation of the marketing and distance selling of retail financial services.
[254] Finansinspektionen, 2019, Svenska konsumtionslån.
[255] https://www.fi.se/en/published/reports/fi-analysis/2021/fi-analysis-29-why-do-some-borrowers-experience-payment-problems/, consulted on 23 February 2021.
[256] LE Europe et al., 2019, Behavioural study on the digitalisation of the marketing and distance selling of retail financial services.
[257] Finance Watch, 2019, The EU should tackle exploitative consumer loan head on.
[258] Autoriteit Financiële Markten [NL], 2014, Markt voor flitskrediet verder opgedroogd.

information report for the CCD Evaluation, EUR 200 corresponds to approximately 50% of the average monthly wage and 75% of the average monthly pension in some European countries.[259]



Proportion that EUR 200 represents according to average monthly salary (2019), Source: ICF, based on Eurostat data on mean income [ILC_DI03] *Data from 2018 used for BE, FR, IE, IT, LU, SK, UK.*

Among the different restrictions on payday loans, setting price caps are one of the most widely used measures adopted by Member States.

The introduction of **interest rate or APR caps** was adopted by 23 Member States, and other four have introduced caps that apply to defaults loans only.[260] The main typologies of caps are a **fixed or adjusted nominal interest rate caps** (monthly or quarterly), **APR caps or caps on the total cost of credit**. For instance, before COVID-19:

- In Germany, interest rate had to be lower than double the average interest rate of comparable consumer loans plus a relatively small fee, or less than the average market rate calculated by the Central Bank plus 12 p.p., not to be declared usurious.
- In Portugal, APR was capped for each type of credit product (personal loans, revolving credit) and adjusted every quarter, based on the average APR of new consumer credit agreements provided during the previous quarter. In Slovakia, the maximum cap was two times the average APR (including linked services) calculated by Bank of Slovakia based on banking sector rates.
- In Lithuania and Sweden, the total cost of credit could not exceed the total loan amount. On top, the maximum annual nominal interest rate was 75% in Lithuania and 40% in Sweden.[261]

Caps are considered by the legislators in Member States as a tool to ensure a high-level of consumer protection, which has also led, in some cases, to the disappearance of

[259] INT/884-EESC-2019-01055-00-00-ri-tra.
[260] BE, BG, CY, CZ, DE, DK, EE, EL, ES, FI, HR, HU, FR, IE, IT, LT, MT, NL, PL, PT, SE, SI, SK. AT, LU, LV and RO have interest rate caps that apply to defaults loans only, rather than the interest rates themselves.
[261] FinCoNet, 2019b; Accenture, Finnish Retail lending Market study, June 2019.

products such as payday loans, which entail high risks for consumers[262] (e.g. Belgium, Slovakia). Since new price cap regulation in Finland (2013), the number of new payment default notices decreased by 16%.[263] Despite this, the existence of high interest rates is still a source of concern in some countries; in fact, they are the main reason for consumer complaints in some of them (e.g. Bulgaria, Malta).[264] **During the COVID-19 crisis, some Member States** (e.g. Finland, the Netherlands) **temporarily lowered the caps** on consumer credit interest rates to better protect borrowers.

Based on the experience of several Member States as well as states in the US that have passed laws capping the price of loans (i.e. APR/interest/costs caps), a 2015 study analysing the industry of payday loans concluded that setting sufficiently low caps (the study sets the limit at 36%) seemed to be an effective measure to limit or eliminate payday loans. It noted that Member States where the APR cap was lower than 36% (e.g. Belgium, France, Italy, Germany) did not experience the presence of payday loans. In contrast, the industry was growing in other Member States that had either set significantly higher caps (e.g. Lithuania, Poland) or did not exist at all (e.g. Sweden, Spain).[265]

Consequently, the measures taken by governments in Europe and more recently in the US,[266] have constrained the development of this specific product, considered sometimes as too risky for certain consumers. However, the consequences of a drop in supply could potentially push consumers to other forms of credit even less regulated.

Payment protection insurance (PPI) are insurances designed to cover repayments in certain circumstances and often tied or bundled with personal loans, payday loans but also credit cards (see below). They raised concerns in some Member States as it is linked to a number of mis-selling scandals (e.g. consumers sold 'worthless' insurance that was unsuitable for them) in the sector, such as in Ireland and Spain.[267] Consumers are also deliberately misinformed about the specific conditions of the contract, with many believing that the coverage includes job-loss when in fact this is rarely the case. In Belgium between 2011 and 2015, insurers paid out a claim in only 0.24% of all contracts, which is significantly low when compared to other insurance products.[268] PPIs can entail disguised high costs which do not always appear to be included in the calculation of the APR.[269] The revenue generated is substantial: in the UK, GBP 38 billion has been refunded by banks to consumers since 2011, after the UK Financial Conduct Authority

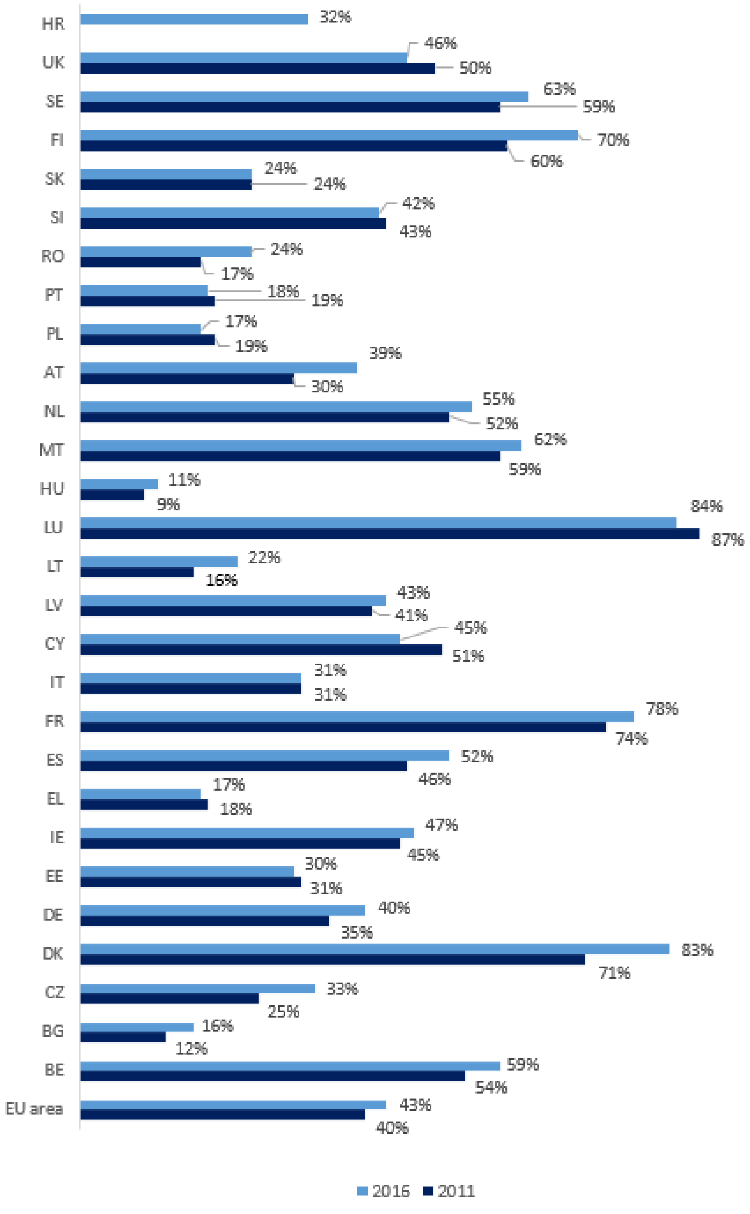
[262] Rate caps could prevent over-indebtedness by avoiding ultra-high interest rates for smaller loans. Eurofound, 2020a.
[263] Accenture, Finnish Retail lending Market study, June 2019.
[264] ICF Impact Assessment support study.
[265] Attaité, M., 2015, Pay-day lenders: why can we consider them as being bad players on the credit market?
[266] NCLS [US], Payday Lending Legislation 2020, "The state of Virginia, [...] caps the interest and fees that may be charged under a short-term loan at an annual rate of 36%, plus a maintenance fee".
[267] Financial Services User Group (FSUG), 2019, Opinion on responsible consumer credit lending.
[268] FSMA, 2017, Study of payment protection insurance offered in conjunction with consumer loans.
[269] See ICF, Support study to the Impact assessment, 2020

found that PPI was mis-sold.[270] In Germany, the commissions paid to credit providers for the sale of PPI policies usually amount to 50% or more of the insurance premium.[271]

Credit cards

The use of credit cards in the EU has accelerated since 2005. Eurobarometer survey results from 2006, 2011 and 2016 point to a steady increase in the number of EU citizens who declared having a credit card, from 40% in 2011 and 43% in 2016 (0).

Figure 17: Estimated share of EU citizens with a credit card in 2011 and 2016, (in percentage).



Source: ICF, based on Special Eurobarometer 446 and 373.
Note: Euro area data: EU-27 in 2011 and EU-28 in2016.

[270] https://www.fca.org.uk/data/monthly-ppi-refunds-and-compensation, consulted on 15 February 2021.
[271] Cherednychenko, Meinderstma, 2018.

For individual EU Member States, large variations with respect to card usage exist: as of 2017, the number of cards per inhabitant ranged from 0.8 to 3.9, the number of payments made per year per inhabitant ranged from 26 to 329, while the corresponding transaction values ranged between EUR 1,800 and more than EUR 17,000 per year and inhabitant.[272]

Furthermore, among the various types of credit cards, a recent report published by Finance Watch[273] examined the frequency with which different types of credit cards are used. The report distinguished between credit cards with a "next month full debit" option – in which the debit is paid back the next month in full – and those with a "monthly partial repayment" option – allowing a consumer to make partial payments every month. The survey results indicated that both products have been widely used although to various degrees across different Member States.

At the EU Member State level, the share of citizens of 15 years and older with at least one credit card varied widely, ranging from approximately 80% in Luxembourg, Denmark and France to below 20% in Hungary, Bulgaria, Poland and Portugal (0). Furthermore, the Deloitte report on the future of credit[274], revealed that only in the UK credit cards was the most widely used consumer credit product accounting for 35% of the consumer credit product mix. Among the six remaining Member States covered by the report, credit cards were generally the third most commonly used product after personal loans and auto loans, with shares ranging from 16% in Spain and 11% France to only 2% in Germany.

Already cited data from Eurofinas (0) shows that the weight that credit cards and other revolving credit have in the total number of credit agreements signed by their members decreased from 52% in 2016 to 47% in 2018, a decrease of 5 percentage points. This trend, coupled with the simultaneous increase in the number of personal loans and non-automotive credit at points of sale (PoS) shows some change in consumption pattern of credit in favour of the latter two, though it is not hard to gauge whether this may continue.

The relative decline in the use of credit cards in the EU vis-à-vis other products (as a share in the product mix) was also recently noted in the financial press.[275] The number of credit cards declined across Europe, with a fall of 3.5 million units in 2019, after a sharp rise following the 2008 financial crisis. Some experts claim that while a credit card will remain an important product, also given the fact that it combines both a credit and a payment facility, it may evolve and become more tailored to a customer's specific needs, an offshoot of, among other factors, the competition with the P2P payments or/and digital wallets.[276]

Overdrafts and revolving credit other than credit cards

[272] ECB, September 2018, Fifth report on card fraud.
[273] Finance Watch, 2020a, Basic financial services.
[274] Deloitte, 2019.
[275] Realwire, 2020, European card growth slows to 2.7% as digital payments start to bite.
[276] Deloitte, 2019.

Revolving credit account (excluding credit cards), sets of credit limit, that borrower can either repay at the end of each billing cycle or "revolve" the balance by making a minimum payment each month. In addition, borrowers must pay a certain amount of fees. Revolving credit can be a personal line of credit in an account, from which the borrower can draw money up to the credit limit. This type of product offers great flexibility for consumers but could entail high cost for the borrower due to the evolving interest rate and the fees associated.

Based on a prior agreement, overdraft facilities allow a customer to get automatically a short-term credit extending customer's ability to pay using the current balance in the customer's current account. Usually, overdrafts entail high cost if they are not repaid within a certain period, and unarranged overdrafts are particularly expensive. For instance, in the UK, for unarranged overdrafts, the price regularly exceeds the equivalent of an interest rate of 10% per day and, for 15% of users, over 20% per day. Consumers in more deprived areas are 70% more likely to use an unarranged overdraft and pay these higher charges, than other consumers.[277] If the period exceeds a month, the credit is then covered by the CCD. There is limited EU-wide data on **revolving credits (other than credit cards) and overdraft facilities**. Concerning overdraft facilities, the ING survey conducted in 12 Member States[278] found that overdraft facility was the third most prevalent type of consumer credit product used in these EU countries (an average of 10% of respondents declared using this type of product).

Although also limited, some national data is also available for certain countries. For instance, data from the UK showed that 19 million people had an arranged overdraft in 2017, while 17 million used an unarranged overdraft facility.[279] In France, there were approximately 30 million users of overdraft facilities, with 60% of French people overrunning their overdraft authorisation in 2019.[280] It should be noted, however, that some proportion of consumers in each country may still not actively use an overdraft facility, despite having it available.

In terms of the outstanding value of overdraft facility per capita, already cited data from the Deloitte report[281] reveals that as of 2018, overdraft facility made up 30% of a consumer outstanding debt in Sweden, followed by 16% in Italy and Germany while in most of the other countries this share was typically below 10%. In EUR terms, the value outstanding overdraft facility ranged EUR 1,131 in Sweden to EUR 144 in the UK.

As regards to other revolving credit, a London Economics study published in 2014 that included a consumer survey found that revolving credit (excluding credit cards) constituted approximately 3.1% of outstanding value of loans in the EU[282]. In spite of

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[277] UK FCA, 2018, High-Cost Credit Review: Overdrafts consultation paper and policy statement.
[278] ING, 2018. The 12 European countries are: UK, NL, DE, SP, BE, AT, IT, FR, PL, CZ, RO, LU.
[279] ICF, 2020, Evaluation of the CCD; FCA, 2018, The financial lives of consumers across the UK.
[280] ICF, 2020, Evaluation of the CCD; Que Choisir [FR], 2019, Overdraft Facility: Excessively Expensive Credits
[281] Deloitte, 2019.
[282] London Economics, 2014, Study on The Functioning of the Consumer Credit Market in the EU.

this low share, revolving credit appears to be one of the main sources of concern for consumer organisations[283].

In France, revolving consumer loans were identified as a key factor behind over-indebtedness linked to credit. Hence, it was decided, in 2010, to adopt a specific rules regarding their provision.[284] Since their introduction, the overall value of revolving loans in consumption debt fell from EUR 2 500 million in 2010 to nearly EUR 1 000 million in 2019 and the number of situations where over-indebtedness is related to revolving loans decreased by 47% during the same timeframe.[285]

Pawnshops

Pawnbroking agreements are common among consumers in some Member States. In Greece, the number of pawnshops increased between 2008 and 2013.[286] Italy has recently seen an increase in this activity by 20-30% following the lockdown as many individuals had experienced or anticipated a decrease in their income.[287] According to a review conducted by the UK Financial Conduct Authority, an estimated 350000 customers enter in pawnbroking agreements in the UK every year, based on the figures provided by the firms answering to their survey (which represent 70% of the total).

Student loans

Finally, a 2018 survey from ING[288] revealed student loans are commonly used in countries like Luxembourg (12% of the households' debt portfolio), in the UK (8%) and the Netherlands (7%). However, in other Member States including Central and Eastern Europe region this type of credit represents a very small fraction of households' debt portfolio. This difference can be explained by, among other factors, the specific funding structure educational institutions in the continental Europe where most of the universities are financed directly by public funds (through taxes) which entails small/no charge fees for students.

Auto loans

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283 ICF, 2020, Evaluation of the CCD; BEUC, 2019, Review of the Consumer Credit Directive – BEUC Position; El Pais [ES], 2019, La usura de las tarjetas 'revolving' estalla en los tribunales; Speaker representing a consumer organisation at the CCD event.

284 The specific framework includes: harmonised denomination ("*crédit renouvelable*"); specific selling rules, i.e. the borrower must be offered the choice between revolving and instalment loan whenever the amount of the operation exceeds EUR 1 000; maximum duration of 36 months when the amount is less than or equal to EUR 3 000 and of 60 months when the amount exceeds EUR 3 000; each installment must reimburse a predefined fraction of the initial capital, and the law sets a minimum amount for each installment; in case a renewable credit is not used by a customer for one year, the contract is automatically put on hold by the creditor and terminated after another year. LOI no 2010-737 du 1er juillet 2010 portant réforme du crédit à la consommation.

285 National authority.

286 CIVIC Consulting, 2013.

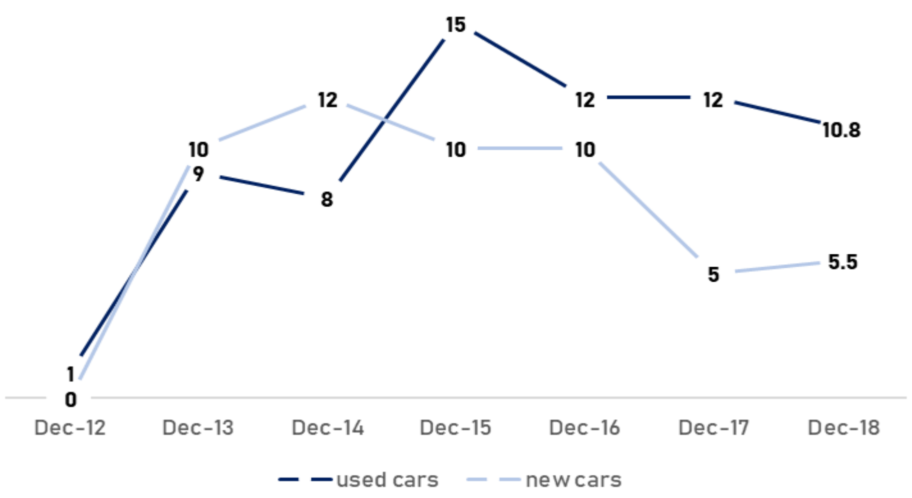
287 ICF CCD Evaluation, 2020.

288 ING International survey February 2018 "Saving comfort – a path to happiness. Examining money choices in Europe, USA and Australia" – extracted from the report Finance Watch "Is the human dignity of individual debtors at risk?", 2020d. The 12 European countries are : UK, NL, DE, SP, BE, AT, IT, FR, PL, CZ, RO, LU.

According to the Eurofinas' data,[289] the share of auto loans for personal use (that includes leasing agreements) in all new loan agreements remained stable over the period 2012-19. In 2019, it represented 33% of consumer credit agreements (and 25% of all loans) granted by Eurofinas members. The data compiled from the Member States covered by the study revealed that auto finance is a widely used consumer credit product. Similar trend in data – albeit with variations across countries – were reported by Deloitte. The share of consumer credit in the product mix[290] allocated to the purchase of cars in 2018 represented 22% in France and 33% in Germany.

Figures collected from Eurofinas members also suggest that the car lending market has performed well in the recent years, showing rather healthy growth rates since 2012 (0). In 2018, sales in the used and new cars segments increased by 10.8% and 5.5% respectively.

Figure 18: Consumer car finance (new lending) for used and new cars – annual growth rate in % (end of the year)



Source: ICF, based on Eurofinas 2018, Facts and Figures.
NB: Figures are adjusted to exclude the impact of exchange rate fluctuations.

The fast expansion of this segment of consumer credit was also noted by the ECB in 2017.[291] In a note analysing the trends in the consumer credit market, the ECB stated that recent developments in the consumer credit market were strongly driven by the purchase of new cars.

Although the available data does not allow to gauge the way how the market will evolve over the next decade, it is expected that the COVID-19 pandemic will have a significant

[289] Eurofinas, Credit Facts and Figures. Available at: http://www.eurofinas.org/index.php?page=key-facts-figures.
[290] Credit cards, personal loans, overfat facilities, PoS finance, motor finance and others. See p.15 of Deloitte, 2019.
[291] ECB, 2017, Recent trends in consumer credit in the euro area available.

impact on the sector. European Automobile Manufacturers Association expect a record 25% fall in sales in 2020.[292]

Leasing agreements

Leasing is an alternative way of financing whereby a customer (the 'Lessee') purchases an asset from the seller (the "Lessor') in return for a contractually agreed series of payments which usually include an element of interest. The lessor maintains ownership of the asset while the lessee enjoys the use of the asset for the duration of the lease agreement, usually accompanied by an option to buy the asset at the end of the contract[293].

Currently, only those leading agreements that oblige the consumer to acquire the good upon expiration of the contract are covered by the Directive, as per Article 2(2)(d).

Leasing agreements in a consumer market often span between 2 and 5 years. The have been used for a wide range of products with cars and home-appliances being particularly common products. In consumer's goods market, they are commonly provided directly by the distributor of a good rather than by bank or other financial intermediary.

Leasing agreements have seen rapid growth in the EU in recent years. This is partly on the back of the growing popularity of leasing agreements used in the automotive sector[294] and this trend is expected to continue with vehicle leasing market projected to grow at CAGR 3% (or by circa EUR 50 billion) between 2020-2024, despite the impact of the pandemic[295]. In some Member States, the leasing market has grown particularly fast in the last decade. For instance, between 2008 and 2019, France saw the number of leasing transactions increasing by 256%[296] and in 2016 the value of approved leasing agreements for purchase of cars reached EUR 500 million and surpassed the value of classic car loans.[297] In addition, while between July 2019 and July 2020 the value of classic auto-loans in France increased by 2% on the y-o-y basis, the value of leasing agreements for cars over the same period rose by 25%.[298]

Even in cases where a leasing agreement envisages a purchase of an asset, Finance Watch estimates that hire purchase currently represents around 12% of the total credit provided to households, although it accounts for more than double of this percentage in New Member States.[299]

Free interest rate loans

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[292] European Automobile Manufacturers Association, 2020, EU car sales forecast 2020: record drop of 25% expected this year, says ACEA.
[293] Deloitte, 2017. Banking and Financial Services – Finance Leasing.
[294] ICF, 2020, CCD Evaluation.
[295] Research and Markets, May 2020. Vehicle Leasing Market in Europe.
[296] Que Choisir [FR], 2019, Leasing, a Massive Degradation of Borrowers Rights.
[297] Challenges, 2017. Le leasing, le produit financier qui relance les ventes d'auto.
[298] Association Française des Société Financières, July 2020. Légère hausse de l'activité en juillet (+1.8%), mais d'importantes disparités sectorielles.
[299] This could be both linked to different levels of household indebtedness, to the size of the mortgage credit market (see housing loans section), as well as credit culture differences between older and newer EU Member States.

Free interest rate loans are not captured within the scope of the Directive, as per Article 2(2)(f).[300] These are generally used to finance the purchase of products such as household appliances, in the form of **point of sale financing**, concluded between the consumer and the retailer selling the good, with the latter acting either as a credit provider or credit intermediary. The decline in interest rates since the entry in force of the Directive favoured the expansion of this business model as offering a "free credit" costs less to the credit provider.

In recent years, **'Buy Now Pay Later' (BNPL) products** have emerged. These are interest free short term loans that allow consumers to delay paying for items or to spread the cost of purchases. Their business models rely on merchant fees paid by the retailer. BNPL providers such as Klarna,[301] Scalapay, TwistoPay or Alma, offer their products on the merchant's digital platforms to provide seamless consumer journeys or through apps to be used for payments in stores. These products are popular among younger consumers[302] and are often seen by consumers with a poor credit history or thin credit files as a viable alternative to more traditional forms of regulated lending. Some consumers in financial distress during COVID-19 use BNPL products to manage their finances. Many consumers seem not to realise that this product is credit. [303]

Interest free credit agreements can entail risks for consumers. In fact, although they may appear as having low or no costs linked to them (they are often presented as '0% interest rate' offers), the underlying business model for offering such loans is often based on high fees for late or missed payments, aspects frequently ignored by consumers.[304] [305]

The risk lies in the fact that consumers are often poorly informed about the conditions of the credit,[306] which are also often very strict, and that they promote quick decisions taking advantage of behavioural biases (such as present bias because the benefit of deferred payments are presented but not potential future implications)[307]. Such financial products put people at risk of taking on commitments that they may not be able to honour.[308]

The data available does not allow to estimate the exact extent to which interest free loans are used across the EU, but Eurofinas[309] data on the magnitude of point of sale financing suggests that they became relatively common in the last decade. In 2019, this represented 14% of the volume of newly granted consumer credit from Eurofinas members. An

[300] Depending on whether there are considered to be without 'charges' or 'insignificant charges'.
[301] In December 2020, Klarna was Europe's highest valued private fintech company.
[302] Data provided by some BNPL providers indicates that in the UK 25% of users are aged 18-24 and 50% are aged 25-36. UK FCA, 2021.
[303] UK FCA, 2021.
[304] ICF, 2020; EBA, 2019a.
[305] For 'buy now pay later' providers that charge late payment fees the revenue from such fees can make up a significant portion of the firms' overall revenue. UK FCA, 2021.
[306] In case of low fees, for instance, they are usually mentioned by the retailer but not provided in an APR calculation.
[307] UK FCA, 2021.
[308] Eurofound, 2020a.
[309] Eurofinas represents specialised consumer credit providers in Europe. In 2019, loans granted by Eurofinas members represented 45% of outstanding consumer credit in 14 Member States.

indication of concern at national level around this kind of credit agreements is the decision of certain Member States (e.g. Germany) to apply some of the Directive's provisions such as the right of withdrawal to all consumer credit, regardless of whether an interest rate is charged.[310]

Green loans

Green loans were initially introduced as a government initiative that meant to encourage individuals to make more **energy-saving improvements of their homes**. They can be used for energy efficient home renovation, insulation work, to purchase and install solar panels or installation of heat pumps, or for roofing costs.[311]

While the definitions of green loan may still vary, one commonly accepted is that green loan is lending which is subject to certain environmental criteria.[312] More specifically, a consumer's eligibility for green loans is usually tied to the compliance with detailed technical eligibility criteria[313] including minimum targets in energy savings achieved as a result of improvement works on a property.

The underlying principle behind green loans is that their repayment is facilitated by the savings in energy bills generated thanks to the improvement in a property energy efficiency parameter that was in turn financed (partly or in full) by the green loan. Typically, green loans can be either a stand-alone product or built in the mortgage product.

The **global lending volume in green loans has been rising rapidly.** Only between 2014 and 2018 it increased more than threefold from EUR 13.5 billion in 2014 to EUR 48 billion four years later,[314] though some of it corresponds to the corporate rather than consumer lending. In Europe, the green loan market as of mid-2018, and as estimated by Thomson Reuters, hovered around EUR 19 billion.[315]

However, the demand for green loans is not geographically homogenous and variations between different Member States exist. There is no comprehensive data on the outstanding value of green loans held by consumers, but Germany, France, Italy and Scandinavia are among the largest markets in the EU. Cultural and social habits may explain this variation, though some governments have also been also more pro-active than others in promoting green loans.[316] More generally though, it is expected that consumer's demand for green loans in the EU will see a rapid rise, irrespective of the temporary impact of COVID-19 pandemic. On the supply side, there has been a steady rise in number of retail banks across the EU offering green loans to consumers,[317] a trend

[310] ICF, 2020; Finance Watch, 2018 and 2019.
[311] Financer.com, 2020. Green Loan Options.
[312] See for instance Green Loan Principles published by Loan Market Association.
[313] European Commission, 2017. Defining 'green' in the context of green finance.
[314] LBBW, 2020. Shades of green.
[315] Allen & Overy, June 2018. Sustainable lending: a new shade of green.
[316] Eurofinas, 2020. Green credit.
[317] See for instance, DB, February 2020. Deutsche Bank is the leading green consumer finance operator in Italy.

that is expected to continue, also given a booming value of available public funding directed towards green investment in the coming years.

The **Commission Renovation Wave Communication**[318] presents a strategy to make homes for consumers fit for a greener and digital society, including strengthened information tools for consumers. It stresses that the Commission will strengthen the access to attractive private financing through the Renewed Sustainable Finance Strategy.

In spite of rapid growth of the market, green loans still account for only a fraction of the outstanding debt of households at the moment. There is no available data on the average value of a green loan but those will be typically higher than consumption credit and, in some cases, may exceed EUR 75 000.

In terms of the costs of green loans, it is not unusual that under certain conditions governments may offer some advantages such as a reduction of interest (interest subsidy), and/or a tax cut on interest paid by the borrower.[319] Maturities of such loans will be also relatively long. The structure of this product may also differ. Some green loans may require full repayment from the energy savings taking place, in other cases green loans may provide an incentive in a form of preferential tax treatment of an investment.

In its recent opinion on the European Green Deal and green loans specifically, BEUC argued that: "[…] Annual Percentage Rate for green loans should be much lower than for regular loans. These products should be conditional on achieving energy performance and comply with responsible lending principles, i.e. no aggressive marketing of loans to consumers and loan underwriting standards based on the strict assessment of the borrower's creditworthiness".[320] **Consumer credit at value below EUR 200**

The evidence gathered suggests that credit below the minimum threshold of the Directive is uncommon in many Member States, but not in others. Among the stakeholders answering to the survey, around a half of respondents across all stakeholder groups agreed with this statement,[321] while only stakeholders from nine countries disagreed (i.e. Bulgaria, Czech Republic, Cyprus, Finland, Poland, Portugal, Sweden and the UK). The low number of such contracts in some Member States is corroborated by national data provided by Belgium, which shows that the number of agreements for consumer credit below EUR 213.19 is the lowest, by far, among all categories (187 contracts concluded in the second semester of 2019, while the average for all categories exceeds 28000 agreements).[322] The low number of small loans in Belgium is attributed to the establishment of a lower cap for monthly fees that can be charged (from EUR 50 to EUR 4.85), which seems to have had a negative impact on credit providers offering payday loans. Similarly, financial authorities in Sweden and Netherlands has decided to set up

[318] COM(2020) 662final.
[319] Ibidem
[320] BEUC, March 2020. Consumers at the centre of the drive to sustainability.
[321] Survey for business associations (10 out of 21 respondents), consumer organisations (6 out 13 respondents), national authorities (13 out of 37 respondents).
[322] Statbel, Nombre de contrats conclus T4 2019. Available at: https://statbel.fgov.be/fr/themes/entreprises/credit-la-consommation#panel-12

interest rate caps and obliged foreign credit providers to comply with it, while in France and Italy, usury laws have prevented the development of this market segment.

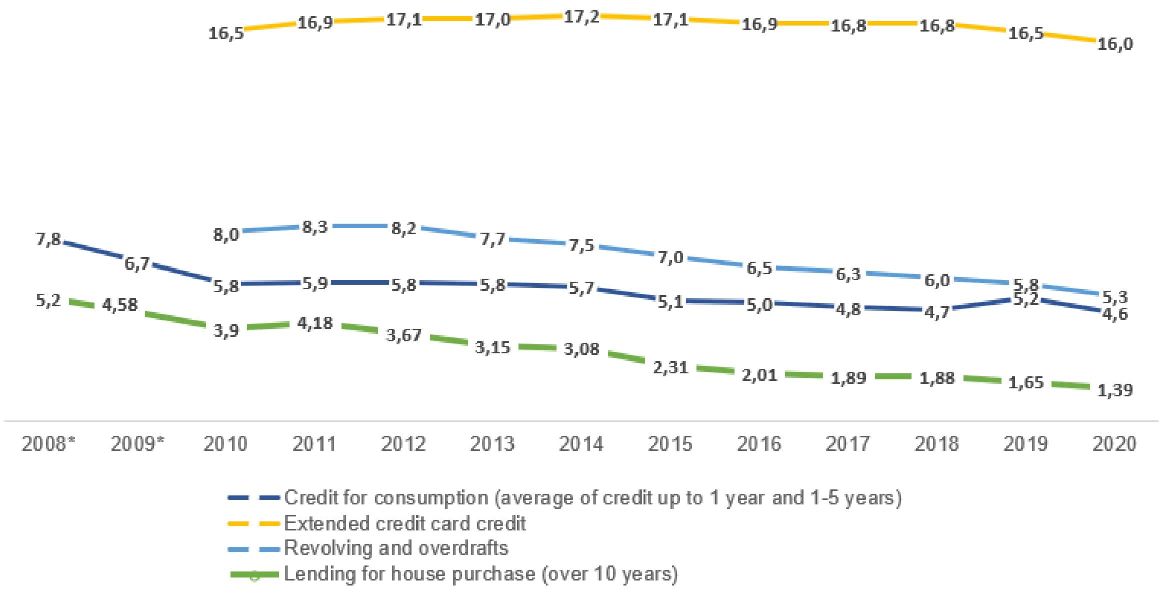
Views on recent trends of this type of credit differed slightly across stakeholder groups. If most industry representatives do not expect it to increase in the coming years, one third of national authorities and around half of consumer organisations disagree with them.[323]

4. Evolution of interest rates on consumer credit

Interest rates on consumption loans and revolving credit and overdrafts have gradually dropped since aftermath of the crisis (though, not immediately) across the whole Eurozone with interests rates on credit for consumption and revolving credit oscillating around 5% in 2020, down from 7.8% in 2008 and 8% in 2010, respectively (0). This has been driven by, among other factors, an improvement in the macroeconomic environment in the Eurozone that translated also into reduction in unemployment rates (and improvement in consumer credit profiles), as well as improvement in the liquidity conditions on the markets that were propped by the ECB Quantitative Easing operations which in turn pushed the interest rates down. Likewise, consumers in non-Eurozone Member States have also enjoyed a steady fall in interest rates on consumer credit products over the recent years, albeit the average cost of consumption loan or credit card in Poland or Romania still exceeds the interest rates on comparable products in most of the Eurozone countries. Note that as oppose to credit for consumption and revolving credit and overdraft categories, interest rates on credit cards fell only to a very limited extent. In the EBA 2020/2021 Consumer Trends Report, it is mentioned that several stakeholders reported that, because of the current economic scenario characterised by low interest rates, banks are currently competing for market share and running aggressive marketing practices. This should draw more attention towards the topic of indebtedness responsible lending and creditworthiness assessment in the near future.

Figure 19: Interest rates for consumption and revolving credit, Eurozone

[323] Survey question: "Increase in consumer credit not covered by the current CCD (e.g. short-term high-cost credit below €200, zero interest rate loans)" : Credit providers (0 out of 14), Business Associations (2 out of 21), Consumer organisation (5 out of 12) and National authorities (12 out of 37).

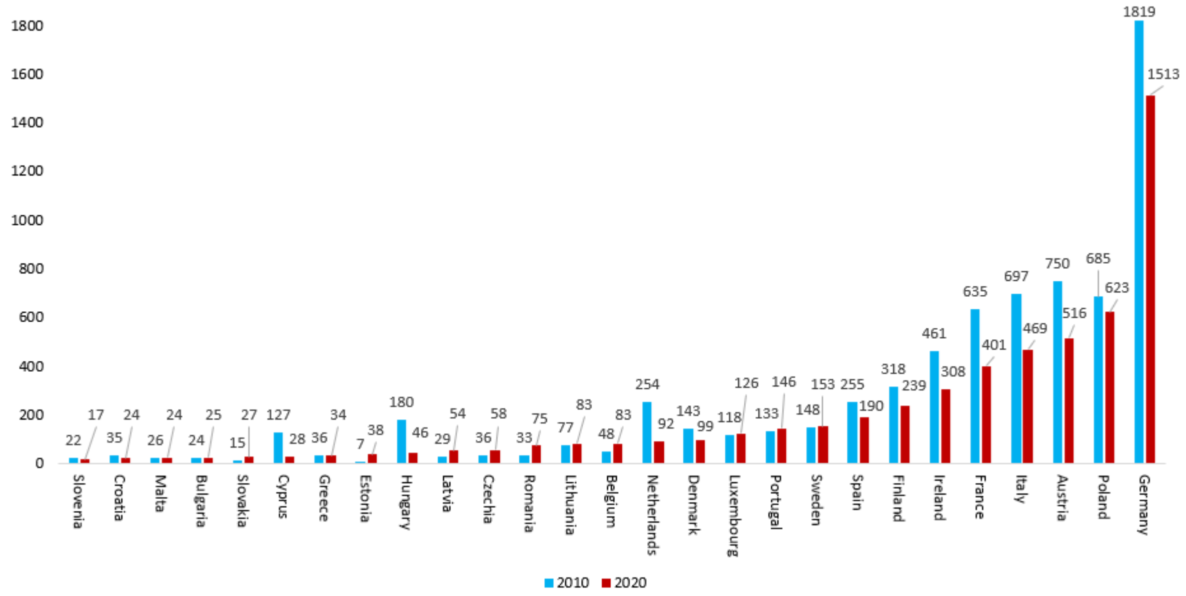


Source: ICF, based on ECB data [MIR.M.U2.B.A25.I.R.A.2250.EUR.O;MIR.M.U2.B.A2Z1.A.R.A.2250.EUR.N].
*Note: *data on revolving credit and overdrafts not available for 2008-2010. Value for every year: end of the month of June.*

5. *Share of banks and non-banks in consumer debt*

Following the Great Financial Crisis, the banking sector in the EU saw a wave of unprecedented restructurings involving some recapitalisations and resolutions (e.g. particularly large in Greece, Spain, Ireland and Cyprus), gradual clean-up of the balance sheets and followed by increase in capital buffers driven also by higher capital requirements. As a result, number of **credit institutions** (CIs) in the EU-27 shrank from 7,111 to 5,490 (or by 23%), according to the ECB data. Most of the CIs are conventional retail banks, though in some countries like Austria, Germany and Poland, there is also considerable number of smaller cooperative and saving banks (0).

Figure 20: Number of credit Institutions in the EU, 2010-2020



Source: ICF, based on data from ECB Statistical Data Warehouse

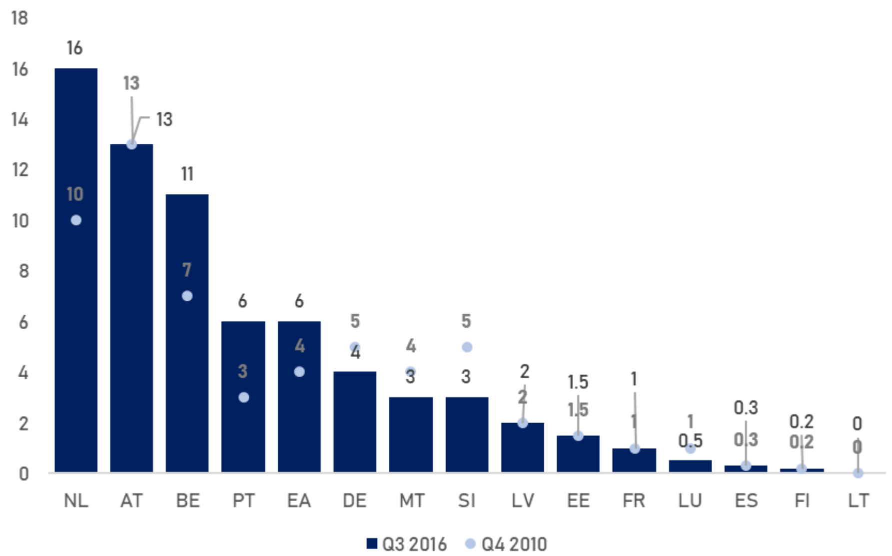
The category of **non-bank lenders** includes a rage of entities from peer-to-peer lenders through national lending companies to small high street lending focusing on a particular type of consumers or regions. By definition, and unlike banks, they are not allowed to take private deposits and then pass some of those funds on to market in the form of consumer credit. They are also smaller than banks. The non-bank lenders can be subject to different regulations[324] than banks and due to their way of operating can be more flexible in their approach to lending including tailoring their loan products to suite customer preferences. Yet, their business models are also typically more vulnerable to cyclical changes in the economy (including COVID-19 induced shock increasing consumer defaults) than banks.

The survey conducted among national authorities, allowed us to collect evidences on the share of non-banks credit institutions in several members states. The data gathered highlighted the consumer credit market is mainly driven by banks. However, consumer lending is provided extensively also by non- banking financial companies, with peer-to-peer lending expected to increase considerably in the near future (see below). In Spain, the share of banks amounts 75% while non-banks credit providers represent only 25%, as well in Slovakia where the banks made up 85% of the market and the non-banks 15%, and Romania, which has a credit market owned 88% by banks and 12% by non-banks providers. It is worth nothing that according to a Lithuanian authority, the share of non-banks in the country is around the same as the share of banks. Latvia stands out, with a volume of new loans to consumers higher in the non-banking sector than in the traditional banking one.

[324] For instance, in some Member States (e.g. Poland) non-bank lenders need to meet certain minimum requirements (e.g. minimum company's capital) in order to register its operations with national supervisory authorities. Yet, those are far less demanding then requirements stemming from a banking license in the EU.

In addition, according to the ECB, the share non-bank lending to households in the euro area grew from 4.2% in 2010 to 5.4% in 2016, though with wide differences among countries remaining in place (0). While these figures suggest that the lending market still remains dominated by banks, it is important to note that they also include mortgages. Therefore, the share of non-bank consumer lending should be expected to be higher, especially as it has seen a dynamic growth over the recent years. Products on offer at non-bank lenders can be different, though there is no hard data available. Interviews carried out for the study supporting the impact assessment show that non-bank lenders are more likely to service consumers that cannot be serviced by regular banks or are not commercially interesting for banks due to the products consumers might be after. It showed that non-bank lenders had slimmer operating margins and did offer credit products with reduced margins. In some countries these included short-term high-cost credit. According to the Slovak Association of non-bank lenders (APSU), more than 20% of the loans provided by non-bank lenders in Slovakia is less than EUR 100.[325] However, national legislation through interest rate caps meant a reduction of such loans in countries like Finland, Slovakia and Lithuania, making it difficult to operate for non-bank lenders.

Figure 21: Share of non-banks in domestic long-term household lending (including mortgages) in selected euro areas countries (In percentage).



Source: ICF, based on data from ECB Quarterly sector accounts 2010-2016
Notes: Non-bank lending refers to total economy lending minus loans from Monetary Financial Institutions and Other Financial Intermediaries (except investment funds). In the case of Austria, the high share of non-bank lending refers to the state and not to insurance companies.

Possible changes on the consumer credit market going forward

This section outlines two specific factors that will shape the consumer credit market over the next years namely, impacts of COVID-19 and changes brought by the process of

[325] APSU, Clients of non-banking companies - Computer Assisted Web Interviewing, 2019.

digitalisation in the financial sector. Both affect, inter alia, the baseline scenario used for the estimation of costs and benefits stemming any prospect CCD revisions.

1. Impact of COVID-19

Ramifications of COVID-19 for the EU economies and consumer credit markets more specifically are inherently difficult to gauge. This is not only because the data on the type and magnitude of this shock is still not comprehensive, but also because the crisis is dynamic and its duration and level of impact hinges on a number of critical assumptions including evolution of infection rates, the toolbox of policy responses that will be deployed by the EU itself and its Member States specifically or possible economic distortion of the level playing field of the Internal Market, to mention only a few.

So far among sectors of the economy that have been affected most during the initial stage of COVID-19 crisis have been those that rely most on the human interaction such as tourism, transport, retail and hospitality. The fall in consumer confidence and consumption during the peak of the lockdown in most of the EU in March, April and May bounced back to some degree since then but some lower spending will continue even after lockdowns are relaxed e.g. due to consumer caution and structural changes in consumption patterns[326]. The true economic impact of COVID-19 will take time to emerge. For instance, bankruptcy numbers may start to rise only later with considerable implications for banks' balance sheets, albeit in general European banks are way better prepared than during the past crisis - so far capital buffers have been sizable[327] and liquidity remains ample[328] - and therefore implications for the supply of consumer credit may be less severe[329]. For the past few months, EU economies were also supported up by an unprecedent level of economic support packages. In the EU five largest economies, one in five employees has been on public temporary unemployment schemes where the state pays some share of wages[330]. It is only when this support is gradually withdrawn the wider cost of COVID-19 will appear. The initial data shows that low-paid workers rather than 'white-collar' jobs (who can work from home) have been particularly affected. Redundancies figures start to confirm that and signs of increasing challenges in repaying the credit may appear in this subset of consumer's segment first[331]. The longer it will take to wait for a vaccine or effective treatment, the more pronounced the effect on the economy and hence consumer credit will be.

One way of approaching the issue of potential impact of COVID-19 on the demand and supply of consumer credit is to look at relevant theory and economic and financial literature focusing on the conventional response of consumer credit markets to economic

[326] IMF, April 2020, WEO projections.
[327] CET 1 ratio at almost 15% in December 2019 cf 9% in December 2009 according to the latest EBA stress-tests from Spring 2020
[328] LCR at 150% in December 2019.
[329] S&P, June 2020, Credit Conditions in Europe: Curve flattens, recovery unlocks.
[330] Economist, 2020.
[331] Finance Watch, 2020b, Coronavirus: a dangerous wave of personal over-indebtedness is on its way: here is how to avoid it.

shocks such as recession, for instance in relation to Global and Financial Crisis (GFC),[332] as well as some relevant data analysis drawing on key lessons from the past financial crisis in terms of impacts and trends that shaped consumer credit markets. Besides, already available 'early' data on the impact of COVID-19 on the real economy and credit markets specifically, also provides some useful insights for the development of the baseline scenario.

Economic and financial literature on impact of recession on consumer credit markets

In terms of economic and financial literature focusing on the conventional response of consumer credit markets to major past economic shocks, including the recent GFC, there are some general emerging findings.

Generally, economic theory suggests that negative shocks to the economy may follow different patterns (albeit of course there would be considerable variations depending on the nature of the shock). Firstly, a fall in aggregate demand leads to a fall in profits of firms which then translates into an increase in number of firms struggling to repay their loans (e.g. business NPLs go up). Firms respond with the cuts of their headcounts that subsequently results in a rise in unemployment. This in turn translates into a rise in number of consumers who also struggle to meet their debt repayment obligations in a timely manner, or pay their debt all together (e.g. consumer's credit NPLs goes up). Consequently, the quality of loans' portfolio of lenders deteriorates. Banks may also respond by tightening of conditions of consumer credit[333] and increasing the interest rates to price in the elevated level of risk – a response that eventually leads to reduction in supply and demand for consumer credit.

Numerous studies have documented that recoveries after financial crises – particularly after credit fuelled booms and busts – are often weak and sluggish as they give rise to creditless recoveries. Economic theory has long recognised that recoveries from financial boom-bust episodes are weaker and take longer than other recoveries as borrowers and lenders' over-leveraged balance sheets need time to adjust.[334]. For instance, Abiad, Dell'Ariccia, and Li (2011)[335] found that about one in five recoveries over the period 1964–2007 were creditless and weaker than normal recoveries. Dahlhaus (2011)[336] also found that the incidence of creditless recoveries doubles after a banking or currency crisis, and that these recoveries are weaker when major balance sheet readjustment is needed after a shock. In this respect, the difference between GFC and the current COVID-19 induced crisis is clear, suggesting potentially quicker recovery following the latter.

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332 It should be noted that at this point in time, the COVID-19 crisis is very different to GFC, notably in relation to the pre-existing situation the circumstances leading to them as well as on the distribution of the impact among population groups (Interview with EU-level representative).

333 Such as maximum loan size available, maturity or collateral requirements.

334 IMF, 2017, Credit Growth and Economic Recovery in Europe after the Global Financial Crisis.

335 Abiad, Dell/Ariccia and Li, 2011, What have we learnt about creditless recoveries.

336 Dalhaus, 2011, Determinants of creditless recoveries.

Furthermore, Everaert et al. (2015) analysed demand and supply of credit in selected Central, Eastern, and South-eastern European (CESEE) countries before and after the GFC. They found that the importance of demand and supply factors vary widely between countries. IMF (2015B)[337] notes that recoveries in many CESEE countries were held back by weak corporate and household balance sheets. Gaspar et al. (2016)[338] argued that a successful restart of credit flows calls for a concerted policy package that relieves the binding constraints on credit extension, often in a complementary manner.

The IMF research on the post GFC recoveries in Europe revealed that a 10 percent increase in bank credit to the private sector is associated with a rise of 0.6–1 percent in real GDP growth and 2–2.5 percent in real private investment growth[339].

In terms of demand for specific consumer credit products following a crisis, the data from the US consumer credit market from the midst of the 2008 crisis and ten years later shows relatively few changes. Credit cards remain the most ubiquitous credit vehicle, and while originations were noticeably lower soon after the GFC, they have recovered in recent years to 2008-levels as lenders have provided more access to credit. Furthermore, mortgage origination dropped dramatically during the last decade, whereas both auto loans and unsecured personal loans have grown significantly[340]. Also, delinquency rates increased swiftly during the first 2 years of the crisis, though at various rates across the products. As of end-2008, the highest delinquency rate was seen for unsecured personal loans (4.54%) and mortgages (3.87%), while those for credit cards (2.71%) and auto-loans (1.26%) were lower[341].

The current crisis is fundamentally different from the GFC since it did not originate in the financial sector. In the first months, the financial system was able to absorb part of the shock coming from the real sector. Banks did not reduce the availability of loans for companies and households, whose access to credit was eased by public measures as state guarantees or moratoria. However, the drop in consumption mechanically reduced demand for consumer lending. As long as banks are not affected by contagion from the real sector, the credit offer should not be substantially reduced.

Generally, consumer lending is procyclical and is highly positively correlated with households' disposable income. The literature also shows that the higher the level of households indebtedness on the onset of the crisis the higher is the credit constraint following it.[342]

Data on the impact of 2008 GFC on the consumer credit market

In terms of the evolution of the consumer credit market following the previous GFC, the trends discussed under the above section on the evolution of the consumer credit show that it is likely that a number of key parameters such as volume of outstanding consumer

[337] IMF, 2015, Mind the credit gap.
[338] Gaspar et al, 2016. Macro-economic management when policy space is constrained.
[339] IMF, 2017. Credit Growth and Economic Recovery in Europe after the Global Financial Crisis
[340] GlobeNewsWire, 2018, Financial Crisis- 10 years later. Consumer Credit Marketon an upward curve.
[341] GlobeNewsWire, 2018, Financial Crisis- 10 years later. Consumer Credit Marketon an upward curve.
[342] ECB, June 2020, Indebtedness and spending: what happens when the music stops?

credit, share of consumer credit as percentage of private consumption and households indebtedness level will follow a downward trend as a result of the COVID-19 induced shock. The crucial question is how pronounced the decline will be and how long will it last (see discussion below).

Most recent data on the impact of COVID-19 on the consumer credit market

The most recent data on the impact of COVID-19 provides a handful of key indicators that have broken some ground in offering insights into the magnitude of the shock.

For instance, the most recent ECB Bank Lending Survey (BLS) published in July 2020[343] indicates that crediting standards for consumer credit tightened already in Q1 2020 and deteriorated further in Q2 2020, mainly on account of precautionary savings[344] and low spending possibilities during the strict lockdown period and worsening economic outlook affecting, among other elements, consumer confidence, borrowers' creditworthiness hit by uncertainty in employment situation. In Q2 2020, net 26 per cent banks[345] in the Eurozone reported tightening of credit standards while net 76 per cent observed fall in consumer credit demand (see 0). The rejection rate for consumer credit also increased by 15 per cent in Q2 2020. Going forward, banks expect a continued net tightening of credit standards and a rebound in household loan demand in the third quarter of 2020.

Figure 22: Net percentages of banks reporting a tightening of credit standards or an increase in loan demand, 2020.

	Enterprises						House purchase						Consumer credit					
	Credit standards			Demand			Credit standards			Demand			Credit standards			Demand		
Country	Q1 20	Q2 20	Avg.	Q1 20	Q2 20	Avg.	Q1 20	Q2 20	Avg.	Q1 20	Q2 20	Avg	Q1 20	Q2 20	Avg.	Q1 20	Q2 20	Avg.
Euro area	4	1	8	26	62	-1	9	22	5	12	-61	5	10	26	4	-4	-76	2
Germany	13	9	4	40	58	5	3	21	2	24	-29	9	10	20	0	24	-43	10
Spain	10	-40	9	-20	80	-5	0	33	14	-44	-100	-9	30	90	7	-50	-100	-7
France	0	-12	6	35	97	-8	37	10	2	38	-91	9	0	6	-1	11	-91	1
Italy	10	-30	13	0	90	4	0	0	1	-30	-70	14	-10	0	6	-50	-90	13

Source: ECB BLS, Q2 2020

By end-March, delinquencies had not yet increased and very few loans were placed in the potentially vulnerable category. All Member States had then triggered measures protecting households' revenues such as short time working schemes and some Member States have included households in the scope of debt moratoria. Yet, most banks already set aside sizable provisions in the first quarter, anticipating a reduction in customer

343 ECB, June 2020, Q2 Bank Lending Survey.
344 European households have been saving up since the corona virus pandemic hit the economy. Yet, it is not fully clear whether the money represents pent-up consumer demand that is itching to be spent as lockdowns are lifted, known as involuntary savings, or a safety net put aside by households to insure against uncertain times ahead, referred to as precautionary savings. See for instance, Financial Times, 5 July, 2020. Soaring saving rates pose policy dilemma for world's bankers.
345 Relates to 'net percentage' – net difference between banks that reported tightening and easing of credit standards

repayment capacity, but the wide variability in the size of upticks in provisioning suggests that there is more to come[346].

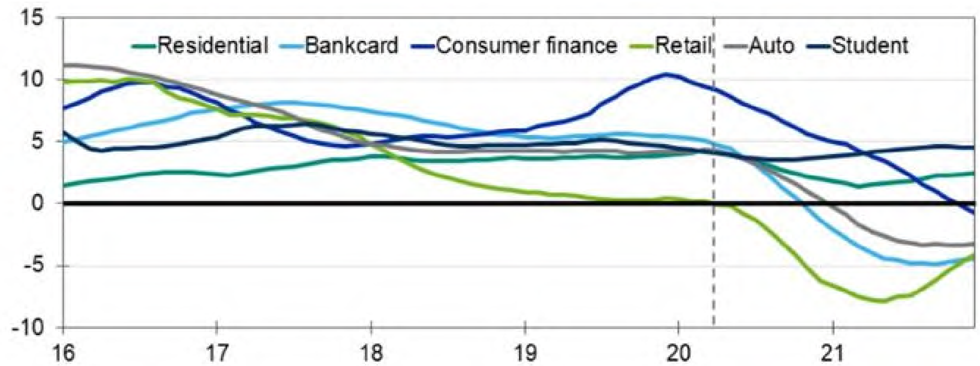
More generally, there has been consensus that the maximum impact of the pandemic on economic activity would fall in the second quarter of 2020 with subsequent quarters showing some signs of recovery[347]. The impact on delinquencies, and therefore on the capacity of banks to provide new loans, could be protracted if moratoria and guarantees were extended in the first months 2021.

Impact of COVID-19 on the type of consumer credit products offered or purchased

The recent McKinsey report estimates that the demand for consumer credit in 2020 in Europe may fall by circa 22% due to increase in discretionary savings, and tighter consumer credit standards and subdued demand of households due to lock-downs and consumption smoothing.[348]

There is limited disaggregated data on how the demand for specific types of consumer credit products may react as a result of the crisis caused by COVID-19, though some recent data from the US shows that demand for credit cards (traditionally the most volatile part of consumer debt[349]) and consumer loans have been most severely hit so far (0).

Figure 23: Household demand for consumer credit products, US market



Source: CreditForecast.com, Moody's Analytics

Generally though, what will matter most for the developments on the consumer credit markets in the longer term corresponding to the time-frame used for the baseline scenario (2020-2030), is the type of economic rebound following the shock induced by COVID-19, including GDP growth rates of the EU economies, that in turn affect the indicators such as unemployment rate, level of indebtedness of the EU households and supply and demand for consumer credit. Here, the current literature points to several type possible recoveries (0). In brief, the weaker the contraction in output and faster and more robust recovery is, the more contained the impact of COVID-19 would be ('V-shaped

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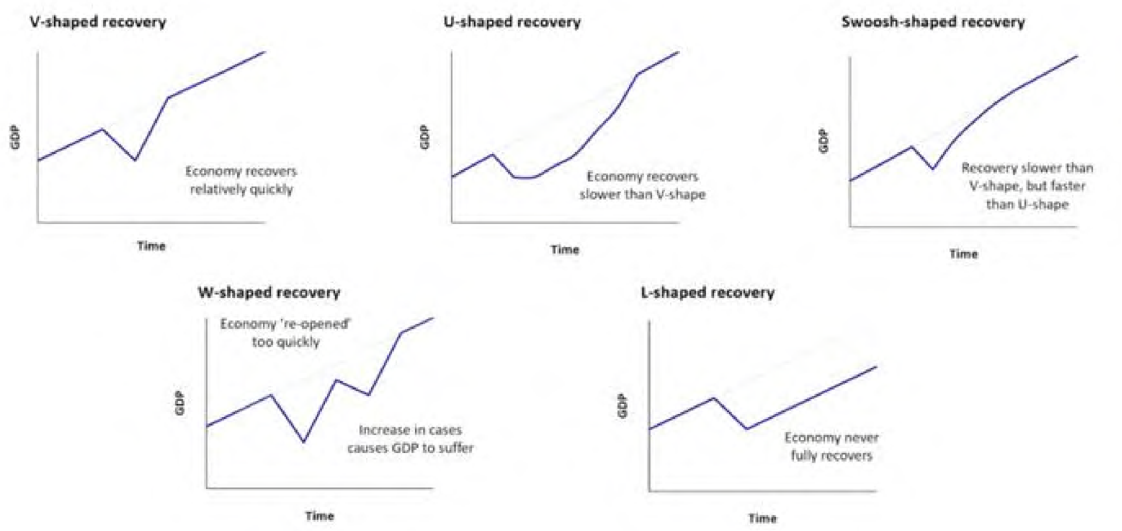
[346] S&P, June 2020, Credit Conditions in Europe: Curve flattens, recovery unlocks.
[347] ECB, August 2020, The macro-economic impact of the pandemic and the policy response.
[348] McKinsey, June 15. European Consumer Finance: Moving to next normal.
[349] Oliver Wyman, 2020, Consumer Credit in the time of COVID-19.

recovery'). Conversely, deep recession and prolonged recovery spread over longer period of time ('L-shape recovery') would be more detrimental for the consumer credit markets.

Figure 24: Potential patterns for Economic recover



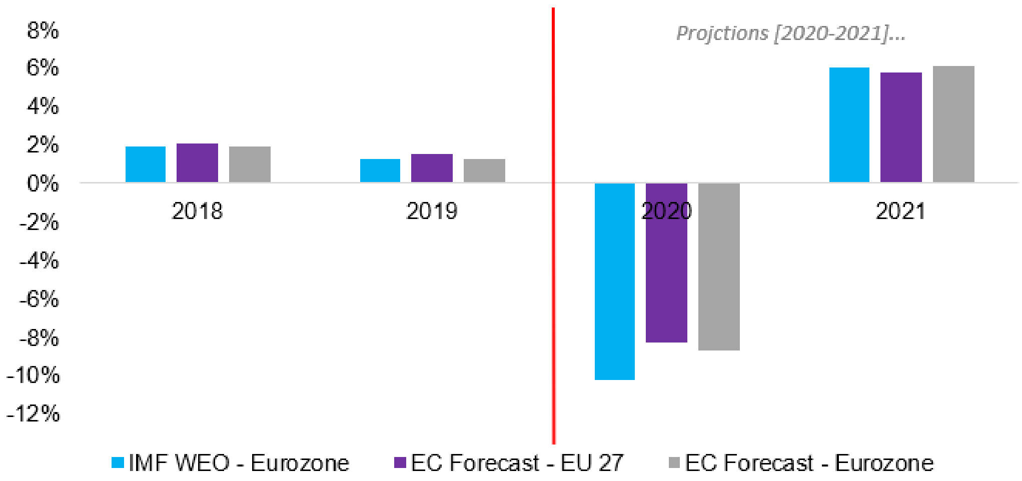
Source: Oliver Wyman, (Stress) Testing for Resilience, June 2020.

The most recent European Commission (EC) Economic Forecast[350] and the IMF WEO forecast[351] provide some insight on the type of recovery currently expected. According to the EC Summer Economic Forecast (baseline scenario), the EU economy will shrink by 8.3 per cent of GDP in 2020 but should then bounce back quite fast in the following year with GDP growth rate in 2021 reaching 5.8 per cent. The respective figures for the Eurozone are -8.7 per cent and 6.1 per cent in 2020 and 2021 respectively. This projection is based on the assumption of the 'lockdown' (strict containment and social distancing measures) across the EU oscillating around 8 weeks, some demand shortfalls still continuing in 2021 and additional deterioration outside of the EU due to the differentiated geographical spread of the pandemic and its impact on the international trade but it does not factor in the major second wave of infections (under baseline scenario)[352]. The latest IMF forecast from June 2020 projects the contraction of output for the Eurozone by -10.2 per cent in 2020 and then fairly swift recovery by 6 per cent in 2021 (also under baseline scenario). Recent S&P forecast indicates that Germany and the Netherlands are currently expected to recover to 2019 GDP levels by early 2022 while Italy would regain that threshold by late 2020[353]. The most recent Morgan Stanley forecast also points to sharp but rather short recession[354]. The recent ECB forecast for the Eurozone suggests that its economy will recover to the pre-pandemic level by Q4 2022[355]. Therefore, all those projections foresee 'a swoosh-shaped recovery', a faster

[350] European Commission, July 2020, Summer Economic Forecast.
[351] IMF, July 2020, World Economic Outlook.
[352] European Commission, Spring 2020, European Economic Forecast. See Box 1.1 The impact and recovery from COVID-19: a model based scenario analysis.
[353] S&P, June 2020, Credit Conditions in Europe: Curve flattens, recovery unlocks.
[354] Morgan Stanley, May 2020, The Coronavirus Recession: Sharper but Shorter.
[355] ECB, August 2020, The macro-economic impact of the pandemic and the policy response.

path compared to the long and relatively slow one of a 'U-shape' that followed the previous GFC, although all have also number of risks that may affect negatively the actual outcomes and should be taken with caution[356].

Figure 25: Forecasted GDP growth rates by the EC and IMF



Source: IMF and EC

Overall, according to the recent EC European Economic Forecast from Spring 2020, the annual growth rate of credit to households in Eurozone in the 2020 will be -1.5 per cent, while it will stagnate at the EU-27 level. Growth in supply of credit to households would resume in 2021.[357]

2. *Impact of digitalisation*

Until now, personal loans were mainly provided by traditional operators such as banks using traditional methods to grant credit, including a meeting – either face-to-face or online - between the consumer and the credit provider. However, the digitalisation has had a significant impact on the consumer credit market, notably through the introduction of new operators with more innovative business models to compete against traditional credit providers, and through the digitalisation of business processes including expanding consumers' access to credit.

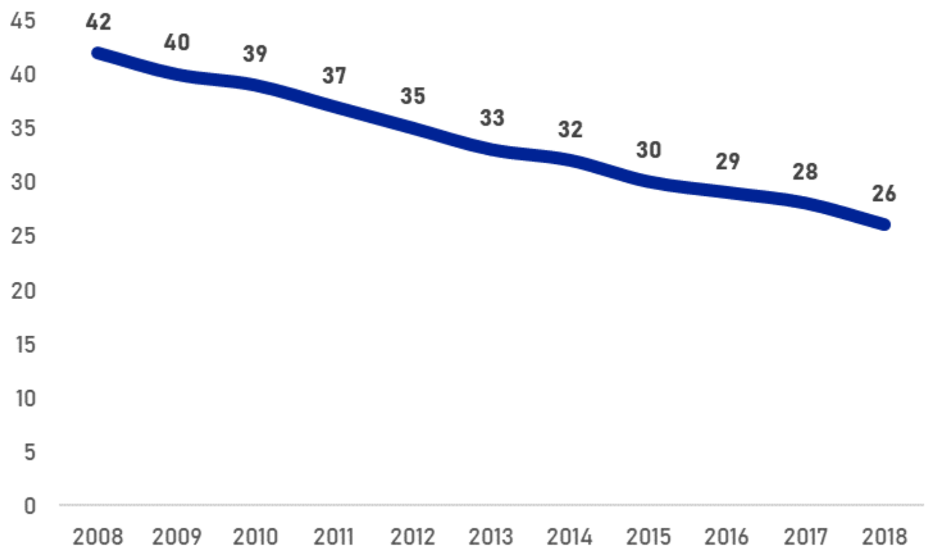
Impact of digitalisation on the market players

According to a recent study examining the digitalisation of the marketing and distance selling of retail financial services,[358] the market for personal loans is still led by traditional operators. The study, which mapped 200 European providers of financial services and products found that 71% of those offering personal loans were traditional operators (e.g. banks), while 29% were new operators (e.g. FinTech companies, P2P lending platforms). There are signs, however, that digitalisation is already changing the landscape in the consumer credit market considerably. For instance, data from the World Bank and the European Central Bank point to a downsizing of banks in the euro area in

[356] See range of adverse scenarios for the EC and IMF projections.
[357] European Commission, April 2020, Spring Economic Forecast.
[358] ICF, 2020; LE *et al.*, 2019.

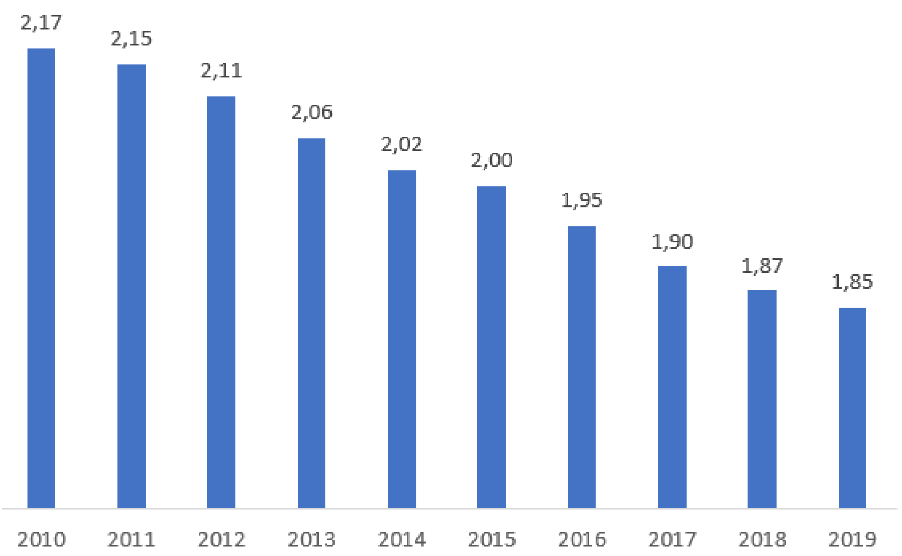
the last decade, both in terms of number of branches and number of employees. Since 2008, the number of banks' branches per 100 000 adults in the EU-28 has seen a steady downward trend, from 42 in 2008 to 26 in 2018 (a decrease of 38%) (0). Similarly, between 2009 and 2018, the number of employees was also reduced, this time by 14% (0). Only part of it can be attributed to the major restraining that took place after GFC. According to further data of the European Banking Federation,[359] the number of (domestic) fell to about 163 000 by the end of 2019. Compared to the previous year, branches in the EU-28 decreased, at a steady pace, by 6%, or about 10 000 branches.

Figure 26: Commercial bank branches (per 100 000 adults) in the EU-28



Source: ICF, World Development Indicators database, 2019

Figure 27: Number of employees in the credit institutions in the Euro area between 2008-2018, in millions



[359] EBF, Facts and figures – Structure of the Banking sector, https://www.ebf.eu/facts-and-figures/structure-of-the-banking-sector/

Source: ICF, ECB-SDW

Although **cross-border activities** refer to operations where the credit provider and the consumer are located in different countries i.e. direct cross-border lending, the term may be also used in the literature and by stakeholders to refer to instances where a credit provider establishes subsidiaries or branches in other countries to target consumers in that market i.e. indirect cross-border lending. For the purposes of this impact assessment, 'cross-border lending' should be understood to mean direct cross-border activities.[360]

The European Banking Federation data[361] show that at a consolidated bank level, there were 968 foreign bank branches in the EU in 2019, of which 730 were from other EU Member States. Germany is the country with the highest number of foreign branches from the other EU Member States, having 87 branches, followed by Spain with 78. The overall number of subsidiaries from other EU Member States was 287 in 2019.

It is worth stressing that the **concentration of banks** has considerably increased in the EU over the last years. The share of total assets of the five largest credit institutions, at EU level was on average 65% at the end of 2019.[362] In a rather concentrated market, reducing obstacles to cross-border activity is necessary to improve competition.

The impact of digitalisation is also evidenced by the development of the financial technology (fintech) consumer credit market. **Fintech companies** are not new, but they have expanded significantly in the last decade and are expected to develop further in the future. Although there are no consolidated data at the EU-level, it is estimated that in 2019 the value of Fintech transactions – of which credit still represents only a minor share[363] - amounted to EUR 682 billion, with a forecasted growth rate of 13.3% by 2022.[364]

In this regard, the CCD Evaluation found that while these types of companies have not had a significant impact on the performance of traditional credit providers, they have already shaped the consumer credit market in many ways, with the introduction of peer-to-peer lending (P2PL) platforms being one of the most prominent developments. These online platforms, e.g. Zopa and RateSetter in the UK, Auxmoney in Germany and Bondora in Estonia, often tapp onto the segment of consumer that have been underserved by banks. They mostly act as credit intermediaries, seeking to match individual borrowers with individual lenders. However, some of them (e.g. Auxmoney) also act as credit providers.

Relevant in this regard is lending-based crowdfunding, which EBA defines as 'Open calls to the wider public by fund seekers through a third party, typically an on-line platform, to

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[360] ECRI, 2015, Towards A Balanced Contribution of Household Credit to the Economy.

[361] EBF, Facts and figures – Structure of the Banking sector, https://www.ebf.eu/facts-and-figures/structure-of-the-banking-sector/

[362] https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200608~4613968937.en.html#:~:text=The%20share%20of%20total%20assets,%2D3.1%25%20to%207.8%25, consulted on 25 February 2021.

[363] According to the EY FinTech Adoption Index 2017, the main product from Fintech companies and used by consumers are payments (50% against 18% in 2015) while loans represent only 10% of their transactions (against 6% in 2015).

[364] ICF, 2020; LE *et al.*, 2019.

raise funds for a project or for personal purposes, in the form of a loan agreement, with a promise to repay with (or in certain cases without) interest. The fund raisers may include individuals, start-up companies or existing SMEs that are seeking an alternative means of funding, rather than the traditional credit market.[365]

Although the current total is unknown, the size of the sector is not insignificant, with P2PL comprising more than 50% of the alternative financing market[366] itself and valued at EUR 7.7 billion in 2016 (up from EUR 1.1 billion in 2013). Another report showed that in 2015 peer-to peer consumer lending had a market share of 36% in 2015, worth EUR 366 million.[367]

In addition, in 2017, the total value of P2PL market in Europe was EUR 3.8 billion,[368] and expected to expand in the future, thanks to the ever-growing digitalisation of the sector. Thus, consumer P2PL accounts for 33% of the alternative financing market and operate in many Member States[369], albeit with marked differences between the countries. The biggest alternative financing markets are in France (EUR 444 million), Germany (EUR 322 million)[370] and the Netherlands (EUR 194 million), with others (Finland, Spain, Italy) experiencing significant booms.[371]

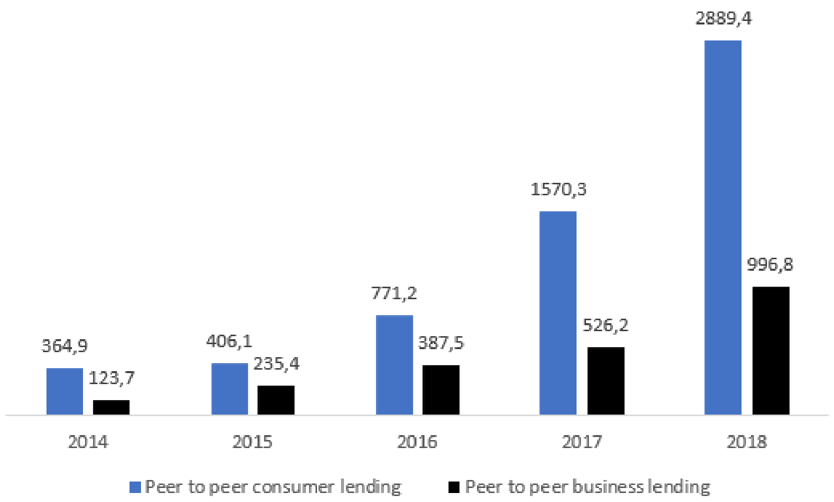
Indeed, their current cumulative market share remains limited,[372] as reflected in the findings of the CCD Evaluation, with only 2% of consumers consulted declaring that they had taken their loan through a platform of private individuals.[373] A survey conducted by the European Commission in 2017[374], also suggests that consumers seem to hold less trust in these platforms than traditional credit providers such as banks. The survey revealed that peer-to-peer consumer complaints linked to peer-to-peer platforms concerned mainly a lack of awareness about the authorisation or registration status of the providers and whether they are obliged to provide the same level of protection as traditional credit providers. Consumers also seemed to worry about transparency of fees and costs and the assessment of borrowers' creditworthiness. While there are no comprehensive data on the scale of the problems faced by individuals obtaining credit through such platforms, evidence from several Member States confirms that consumers are reporting issues. In a study carried out in 2016, the Financial Ombudsperson Service in the UK found that consumer complaints about these platforms had risen significantly, with some consumers reporting having been unaware of the fact they were borrowing through a peer-to-peer lending platform or being unsure about possible recourse in case

[365] EBA, Opinion on lending-based crowdfunding, EBA/Op/2015/03, 26 February 2015.
[366] Alternative financing market is defined as "any investment other than a stock, bond, or cash".
[367] See: https://ec.europa.eu/info/sites/info/files/180308-proposal-crowdfunding-impact-assessment_en.pdf
[368] ICF, 2020; LE *et al.*, 2019.
[369] In 2019, the EESC carried out a survey of consumer credit, with half of the respondents confirming that these instruments are used in their Member State (EESC, 2019. Evaluation of the CCD).
[370] Note that these figures include also micro/small enterprise lending, not only consumer credit.
[371] ICF, 2020; Jørgensen, 2018.
[372] The Evaluation of the CCD found that only 2%.
[373] ICF, 2020.
[374] European Commission, 2017, Exploratory study of consumer issues in online peer-to-peer platform markets.

of problems. Austria (2009) and Denmark (2014) have each sanctioned a peer-to-peer lending platform for failure to follow the rules in place.[375]

The total amount and number of loans approved via these platforms has been growing at a steady pace and is expected to grow further in the coming years. Recent data shows that the value of peer-to-peer consumer lending transactions in Europe (excluding the UK) has increased sharply between 2014 and 2018 reaching EUR 4.2 billion (0).

Figure 28: Peer-to-peer consumer and business lending transaction value in Europe (excluding the UK) from 2014 to 2018, in USD million



Source: ICF, based on Statista data 2014-2018

A recent report estimated the global peer-to-peer market to be at USD 120 billion in 2020 (around 4 million EUR in 2017 for the EU market), with a forecasted value of USD 1.4 trillion by 2027 (estimation revised)[376]. The same report also estimated that the consumer credit market will reach USD 218 billion by 2027, with a projected 42.2% compound annual growth rate (CAGR). From a European market perspective, the website Finanso.se[377] claimed that the P2P lending sector is expected to increase by 12.2% in 2020 to reach around USD 6.5 billion in terms of transaction value and then double to reach USD 7.1 billion in 2023. Although, these estimations have not taken into account the COVID 19 impact, it is safe to assume that this segment of consumer credit market will be impacted e.g. due to rise in default rates.

The growth that the fintech sector is expected to have in the coming years is also reflected in the opinion of traditional lenders (including banks) consulted in the 2017 PwC global fintech survey, which showed that 89% of respondents considered their businesses at risk of losing revenue in favour of fintech companies.[378]

[375] ICF, 2020.
[376] Report Linker, 2020, Global Peer-to-peer Lending Industry.
[377] Finanse.se, 2020, "European Business P2P Lending Industry to Reach $ 6.5bn Value This Year".
[378] PWC, 2017, "Redrawing the lines: FinTech's growing influence on Financial Services".

The role of fintech companies in the consumer credit market goes beyond the provision of credit. In many cases, rather than competing with traditional credit providers, fintech companies are providing services to them allowing them to take advantage of technological advances. Examples of this are companies like Kreditech or CreamFinance, which use alternative data analytics to segment and score consumers, targeting those with thin credit files. Recent surveys showed that partnering up with fintechs is increasingly common among traditional credit providers such as banks. In the 2017 PwC survey, the share of respondents who believed that this practice is becoming more common ranged from 36% in Denmark to 70% in Germany, and at least two thirds of EU respondents stated that this type of partnerships would be more common in the three years to come. Similarly, in a recent EY survey, 50.9% of European banks indicated they had chosen to cooperate with fintech companies to drive innovation in their businesses,[379] a trend confirmed by a report published in 2018 by the European Credit Research Institute (ECRI).[380] This may suggest that traditional lenders like banks may in fact benefit from the fast growth of fintech, rather than loss rapidly significant share of the market.

Big Techs such as Google, Facebook, Alibaba or Amazon, who are already offering their own version of mobile wallets, might enter the EU consumer lending market as well. In the US, financing is available to Amazon users through a store card. Amazon launched small business lending for its sellers in 2011. In China Alibaba is already issuing loans, and it has issued nearly USD 100 billion of loans over the five years to 2018.[381]

Impact of digitalisation on ease of access to consumer credit and creditworthiness assessment

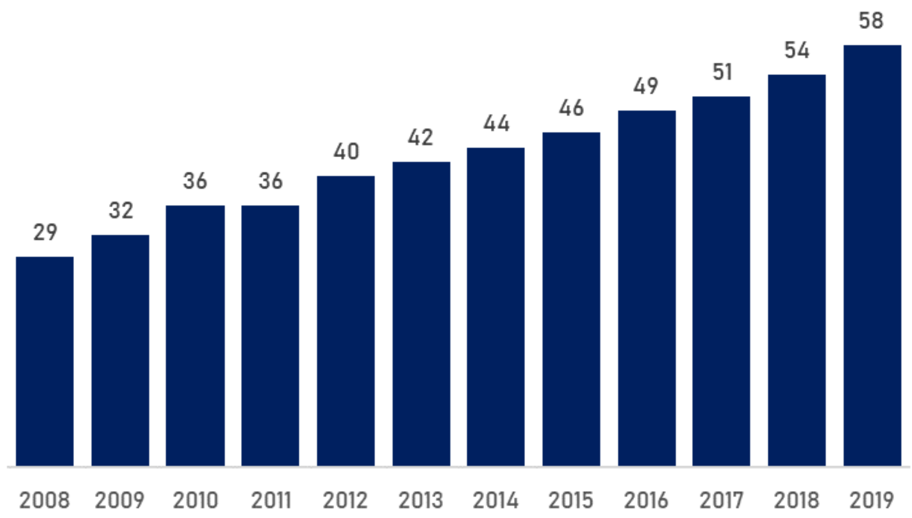
Digitalisation has also impacted the way that consumers access credit and the business processes employed by credit providers (both traditional and new) to engage with their customers. This is particularly relevant with regards the use of online communication channels by consumers and credit providers and the growing use of big data and artificial intelligence by credit providers to accelerate and facilitate certain processes e.g. creditworthiness assessment.

Concerning the use of online methods, a survey carried out by Roland Berger and the European Federation of Finance House Associations (Eurofinas)[382] in 2019 found that a majority of respondents (80%) believed that the digital transformation of the European consumer finance market would be the most important technological trend in the future and that the use of online services will be the trend that will affect consumer behaviour the most (72%). Indeed, various studies[383] have confirmed that the use of online sales channels has been on the rise, also among traditional credit providers. Although

[379] ICF, 2020; LE *et al.*, 2019; EY survey (2017). Unleashing the potential of FinTech in banking.
[380] ECRI, 2018, Consumer Credit, Digitalisation and Behavioural Economics: Are new protection rules needed?
[381] Institute of International Finance, 2018, A new kind of conglomerate: Bigtech in China.
[382] Eurofinas and Roland Berger, 2018,Future of European Consumer Finance Survey, 2018. NB: Executives from 92 companies in 13 European countries, spanning various business models from bank subsidiaries to niche players, were surveyed
[383] ICF, 2020; LE *et al.*, 2019.

disaggregated data on the trends in the use of these channels by credit providers specifically is not available, trends in the wider financial services market are useful to understand the recent evolution. For instance, online banking penetration in the EU rose steadily between 2008 and 2017 (0).

Figure 29: Online banking penetration in the EU, 2007-2019, (in %).



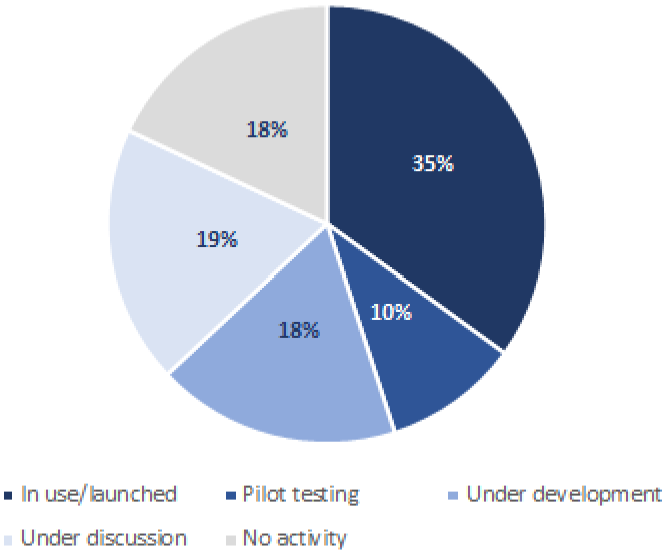
Source: ICF, based on EUROSTAT, Individuals using the internet for internet banking, % of individuals aged from 16 to 74. NB: Within the last 3 months before the survey. internet banking includes electronic transactions with a bank for payment etc. or for looking up account information.

This trend is confirmed by a 2019 study that estimated that for overall sales channels used in financial services, 70% of providers used both online and offline channels, 26% online (desktop, mobile) and only 4% online only via desktop.[384]

As regards the use of big data and automated decision-making tools, digitalisation is quickly improving the process of collecting and analysis of consumer's information. Using big data to carry out CWAs is common among certain non-traditional operators such as peer-to-peer lending platforms,[385] but this practice is not restricted to new operators. Banks are using the services of firms such as FriendlyScore, CrediSafe or Big Data Scoring in an attempt to improve the quality and acceptance rates through alternative data analysis.[386] Moreover, the EBA report on big data and advanced analytics, which relied on results from the risk assessment questionnaire 2019,[387] shows that 34% of respondents declared using or launched big data for risk scoring (0).

Figure 30: Current use of big data analytics for risk scoring in 2019 (EU), in %

[384] ICF, 2020; LE *et al.*, 2019.
[385] ICF, 2020; EBA, EIOPA, and ESMA, 2016.
[386] ICF, 2020; BEUC, 2017.
[387] EBA, 2020a. Results from the EBA risk assessment questionnaire 2019 (for the purposes of which, 'Big data analytics' was defined as the use of advanced analytic techniques such as machine learning, against very large, diverse data sets from different sources, and in different sizes).



Source: ICF, based on EBA risk assessment questionnaire (spring 2019)
Note: For the 2019 edition, 62 banks and 18 market analysts have responded to the questionnaire.

In the field of credit scoring, breaches to fundamental rights can happen for various reasons. The machine may be calibrated to process data in a way that does not reflect the true capacity of an individual to repay a debt. For example, in April 2019, the Finnish Data Protection Ombudsman ordered financial credit company Svea Ekonomi to correct its creditworthiness assessment practices, stating that an upper age limit is not acceptable as a factor, since age does not describe solvency or willingness to pay. The system may be trained on data that is not accurate, thereby breaching one of the key data protection principles. Then again, the system may become too sophisticated for humans to provide an intelligible description of how the result affecting the consumer has been reached (algorithms referred to as 'black boxes').[388]

Impact of digitalisation on consumer behaviour and preferences

Between 2014 and 2019, the proportion of Internet users in the EU who purchased or ordered goods or services online for private use grew from 63% to 71%.[389] **Digitalisation has an impact on the behaviour of consumers as well**, which prefer fast end-to-end processes. Consumers seeking to obtain a personal loan seem to place greater emphasis on factors like fast end-to-end processes or the actual conditions of the loan over the location of the branch.[390]

Flexibility guaranteed by certain credit products in particular sold online can be beneficial but can also play to the disadvantage of consumers, who have continued access to credit as long as they make minimal repayments, due to certain **behavioural biases**

[388] Frederik Zuiderveen Borgesius (Council of Europe Study), 2018, Discrimination, artificial intelligence, and algorithmic decision-making.
[389] European Commission, 2020, Communication: New Consumer Agenda. Strengthening consumer resilience for sustainable recovery, COM(2020) 696 final.
[390] ECRI, 2018a.

observed on consumers, notably: i) **optimism bias**, whereby individuals overestimate their ability to maintain a zero balance; ii) **myopia**, whereby consumer prioritise the short-term benefits of a credit transaction over its detrimental future impact on personal finances; and iii) **cumulative cost neglect**, whereby consumers dismiss the cumulative effect of a large number of small credit options).[391]

Moreover, digitalisation has impacted **information disclosure**. Lengthy and complex pre-contractual information appears not to be entirely effective in helping consumers to understand and compare offers, especially on digital tools. This is due to various factors:

- **Information overload**: behavioural insights confirmed that consumers tend not to read and properly process large amounts of information[392] and may experience information overload when reading through complex information such as a loan offer, which in turn lead to status quo biases (consumer just 'going along' with the default offer).[393] Related to this issue, is the fact that reviewing a loan offer on a mobile phone can be even more challenging. It can take over 30 swipes to cover the pre-contractual information required under the Directive on a mobile phone.[394] In this light, the application of the SECCI in the digital context is raising challenges.
- **Complexity of the information provided**: some of the elements that are included in advertisements and pre-contractual information are too complex for average consumers to understand (example: the calculation of the annual percentage rate of charge). The low level of financial literacy in some Member States and/or among certain population groups exacerbates this problem.[395] In fact, individuals with lower levels of financial literacy tend to borrow at higher rates.[396]
- **Practical limits to the rational consumer concept**: behavioural economics insights show that even when consumers are presented with adequate and easily understandable information, they are still at risk of making harmful financial decisions due to certain psychological factors and cognitive biases often imbedded in the way information is presented.

Since the share of individuals using the Internet for online banking grew considerably in the last years, reaching 61.4% in 2018, **digital and financial literacy** can help to empower consumers purchasing financial services online.[397]

When compared to other regions, the EU ranks very high in terms of level of financial literacy, reaching 50% in 2014 (with important variations among countries). Despite ranking comparatively high, this figure means that at least half of the EU population (i.e. 209 million potential consumers over 18, assuming that the rate remains unchanged) lack

[391] ICF, 2020. BEUC, 2019b.
[392] Dutch Authority for the Financial Markets (AFM), 2019.
[393] Danish Competition and Consumer Authority, 2018a.
[394] ICF, 2020.
[395] See Annex 6 Market developments – Impact of digitalisation.
[396] Uuriintuya Batsaikhan and Maria Demertzis, 2018.
[397] LE *et al.*, 2019.

the financial knowledge to really understand the information disclosed before the signature of the contract.[398]

The outbreak of the COVID 19 pandemic accelerates the digital transformation of the market

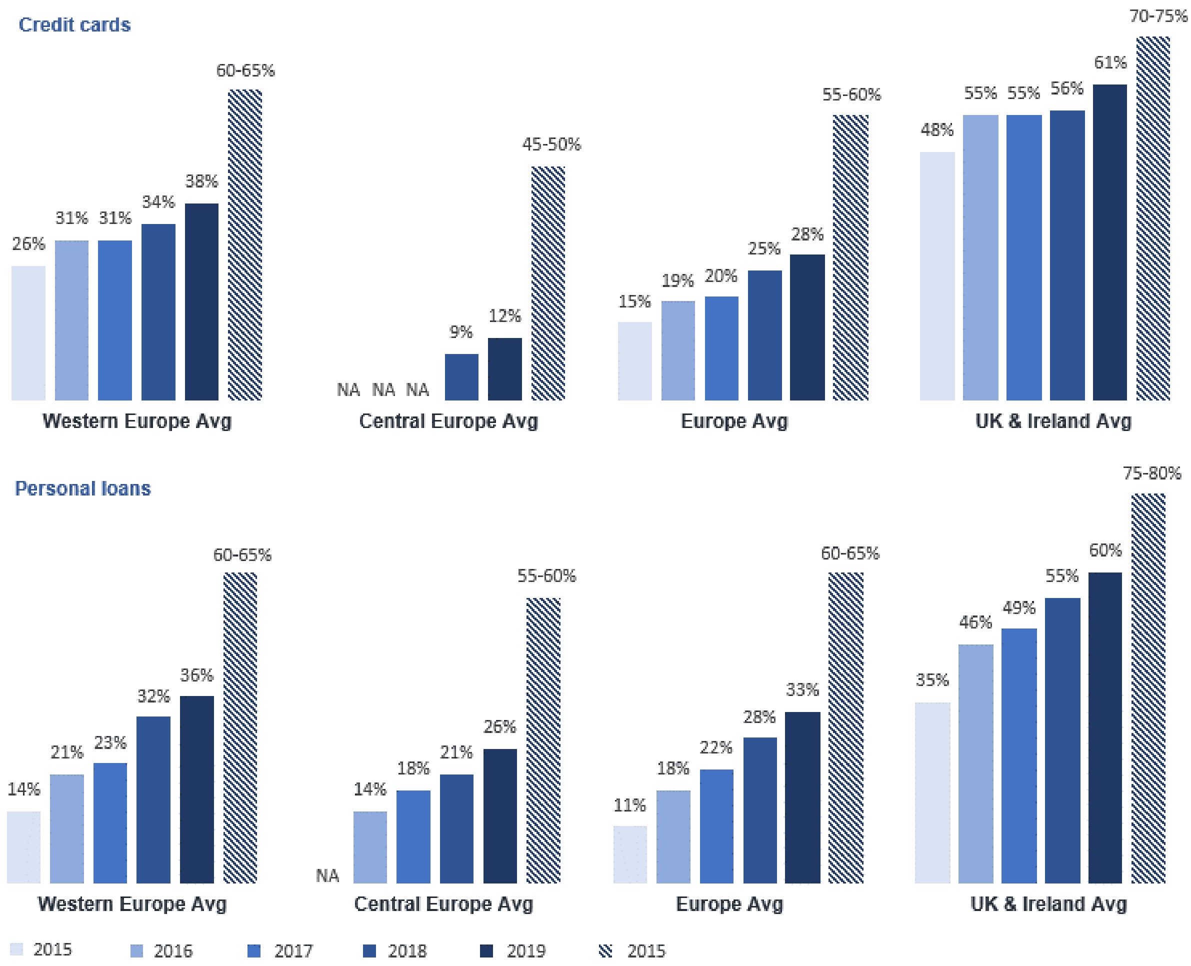
The outbreak of the pandemic has heavily impacted the sector of consumer credit. 2019 Roland Berger survey[399] shows that credit providers declared (at 95%) expecting a growth in volumes of 5%, while financial margins will decline or at best remain stable. However, recent surveys show new trends in the market, like the recent McKinsey's modelling of COVID-19's impact survey[400], the retail banking in Western Europe will face revenues drop from 16 to 44 percent. Indeed, households may re-evaluate their willingness to take financial risk leading to a decrease of the demand for consumer credit. On the other hand, lenders' risk appetites and effort to reduce costs may be observed among some main lenders.

However, the lockdown and then the social distancing measures have provided further incentives to advance the digitalisation in the sector. Remote operating models and infrastructure modernisation will thus accelerate the digitalisation of the market. The McKinsey's survey pointed out that consumers' banking preferences are rapidly evolving toward a greater use of digital tools. For example, in Italy, Spain, and the US, 15 to 20% of customers surveyed expect to increase their use of digital channels, even after the pandemic is over, and 65 to 85% of respondents in Western countries have preference for handling everyday transactions digitally. Consequently, McKinsey's predicts, this trend will be translated into 25% reduction of branches in the retail banking while call-centres will experience a string growth. In that context, the EBA warned recently, however, that banks renewed efforts to ramp up digitalization and shift to cashless transactions during pandemic could also create new conduct risks[401].

At the product level, the recent McKinsey report foresees migration to digital and remote channels to pick up momentum not only in markets where digital penetration still has plenty of room to grow (e.g. Southern Europe, Germany) but also in those that are more digitally mature (e.g. Sweden). For financial services providers, efficient and smooth digital distribution engine may become an element in the battle to retail and gain market share. For example, McKinsey expects the digital channel to grow as the conduit for the sale of credit cards and personal loans by between 9 and almost 40 percentage points in 2020 compared to 2019, depending on the region (0)[402].

Figure 31: Digital sales penetration, 2015-2020

[398] Bruegel and Standard & Poor's, 2014, Global FinLit Survey data.
[399] Roland Berger, 2019, article on the survey "Consumer credit: Europe's consumer finance players see growth potential – and risks".
[400] Mc Kinsey, 2020, Reshaping retail banking for the next normal.
[401] S&P Global, September 2020. Coronavirus loan moratoriums could be bank misconduct 'hotspot', EBA warns.
[402] McKinsey, June 2020, European consumer finance: Moving to 'next normal'.



Source: ICF, based on data from Finalta by McKinsey

Annex 7: Glossary

Alternative categories of data – means personal data obtained by some data controllers (credit lenders, credit bureaus) in order to perform the consumer's creditworthiness assessment, which cover information wider than the traditional data that concern the consumer's economic and financial situation (for example, the use of social media data).

Ancillary service - means a service offered to the consumer in conjunction with the credit agreement.[403]

Annual percentage rate of charge (APR) - the total cost of the credit to the consumer, expressed as an annual percentage of the total amount of credit, where applicable including the costs referred to in Article 19(2) of the Directive.[404]

Automated decision-making - the process of making a decision by automated means without any human involvement. These decisions can be based on factual data, as well as on digitally created profiles or inferred data.[405]

Bank - A financial institution one of whose principal activities is to take deposits and borrow with the objective of lending and investing and which is within the scope of banking or similar legislation.[406]

Borrower - a person, firm or institution that obtains a loan from a lender in order to finance consumption or investment.[407]

Borrowing rate - the interest rate expressed as a fixed or variable percentage applied on an annual basis to the amount of credit drawn down.[408]

Consumer - a natural person who, in transactions covered by the Directive, is acting for purposes which are outside his trade, business or profession.[409]

Consumer detriment - Consumer detriment consists of harm (loss of welfare) suffered by consumers, whether financial or non-financial, in the marketplace. Personal consumer detriment – as opposed to structural consumer detriment attributable to market failure or regulatory failure – refers to negative outcomes for individual consumers, relative to reasonable expectations. The revealed personal consumer detriment pools negative outcomes for individual consumers which they become aware of following the purchase

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403 Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property.

404 Consumer Credit Directive.

405 ICO, Guide to the General Data Protection Regulation (GDPR) - Automated decision-making and profiling.

406 IASCF, Key term list; Commission Regulation (EC) No 1126/2008 (international accounting standards)

407 Collins Dictionary of Economics, 4th ed. 2005.

408 Consumer Credit Directive.

409 Consumer Credit Directive.

or use of a good or service, measured relative to what would reasonably have been expected, given the type of transaction.[410]

Consumer Credit - loans granted to households, which in the case of these transactions are acting for purposes outside their business and profession. Mortgage loans for financing house building or buying (amongst others bridging loans) are excluded. It is the intention that consumer credit relates exclusively to credits used for buying goods and/or services which are consumed by the households individually.[411]

Creditor - a natural or legal person who grants or promises to grant credit in the course of his trade, business, or profession;[412]

Credit Agreement - an agreement whereby a creditor grants or promises to grant to a consumer credit in the form of a deferred payment, loan or other similar financial accommodation, except for agreements for the provision on a continuing basis of services or for the supply of goods of the same kind, where the consumer pays for such services or goods for the duration of their provision by means of instalments;[413]

Credit Card - A card entitling the owner to use funds from the issuing company up to a certain limit. The holder of a credit card may use it to buy a good or service. When one does this, the issuing company effectively gives the card holder a loan for the amount of the good or service, which the holder is expected to repay. [414]

Credit intermediary - a natural or legal person who is not acting as a creditor and who, in the course of his trade, business or profession, for a fee, which may take a pecuniary form or any other agreed form of financial consideration:

- presents or offers credit agreements to consumers;
- assists consumers by undertaking preparatory work in respect of credit agreements other than as referred to in (I); or
- concludes credit agreements with consumers on behalf of the creditor;[415]

Credit institution - an undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account;[416]

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410 Study on measuring consumer detriment in the European Union, 2017, https://ec.europa.eu/info/publications/study-measuring-consumer-detriment-european-union_en.

411 Eurostat, "European System of Accounts - ESA 1995", Office for Official Publications of the European Communities, Luxembourg, 1996.

412 Consumer Credit Directive.

413 Consumer Credit Directive.

414 Farlex Financial Dictionary, 2012.

415 Consumer Credit Directive.

416 Regulation (EU) no 575/2013 of the European parliament and of the council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

Credit line - a fixed amount or limit of credit which is established for a customer or borrower by a business or bank. It is the amount of outstanding credit which may not be exceeded at any time;[417]

Credit provider – see Lender

Creditworthiness assessment - evaluation of the prospect for the debt obligation resulting from the credit agreement to be met.[418]

Credit rollover – extending the loan's due date by paying an additional fee. Loan rollover is common with short-term payday loans.

Cross-selling practice - offering of a financial service together with another service or product as part of a package or as a condition for the same agreement or package.

Crowdfunding - is the practice of funding a project or venture by raising monetary contributions from a large number of people. It is often performed via internet-mediated registries that facilitate money collection for the borrower (lending) or issuer (equity).[419]

Crypto-assets - is a digital representation of value or rights which may be transferred and stored electronically, using distributed ledger technology or similar technology.[420]

Dynamic pricing - a customer or user billing mode in which the price for a product frequently rotates based on market demand, growth, and other trends.[421]

Durable medium - any instrument which enables the consumer to store information addressed personally to him in a way accessible for future reference for a period of time adequate for the purposes of the information and which allows the unchanged reproduction of the information stored.[422]

End-to-end process - end-to-end describes a process that takes a system or service from beginning to end and delivers a complete functional solution, usually without needing to obtain anything from a third party.[423]

Financial literacy - the ability to understand basic principles of business and finance.[424]

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[417] Webster; Collin & Joliffe, Dict. of Accounting, Collin Publ., 1992.
[418] Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property.
[419] European Banking Authority, Glossary for financial innovation.
[420] Proposal for a Regulation of the European Parliament and of the Council on Markets in Crypto-assets, and amending Directive (EU) 2019/1937.
[421] Techopedia Dictionary, https://www.techopedia.com/definition/29600/dynamic-pricing
[422] Consumer Credit Directive.
[423] Investopedia, 2020, Will Kenton.
[424] Cambridge Business English Dictionary, 2011.

Fintech - technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services.[425]

Full harmonisation (maximum harmonisation) - In the case of full harmonisation Member States must implement the EU measures but may not enact or retain any rules which depart from them. [426]

Household - group of persons who share the same living accommodation, who pool some, or all, of their income and wealth and who consume certain types of goods and services collectively, mainly housing and food.[427]

Implementation - the process of making sure that the provisions of EU legislation can be fully applied. For EU Directives, this is done via transposition of its requirements into national law, for other EU interventions such as Regulations or Decisions other measures may be necessary (e.g. in the case of Regulations, aligning other legislation that is not directly touched upon but affected indirectly by the Regulation with the definitions and requirement of the Regulation). Whilst EU legislation must be transposed correctly it must also be applied appropriately to deliver the desired policy objectives.[428]

Interest rate cap or ceiling - The maximum interest rate that may be charged on a contract or agreement.[429]

Lender - individual, group or financial institution that makes funds or other assets available to another with the expectation that they will be returned, in addition to any interest and/or fees.[430]

Linked credit agreement - a credit agreement where

- the credit in question serves exclusively to finance an agreement for the supply of specific goods or the provision of a specific service, and
- those two agreements form, from an objective point of view, a commercial unit; a commercial unit shall be deemed to exist where the supplier or service provider himself finances the credit for the consumer or, if it is financed by a third party, where the creditor uses the services of the supplier or service provider in connection with the conclusion or preparation of the credit agreement, or where

[425] European Banking Authority, Glossary for financial innovation.
[426] European Parliamentary Research Service, 2015, Competence in private law - The Treaty framework for a European private law and challenges for coherence.
[427] Eurostat's Concepts and Definitions Database (CODED).
[428] European Commission (2017), Better Regulation Guidelines, Glossary.
[429] Farlex Financial Dictionary, 2012.
[430] Investopedia, 2019, Adam Barone.

the specific goods or the provision of a specific service are explicitly specified in the credit agreement.[431]

Mortgage loan - consumer real estate credit, usually extended on a long-term basis with the mortgaged property as security.[432]

Non-banks – in general, these are non-monetary financial corporations. More specifically, they include insurance corporations and pension funds, financial auxiliaries, and other financial intermediaries.[433]

Non-credit institution - any creditor that is not a credit institution.[434]

Overdraft facility - an explicit credit agreement whereby a creditor makes available to a consumer funds which exceed the current balance in the consumer's current account.[435]

Over-indebtedness - relates to situation when a household is unable to meet the debt repayment obligations but also other payments such as rent, utility bills, healthcare or insurance bills or taxes and/or fines. In this context, over-indebtedness does not mean an occasionally missed payment but rather more structural payment problems e.g. several months of missed debt repayment obligations. Some differences in interpretation of the concept across the Member States exist.

Overrunning - means a tacitly accepted overdraft whereby a creditor makes available to a consumer funds which exceed the current balance in the consumer's current account or the agreed overdraft facility;[436]

Pawnbroker - an individual or business (pawnshop or pawn shop) that offers secured loans to people, with items of personal property used as collateral.[437]

Peer-to-peer (P2P) lending - enables individuals to obtain loans directly from other individuals, cutting out the financial institution as the middleman. P2P lending is also known as social lending or crowdlending.[438]

Peer-to-peer (P2P) lending platform - is a publicly accessible internet-based information system operated or managed by a peer-to-peer provider.

Payday loan - A short-term loan expected to be repaid before the borrower's next pay day.[439]

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[431] Consumer Credit Directive.
[432] American State Bank, Banking Glossary.
[433] European Central Bank, 2016, Bank lending survey for the euro area, Glossary.
[434] Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property.
[435] Consumer Credit Directive.
[436] Consumer Credit Directive.
[437] Wikipedia.
[438] Investopedia, 2019, Julia Kagan, https://www.investopedia.com/terms/p/peer-to-peer-lending.asp

Payment Protection Insurance (PPI) - An insurance policy that makes loan payments on behalf of the policyholder in the event of financial hardship.[440]

Personal loan - credit granted to a private person for non-commercial purposes solely on the basis of that person's creditworthiness, income, and financial circumstances.[441]

Product bundling or Bundling practice - the offering or the selling of a credit agreement in a package with other distinct financial products or services where the credit agreement is also made available to the consumer separately but not necessarily on the same terms or conditions as when offered bundled with the ancillary services.[442]

Revolving credit - credit that is automatically renewed as debts are paid off.[443]

Right of withdrawal - consumer's right to terminate a contract without reason within a specified time period, provided certain conditions are fulfilled.[444]

SECCI (Standard European Consumer Credit Information) - a standardised form designed to show exactly what a finance agreement contains. The form will include key details such as type of credit, Annual Percentage Rate (APR), number and frequency of payments, and total amount owed.[445]

Short-term high-cost credit - the practice of lending to consumers: i) amounts of money that are small relative to other forms of credit in the market, ii) for short periods of time (most commonly for durations of under 12 months), iii) at a rate that is considered to be high compared with other credit products available to consumers in their jurisdiction (FinCoNet, 2017).

Stakeholder - any individual citizen or an entity impacted, addressed, or otherwise concerned by an EU intervention.[446]

Stakeholder consultation - a formal process of collecting input and views from citizens and stakeholders on new initiatives or evaluations/ fitness checks, based on specific questions and/or consultation background documents or Commission documents

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439 Farlex Financial Dictionary, 2012.
440 Farlex Financial Dictionary, 2012.
441 Dictionary of Banking, UBS 1998 – 2019.
442 Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property.
443 Oxford Dictionary of English, Oxford University Press 2018.
444 IATE EU terminology database, COM-Terminology Coordination, based on: European Commission, Rights & principles applicable when you buy goods or services online.
445 Credit Plus, 2019, Glossary, available at https://www.creditplus.co.uk/car-finance-glossary/secci/
446 European Commission (2017), Better Regulation Guidelines, Glossary.

launching a consultation process or Green Papers. When consulting, the Commission proactively seeks evidence (facts, views, opinions) on a specific issue. [447]

Sweeps - a sweep is an exercise to enforce EU law. It is led by the EU and carried out by national enforcement authorities who conduct simultaneous, coordinated checks for breaches in consumer law in a particular sector. The national enforcement authorities then contact operators about suspected irregularities and ask them to take corrective action.

Transposition - describes the process of incorporating the rights and obligations set out in an EU Directive into national legislation, thereby giving legal force to the provisions of the Directive. The Commission may take action if a Member State fails to transpose EU legislation and/or to communicate to the Commission what measures it has taken. In case of no or partial transposition, the Commission can open formal infringement proceedings and eventually refer the Member State to the European Court of Justice.[448]

Tying practice - the offering or the selling of a credit agreement in a package with other distinct financial products or services where the credit agreement is not made available to the consumer separately.[449]

[447] European Commission (2017), Better Regulation Guidelines, Glossary.
[448] European Commission (2017), Better Regulation Guidelines, Glossary.
[449] Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property.

Annex 8: Mapping of national measures to support borrowers amid the COVID-19 crisis

Measures taken by Member States to alleviate the consequences of the first COVID-19 wave on citizens with a consumer credit (June 2020):

	MEASURES							
MEMBER STATE	**Deferral of repayments for consumer credits and credit cards**	**Clear and comprehensive information about the implications of specific COVID-19 measures for the credit**	**Strengthened support to over-indebted consumers struggling to repay their debt (e.g. through debt advice)**	**Suspension or deferral of debt collection activities**	**Ensuring that the credit scoring of consumers' applying to temporary COVID-19 measures is not automatically affected by them**	**Temporary waiving of fees and charges related to credit (e.g. fees on late or missed payments)**	**Measures to ensure a fast procedure of COVID-19 related requests**	**Enhanced monitoring by the competent authorities of any new fees and charges for consumers related to the exceptional measures**
AT	✓	✓	✓			✓		
BE	✓						✓	
BG	✓	✓		✓			✓	
CY	✓	✓					✓	
CZ	✓	✓		✓	✓	✓	✓	
DE	✓	✓	✓			✓		
DK	✓							
EE	✓	✓					✓	✓
ES	✓	✓			✓		✓	
FI	✓	✓	✓			✓		✓
FR								
GR	✓							

HR	✓	✓		✓		✓	✓	
HU	✓	✓			✓			✓
IE	✓	✓			✓	✓	✓	
IT	✓	✓						
LT	✓	✓			✓		✓	
LU	✓			✓				
LV	✓	✓	✓	✓	✓	✓	✓	
MT	✓	✓	✓	✓	✓	✓	✓	✓
NL	✓	✓	✓	✓				✓
PL	✓							
PT	✓	✓			✓		✓	✓
RO	✓	✓	✓				✓	✓
SE								
SI	✓							
SK	✓	✓			✓		✓	✓
TOTAL	**25**	**19**	**7**	**7**	**9**	**8**	**14**	**8**

Annex 9: Approach to monetisation of cost benefits

Detailed description of the approach to the assessment of costs and benefits

This annex provides a description of the approach to assess the main benefits and costs to consumers, financial providers and public authorities that can be attributed to the Consumer Credit Directive ('CCD') under the baseline scenario, and then against baseline scenario for selected policy measures. Under the baseline scenario, both approaches to costs and benefits respectively, are consistent with those applied under the CCD Evaluation with some further augmenting taking place to cater for the new time frame of the baseline (2021-30) and factors such as COVID-19 pandemic. For the assessment of costs and benefits against baseline scenario, combination of qualitative and quantitative approaches was used.

Benefits (baseline scenario)

According to its two main objectives the CCD should bring the following benefits:

- ensure a better protection of the EU consumers which in turn leads to a lower consumer detriment (possible due to a lower incidence rate of problems and a lower magnitude) and to an increase in demand for consumer credit;
- enhancing a level playing field potentially leading to an increase in cross-border transaction of consumer credit.

The research conducted as part of the CCD Evaluation showed that the CCD had an impact on increasing consumer protection. On the other hand, the evaluation did not find hard evidence that changes in the demand or supply of consumer credit products can be directly attributed to CCD (including cross-border activities). Consequently, the same assumption is used as part of the study supporting the impact assessment, and the impact of the CCD on the **reduction of consumer personal detriment** only will be quantified.

Consumer personal detriment

Personal detriment refers to loss of welfare experienced by individuals due to problems that occur after the purchase and that were not expected (based on reasonable expectations). Personal detriment includes financial and non-financial losses (e.g. time losses, psychological detriment).

The CCD Evaluation found that due to various factors, consumer detriment was reduced in most of the EU 28 Member States since 2010. It assumed, based on discussions with the team of evaluation experts, that 22.5% of that change could be attributed to CCD (i.e. incremental effect of CCD).

Other key factors that have played a role in reducing consumer detriment since 2008 were also considered and their relative weight was gauged:

- Development and trends of the credit sector itself: 25%;
- More stringent legislation in some MS, and improved enforcement (so government-induced): 15%;
- Increase in sector compliance over time: 10%;

- Increase in financial literacy among consumers: 5%;
- Increase in consumer awareness of APR, SECCI and contractual terms in terms of consumer credit (as unchanged for 10 years now): 10%;
- National-level campaigns in boosting consumer awareness: 5%;
- Other legislation and other factors: 7.5%.

This estimate of the detriment attributed to the CCD and other factors is in itself moderately robust. The first step in assessing the weight included listing the factors that played a role in reducing detriment. The second step was a qualitative assessment (narrative, description) and quantitative assessment (rating) of its importance. On this basis, the above percentages were derived by ranking these factors. The data was, nonetheless, moderately robust because there was a fairly high probability that a Directive in a policy area was never the only or deciding factor for attribution of change, and therefore the weighting would not be considered to exceed 30-40%. At the same time, the pace of changes in the sector (supply) and demand-driven changes have further reduced the unique role of the CCD. It was also derived to be unlikely for the value of the attribution to the CCD to be below 10-15% following the qualitative and quantitative assessment of the key elements above (and confirmed by stakeholder consultations, which led to the conclusion that the CCD has a non-negligible attribution, rated to be above 15-20% as a result). In any case, any attribution of 20% to 30% all generated positive consumer detriment. The initial consideration of a range of benefit of 20% to 30% show this. For the CCD Evaluation this was specified to be a conservative estimate of 22.5% (at the lower end of this range), consistently showing benefits to be similar to or outweigh costs across the entire range of 20-30%.

For the period 2021-2030 covering the baseline scenario, it appears reasonable to assume that the **impact of the CCD has been decreasing over time** e.g. many effects stemming from the introduction of the CCD may have already accrued over the first 10 years leaving gradually smaller scope for equally meaningful improvements driven directly by the Directive. For that reason, it is assumed that the value is lower in view of this trend, and based on a reasoned guesstimate, **set at 15%** (as opposed to 22.5%).

Below the approach to calculate the changes in consumer detriment and the incremental effect of CCD with year 2021 as a starting point is described.

<u>Step 1. Estimate the average magnitude of consumer financial detriment per problem</u>

The estimation of the average magnitude of the consumer financial detriment suffered by an individual due to a problem (e.g. magnitude of the financial detriment per problem) applied as part of the CCD Evaluation (2020) relied on the estimate reported in the CIVIC (2017) for the consumer detriment for "Loans, credit and credit cards" as of 2017, and for the following countries: UK, Poland, France and Italy.[450] This data was then extrapolated

450 The main aim of CIVIC study's was to develop a simple, consistent state-of-the-art methodology in order to identify, measure and quantify the incidence and magnitude of consumer detriment in any kind of consumer market. It focused on 6 markets (including the 'loans, credit and credit cards' market) and on 4

for each of the EU 28 countries, and until the year 2018. For the baseline scenario (2021-2030) under the supporting study, 2018 data points (the latest available) for each of the EU-27 Member States are assumed as the starting point for the year 2021, and then values are kept constant. While in practice there could be a number of factors affecting the magnitude of financial detriment per problem over the reference period of 2021-2030 (e.g. impact of digitalisation, increase/ decrease in use of products involving different level of risks, changes in financial literacy of consumers etc), reliable capturing and projection of all these factors and accounting for their different level of impact on consumer detriment (changing over the time and across Member States) is not feasible. Hence, a simplifying assumption of a constant rate is applied.

Magnitude of financial detriment per problem, 2017

Member State	Magnitude, in EUR	Used to extrapolate for EU countries in the following regions
France	108	Western Europe
Italy	187	Southern Europe
Poland	176	Eastern Europe
UK	144	Northern Europe

Furthermore, the magnitude of financial detriment per problem over the period 2010-2018, as assessed by the CCD Evaluation (2020), drew also on the Consumer Markets Scoreboard data on "Extent of detriment suffered as a result of problems experienced with products/services or supplier/retailer".[451] For the baseline scenario under the supporting study, the data on the extent of detriment per Member State as of 2018 used in the CCD Evaluation was subsequently used as the starting point for the year 2021. For the period 2021-2030, it is assumed that the extent of detriment suffered as a result of a problem reduces by 0.3 point per annum, except Estonia where the score has been assumed to stay constant given already very low base value in 2020. This trend is in line with reduction of the extent of detriment applied under Evaluation 2019.

Severity of consumer problems in the period 2021-2030 (scale 0-10, where 0 is low severity and 10 high severity)

Member State	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Austria	4.31	4.01	3.71	3.41	3.11	2.81	2.51	2.21	1.91	1.61
Belgium	4.31	4.01	3.71	3.41	3.11	2.81	2.51	2.21	1.91	1.61
Bulgaria	6.46	6.16	5.86	5.56	5.26	4.96	4.66	4.36	4.06	3.76
Croatia	5.18	4.88	4.58	4.28	3.98	3.68	3.38	3.08	2.78	2.48

countries, ensuring very large sample sizes for both the face-to-face and the online surveys, resulting in an overall sample size of 16 000 respondents.

[451] By assuming that the magnitude changed proportionally to the extent of detriment.

Member State	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Cyprus	5.38	5.08	4.78	4.48	4.18	3.88	3.58	3.28	2.98	2.68
Czech Republic	5.29	4.99	4.69	4.39	4.09	3.79	3.49	3.19	2.89	2.59
Denmark	4.19	3.89	3.59	3.29	2.99	2.69	2.39	2.09	1.79	1.49
Estonia	1.13	1.23	1.23	1.23	1.23	1.23	1.23	1.23	1.23	1.23
Finland	3.35	3.05	2.75	2.45	2.15	1.85	1.55	1.25	0.95	0.65
France	5.85	5.55	5.25	4.95	4.65	4.35	4.05	3.75	3.45	3.15
Germany	5.14	4.84	4.54	4.24	3.94	3.64	3.34	3.04	2.74	2.44
Greece	5.31	5.01	4.71	4.41	4.11	3.81	3.51	3.21	2.91	2.61
Hungary	5.65	5.35	5.05	4.75	4.45	4.15	3.85	3.55	3.25	2.95
Ireland	4.26	3.96	3.66	3.36	3.06	2.76	2.46	2.16	1.86	1.56
Italy	5.22	4.92	4.62	4.32	4.02	3.72	3.42	3.12	2.82	2.52
Latvia	5.49	5.19	4.89	4.59	4.29	3.99	3.69	3.39	3.09	2.79
Lithuania	6.94	6.64	6.34	6.04	5.74	5.44	5.14	4.84	4.54	4.24
Luxembourg	5.76	5.46	5.16	4.86	4.56	4.26	3.96	3.66	3.36	3.06
Malta	8.27	7.97	7.67	7.37	7.07	6.77	6.47	6.17	5.87	5.57
Netherlands	4.12	3.82	3.52	3.22	2.92	2.62	2.32	2.02	1.72	1.42
Poland	5.28	4.98	4.68	4.38	4.08	3.78	3.48	3.18	2.88	2.58
Portugal	5.08	4.78	4.48	4.18	3.88	3.58	3.28	2.98	2.68	2.38
Romania	6.83	6.53	6.23	5.93	5.63	5.33	5.03	4.73	4.43	4.13
Slovakia	3.61	3.31	3.01	2.71	2.41	2.11	1.81	1.51	1.21	0.91
Slovenia	4.55	4.25	3.95	3.65	3.35	3.05	2.75	2.45	2.15	1.85
Spain	6.12	5.82	5.52	5.22	4.92	4.62	4.32	4.02	3.72	3.42
Sweden	3.46	3.16	2.86	2.56	2.26	1.96	1.66	1.36	1.06	0.76

Source: extrapolation based on Consumer Markets Scoreboard and results of the CCD Evaluation (2019)

This then allowed to estimate the magnitude of the financial detriment per consumer for each EU-27 Member States.

Magnitude of financial detriment 2021-2030, in EUR

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Austria	93.2	86.7	80.2	73.7	67.2	60.7	54.2	47.7	41.3	34.8
Belgium	76.5	71.2	65.8	60.5	55.2	49.8	44.5	39.2	33.9	28.5

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Bulgaria	128.7	122.7	116.8	110.8	104.8	98.8	92.9	86.9	80.9	74.9
Croatia	192.9	181.7	170.5	159.4	148.2	137.0	125.8	114.7	103.5	92.3
Cyprus	164.0	154.8	145.7	136.5	127.4	118.2	109.1	99.9	90.8	81.6
Czech Republic	129.3	122.0	114.6	107.3	100.0	92.6	85.3	77.9	70.6	63.3
Denmark	119.6	111.0	102.5	93.9	85.4	76.8	68.2	59.7	51.1	42.6
Estonia	96.3	104.5	104.5	104.5	104.5	104.5	104.5	104.5	104.5	104.5
Finland	38.1	34.7	31.2	27.8	24.4	21.0	17.6	14.2	10.8	7.4
France	102.1	96.8	91.6	86.4	81.1	75.9	70.7	65.4	60.2	55.0
Germany	91.0	85.7	80.3	75.0	69.7	64.4	59.1	53.8	48.5	43.2
Greece	141.1	133.1	125.1	117.2	109.2	101.3	93.3	85.3	77.4	69.4
Hungary	134.6	127.4	120.3	113.1	106.0	98.8	91.7	84.5	77.4	70.2
Ireland	125.6	116.8	107.9	99.1	90.3	81.4	72.6	63.8	54.9	46.1
Italy	154.7	145.8	136.9	128.0	119.1	110.3	101.4	92.5	83.6	74.7
Latvia	153.5	145.1	136.7	128.3	119.9	111.5	103.1	94.8	86.4	78.0
Lithuania	129.3	123.7	118.1	112.5	106.9	101.4	95.8	90.2	84.6	79.0
Luxembourg	158.2	149.9	141.7	133.5	125.2	117.0	108.8	100.5	92.3	84.1
Malta	146.3	141.0	135.7	130.4	125.1	119.8	114.5	109.2	103.9	98.6
Netherlands	163.1	151.2	139.4	127.5	115.6	103.8	91.9	80.0	68.2	56.3
Poland	177.8	167.7	157.6	147.5	137.4	127.3	117.2	107.1	97.1	87.0
Portugal	166.1	156.3	146.5	136.7	126.9	117.0	107.2	97.4	87.6	77.8
Romania	142.7	136.5	130.2	123.9	117.7	111.4	105.1	98.9	92.6	86.3
Slovakia	188.6	172.9	157.3	141.6	126.0	110.3	94.6	79.0	63.3	47.6
Slovenia	119.6	111.7	103.8	95.9	88.0	80.1	72.3	64.4	56.5	48.6
Spain	148.8	141.5	134.2	126.9	119.6	112.3	105.0	97.7	90.4	83.1
Sweden	134.4	122.8	111.1	99.5	87.8	76.2	64.6	52.9	41.3	29.6

Source: own calculations based on MMS and Civic (2017) and further extrapolation for the period 2021-2030

Step 2. Estimate the average time loss per problem

The estimation of the time loss per problem, as part of the CCD Evaluation, was done based on the data reported in CIVIC (2017). The number of hours for the period 2010-2018 was extrapolated using the data from Consumer Markets Scoreboard on "Extent of detriment suffered as a result of problems experienced with products/services or supplier/retailer".[452] For the period 2021-2030, the latest data point from 2018 is used as starting point for the year 2021, and then kept constant for the remaining period 2021-30.

The estimation of time losses and then monetisation of time losses (i.e. by using hourly earnings for monetising time losses) followed the methodology for measuring consumer detriment developed by CIVIC (2017) for DG JUST – "(…) a detailed step-by-step operational guidance to guide scientifically sound and resource efficient assessments of personal consumer detriment in markets across the EU". The methodology covers financial detriment, time loss and psychological detriment.

According to the CIVIC study, time losses for 2016 were estimated based on statements from consumers collected through surveys of consumers. In the CCD Evaluation, ICF extrapolated those time losses to other years based on the data on incidence rates of consumer complaints from the "markets scoreboards". The underlying assumption was that time losses are proportionate to the incidence rate of problems. The supporting study uses the values for 2018, as estimated as part of the CCD Evaluation (2020), and assumes those for the starting year 2021. From then onwards, the underlying assumption for the period 2021-30 is that the time losses per problem stay constant.

Time losses 2021-2030 (number of hours per problem)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Austria	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Belgium	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Bulgaria	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8	6.8
Croatia	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Cyprus	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Czech Republic	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Denmark	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Estonia	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Finland	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
France	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
Germany	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Greece	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Hungary	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Ireland	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Italy	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6

[452] By assuming that the time losses changed proportionally to the extent of detriment.

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Latvia	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Lithuania	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3
Luxembourg	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Malta	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Netherlands	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Poland	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Portugal	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Romania	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2
Slovakia	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Slovenia	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Spain	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Sweden	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8

The consumer detriment resulting from time losses is monetised using the latest available Eurostat data on the mean hourly earnings for each country in 2014[453] which was then adjusted by inflation rates over the period 2014-2019 observed in each of the EU-27 Member States in order to derive the current level of earnings, see table below.

Monetised time losses per country, in millions of euros

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Austria	73.0	73.0	73.0	73.0	73.0	73.0	73.0	73.0	73.0	73.0
Belgium	89.7	89.7	89.7	89.7	89.7	89.7	89.7	89.7	89.7	89.7
Bulgaria	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2
Croatia	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1	29.1
Cyprus	50.4	50.4	50.4	50.4	50.4	50.4	50.4	50.4	50.4	50.4
Czech Republic	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4
Denmark	123.5	123.5	123.5	123.5	123.5	123.5	123.5	123.5	123.5	123.5
Estonia	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3
Finland	69.5	69.5	69.5	69.5	69.5	69.5	69.5	69.5	69.5	69.5
France	100.2	100.2	100.2	100.2	100.2	100.2	100.2	100.2	100.2	100.2
Germany	93.7	93.7	93.7	93.7	93.7	93.7	93.7	93.7	93.7	93.7

[453] Eurostat dataset: earn_ses_pub2s.

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Greece	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5	47.5
Hungary	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Ireland	95.2	95.2	95.2	95.2	95.2	95.2	95.2	95.2	95.2	95.2
Italy	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0
Latvia	21.3	21.3	21.3	21.3	21.3	21.3	21.3	21.3	21.3	21.3
Lithuania	25.3	25.3	25.3	25.3	25.3	25.3	25.3	25.3	25.3	25.3
Luxembourg	124.9	124.9	124.9	124.9	124.9	124.9	124.9	124.9	124.9	124.9
Malta	80.8	80.8	80.8	80.8	80.8	80.8	80.8	80.8	80.8	80.8
Netherlands	78.1	78.1	78.1	78.1	78.1	78.1	78.1	78.1	78.1	78.1
Poland	26.5	26.5	26.5	26.5	26.5	26.5	26.5	26.5	26.5	26.5
Portugal	29.9	29.9	29.9	29.9	29.9	29.9	29.9	29.9	29.9	29.9
Romania	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2	17.2
Slovakia	19.1	19.1	19.1	19.1	19.1	19.1	19.1	19.1	19.1	19.1
Slovenia	38.8	38.8	38.8	38.8	38.8	38.8	38.8	38.8	38.8	38.8
Spain	68.5	68.5	68.5	68.5	68.5	68.5	68.5	68.5	68.5	68.5
Sweden	75.4	75.4	75.4	75.4	75.4	75.4	75.4	75.4	75.4	75.4

Step 3. Estimate rate of problems per purchase

The calculation of the problem rate for the period 2021-2030 uses the latest data point (for year 2018) on problem rate, as estimated by the CCD Evaluation. The extrapolation for the period 2021-30 was then done based on trend analysis relying on clustering of Member States depending on the past rates of decline in the problem rate.[454] This is shown below.

Rate of problems 2021-2030

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Austria	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
Belgium	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%	7.2%
Bulgaria	13.3%	12.8%	12.3%	11.8%	11.2%	10.7%	10.2%	9.7%	9.2%	8.6%
Croatia	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%
Cyprus	11.5%	11.0%	10.5%	10.0%	9.5%	8.9%	8.4%	7.9%	7.4%	6.8%

[454] EU-27 were classified in 3 groups depending on the cumulative rate of decline in the problem observed between 2010-18. Group A: <= 5.99%, Group B: 6-9.99%, and Group C: >= 10%. For the period 2020-30, countries from Group C were assumed to continue to experience the reduction in problem year with 0.5% reduction pa while the problem rate for countries in Group A and B was assumed to remain constant over the whole baseline scenario.

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Czech Republic	14.5%	14.0%	13.4%	12.9%	12.4%	11.9%	11.4%	10.8%	10.3%	9.8%
Denmark	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Estonia	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Finland	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
France	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
Germany	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
Greece	10.1%	9.6%	9.1%	8.6%	8.0%	7.5%	7.0%	6.5%	5.9%	5.4%
Hungary	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Ireland	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%
Italy	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%
Latvia	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Lithuania	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%
Luxembourg	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Malta	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%
Netherlands	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Poland	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Portugal	9.9%	9.4%	8.8%	8.3%	7.8%	7.3%	6.8%	6.2%	5.7%	5.2%
Romania	10.7%	10.2%	9.6%	9.1%	8.6%	8.1%	7.6%	7.0%	6.5%	6.0%
Slovakia	11.2%	10.7%	10.2%	9.7%	9.1%	8.6%	8.1%	7.6%	7.1%	6.5%
Slovenia	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
Spain	18.0%	17.4%	16.9%	16.4%	15.9%	15.3%	14.8%	14.3%	13.8%	13.3%
Sweden	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%

Step 4. Estimate the market penetration

The number of purchases of consumer credit products for the staring year 2021 was derived based on the latest available estimate for the year 2018, as per the CCD Evaluation. The latter was extrapolated for the whole interval 2010-2018 based on the Eurobarometer data (2003, 2011, 2016) on the percentage of respondents who purchased at least one loan, debit or credit card. For the period 2021-30, gauging the level of market penetration is inherently difficult. This is also because it is likely to be driven be numerous factors that include: impact of COVID-19 and subsequent pace of economic recovery (and hence unemployment rate and degree of tightening of credit conditions, among others), monetary policies pursued by ECB and central banks from non-Eurozone countries (and hence prevailing interest rates) or/and the impact of technological changes on the access and demand for credit (e.g. digitalisation). Moreover, the Eurobarometer data used to define the baseline scenario for the period 2010-2018 points to rather puzzling findings – market penetration of credit in many EU Member States kept increasing after the Great Financial Crisis (GFC) until 2014-15, and then once the recovery gained full speed it started decreasing. Typically, empirical data from the past economic crises shows the opposite. Therefore, consistent with approach to some other assumptions, the market penetration for the period 2021-30 is assumed to stay constant.

Market penetration of consumer credit 2021-2030 (in %)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Austria	55.0	55.0	55.0	55.0	55.0	55.0	55.0	55.0	55.0	55.0
Belgium	24.6	24.6	24.6	24.6	24.6	24.6	24.6	24.6	24.6	24.6
Bulgaria	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Croatia	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0	33.0
Cyprus	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Czech Republic	21.6	21.6	21.6	21.6	21.6	21.6	21.6	21.6	21.6	21.6
Denmark	25.3	25.3	25.3	25.3	25.3	25.3	25.3	25.3	25.3	25.3
Estonia	31.2	31.2	31.2	31.2	31.2	31.2	31.2	31.2	31.2	31.2
Finland	25.8	25.8	25.8	25.8	25.8	25.8	25.8	25.8	25.8	25.8
France	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0
Germany	53.7	53.7	53.7	53.7	53.7	53.7	53.7	53.7	53.7	53.7
Greece	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3	33.3
Hungary	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7	15.7
Ireland	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4	24.4
Italy	32.4	32.4	32.4	32.4	32.4	32.4	32.4	32.4	32.4	32.4
Latvia	29.5	29.5	29.5	29.5	29.5	29.5	29.5	29.5	29.5	29.5
Lithuania	19.1	19.1	19.1	19.1	19.1	19.1	19.1	19.1	19.1	19.1
Luxembourg	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0	52.0
Malta	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5
Netherlands	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.5
Poland	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1	18.1
Portugal	20.9	20.9	20.9	20.9	20.9	20.9	20.9	20.9	20.9	20.9
Romania	23.9	23.9	23.9	23.9	23.9	23.9	23.9	23.9	23.9	23.9
Slovakia	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5	20.5
Slovenia	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7	20.7

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Spain	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7
Sweden	27.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0	27.0

The total number of purchases of consumer credit per country was obtained by multiplying the market penetration by the population of each EU 27 country.

Step 5. Calculate the personal consumer detriment (financial and time loss) for the period 2021-2030

To calculate the consumer financial detriment, the rate of problems was multiplied by the total number of purchases and by the magnitude of a problem for each country. The results are presented below.

Consumer financial detriment, 2021-2030, in EUR mln

MS	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Austria	19.56	19.43	19.48	19.53	19.59	19.64	19.69	19.75	19.80	19.85
Belgium	13.44	13.39	13.42	13.45	13.48	13.51	13.54	13.57	13.60	13.62
Bulgaria	23.63	22.57	21.52	20.49	19.47	18.47	17.48	16.51	15.55	14.60
Croatia	17.91	17.90	17.94	17.98	18.02	18.06	18.10	18.14	18.18	18.23
Cyprus	3.74	3.61	3.48	3.34	3.20	3.06	2.91	2.76	2.61	2.46
Czech Republic	38.59	37.27	35.95	34.63	33.31	31.98	30.66	29.33	28.00	26.67
Denmark	11.37	11.40	11.43	11.46	11.49	11.52	11.54	11.57	11.60	11.63
Estonia	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08
Finland	1.51	1.51	1.51	1.51	1.51	1.51	1.51	1.51	1.51	1.51
France	81.47	81.66	81.85	82.03	82.22	82.41	82.60	82.78	82.97	83.16
Germany	115.52	115.57	115.61	115.66	115.70	115.75	115.79	115.83	115.88	115.92
Greece	46.76	44.30	41.86	39.43	37.03	34.64	32.27	29.92	27.58	25.26
Hungary	9.01	9.00	8.98	8.97	8.96	8.94	8.93	8.91	8.90	8.88
Ireland	7.50	7.57	7.65	7.73	7.81	7.89	7.97	8.05	8.14	8.22
Italy	198.39	198.28	198.16	198.05	197.94	197.82	197.71	197.60	197.48	197.37
Latvia	2.63	2.60	2.57	2.54	2.52	2.49	2.46	2.44	2.41	2.38
Lithuania	2.75	2.73	2.71	2.69	2.67	2.64	2.62	2.60	2.58	2.56
Luxembourg	0.85	0.85	0.86	0.87	0.88	0.89	0.90	0.91	0.92	0.93
Malta	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.27
Netherlands	21.83	21.90	21.97	22.04	22.11	22.18	22.25	22.32	22.39	22.47

MS	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Poland	100.28	100.04	99.79	99.54	99.30	99.05	98.81	98.57	98.32	98.08
Portugal	32.84	31.13	29.43	27.73	26.05	24.36	22.69	21.02	19.36	17.70
Romania	62.61	59.22	55.88	52.60	49.36	46.16	43.02	39.92	36.87	33.87
Slovakia	21.85	20.87	19.90	18.92	17.95	16.97	16.00	15.03	14.05	13.08
Slovenia	1.50	1.50	1.51	1.51	1.51	1.51	1.51	1.51	1.51	1.51
Spain	243.44	237.27	231.06	224.81	218.52	212.19	205.82	199.42	192.97	186.48
Sweden	17.28	17.41	17.53	17.66	17.79	17.92	18.05	18.18	18.31	18.44

To calculate the total cost corresponding to the time losses the monetised time losses per problem were multiplied by the total number of problems (i.e. rate of problems by the total number of purchases) for each country, see table below.

Total time losses in EUR mln, 2021-2030

MS	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Austria	14.2	14.3	14.3	14.3	14.4	14.4	14.5	14.5	14.5	14.6
Belgium	14.7	14.7	14.7	14.8	14.8	14.8	14.9	14.9	14.9	15.0
Bulgaria	2.0	2.0	1.9	1.8	1.7	1.6	1.5	1.4	1.3	1.2
Croatia	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Cyprus	1.1	1.0	1.0	0.9	0.9	0.8	0.8	0.8	0.7	0.7
Czech Republic	7.7	7.5	7.2	6.9	6.6	6.4	6.1	5.8	5.5	5.3
Denmark	11.0	11.0	11.0	11.1	11.1	11.1	11.2	11.2	11.2	11.2
Estonia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Finland	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
France	76.2	76.4	76.6	76.7	76.9	77.1	77.3	77.5	77.6	77.8
Germany	112.4	112.5	112.5	112.6	112.6	112.7	112.7	112.7	112.8	112.8
Greece	14.1	13.3	12.6	11.8	11.0	10.3	9.5	8.8	8.1	7.3
Hungary	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Ireland	5.4	5.4	5.5	5.5	5.6	5.6	5.7	5.8	5.8	5.9
Italy	90.9	90.8	90.8	90.7	90.7	90.6	90.6	90.5	90.5	90.4
Latvia	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Lithuania	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Luxembourg	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Malta	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Netherlands	9.8	9.8	9.8	9.9	9.9	9.9	10.0	10.0	10.0	10.1

MS	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Poland	14.1	14.1	14.0	14.0	13.9	13.9	13.9	13.8	13.8	13.8
Portugal	5.3	5.0	4.7	4.4	4.1	3.9	3.6	3.3	3.0	2.7
Romania	6.8	6.4	6.1	5.7	5.3	5.0	4.6	4.3	3.9	3.6
Slovakia	2.0	1.9	1.8	1.7	1.6	1.5	1.4	1.3	1.2	1.1
Slovenia	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Spain	104.2	101.4	98.7	95.9	93.1	90.4	87.5	84.7	81.9	79.0
Sweden	9.0	9.1	9.1	9.2	9.3	9.3	9.4	9.5	9.5	9.6

Step 6. Calculate the net benefit of CCD in terms of personal consumer detriment

The net benefit of CCD in a given year has been assumed to be 15% of the difference between the financial detriment on that year and the financial detriment at the baseline (beginning of 2021). The below table shows the reduction of financial consumer detriment per Member State using the 15% figure.

Reduction of financial consumer detriment due to CCD 2021-2030, EUR mln

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	NPV in EUR mln
Austria	0.224	0.419	0.615	0.812	1.011	1.210	1.411	1.612	1.815	2.019	8.5
Belgium	0.147	0.283	0.419	0.556	0.693	0.831	0.969	1.109	1.248	1.389	5.8
Bulgaria	0.330	0.642	0.938	1.217	1.480	1.727	1.959	2.176	2.377	2.564	11.8
Croatia	0.158	0.309	0.461	0.613	0.767	0.920	1.075	1.230	1.386	1.543	6.5
Cyprus	0.052	0.102	0.150	0.195	0.239	0.281	0.320	0.358	0.393	0.425	1.9
Czech Republic	0.531	1.040	1.526	1.990	2.431	2.850	3.246	3.619	3.970	4.297	19.6
Denmark	0.117	0.235	0.353	0.472	0.591	0.712	0.832	0.954	1.076	1.199	5.0
Estonia	0.003	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.0
Finland	0.020	0.040	0.060	0.080	0.099	0.119	0.139	0.159	0.179	0.199	0.8
France	0.607	1.217	1.831	2.446	3.065	3.687	4.311	4.939	5.569	6.202	25.8
Germany	1.013	2.027	3.042	4.057	5.073	6.090	7.108	8.127	9.146	10.166	42.6
Greece	0.772	1.500	2.183	2.823	3.419	3.973	4.485	4.955	5.383	5.771	27.1
Hungary	0.075	0.150	0.224	0.298	0.372	0.446	0.520	0.593	0.666	0.739	3.1
Ireland	0.067	0.136	0.206	0.278	0.352	0.427	0.504	0.582	0.662	0.744	3.0
Italy	1.741	3.480	5.217	6.952	8.685	10.416	12.145	13.872	15.597	17.321	72.9
Latvia	0.026	0.052	0.077	0.101	0.125	0.149	0.172	0.195	0.217	0.238	1.0

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	NPV in EUR mln
Lithuania	0.022	0.043	0.064	0.085	0.105	0.125	0.145	0.165	0.184	0.203	0.9
Luxembourg	0.005	0.011	0.017	0.022	0.028	0.034	0.040	0.047	0.053	0.060	0.2
Malta	0.007	0.014	0.021	0.028	0.036	0.043	0.050	0.057	0.064	0.071	0.3
Netherlands	0.226	0.454	0.684	0.915	1.147	1.381	1.617	1.854	2.092	2.332	9.7
Poland	0.899	1.794	2.685	3.572	4.454	5.331	6.205	7.074	7.940	8.801	37.2
Portugal	0.551	1.071	1.559	2.017	2.443	2.839	3.204	3.539	3.844	4.119	19.4
Romania	0.941	1.829	2.664	3.450	4.185	4.872	5.511	6.104	6.651	7.153	33.4
Slovakia	0.412	0.801	1.165	1.505	1.822	2.114	2.383	2.627	2.848	3.044	14.4
Slovenia	0.015	0.030	0.044	0.059	0.074	0.089	0.104	0.119	0.134	0.149	0.6
Spain	2.763	5.439	8.027	10.527	12.938	15.259	17.488	19.626	21.671	23.622	105.3
Sweden	0.202	0.407	0.615	0.826	1.041	1.259	1.479	1.704	1.931	2.162	8.9
EU 27	11.927	23.525	34.849	45.900	56.679	67.187	77.425	87.395	97.097	106.532	466.0

In the same vein, the net benefits of CCD in terms of savings in time losses was assumed to be 15% reduction of the total monetised time losses (i.e., monetised time losses per problem multiplied by the number of problems) in the period 2021-2030 (i.e., difference between the values for a given year and the baseline). The below table shows the total savings per Member State.

Total savings in time losses, in million euros, 2021-2030

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	NPV in EUR mln
Austria	2.13	2.14	2.15	2.15	2.16	2.16	2.17	2.18	2.18	2.19	17.51
Belgium	2.20	2.21	2.21	2.22	2.22	2.23	2.23	2.24	2.24	2.25	18.03
Bulgaria	0.31	0.29	0.28	0.26	0.25	0.24	0.22	0.21	0.20	0.19	2.02
Croatia	0.38	0.38	0.38	0.39	0.39	0.39	0.39	0.39	0.39	0.39	3.14
Cyprus	0.16	0.15	0.15	0.14	0.13	0.13	0.12	0.11	0.11	0.10	1.07
Czech Republic	1.16	1.12	1.08	1.04	1.00	0.96	0.91	0.87	0.83	0.79	8.02
Denmark	1.65	1.65	1.66	1.66	1.67	1.67	1.67	1.68	1.68	1.69	13.51
Estonia	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01
Finland	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	3.08
France	11.43	11.46	11.49	11.51	11.54	11.57	11.59	11.62	11.64	11.67	93.63

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	NPV in EUR mln
Germany	16.87	16.87	16.88	16.88	16.89	16.90	16.90	16.91	16.92	16.92	137.01
Greece	2.12	2.00	1.89	1.77	1.66	1.54	1.43	1.32	1.21	1.10	13.30
Hungary	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.23	1.92
Ireland	0.80	0.81	0.82	0.83	0.84	0.85	0.85	0.86	0.87	0.88	6.81
Italy	13.63	13.62	13.61	13.61	13.60	13.59	13.58	13.58	13.57	13.56	110.29
Latvia	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.40
Lithuania	0.08	0.08	0.08	0.08	0.07	0.07	0.07	0.07	0.07	0.07	0.60
Luxembourg	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.11	0.81
Malta	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.82
Netherlands	1.47	1.47	1.48	1.48	1.49	1.49	1.50	1.50	1.50	1.51	12.06
Poland	2.11	2.11	2.10	2.10	2.09	2.09	2.08	2.08	2.07	2.07	16.96
Portugal	0.79	0.75	0.71	0.66	0.62	0.58	0.54	0.49	0.45	0.41	4.98
Romania	1.03	0.97	0.91	0.85	0.80	0.74	0.69	0.64	0.59	0.54	6.43
Slovakia	0.29	0.28	0.27	0.25	0.24	0.22	0.21	0.20	0.18	0.17	1.91
Slovenia	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.56
Spain	15.62	15.21	14.80	14.39	13.97	13.55	13.13	12.71	12.28	11.85	112.64
Sweden	1.35	1.36	1.37	1.38	1.39	1.40	1.41	1.42	1.43	1.44	11.27
EU 27	76.52	75.88	75.24	74.59	73.94	73.30	72.65	72.01	71.36	70.71	598.81

Costs (baseline scenario)

The costs of the CCD for creditors and public administrators (both, national and EU-level) are related to compliance, monitoring and enforcement and can be subdivided into: one-off costs and ongoing costs. The one-off costs relate to costs that credit providers and public administrators incurred when the CCD was implemented. Ongoing costs are costs that providers and public administrators have continued to face after the introduction of the CCD. Note that for the baseline scenario, only ongoing costs are relevant as one-off costs related to the introduction of the CCD and its transposition had been already incurred back in 2010s.

The methodology proposed to estimate the costs for providers and public administrators reflects the approach used in the CCD Evaluation that in turn drew on Europe Economics study (2007).[455]

Costs for public administrations

The recurrent costs of public administrations related to the implementation of the CCD are related to the **monitoring** of compliance of credit providers with the Directive, **reporting and enforcement** of the Directive (e.g. sweeps, investigations). The methodology and assumptions followed to calculate these costs are summarised in the below table.

Approach to recurrent costs of public administrations

Recurrent cost	Methodology	Assumptions
Monitoring	Unit cost = No. of days per person X Average daily wages for the public sector X No. of persons involved Total cost = Unit cost X 28 Member States Total cost = Unit cost X 28 Member States	1 official per MS 1 to 2 days per official per month to monitor compliance (e.g. scanning websites of banks) Average daily wage for the public sector per country from Eurostat
Enforcement	Unit cost = No. of days per person X Average daily wages for the public sector X No. of persons involved Total cost = Unit cost X 28 Member States	2 official per MS 1 to 2 days per official per month Average daily wage for the public sector per country from Eurostat
Reporting	Unit cost = No. of days per person X Average daily wages for the public sector X No. of persons involved Total cost = Unit cost X 28 Member States	1 official per MS 2 to 3 days per official per year Average daily wage for the public sector per country from Eurostat
Maintaining database	Unit cost = No. of days per person X Average daily wages for the public sector X No. of persons involved Total cost = Unit cost X 28 Member States	1 official per MS 1 to 2 days per month Average daily wage for the public sector per country from Eurostat

455 Europe Economics., 2007. An analysis of the issue of consumer detriment and the most appropriate methodologies to estimate it. DG SANCO. URL: http://ec. europa. eu/consumers/strategy/docs/study_consumer_detriment. pdf.

Costs for financial providers

The recurrent costs of the financial providers to comply with the CCD depend on their level of compliance with the Directive and their need to adjust their operations to the Directive (which in some cases was not necessary as the credit providers were already operating in line with the key requirements of the Directive). See the below table for a description of the approach followed to calculate these costs.

Approach to calculate recurrent costs of financial providers

Recurrent cost	Methodology	Assumptions
Compliance with advertisement requirements	Unit cost = Extra cost of advertisement x number of advertisements per year Total costs = Unit cost x Number of credit institutions	Extra cost per advertisement = €5 - €10 Number of advertisements per year = 365
Compliance with Pre-contractual information/SECCI requirements	Unit cost = No. of days per person X Average daily wages for the financial sector X No. of persons involved Total cost = Unit cost X No. of credit requests X percentage of credit request done in person	1 member of the front desk 0.1 hours per person
Compliance with credit worthiness assessment requirements	Unit costs = No. of days per person X Average daily wages for the financial sector X No. of persons involved (the unit cost depends on the level of burden) Total cost = Unit cost X No. of credit requests for which a credit worthiness would not been done in the absence of CCD	For 15% of the credit request a creditworthiness was not done before CCD and due to CCD this was reduced to 10% 1 staff member 0.05-0.10 days per request in countries depending on their level of burden

In addition, in order to estimate recurrent costs of financial providers under baseline scenario, the impact assessment supporting study had to also estimate several variables that characterise the population of the financial provides over the period 2021-2030 including:

- number of credit institution operating in each Member State;
- size of the workforce in credit institutions;
- average daily wage for the employees in credit institutions;
- number of consumers' requests for loans.

Those were derived using historical values and trends (e.g. ECB data on number of credit institutions and workforce employed, Eurostat data on wages in financial sector, the data on number of loan requests used in the 2019 CCD Evaluation), and subject to some specific adjustment related to the impact of COVID-19.

Regarding number of credit institutions operating in each Member State over the period 2020-2030 (though, baseline considers 2021-2030), it was assumed that the impact of COVID-19 may be more moderate than the impact observed in the aftermath of the Great Financial Crisis (GFC). This is because capital positions and liquidity in the banking sector across the EU were much better shortly after the breakout of pandemic than in the period following the GFC, and hence the impact of COVID-19 on banks, including credit origination and supply on the one hand and solvency & liquidity on the other, may not be as pronounced and as long as in case of GFC. In short, the impact of COVID-19 in terms of reducing the number of CIs in a given Member State was assumed to be half as strong as GFC, and regional differences were also taken into account by clustering countries into four groups depending on the COVID-19 magnitude of shock, assumed based on values observed in the aftermath of the GFC.

Reduction in number of CIs, annual rate following 2010-2013 (GFC – historical data) & assumed annual rate following COVID-19 shock.

	Annual rate of change 2010-13	**Annual rate of change 2020-23 used as assumption**
CEE Region (PL, HU, CZ, SI, SK, BG, RO, HR)	-1.1%	-0.6%
Baltic States (LT, LV, ET)	37.6%	0.0%
Southern Eurozone Member States (PT, ES, IT, MT, CY, EL)	-6.5%	-3.2%
Core Eurozone (DE, FR, BE, NL, LU, IE, AT)	-2.3%	-1.2%
Scandinavia (FI, SE, DK)	-1.7%	-0.8%

Note: Outlier data for Baltic States for 2010-2013 reflects changes in the methodology.

The table below shows final baseline projection for the period 2020-2030.

Number of CIs, 2020-2030

	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Austria	516	510	504	498	498	498	498	498	498	498	498
Belgium	83	82	81	80	80	80	80	80	80	80	80
Bulgaria	25	25	25	24	24	24	24	24	24	24	24
Croatia	24	24	24	23	23	23	23	23	23	23	23
Cyprus	28	27	26	25	25	25	25	25	25	25	25
Czechia	58	57	57	57	57	57	57	57	57	57	57
Denmark	99	98	98	97	97	97	97	97	97	97	97
Estonia	38	38	38	38	38	38	38	38	38	38	38

Finland	239	237	235	233	233	233	233	233	233	233	233
France	401	397	392	388	388	388	388	388	388	388	388
Germany	1513	1496	1479	1462	1462	1462	1462	1462	1462	1462	1462
Greece	34	33	32	31	31	31	31	31	31	31	31
Hungary	46	45	45	45	45	45	45	45	45	45	45
Ireland	308	305	301	298	298	298	298	298	298	298	298
Italy	469	454	439	425	425	425	425	425	425	425	425
Latvia	54	54	54	54	54	54	54	54	54	54	54
Lithuania	83	83	83	83	83	83	83	83	83	83	83
Luxembourg	126	124	123	121	121	121	121	121	121	121	121
Malta	24	23	23	22	22	22	22	22	22	22	22
Netherlands	92	91	90	89	89	89	89	89	89	89	89
Poland	623	620	616	613	613	613	613	613	613	613	613
Portugal	146	141	137	132	132	132	132	132	132	132	132
Romania	75	74	74	73	73	73	73	73	73	73	73
Slovakia	27	27	27	26	26	26	26	26	26	26	26
Slovenia	17	17	17	17	17	17	17	17	17	17	17
Spain	190	184	178	172	172	172	172	172	172	172	172
Sweden	153	151	150	149	149	149	149	149	149	149	149

In terms of the *Size of the workforce in CIs*, similar assumption was made: COVID-19 impact of half magnitude of the one following GFC, contained over the period 2020-2023, after which workforce level stays constant over the period 2024-2030 (see below).

Workforce in CIs, 2020-2030

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Austria	71,154	70,830	70,508	70,187	70,187	70,187	70,187	70,187	70,187	70,187	70,187
Belgium	50,106	49,878	49,651	49,425	49,425	49,425	49,425	49,425	49,425	49,425	49,425
Bulgaria	28,079	27,921	27,764	27,607	27,607	27,607	27,607	27,607	27,607	27,607	27,607
Croatia	19,453	19,343	19,234	19,126	19,126	19,126	19,126	19,126	19,126	19,126	19,126
Cyprus	8,498	8,442	8,387	8,332	8,332	8,332	8,332	8,332	8,332	8,332	8,332
Czechia	39,514	39,292	39,070	38,850	38,850	38,850	38,850	38,850	38,850	38,850	38,850
Denmark	40,790	40,159	39,537	38,925	38,925	38,925	38,925	38,925	38,925	38,925	38,925
Estonia	5,303	5,183	5,066	4,951	4,951	4,951	4,951	4,951	4,951	4,951	4,951
Finland	20,598	20,279	19,965	19,656	19,656	19,656	19,656	19,656	19,656	19,656	19,656

France	397,557	395,749	393,948	392,156	392,156	392,156	392,156	392,156	392,156	392,156	392,156
Germany	575,964	573,344	570,736	568,139	568,139	568,139	568,139	568,139	568,139	568,139	568,139
Greece	36,487	36,248	36,011	35,775	35,775	35,775	35,775	35,775	35,775	35,775	35,775
Hungary	39,436	39,214	38,993	38,773	38,773	38,773	38,773	38,773	38,773	38,773	38,773
Ireland	27,692	27,566	27,441	27,316	27,316	27,316	27,316	27,316	27,316	27,316	27,316
Italy	278,944	277,119	275,306	273,505	273,505	273,505	273,505	273,505	273,505	273,505	273,505
Latvia	6,759	6,606	6,457	6,311	6,311	6,311	6,311	6,311	6,311	6,311	6,311
Lithuania	10,101	9,873	9,650	9,432	9,432	9,432	9,432	9,432	9,432	9,432	9,432
Luxembourg	26,214	26,095	25,976	25,858	25,858	25,858	25,858	25,858	25,858	25,858	25,858
Malta	5,141	5,108	5,074	5,041	5,041	5,041	5,041	5,041	5,041	5,041	5,041
Netherlands	69,682	69,365	69,049	68,735	68,735	68,735	68,735	68,735	68,735	68,735	68,735
Poland	159,972	159,071	158,175	157,284	157,284	157,284	157,284	157,284	157,284	157,284	157,284
Portugal	50,726	50,394	50,064	49,737	49,737	49,737	49,737	49,737	49,737	49,737	49,737
Romania	52,807	52,509	52,214	51,920	51,920	51,920	51,920	51,920	51,920	51,920	51,920
Slovakia	19,284	19,175	19,067	18,960	18,960	18,960	18,960	18,960	18,960	18,960	18,960
Slovenia	9,499	9,446	9,392	9,340	9,340	9,340	9,340	9,340	9,340	9,340	9,340
Spain	172,312	171,185	170,065	168,952	168,952	168,952	168,952	168,952	168,952	168,952	168,952
Sweden	43,810	43,132	42,464	41,806	41,806	41,806	41,806	41,806	41,806	41,806	41,806

For the variable *average daily wage for the employees in CIs*, the Eurostat data on the average wage of the financial sector employee was used as starting point for the year 2020, and then kept constant for the period 2020-2030 across all Member States (see below table), consistent with a simplified approach to assumptions taken in the supporting study.

Average daily wage for the financial sector employee, in EUR

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Austria	156	156	156	156	156	156	156	156	156	156	156
Belgium	176	176	176	176	176	176	176	176	176	176	176
Bulgaria	22	22	22	22	22	22	22	22	22	22	22
Croatia	58	58	58	58	58	58	58	58	58	58	58
Cyprus	117	117	117	117	117	117	117	117	117	117	117
Czechia	51	51	51	51	51	51	51	51	51	51	51
Denmark	258	258	258	258	258	258	258	258	258	258	258

Estonia	63	63	63	63	63	63	63	63	63	63	63
Finland	180	180	180	180	180	180	180	180	180	180	180
France	170	170	170	170	170	170	170	170	170	170	170
Germany	155	155	155	155	155	155	155	155	155	155	155
Greece	83	83	83	83	83	83	83	83	83	83	83
Hungary	53	53	53	53	53	53	53	53	53	53	53
Ireland	217	217	217	217	217	217	217	217	217	217	217
Italy	129	129	129	129	129	129	129	129	129	129	129
Latvia	52	52	52	52	52	52	52	52	52	52	52
Lithuania	40	40	40	40	40	40	40	40	40	40	40
Luxembourg	228	228	228	228	228	228	228	228	228	228	228
Malta	92	92	92	92	92	92	92	92	92	92	92
Netherlands	157	157	157	157	157	157	157	157	157	157	157
Poland	57	57	57	57	57	57	57	57	57	57	57
Portugal	78	78	78	78	78	78	78	78	78	78	78
Romania	32	32	32	32	32	32	32	32	32	32	32
Slovakia	52	52	52	52	52	52	52	52	52	52	52
Slovenia	82	82	82	82	82	82	82	82	82	82	82
Spain	101	101	101	101	101	101	101	101	101	101	101
Sweden	196	196	196	196	196	196	196	196	196	196	196

Finally, for the variable *number of consumer requests per loan*, the assumed values also take into account the impact of COVID-19 e.g. fall in credit demand following the recessionary shock, higher reliance on discretionary savings and consumption smoothing. More specifically, in line with the estimates of the McKinsey Report on the impact of COVID-19 on consumer finance in 2020, the reduction of number of requests by 22% in 2020 followed by recovery to pre-COVID-19 level from 2021 onwards is assumed (see below table).

Number of requests for loans, 2020-2030

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Austria	1,648,263	2,113,158	2,113,158	2,113,158	2,113,158	2,113,158	2,113,158	2,113,158	2,113,158	2,113,158	2,113,158
Belgium	1,773,75	2,274,04	2,274,04	2,274,04	2,274,04	2,274,04	2,274,04	2,274,04	2,274,04	2,274,04	2,274,04

	6	6	6	6	6	6	6	6	6	6	6
Bulgaria	1,628,136	2,087,354	2,087,354	2,087,354	2,087,354	2,087,354	2,087,354	2,087,354	2,087,354	2,087,354	2,087,354
Croatia	354986,6	455,111	455,111	455,111	455,111	455,111	455,111	455,111	455,111	455,111	455,111
Cyprus	270630,6	346962,3	346962,3	346962,3	346962,3	346962,3	346962,3	346962,3	346962,3	346962,3	346962,3
Czechia	2,121,761	2,720,207	2,720,207	2,720,207	2,720,207	2,720,207	2,720,207	2,720,207	2,720,207	2,720,207	2,720,207
Denmark	2,373,366	3,042,777	3,042,777	3,042,777	3,042,777	3,042,777	3,042,777	3,042,777	3,042,777	3,042,777	3,042,777
Estonia	206493,3	264,735	264,735	264,735	264,735	264,735	264,735	264,735	264,735	264,735	264,735
Finland	1,648,295	2,113,199	2,113,199	2,113,199	2,113,199	2,113,199	2,113,199	2,113,199	2,113,199	2,113,199	2,113,199
France	14,072,719	18,041,948	18,041,948	18,041,948	18,041,948	18,041,948	18,041,948	18,041,948	18,041,948	18,041,948	18,041,948
Germany	11,975,818	15,353,613	15,353,613	15,353,613	15,353,613	15,353,613	15,353,613	15,353,613	15,353,613	15,353,613	15,353,613
Greece	1,084,477	1,390,355	1,390,355	1,390,355	1,390,355	1,390,355	1,390,355	1,390,355	1,390,355	1,390,355	1,390,355
Hungary	1,263,800	1,620,257	1,620,257	1,620,257	1,620,257	1,620,257	1,620,257	1,620,257	1,620,257	1,620,257	1,620,257
Ireland	1,264,037	1,620,561	1,620,561	1,620,561	1,620,561	1,620,561	1,620,561	1,620,561	1,620,561	1,620,561	1,620,561
Italy	4,390,718	5,629,125	5,629,125	5,629,125	5,629,125	5,629,125	5,629,125	5,629,125	5,629,125	5,629,125	5,629,125
Latvia											

	220080,4	282154,4	282154,4	282154,4	282154,4	282154,4	282154,4	282154,4	282154,4	282154,4	282154,4
Lithuania	201422,7	258234,2	258234,2	258234,2	258234,2	258234,2	258234,2	258234,2	258234,2	258234,2	258234,2
Luxembourg	153996,4	197431,3	197431,3	197431,3	197431,3	197431,3	197431,3	197431,3	197431,3	197431,3	197431,3
Malta	68733,32	88119,64	88119,64	88119,64	88119,64	88119,64	88119,64	88119,64	88119,64	88119,64	88119,64
Netherlands	2,441,939	3,130,691	3,130,691	3,130,691	3,130,691	3,130,691	3,130,691	3,130,691	3,130,691	3,130,691	3,130,691
Poland	5,992,406	7,682,572	7,682,572	7,682,572	7,682,572	7,682,572	7,682,572	7,682,572	7,682,572	7,682,572	7,682,572
Portugal	1,190,185	1,525,878	1,525,878	1,525,878	1,525,878	1,525,878	1,525,878	1,525,878	1,525,878	1,525,878	1,525,878
Romania	2,782,366	3,567,136	3,567,136	3,567,136	3,567,136	3,567,136	3,567,136	3,567,136	3,567,136	3,567,136	3,567,136
Slovakia	855349,4	1,096,602	1,096,602	1,096,602	1,096,602	1,096,602	1,096,602	1,096,602	1,096,602	1,096,602	1,096,602
Slovenia	178319,5	228614,7	228614,7	228614,7	228614,7	228614,7	228614,7	228614,7	228614,7	228614,7	228614,7
Spain	5,359,652	6,871,349	6,871,349	6,871,349	6,871,349	6,871,349	6,871,349	6,871,349	6,871,349	6,871,349	6,871,349
Sweden	3,555,435	4,558,250	4,558,250	4,558,250	4,558,250	4,558,250	4,558,250	4,558,250	4,558,250	4,558,250	4,558,250

Final costs for public administration and financial providers

The tables below summarise the **recurring costs related to CCD for public administration and financial providers** over the baseline period.

Summary recurring costs for Public Administration 2020-2030

		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	NPV(@4%)
RCPA.1	Monitoring compliance	49,677	49,677	49,677	49,677	49,677	49,677	49,677	49,677	49,677	49,677	369,366
RCPA.2	Reporting to EU	6,900	6,900	6,900	6,900	6,900	6,900	6,900	6,900	6,900	6,900	51,301
RCPA.3	Enforcement costs e.g. sweeps, investigations	99,354	99,354	99,354	99,354	99,354	99,354	99,354	99,354	99,354	99,354	738,731
RCPA.4	Maintaining database	49,677	49,677	49,677	49,677	49,677	49,677	49,677	49,677	49,677	49,677	369,366
	Grand total	205,608	205,608	205,608	205,608	205,608	205,608	205,608	205,608	205,608	205,608	1,528,764

Summary recurring costs related to the CCD, for Financial providers, 2020-2030

		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	NPV(@4%)
RCI.1	Additional cost of advertisements to comply these new requirements	14,830,989	14,635,108	14,442,955	14,442,955	14,442,955	14,442,955	14,442,955	14,442,955	14,442,955	14,442,955	108,482,876	14,830,989
RCI.2	Additional costs of staff to provide Pre-contractual information/SECCI	73,705,943	73,705,943	73,705,943	73,705,943	73,705,943	73,705,943	73,705,943	73,705,943	73,705,943	73,705,943	532,436,487	73,705,943
RCI.3	Additional cost of carrying out credit worthiness assessment	84,074,625	84,074,625	84,074,625	84,074,625	84,074,625	84,074,625	84,074,625	84,074,625	84,074,625	84,074,625	607,337,699	84,074,625
	Grand total	138099538	172611557	172415676	172223523	172223523	172223523	172223523	172223523	1,72E+08	172223523	172223523	1,248,257,063

Costs and benefits of selected measures, assessment against the baseline

Costs stemming from over 40 different measures were assessed for the impact assessment supporting study, albeit to different degree of detail. Out of the measures considered, more detailed costs estimation for EU and national administration, and the industry was provided for a number of specific measures (see 'Results of the quantification of certain measures').

Due to, inter alia, lack of data, large number of measures and their heterogeneity, it was not feasible to derive the quantification of the **benefits** for all the assessed ones. Instead, a qualitative assessment for a number of specific measures (the same ones for which detailed costs estimates were provided) was conducted.

More specifically, in the context of quantification of benefits for each of the measures, the following pre-assessment was conducted:

- Overview of issues faced by consumers;
- Type of potential benefits brought by an option.

Based on this pre-assessment, each of the measures was assigned the strength in terms of incremental increase of the CCD's effectiveness, should it be implemented. Note that under the baseline scenario for the period 2021-2030, the overall CCD effectiveness was assumed at 15%. Here, it is assumed that an introduction of each of the following measures would increase the overall effectiveness of the CCD to the degree outlined in the below table.

Effectiveness of each measures – assumed strength/ contribution to the CCD, in percentage points

Measure		Assumed increase in CCD effectiveness attributed to the option (only)	Revised CCD effectiveness (total)
2.1	Remove the minimum and maximum thresholds	4%	19%
2.2	Include some of the currently excluded loans within its scope of application	11%	26%
2.3/2.7	Provide a more detailed definition of some key terms which affect its scope of application e.g. 'credit provider', 'credit intermediary' and more detailed definition of some key terms related to the obligations contained in the Directive e.g. 'sufficient information', 'in a timely manner', 'prominently', 'adequate explanations'	3.5%	18.5%
2.4	Reduce the amount of information to be provided to consumers in advertising focusing on key information, especially when provided through certain channels (radio)	2%	17%
2.5	Present key pre-contractual information in a more prominent way (without reducing the amount of information provided to consumers at pre-contractual stage)	1%	16%
3a.15	Include a provision establishing the right of consumers to request and receive an explanation on how and on what basis a decision on their creditworthiness was reached	2%	17%

3a.17	Establish an obligation on the Commission to regularly assess the financial education / digital literacy initiatives implemented in Member States and identify best practices, and to publish the findings	0.5%	15.5%
3a.7	Establish an obligation upon credit providers to inform consumers whether advisory services are or can be provided	0.3%	15.3%
3a.9	Prohibit product-tying practices	2%	17.0%
3b.6	Prohibit unsolicited sale of credit	3.5%	18.5%
3b.9	Establish an obligation upon creditors to inform low-scoring consumers whether debt advice services are available (provided that these services do not influence the credit ranking of the consumer)	2%	17%

Results of the quantification of certain measures

Cost assessment of specific policy measures

The specific measures for which there was enough quantitative evidence to determine their impact with regard to the baseline have been subject to a quantitative analysis of their costs and benefits. **In total, the following measures have been subject to this analysis**:

- **Removing the minimum and maximum thresholds** (**Measure 2.1**), included in Policy options 2, 3a and 3b.
- **Including some of the currently excluded loans within its scope of application** (**Measure 2.2**), included in Policy options 2, 3a and 3b.
- **Amending the definition of some key terms which affect its scope** of application (**Measure 2.3**), included in Policy options 2, 3a and 3b, and provide a more detailed **definition of some key terms related to obligations** contained in the Directive (**Measure 2.7**), included in Policy option 2. Measure 2.3 and 2.7 are assessed together.
- **Reduce the amount of information to be provided to consumers in advertising** focusing on key information, especially when provided **through certain channels** (radio only) (**Measure 2.4**), included in policy option 2 and 3b.
- **Present key pre-contractual information in a more prominent way** (without reducing the amount of information provided to consumers at pre-contractual stage) (**Measure 2.5**), included in policy option 2.
- Establish an obligation upon credit providers **to inform consumers whether advisory services** are or can be **provided** (**Measure 3a.7**), included in Policy options 3a and 3b.
- **Prohibit product-tying practices** (**Measure 3a.9**), included in Policy option 3a and 3b.
- Include a provision establishing **the right of consumers to request** and receive an **explanation on how and on what basis a decision on their creditworthiness was reached** (**Measure 3a.15**), included in Policy options 3a and 3b.
- Establish an obligation on the **Commission to regularly assess the financial education / digital literacy initiatives** implemented in Member States and identify best practices, and to publish the findings (**Measure 3a.17**), included in Policy option 3a.
- **Prohibit unsolicited sale of credit** (**Measure 3b.6**), included in Policy option 3b.
- Establish an **obligation upon credit providers to inform low-scoring consumers that debt advice services are available** (**Measure 3b.9**), included in Policy option 3b.

The tables below show a summary of the total costs related to Consumer Credit Directive (CCD) implementation plus costs for each policy measure listed above and the costs differentials of additional policy measures compared to the baseline (Option 0), or in other words a cost of implementing a measure irrespective of all other Directive's related costs.

Cost items considered are broken down into two main categories: personnel cost and investment in infrastructure including IT (see Description of the approach to monetisation of cost benefits below).

Both tables show the costs for the whole period 2021-2030, in EUR and net present value terms, and aggregated for all EU-27 Member States. In addition, the table presents also the disaggregation by the main types of costs (personal costs and investment in infrastructure including IT) that would have to be incurred by each of the specific stakeholder.

Overall, for the vast majority of options the bulk of the costs related to a measure would be borne by the Industry. Costs for the EU institutions and MS public authorities are in most cases negligible and relate to tasks such as the revision of the Directive by the European Commission, its transposition into national laws by Member States public authorities and incremental costs associated with increased monitoring, reporting and enforcement activities born by the Member State public authorities.

By way of example, according to the estimations from the model, the implementation and enforcement of the measure 2.2 over the period 2021-2030 would cost over EUR 750 million (costs spread across all EU 27 MSs and all three stakeholders), or around 35% of the total costs related to the implementation and enforcement of the whole Directive over the same period. Credit institutions would born 99.9% of the costs. However it is important to stress that those could eventually be passed on to consumers. Importantly, these figures represent a minimum estimate since the model captures only the costs related to the expansion of the scope of the Directive to overdraft facility product (rather than wider range of products), and only for banks. Costs that would be potentially borne by non-bank lenders as a result of extension of the scope to products such as zero-interest loans and leasing agreements, that are rarely provided by banks, are not considered here, albeit they would not be negligible. And indeed, the same caveat applies to all other measures and their costs estimates (as well as to the benefits calculation). Only costs incurred by banks have been captured by the model. This is an important caveat as for number of options the costs borne by non-bank lenders would be high as well.[456]

[456] For instance, the extension of the Directive's scope to low value loans below EUR 200 would have probably higher impact on non-bank lenders who are typically more likely to provide small value loans than banks.

Table 19 Total costs [in EUR, npv]

	Option 0	Measure 2.1	Measure 2.2	Measures 2.3 / 2.7	Measure 2.4	Measure 2.5	Measure 3a.7	Measure 3a.9	Measure 3a.15	Measure 3a.17	Measure 3b.6	Measure 3b.9
Policy option	**0**	**2, 3a, 3b**	**2, 3a, 3b**	**2, 3a, 3b / 2**	**2, 3b**	**2**	**3a, 3b**	**3a, 3b**	**3a, 3b**	**3a**	**3b**	**3b**
							EC [DG JUST/ FISMA]					
Investment in infrastructure including IT	0	0	0	0	0	0	0	0	0	0	0	0
Personnel cost	0	2,596	30,288	21,635	7,788	9,736	6,750	7,788	12,981	1,005,171	21,635	10,817
Total	**0**	**2,596**	**30,288**	**21,635**	**7,788**	**9,736**	**6,750**	**7,788**	**12,981**	**1,005,171**	**21,635**	**10,817**
							Member States					
Investment in infrastructure including IT	496,771	537,064	637,795	617,649	496,771	496,771	516,917	537,064	512,888	496,771	557,210	516,917
Personnel cost	1,559,309	1,697,725	2,037,793	1,971,570	1,644,561	1,644,561	1,634,488	1,709,666	1,619,452	1,559,309	1,853,488	1,706,868
Total	**2,056,080**	**2,234,788**	**2,675,588**	**2,589,219**	**2,141,332**	**2,141,332**	**2,151,405**	**2,246,730**	**2,132,340**	**2,056,080**	**2,410,698**	**2,223,785**
							Industry					
Investment in infrastructure including IT	0	20,316,423	60,167,869	60,949,270	0	0	0	0	19,535,022	0	19,535,022	10,158,212
Personnel cost	1,397,437,812	1,540,353,018	2,088,163,128	1,725,575,192	1,405,672,919	1,406,502,504	1,404,170,159	1,421,933,272	1,469,134,730	1,397,437,812	1,415,391,629	1,528,647,783
Total	**1,397,437,812**	**1,560,669,441**	**2,148,330,997**	**1,786,524,462**	**1,405,672,919**	**1,406,502,504**	**1,404,170,159**	**1,421,933,272**	**1,488,669,753**	**1,397,437,812**	**1,434,926,651**	**1,538,805,994**

Overall Total	**1,399,493,892**	**1,562,725,521**	**2,150,387,077**	**1,789,135,315**	**1,407,822,039**	**1,408,653,571**	**1,406,328,314**	**1,424,187,791**	**1,490,815,073**	**1,400,499,062**	**1,437,358,984**	**1,541,040,597**
Share of EC [DG JUST/ FISMA]	0,0%	0,0%	0,0%	0,0%	0.0%	0.0%	0,0%	0,0%	0,0%	0,1%	0,0%	0,0%
Share of MS costs	0,1%	0,1%	0,1%	0,1%	0.2%	0.2%	0,2%	0,2%	0,1%	0,1%	0,2%	0,1%
Share of Industry costs	99,9%	99,9%	99,9%	99,9%	99.8%	99.8%	99,8%	99,8%	99,9%	99,8%	99,8%	99,9%

ICF, 2020

Note 1: Incremental costs of each option vs baseline start in 2021 already [not 2020, given that any changes won't take place this year anymore]
Note 2: The model does not reflect any costs that would be incurred by non-bank lenders [it captures only CIs with respect to Industry costs]. For some measures, those could constitute very substantial share of costs incurred by the industry.

Table 20 Increase in costs cf Baseline [in EUR, npv]

	from Option 0 to:										
	Measure 2.1	**Measure 2.2**	**Measures 2.3 / 2.7**	**Measure 2.4**	**Measure 2.5**	**Measure 3a.7**	**Measure 3a.9**	**Measure 3a.15**	**Measure 3a.17**	**Measure 3b.6**	**Measure 3b.9**
Policy option(s)	**2, 3a, 3b**	**2, 3a, 3b**	**2, 3a, 3b / 2**	**2, 3b**	**2**	**3a, 3b**	**3a, 3b**	**3a, 3b**	**3a**	**3b**	**3b**
EC [DG JUST/ FISMA]											
Investment in infrastructure including IT	0	0	0	0	0	0	0	0	0	0	0
Personnel cost	2,596	30,288	21,635	7,788	9,736	6,750	7,788	12,981	1,005,171	21,635	10,817
Total	**2,596**	**30,288**	**21,635**	7,788	9,736	**6,750**	**7,788**	**12,981**	**1,005,171**	**21,635**	**10,817**

Member States											
Investment in infrastructure including IT	40,293	141,024	120,878	0	0	20,146	40,293	16,117	0	60,439	20,146
Personnel cost	138,416	478,484	412,261	85,252	85,252	75,179	150,357	60,143	0	294,179	147,559
Total	**178,708**	**619,508**	**533,139**	85,252	85,252	**95,325**	**190,650**	**76,260**	**0**	**354,618**	**167,705**
Industry											
Investment in infrastructure including IT	20,316,423	60,167,869	60,949,270	0	0	0	0	19,535,022	0	19,535,022	10,158,212
Personnel cost	142,915,207	690,725,317	328,137,380	8,235,107	9,064,692	6,732,347	24,495,461	71,696,919	0	17,953,817	131,209,971
Total	**163,231,630**	**750,893,186**	**389,086,650**	**8,235,107**	**9,064,692**	**6,732,347**	**24,495,461**	**91,231,941**	**0**	**37,488,840**	**141,368,183**
Overall Total	163,412,934	751,542,982	389,641,424	8,328,147	9,159,679	6,834,422	24,693,899	91,321,182	1,005,171	37,865,092	141,546,706
Share of EC [DG JUST/ FISMA]	0,0%	0,0%	0,0%	0.1%	0.1%	0,1%	0,0%	0,0%	100,0%	0,1%	0,0%
Share of MS costs	0,1%	0,1%	0,1%	1.0%	0.9%	1,4%	0,8%	0,1%	0,0%	0,9%	0,1%
Share of Industry costs	99,9%	99,9%	99,9%	98.9%	99.0%	98,5%	99,2%	99,9%	0,0%	99,0%	99,9%
All costs as % increase cf baseline	11,7%	35%	21,8%	0.6%	0.7%	0,5%	1,7%	6,1%	0,1%	2,6%	9,2%

ICF calculations, 2020

Assessment of the benefits of specific measures

Table below illustrates the quantification of benefits brought by each measure in the form of reduction in consumers' financial detriment[457] and reduction in monetised time losses that would have otherwise occurred had a given option not been implemented. Figures are presented in EUR and net present value terms, for all EU 27 MSs, and the period 2021-2030. Note that similarly to the estimation of specific costs, the model does not capture the consumer benefits that could be generated as a result of a given measure implemented by non-bank lenders. Those could be very significant for some specific measures (e.g. scope extension).

The **magnitude of increased CCD effectiveness** associated to each measure was an informed judgment made by the study team based on the **desk research**, **legal analysis, consultation exercises** conducted for the impact assessment supporting study,[458] as well as on the results of the **tasks performed for the Directive's Evaluation**.

Overall, **measure 2.2** would generate relatively highest benefits. This is also the function of its *scope* (overdraft facilities are one of the most prevalent financial products) and consumer detriment that partial exclusion of the overdraft facility from the Directive has caused. In this case though, the benefits are also proportionate to high costs that this option would imply. Likewise, **measure 2.1** would be also likely to generate high benefits. **Measure 2.3/2.7** would have a very positive impact, due to the higher legal clarity of the text from amending the definitions of key terms and also due to the expected decrease in consumer detriment - as it would create a more certain framework for the application of consumers rights and facilitate law enforcement. **Measure 3b.6** stood out in terms of the scale of potential benefits: it would not be very costly for industry but it would be particularly beneficial for consumers, who would not end up with unsuitable pre-approved credit products or with a unilateral increase in the upper limit of their credit line, which might lead to overspending. **Measure 3b.9** has a slight negative net benefit, but a positive impact in terms of reduction of consumer detriment, because the early detection mechanism is considered to be a very effective tool to redirect consumers to debt advice services and avoid the detriment stemming from the worsening of financial difficulties.

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457 See also Annex 9: Detailed description of the approach to the assessment of costs and benefits

458 See supporting study Annex 10: Results of the quantification of measures.

Table 21 Reduction in consumers' financial detriment and monetised time losses thanks to a given measure, in EUR and net present value terms, for EU 27 MSs, and time period 2021-2030.

			Baseline		After implementation				
Measure - number	**Assumed increase in CCD effectiveness attributed to the measures (only)**	**Revised CCD effectiveness (total)**	**Total reduction in consumers' financial detriment [EUR mln]**	**Total reduction in consumers' time losses [EUR mln]**	**Total reduction in consumers' financial detriment [EUR mln]**	**Total reduction in consumers' time losses [EUR mln]**	**Incremental reduction in consumers' financial detriment [EUR mln]**	**Incremental reduction in consumers' time losses [EUR mln]**	**Total incremental reduction in consumers' financial detriment AND time losses [EUR mln]**
2.1	4%	19%	436.88	598.81	553.38	758.50	116.50	159.68	276.18
2.2	11%	26%	436.88	598.81	757.26	1037.94	320.38	439.13	759.51
2.3/2.7	3.5%	18.5%	436.88	598.81	538.82	738.54	101.94	139.72	241.66
2.4	2.0%	17.0%	436.88	598.81	495.13	678.65	58.25	79.84	138.09
2.5	1.0%	16.0%	436.88	598.81	466.00	638.73	29.13	39.92	69.05
3a.15	2.0%	17.0%	436.88	598.81	495.13	678.65	58.25	79.84	138.09
3a.17	0.5%	15.5%	436.88	598.81	451.44	618.77	14.56	19.96	34.52
3a.7	0.3%	15.3%	436.88	598.81	445.62	610.79	8.74	11.98	20.71
3a.9	2.0%	17.0%	436.88	598.81	495.13	678.65	58.25	79.84	138.09
3b.6	2.5%	17.5%	436.88	598.81	509.69	698.61	72.81	99.80	172.62
3b.9	2.0%	17.0%	436.88	598.81	495.13	678.65	58.25	79.84	138.09

ICF calculations, 2020

Quantification of some costs and benefits for specific policy measures

Overall, the comparison of costs and benefits points out to that for most of the measures benefits would offset the costs (see positive net benefits in the last column of the table below). On the other hand, the potential net benefits for measures 2.3/2.7 and 3b.9 would be negative, though to a different degree.

However, these estimations should be considered with considerable caution given a number of underlying limitations such as absence of non-bank lenders and their consumers in the estimates produced by the model, non-exhaustive typology of costs applied for the costs estimation (e.g. non-exhaustive listing of specific costs but also some potential revenue job/losses as a result of an option), non-exhaustive typology of benefits (e.g. reduction in consumer prices of some products) and number of tentative assumptions applied for the definition of baseline scenario and impact of specific measures. **Rather than analysing the values in isolation, it is advisable to consider their rough magnitude in terms of absolute costs and benefits and in relation to each other**.

Table 22 Comparison of costs and benefits for selected measures, in EUR mln and net present terms, for EU 27 MSs and period 2021-30

Option	Description	Costs	Benefits[459]	Net
2.1	Remove the minimum and maximum thresholds	146.36	276.18	129.82
2.2	Include some of the currently excluded loans within its scope of application (some products currently exempted do not need to be included)	751.52	759.51	7.99
2.3/2.7	Detailed definitions and key terms	389.64	241.66	-147.98
3a.15	Include a provision establishing the right of consumers to request and receive an explanation on how and on what basis a decision on their creditworthiness was reached	91.32	138.09	46.77
3a.17	Establish an obligation on the Commission to regularly assess the financial education / digital literacy initiatives implemented in Member States and identify best practices, and to publish the findings	1.00	34.52	33.52
3a.7	Establish an obligation upon credit providers to inform consumers whether advisory services are or can be provided	6.83	20.71	13.88
3a.9	Prohibit product-tying practices	24.69	138.09	113.40
3b.6	Prohibit unsolicited sale of credit	37.86	172.62	134.76
3b.9	Establish an obligation upon creditors to inform low-scoring consumers whether debt advice services are available	141.54	138.09	-3.45
2.4	Reduce the amount of information to be provided to consumers in advertising focusing on key information, especially when provided through certain channels (e.g. radio)	8.328	138.09	129.76

[459] Some of the measures have the same value for benefits because the benefit of each measure was calculated based on the assumed increase in the Directive's effectiveness in reducing consumers' financial detriment and monetised time losses attributed to the measure. In some cases, the assumed increase is the same for different measures.

2.5	Present key pre-contractual information in a more prominent way (without reducing the amount of information provided to consumers at pre-contractual stage)	9.159	69.05	59.89

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European Parliament/Council	2014	Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010
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European Parliament/Council	2015	Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (Text with EEA relevance)
European Parliament/Council	2015	Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of

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		money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC (Text with EEA relevance)
European Parliament/Council	2015	Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (Text with EEA relevance)
European Parliament/Council	2016	Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation).
European Parliament/Council	2016	Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast)Text with EEA relevance
European Parliament/Council	2016	Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (Text with EEA relevance)
European Parliament/Council	2017	Proposal for a Regulation of the European Parliament and of the Council concerning the respect for private life and the protection of personal data in electronic communications and repealing Directive 2002/58/EC (Regulation on Privacy and Electronic Communications) (COM(2017) 10 final).
European Parliament/Council	2018	Regulation (EU) 2018/302 of The European Parliament and of the Council of 28 February 2018 on addressing unjustified geo-blocking and other forms of discrimination based on customers' nationality, place of residence or place of establishment within the internal market and amending Regulations (EC) No 2006/2004 and (EU) 2017/2394 and Directive 2009/22/EC
European Retail Financial Forum (ERFF)	2018	Consumer Credit and Creditworthiness Assessments
EXPERIAN	2017	The Future of Credit Information
EY	2017	EY FinTech Adoption Index 2017 - The rapid emergence of FinTech
Finansinspektionen	2019	Svenska konsumtionslån

Author	Published	Title
Finance Watch	2017	Consumer Protection Must Come before Financial Innovation
Finance Watch	2019	What makes credit so risky? A consumer perspective
Finance Watch	2018	Feedback from Finance Watch (BE) on the European Commission's Evaluation Roadmap of the Consumer Credit Directive
Finance Watch	2019	Feedback from Finance Watch (BE) on the European Commission's Evaluation Roadmap of the Consumer Credit Directive
Finance Watch Germany	2019	Rating Faire Kreditvergabe
Finance Watch	2020	The consumer credit market: key problems and risks for consumer protection and responsible lending
Finance Watch	2021	Consumer credit market malpractices uncovered: An in-depth study of consumer credit markets in Spain, Romania and Ireland and what it means for the Consumer Credit Directive review
Financial Conduct Authority (FCA)	2014	The FCA's regulatory approach to crowdfunding over the internet, and the promotion of non-readily realisable securities by other media Feedback to CP13/13 and final rules
Financial Conduct Authority (FCA)	2018	High-Cost Credit Review: Overdrafts consultation paper and policy statement
Financial Services User Group (FSUG)	2016	Assessment of current and future impact of Big Data on Financial Services
Financial Services User Group (FSUG)	2019a	Opinion on responsible consumer credit lending. Opinion and recommendations for the review of the Consumer Credit Directive
Financial Services User Group (FSUG)	2019b	FSUG Recommendations to the Commission 2019 - 2024
Financial Services User Group (FSUG)	2019c	What makes credit so risky? A consumer perspective
FR - Autorité de contrôle prudentiel et de résolution (ACPR)	2019	Financement participatif
FR - Direction générale de la Concurrence, de la Consommation et de la Répression des frauds (DGCCRF)	2018	Crédit à la consommation : loyauté de l'information précontractuelle
FR – Banque de France	2016	Financial Stability Review. Financial Stability in the Digital Era
FR - Economie	2016	Rapport Annuel 2016 (Direction Générale De L'inspection Économique)
FR - Economie	2017	Rapport Annuel 2017 (Direction Générale De L'inspection Économique)

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FR - Economie	2018	Crédit à la consommation : loyauté de l'information précontractuelle
FR – Eurogroup Consulting	2018	Etude Crédit Consommation France
FR – IFOP	2016	Perception des mentions légales à la radio
FR - Ministère de l'économie et des finances - République française	2011	Note d'information n°2011-73
FR – Que choisir	2008	Directive crédit à la consommation
FR – Que choisir	2011	Crédit conso. Nouvelle protection en demi-teinte
FR – Que choisir	2015	Crédit à la consommation (infographie)
FR – Que choisir	2019	Plafonnement des sanctions en cas d'erreur ou de défaut de TAEG
FR - UFC-Que Choisir, Service des études	2019	Loa/Lld: Une Degradation Massive Des Droits Des Emprunteurs
FR - UFC-Que Choisir, Service des études	2018	Financement participatif. Face aux dérives persistantes, une regulation s'impose!
FR - UFC-Que Choisir, Service des études	2019	Leasing, a Massive Degradation of Borrowers Rights
FR - UFC-Que Choisir, Service des études	2019	Overdraft Facility: Excessively Expensive Credits
FR - UFC-Que Choisir, Service des études	2019	Le decouvert bancarie: les exces, la norme. Des Crédits Excessivement Chers
FR- Economie (France)	2015	Le crédit à la consommation
G20-OECD Task Force on Financial Consumer Protection	2019	Effective Approaches for Financial Consumer Protection in the Digital Age
G20-OECD Task Force on Financial Consumer Protection	2019	OECD Recommendation on Consumer Protection in the field of Consumer Credit
G20-OECD Task Force on Financial Consumer Protection	2018	Financial Consumer Protection Approaches in the Digital Age - G20/OECD Policy Guidance
Global Partnership for Financial Inclusion (GPFI)	2018	Use of Alternative Data to Enhance Credit Reporting to Enable Access to Digital Financial Services by Individuals and SMEs operating in the Informal Economy: Guidance Note.
GlobeNewsWire	2018	Financial Crisis - 10 years later. Consumer Credit Market on an upward curve
Inbar Mizrahi-Borohovich, David Levi-Faur	2020	Varieties of consumer credit data regimes: A regulatory governance approach

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ICF	2020	Supporting study to the Evaluation of Directive 2008/48/EC on credit agreements for consumers
ING	2019	View on Consumer Lending trends in Europe
ING	2018	“Saving comfort – a path to happiness. Examining money choices in Europe, USA and Australia” [extracted from the report Finance Watch “Is the human dignity of individual debtors at risk?”, 2020]
INSEE	2016	Insuffisance de ressources selon le quintile de niveau de vie du ménage (en %). Fréquence très élevée de découverts bancaires
Institut für Finanzdienstleistungen; Zentrum für Europäische Wirtschaftsforschung2010	2013	Study on interest rate restrictions in the EU Final Report
International Consumer Protection Network (Icpen)	2019	Unfair contract terms and misleading trading practices in financial services
International Financial Consumer Protection Organisation (FinCoNet)	2017	Report on the Digitalisation of Short-term, High-Cost Consumer Credit
International Financial Consumer Protection Organisation (FinCoNet), G20 OECD Task Force on Financial Consumer Protection, OECD International Network on Financial Education	2019a	Short-Term Consumer Credit Provision, regulatory coverage and policy responses
International Financial Consumer Protection Organisation (FinCoNet)	2019b	Report on the Digitalisation of Short-term, High-Cost Consumer Credit: Guidance to Supervisors (incl. Consultation Paper of November 2018): http://www.finconet.org/Guidance_Supervisors_Digitalisation_STHCCC.pdf http://www.finconet.org/Guidance_Digitalisation-STHCCC-Consultation-paper.pdf
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International Monetary Fund	2017	Credit Growth and Economic Recovery in Europe after the Global Financial Crisis
International Monetary Fund	2015	IMF Survey: Central, Eastern and South-eastern Europe: Mind the Credit Gap
Intrum	2018	European Consumer Payment Report 2018
IPSOS	2020	Covid-19: attitudes and behaviours in the EU – confidential
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IT - Opinioni. Credito al Consumo	2010	Trasparenza (e non) nella nuova direttiva sul credito al consume alla vigilia delrecepimento
IT - ResearchGate	2008	La direttiva sul credito ai consumatori: alcune implicazioni giuridiche ed economiche
IT - Università degli Studi di Ferrara	2013	Il collegamento negoziale nel credito al consumo alla luce della direttiva 2008/48/CE
IT – Garante per la Protezione dei Dati Personali	2019	Codice di condotta per i sistemi informativi gestiti da soggetti privati in tema di crediti al consumo, affidabilità e puntualità nei pagamenti
Joasia Luzak and Mia Junuzović	2019	Blurred Lines: Between Formal and Substantive Transparency in Consumer Credit Contracts
Jørgensen Tanja	2018	Peer-to-Peer Lending – A New Digital Intermediary. New Legal Challenges
Junuzovic Mia	2018	Transparency of (pre-)contractual Information in consumer credit agreements: Is consistency the missing key?
Kantar (for the European Parliament)	2020	Public Opinion in times of COVID-19, third round, At: https://www.europarl.europa.eu/resources/library/media/20201119RES92009/20201119RES92009.pdf
Kahneman, Daniel	2011	Thinking, Fast and Slow. New York: Farrar, Straus and Giroux, 2011
Karen Rowlingson, Lindsey Appleyard And Jodi Gardner. Cambrige University Press.	2016	Payday lending in the UK: the regul(aris)ation of a necessary evil?
Kösters, W. Et Al. (For Intereconomics)	2004	An Economic Analysis of the EU Commission's Proposal for a New Consumer Credit Directive
La Banque au service de la societe	-	Quel rôle le secteur financier joue-t-il dans l'économie?
Latvian Ministry of Economics	2018	The Saeima passes new provisions for issuing non-bank loans or so-called "quick loans"
Leaseurope	2018	Biannual Survey 2018
Lefevre, A. and M. Chapman	2017	Behavioural economics and financial consumer protection, OECD Working Papers on Finance, Insurance and Private Pensions
London Economics	2013	Study on The Functioning of the Consumer Credit Market in the EU
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London Economics Europe, VVA Consulting, Ipsos NV, ConPolicy and Time.lex (‘LE *et al.*’)	2019	Behavioural study on the digitalisation of the marketing and distance selling of retail financial services
London Economics, VVA Consulting and Ipsos	2016	Consumer Vulnerability across Key Markets in the European Union
Marte Eidsand Kjorven (European Business Law Review)	2020	Who pays when things go wrong? Online Financial Fraud and Consumer Protection in Scandinavia and Europe
Martin Bijsterbosch; Tatjana Dahlhaus	2011	Determinants of Credit-Less Recoveries
Mary Faherty, Olive McCarthy and Noreen Byrne Centre for Co-operative Studies, University College Cork on behalf of the Social Finance Foundation	2017	Interest Rate Restrictions on Credit for Low-income Borrowers
Multi-stakeholder expert group to support the application of Regulation (EU) 2016/679 (E03537)	2019	Contribution from the Multistakeholder Expert Group to the stock-taking exercise of June 2019 on one year of GDPR application
New Statesman	2014	The History of Payday Loans
NL - Nationaal Instituut voor Budgetvoorlichting (NIBUD)	2018	Een persoonlijke lening: keuze en ervaingen van consumenten
NL - Autoriteit Financiële Markten (AFM)	2014	Markt voor flitskrediet verder opgedroogd [https://www.afm.nl/nl-nl/nieuws/2014/feb/markt-flitskrediet]
NL - Netherlands Authority for the Financial Markets (AFM)	2018	Klantbelang Dashboard 2018: Kredietaanbieders kunnen meer doen om problematische last te voorkomen
NL - Netherlands Authority for the Financial Markets (AFM)	2018	AFM beboet Novum Bank voor aanbieden flitskrediet zonder vergunning [https://www.afm.nl/nl-nl/nieuws/2018/dec/boete-novum-bank)
NL – Pricewise	2019	Nederlanders betalen flinke rentes over hun leningen [https://www.pricewise.nl/blog/onderzoek-rentepercentages-afbetalen-leningen/]
NL - Vereniging van Financieringsonderneming en (VFN)	2018	Past Gedragscode aan ter bevordering verantwoorde kredietverlening
Nuno Crato; Paolo Parulo	2019	Data-Driven Policy Impact Evaluation - How access to microdata is tranforming policy design

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OECD/G20	2018	INFE Policy Guidance Digitalisation and Financial Literacy
Office of Fair Trading (OFT)	2013	Payday Lending – Compliance Review Final Report
Olha O. Cherednychenko, Jesse M. Meindertsma	2018	Consumer Credit: Mis-selling of Financial Products, study requested by the European Parliament
Olha O. Cherednychenko, Jesse M. Meindertsma in Journal of Consumer Policy	2019	Irresponsible Lending in the Post-Crisis Era: Is the EU Consumer Credit Directive Fit for Its Purpose?
Oliver Wyman	2020	Big banks, bigger techs?, At: https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2020/jul/Big%20Banks%20Bigger%20Techs%20Final%20Version.pdf
Oliver Wyman	2020	Consumer Credit in the time of COVID-19, At: https://www.oliverwyman.com/our-expertise/insights/2020/jun/consumer-credit-in-the-time-of-covid-19.html
Organisation for Economic Co-operation and Development (OECD)	2010	Facilitating access to finance – Discussion paper on Credit Guarantee Schemes
Organisation for Economic Co-operation and Development (OECD)	2019	Short-term consumer credit: provision, regulatory coverage and policy responses
Oxera	2007	What Is the Impact of the Proposed Consumer Credit Directive?
Panoptykon Foundation	2019	The right to explanation of creditworthiness assessment – first such law in Europe
Physica – Verlag, Daniela Vandone	2009	Consumer Credit in Europe, Risks and Opportunities of a Dynamic Industry
PwC	2016	How FinTech is shaping Financial Services
PwC	2017	Global FinTech Report 2017
Radiocentre	2016	Financial terms and conditions and consumer protection
Ray Barrell, Abdulkader Nahhas	2019	The role of lender country factors in cross border bank lending
Reifner, U. et al. (for BEUC)	2011	Financial Supervision in the EU, A Consumer Perspective
Representation in United Kingdom (EC)	2017	Comparison websites often mislead on flight and hotel prices, reveals EU screening
Škalamera-Alilović D, Dimitrić M	2017	(Ir)responsible leading and personal indebtedness: consumer credit marketing
Seizov O., Wulf A. J. and	2017	The Transparent Trap: A Multidisciplinary

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Luzak J.		Perspective on the Design of Transparent Online Disclosures in the EU
Service Public Wallonie	2019	Le devoir d'information en crédit à la consommation
SIRTI et al.	2016	Perception des mentions légales à la radio
The European Consumer Organisation (BEUC)	2011	Protecting Consumer Interests in the Retail Financial Services Area: Need for Independent and Efficient National Supervisors Everywhere in the EU
The European Consumer Organisation (BEUC)	2016	BEUC Response to the Commission's Call for Evidence
The European Consumer Organisation (BEUC)	2017	The Never-Ending European Credit Data Mess
The European Consumer Organisation (BEUC)	2019a	Access to consumers' data in the digital economy
The European Consumer Organisation (BEUC)	2019b	Review of the Consumer Credit Directive – BEUC Position
The Money Charity	2017	The Money Statistics, May 2017
The World Bank Group	2018	The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution
The World Bank Group	2019	Disruptive Technologies in the Credit Information Sharing Industry: Developments and Implications
TransUnion	2018	FinTechs Continue to Drive Personal Loan Growth
UK - Department for Business Innovation and Skills, HM Treasury (BIS)	2011	Consumer credit and personal insolvency review: summary of responses on consumer credit and formal response on personal insolvency
UK – Citizens advise	2017	Credit card companies pushing credit on millions of people who can't pay
UK - Consumer Credit Association (CCA)	2017	Response to the European Commission's Green Paper on Retail Financial Services (COM (2015) 630 final)
UK - Department for Business Innovation & Skills (BIS)	2010	Guidance on the Regulations Implementing the Consumer Credit Directive Updated for EU Commission Directive 2011/90/EU (Effective 1 January 2013)
UK - Department for Business Innovation & Skills (BIS)	2011	A New Approach to Financial Regulation: Summary of Responses to Consultation on Reforming the Consumer Credit Regime
UK - Department for Business Innovation & Skills (BIS)	2011	Consumer Credit and Personal Insolvency Review: Formal Response on Consumer Credit
UK - Department for Business Innovation & Skills (BIS)	2011	Consumer Credit and Personal Insolvency Review: Summary of Responses on Consumer Credit and Formal Response on Personal Insolvency
UK - Financial Conduct Authority (FCA)	2014	Consumer Credit and Consumers in Vulnerable Circumstances

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UK - Financial Conduct Authority (FCA)	2017	From advert to action: behavioural insights into the advertising of financial products
UK - Financial Conduct Authority (FCA)	2018	Assessing creditworthiness in consumer credit – Feedback on CP17/27 and final rules and guidance (Policy Statement)
UK - Financial Conduct Authority (FCA)	2018	The financial lives of consumers across the UK
UK - Financial Conduct Authority (FCA)	2019	Credit Information Market Study
UK - Oswald Stoll. Business and Technology Blog	2019	Big and Small Differences in Payday Loans In Europe
UK - Financial Conduct Authority (FCA)	2021	The Woolard Review - A review of change and innovation in the unsecured credit market
UK - House of Lords, EU Committee	2006	Consumer Credit in the European Union: Harmonisation and Consumer Protection (36th Report of Session 2005–06)
UK – Shawbrook Bank	2018	Are consumers being misled by Representative APRs? Research into the UK personal loans market and lenders' use of Representative APR in advertising
Uuriintuya Batsaikhan and Maria Demertzis	2018	Financial literacy and inclusive growth in the European Union
UK- Which?	2019	Cheap 'teaser' loan rates costing borrowers £194m
UK- Which?	2019	Borrowers face early-repayment charges on half of all personal loans [https://www.which.co.uk/news/2019/02/borrowers-face-early-repayment-charges-on-half-of-all-personal-loans/ - Which?]
VVA, CEPS	first task of a project to be completed in 2021	First Interim Report by VVA and CEPS on provision of actions to extend the availability and improve the quality of debt-advice services for European households
World Bank Group	2011	General Principles for Credit Reporting
Zentrum für europäischen Verbraucherschutz (ZEV)	2011	Ein Europaeischer Markt Fuer Verbraucherkredite: Existiert Ein Solcher Wirklich? Betrachtungen Im Deutsch-Franzoeschien Kontext

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Author	**Published**	**Title**
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A&L Goodbody	2020	“We’re from the regulator and we’re here to help”: bank regulatory responses to the COVID-19 crisis
BRUEGEL DATASETS	2020	The fiscal response to the economic fallout from the coronavirus
Bruegel (Maria Demertzis, Marta Domínguez-Jiménez and Annamaria Lusardi)	2020	The financial fragility of European households in the time of COVID-19
CGAP (The Consultative Group to Assist the Poor)	2020	COVID-19: How Does Microfinance Weather the Coming Storm?
Chandana Asif, Klaus Dallerup, Stephanie Hauser, Alia Parpia, and Zubin Taraporevala (McKinsey)	2020	Reshaping retail banking for the next normal
Debt Camel	2020	COVID-19 – credit score protection, but will it be harder to get credit?
Dominic O'Neill for Euromoney	2020	Coronavirus: European Banks step up push for regulatory forbearance
Eurofound	2020	COVID-19: Policy responses across Europe
European Systemic Risk Board	2020	Policy measures in response to the COVID-19 pandemic
European Banking Authority	2020	Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis
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European Banking Authority	2020	COVID-19 banking measures and recommendations towards a sustainable recovery - based on BSG (Banking Stakeholder Group) Contribution for FISMA Meeting 28 May 2020
European Commission	2020	CPC Common Position COVID19
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European Commission Communication	2020	Coronavirus response: Banking Package to facilitate bank lending- Supporting households and businesses in the EU
European Investment Bank	2020	Does This Change Everything? Private credit and coronavirus
European Parliament	November 2020	Uncertainty/EU/Hope Public opinion in times of COVID-19 Report
European Parliament	2020	Public opinion monitoring in the time of COVID-19
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Finance Watch	2020a	Basic Financial Services. A European wide study on financial services and products.
Finance Watch	2020b	Coronavirus: a dangerous wave of personal over-indebtedness is on its way: here is how to avoid it.
Finance Watch	2020c	Health crisis: Credit is not the solution to the financial problems of precarious European households
Financial Conduct Authority (UK)	2020	Coronavirus: information for consumers on personal loans, credit cards, overdrafts, motor finance and other forms of credit
Financial Times	2020	Soaring saving rates pose policy dilemma for world's central bankers
Fintech	2020	The impact of COVID-19 on the personal loan market
Institute for fiscal studies	2020	Despite short-term relief, households could face debt problems as a result of the coronavirus (COVID-19) pandemic
International Monetary Fund	2019	World Economic Outlook, April 2020: The Great Lockdown
Moody's Analytics	2020	Forecasting the Impact of the COVID-19 Recession on Consumer Credit Losses
Morgan Stanley	2020	The Coronavirus Recession: Sharper But Shorter
OECD	2019	Financial consumer protection responses to COVID-19 Support for financial consumers
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		Unlocks
S&P Global	2020	Coronavirus loan moratoriums could be bank misconduct 'hotspot,' EBA warns
Shearman & Sterling lawyers	2020	Coronavirus implications in loan documents
Squire – Patton Boggs	2020	COVID-19 Government Measures in Real Estate Europe
The Economist	2020	What will happen to the Global Economy?
The European Consumer Organisation	2020	COVID-19 – implications for consumers and BEUC recommendations for policy responses
The Financial Inclusion Centre	2020	Dealing with the immediate and long-term financial impacts of Covid19
The New York Times	2020	Virus Revives Italy’s Age-Old Shadow Safety Net: The Pawnshop
World Bank Blogs	2020	Protecting financial consumers during the COVID-19 crisis
Green loans		
Crédit Agricole	2020	Crédit Agricole launches “green” loans
Deutsche Bank	2020	Deutsche Bank is the leading green consumer finance operator in Italy
Energy Cities	2017	The Brussels Green Loan Scheme
Energy Efficiency Data Protocol and Portal	2018	Energy Efficiency Reporting Criteria Market Mapping
Energy Efficiency Mortgages Action Plan	2019	Creating an energy efficient mortgage for Europe: The supporting role of the green building sector
Energy Efficiency Mortgages Action Plan	2019	Technical report on the complete design of the energy efficiency mortgage
Energy Efficiency Mortgages Action Plan	2019	Roadmap for market implementation of the energy efficient mortgage
Energy Efficiency Mortgages Action Plan	2018	Consumer Research Insights
Euractiv	2018	More banks join EU-backed pilot scheme for green mortgages
European Banking Federation	2019	Encouraging and rewarding sustainability, Accelerating sustainable finance in the banking sector
European Banking Federation	2017	Toward a green finance framework
European Commission	2020	The European Green Deal - roadmap and key actions
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European Commission	2017	Defining "green" in the context of green finance
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Loan Market Association	2020	Green Loan Principles - Supporting environmentally sustainable economic activity
UN Environment Programme	2007	Green Financial Products & Services: Current State of Play and Future Opportunities
Victor de Serière	2020	Idealism or realistic approaches? Regulatory possibilities to require financial institutions to more substantially contribute to achieving climate goals? An overview
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Eurofound	2020	Addressing household over-indebtedness
Eurofound	2020	Europe's pre-existing household debt condition likely to be exacerbated by virus crisis
European Automobile Manufacturers Association	2020	EU car sales forecast 2020: Record drop of 25% expected this year, says ACEA
European Central Bank	2020	Indebtedness and spending: what happens when the music stops?
European Commission	2013	The over-indebtedness of European households: Updated mapping of the situation, nature and causes, effects and initiatives for alleviating its impact (Country reports)
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European Financial Inclusion Network	2016	Unfair Lending Practices and Toxic Loans
Eurostat	2015	Quality of life Facts and views (Statistical Book)
Eurostat News	2020	One in three people unable to face unexpected financial expenses (EU SILC survey)
Finance Watch	2020d	Debt data collection: Is the human dignity of individual debtors at risk?
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Kruis, G. , Jungmann, N., and Blommesteijn, M.	2011	Social Economic Benefit of Volunteer Projects Within Debt Aid, Social Force and Regioplan
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OECD	2019	Data on Household Debt
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Sharon Collard	2013	Working together: Understanding motivations and barriers to engagement in the consumer debt marketplace
Social Europe	2010	Research note 4/2010 Over-indebtedness New evidence from the EU-SILC special module
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Use of algorithms		
Aziz, S. and M. Dowling	2018	AI and Machine Learning for Risk Management
Brookings Institution	2020	The European Commission considers new regulations and enforcement for “high-risk” AI
Bruckner, Matthew A.,	2018	The Promise and Perils of Algorithmic Lenders' Use of Big Data
Buchanan, Bonnie (The Alan Turing Institute)	2019	Artificial Intelligence in Finance
Datenethikkommission (Germany)	2019	Opinion of the Data Ethics Commission
Erik Kamenjasevic (KU Leuven Centre for IT and IP law blog)	2017	Profiling in the financial sector
European Banking Authority	2020	Report on Big Data and Advanced Analytics
European Commission	2020	On Artificial Intelligence - A European approach to excellence and trust
European Commission	2020	White Paper on Artificial Intelligence. A European approach to excellence and trust
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Financial Conduct Authority (UK)	2020	Credit Information Market Study – Terms of Reference
Frederik Zuiderveen Borgesius (Council of Europe study)	2018	Discrimination, artificial intelligence, and algorithmic decision-making
Institute of International Finance	2019	Machine Learning Recommendations for Policymakers

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Karen Croxson, Philippe Bracke, Carsten Jung (FCA UK)	2019	Explaining why computer says ‘no’
Kamenjasevic	2017	Profiling in the financial sector under the GDPR
Leonardo Gambacorta, Yiping Huang, Han Qiu and Jingyi Wang	2019	How do machine learning and non-traditional data affect credit scoring? New evidence from a Chinese fintech firm (BIS Working Paper no. 834)
Maria Fernandez Vidal, Jacobo Menajovsky	2019	Algorithm Bias in Credit Scoring: What’s Inside the Black Box?
Mikella Hurley, Julius Adebayo	2016	Credit Scoring in the Era of Big Data
N Aggarwal, H Eidenmüller, L Enriques, J Payne, K van Zwieten	2020	Machine Learning, Big Data and the Regulation of Consumer Credit Markets: The Case of Algorithmic Credit Scoring
Public Goods	2019	Financial consumer protection and the European Social Model
Record Evolution	2020	Credit Default Risk Prediction
The Danish Competition and Consumer Authority	2018	Consumers benefit from a standardised front page to loan offers
The European Consumer Organisation (BEUC)	2019	AI rights for consumers
Use of social media		
Beibei Niu, Jinzheng Ren and Xiaotao Li	2019	Credit Scoring Using Machine Learning by Combing Social Network Information: Evidence from Peer-to-Peer Lending
Credit score	2019	Can Social Scoring Really Affect Credit Applications?
European Credit Research Institute (ECRI) and University of Edinburgh	2019	Data sharing in credit markets: Does comprehensiveness matter?
Experian	2018	Making the invisible visible - Exploring the power of new data sources
Fin Extra	2019	Lenders: What’s the deal with data?
Henry, N. and Morris, J	2018	Scaling Up Affordable Lending: Inclusive Credit Scoring
Nikita Aggarwal	2019	Big Data and the Obsolescence of Consumer Credit Reports
Nizan Geslevich Packin	2019	Social Credit: Much More Than Your Traditional Financial Credit Score Data
Ntwiga and Weke	2016	Consumer lending using social media data

Additional documentation reviewed during desk research (per key topic)		
Author	**Published**	**Title**
Techcrunch	2019	Europe should ban AI for mass surveillance and social credit scoring
Yildirim, Van del Bulte, Dellarocas	2014	Credit Scoring with Social Network Data
Feedback on the Inception Impact Assessment		
4Finance Group	2020	Consumer credit agreements – review of EU rules. Feedback from: 4Finance Group
AER - Association of European Radios	2020	Consumer credit agreements - review of EU rules. Feedback from: AER - Association of European Radios
Altroconsumo	2020	Consumer credit agreements - review of EU rules. Feedback from: Altroconsumo Associazione indipendente di consumatori
American Express	2020	Consumer credit agreements - review of EU rules. Feedback from: American Express
Association of Consumer Credit Information Suppliers	2020	Consumer credit agreements - review of EU rules. Feedback from: Association of Consumer Credit Information Suppliers
Association of Credit Card Issuers in Europe (ACCIE)	2020	Consumer credit agreements - review of EU rules. Feedback from: Association of Credit Card Issuers in Europe (ACCIE)
Asociación Usuarios Financieros (ASUFIN)	2020	Consumer credit agreements - review of EU rules. Feedback from: ASUFIN
BEUC, European Consumer Organisation	2020	Consumer credit agreements - review of EU rules. Feedback from: BEUC, European Consumer Organisation
COFACE-Families Europe	2020	Consumer credit agreements - review of EU rules. Feedback from: COFACE-Families Europe
Consumer Rights Protection Centre of Latvia	2020	Consumer credit agreements - review of EU rules. Feedback from: Consumer Rights Protection Centre of Latvia
European Association of Co-operative Banks (EACB)	2020	Consumer credit agreements - review of EU rules. Feedback from: European Association of Co-operative Banks (EACB)
European Cancer Patient Coalition	2020	Consumer credit agreements - review of EU rules. Feedback from: European Cancer Patient Coalition
European Consumer Centre of Latvia	2020	Consumer credit agreements - review of EU rules. Feedback from: European Consumer Centre of Latvia
European Network of Credit Unions (Belgium)	2020	Consumer credit agreements - review of EU rules. Feedback from: European Network of Credit Unions (Belgium)
European Microfinance Network	2020	Consumer credit agreements - review of EU rules. Feedback from: European Microfinance Network
European Savings and	2020	Consumer credit agreements - review of EU rules.

Additional documentation reviewed during desk research (per key topic)		
Author	**Published**	**Title**
Retail Banking Group (Belgium)		Feedback from: European Savings and Retail Banking Group
Finance Watch	2020e	Consumer credit agreements - review of EU rules. Feedback from: Finance Watch
UK - General Council of the Bar in England and Wales, Brussels Office	2020	Consumer credit agreements - review of EU rules. Feedback from: General Council of the Bar in England and Wales, Brussels Office
DE - German Banking Industry Committee	2020	Consumer credit agreements - review of EU rules. Feedback from: German Banking Industry Committee
L'allocation de soutien familial (Asf)	2020	Consumer credit agreements - review of EU rules. Feedback from: L'allocation de soutien familial (Asf)
ES - Spanish Banking Association (AEB)	2020	Consumer credit agreements - review of EU rules. Feedback from: Spanish Banking Association AEB
Sudirección General de Arbitraje y Derechos del Consumidor DG Consumo. Ministerio de Consumo. España	2020	Consumer credit agreements - review of EU rules. Feedback from: Sudirección General de Arbitraje y Derechos del Consumidor DG Consumo. Ministerio de Consumo. España
LU - Union Luxembourgeoise des Consommateurs	2020	Consumer credit agreements - review of EU rules. Feedback from: Union Luxembourgeoise des Consommateurs
Other relevant documents		
AFM - The Dutch Authority for the Financial Markets	2019	A closer look at consumer borrowing. An analysis of decision-making behaviour and potential interventions in the consumer credit market
Allen & Overy	2020	New 2019 of the Court of Justice of the European Union on the expression of the annual percentage rate of charge in consumer credit agreements (Case C 290/19)
Association Française des Sociétés Financières A.S.F	2020	L'activité des adhérents de l'ASF en 2019
Association Française des Sociétés Financières A.S.F	2020	Credit a la consommation - Statistique mensuelle d'activite - Juillet 2020
CGAP (The Consultative Group to Assist the Poor)	2020	Digital Banks: How can they deepen financial inclusion?
Challenges.fr	2017	Le leasing, le produit financier qui relance les ventes d'auto
European Banking Authority	2020	Guidelines on loan origination and monitoring
European Banking Authority	2020	Consultation regarding Guidelines on loan origination and monitoring
European Banking Authority (EBA)	2020	EBA Report on Financial Education 2019/2020

Additional documentation reviewed during desk research (per key topic)		
Author	**Published**	**Title**
European Banking Authority (EBA)	2020	EBA Financial Education Repository - Financial education initiatives by the National Supervisory Authorities 2019/2020
European Banking Authority (EBA)	2020	Consumer Lending in the EU Banking Sector – March 2020 Thematic Note
European Central Bank (ECB)	2020	Évaluation d'ensemble de la structure et de l'intégration financières
European Central Bank (ECB)	2020	The euro area bank lending survey – Second quarter of 2020
European Central Bank (ECB)	2020	Economic Bulletin Issue 5/2020
European Central Bank (ECB)	2020	Households and non-financial corporations in the euro area: third quarter of 2019 (Press release)
European Central Bank (ECB)	2020	Household wealth and consumption in the euro area, ECB Economic Bulletin, Issue 1/2020
European Commission	2020	A European strategy for data
European Commission	2020	Consumer Protection Cooperation Network
European Commission	2020	European Economic Forecast Spring 2020 - Institutional Paper 12
European Commission	2020	Summer Economic Forecast
European Commission	2020	Evaluation of the Consumer Credit Directive (Directive 2008/48/EC)
Federico Ferretti, Beatrice Bertarini	2020	Consumer Credit Advertising in the United Kingdom and Italy: The Shortcomings of the Consumer Credit Directive and Scope for Review (European Business Law Review)
FI - Finansinspektionen	2020	FI Analysis 22: Fewer high-cost short-term credits after new rules
FI - Finansinspektionen	2020	Swedish Consumer Credit
FI - Finansinspektionen	2020	Credit checks must be improved
FI – Office of the data protection ombudsman	2019	The Data Protection Ombudsman ordered Svea Ekonomi to correct its practices in the processing of personal data
FIN-NET	2020	FIN-NET activity report 2018
Jastra Ilic for finanso.se	2020	European Business P2P Lending Industry to Reach $6.5bn Value This Year
Organisation for Economic Co-operation and Development (OECD)	2020	Advancing the Digital Financial Inclusion of Youth
Organisation for Economic Co-operation	2020	OECD Business and Finance Outlook 2020

Additional documentation reviewed during desk research (per key topic)		
Author	**Published**	**Title**
and Development (OECD)		
Public Goods	2019	Financial consumer protection and the European Social Model
Report Linker	2020	Global Peer-to-peer Lending Industry
Scott Whitaker and Struan McOmish	2020	New Zealand: Changes to consumer credit legislation - further information
Statista dossier	2019	Banking sector and credit lines in France
Statista dossier	2019	European banking: structure and development
Statista dossier	2018	Household finance in Belgium
Statista dossier	2020	Fintech report
Statista dossier	2020	Alternative lending report

Annex 11: List of abbreviations

ACPR	Autorité de Contrôle Prudentiel et de Résolution [FR]
AFM	Netherlands Authority for the Financial Markets [NL]
AML	Anti-Money Laundering
AMLD	Anti-Money Laundering Directive
APR	Annual Percentage Rate of Charge
BEUC	Bureau Européen des Unions de Consommateurs (The European Consumer Organisation)
CCD	Consumer Credit Directive
CEPS	Centre for European Policy Studies
CHF	Swiss Franc
CJEU	Court of Justice of the European Union
CRPC	Consumer Rights Protection Centre
CWA	Creditworthiness Assessment
DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union
DG JUST	Directorate-General Justice and Consumers
DGC	Direcção-Geral do Consumidor [PT]
DGCCRF	General Directorate for Competition, Consumption and Repression of Fraud [FR]
DMFSD	Distance Marketing of Consumer Financial Services
EBA	European Banking Authority
EBIC	European Banking Industry Committee
EC	European Commission
ECB	European Central Bank
ECD	e-Commerce Directive
ECJ	European Court of Justice
ECRI	European Credit Research Institute
EEC	European Economic Community
EIOPA	European Insurance and Occupational Pensions Authority
EMU	Economic and Monetary Union
EPD	e-Privacy Directive
ESMA	European Securities and Markets Authority
EU	European Union
EUR	Euro
FIN-NET	Financial Dispute Resolution Network
FSUG	Financial Services User Group
GDPR	General Data Protection Regulation
HCC	High Commercial Court
IDD	Insurance Distribution Directive

MCD	Mortgage Credit Directive
MFI	Monetary Financial Institutions
MS	Member States
NACP	National Authority for Consumer Protection
PPI	Payment Protection Insurance
PSD2	Payment Services Directive
SECCI	Standard European Consumer Credit Information
STHC	Short-Term High-Cost Credit
UCPD	Unfair Commercial Practices Directive
UCTD	Unfair Contract Terms Directive
UK	United Kingdom