



EUROPEAN COMMISSION

*Brussels, 25.4.2016  
C(2016) 2457 final*

*Dear President,*

*The Commission would like to thank the Bundesrat for its Opinion on the Green Paper on retail financial services {COM(2015) 630 final}.*

*The Green Paper's purpose is to stimulate an EU-wide debate on retail financial services. It sets out the situation of retail financial services markets across Europe and invites interested parties to help identify reasons for the current market fragmentation and possible solutions to them. The Commission will analyse the responses to its consultation carefully and plans to focus possible follow-up on those areas which are most conducive to improving the everyday experience of retail financial services, both for consumers and providers. The Commission is grateful for the Bundesrat's substantive contribution to this debate.*

*According to the Commission's preliminary analysis, the situation still seems to be unsatisfactory for a large proportion of consumers and suppliers in the EU. Some retail financial services markets suffer from high market concentration and consumers across Europe still lack easy access to products from other Member States. In short, a true European Single Market in retail financial services does not yet exist. The further deepening of retail financial services markets would, in the Commission's view, result in better products, more choice and greater opportunities for consumers and businesses anywhere in the EU.*

*The Commission is pleased that the Bundesrat largely shares the Commission's analysis of the present situation and supports the further deepening of the Single Market. At the same time the Bundesrat has expressed a series of important comments. The Commission is pleased to have this opportunity to provide a number of clarifications regarding its proposal and trusts that these will allay most of the Bundesrat's concerns.*

*The Commission would like to underline that the aim of the initiative is not to challenge historically grown market structures or distribution channels and is well aware of the cooperative banks' proximity to their retail clients. The Commission does not favour one distribution channel over another (e.g. digital versus branches). In this sense, the Green Paper is technologically neutral.*

*Mr Stanislaw TILLICH  
President of the Bundesrat  
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*It is also not the Commission's intention to put an end to the diversity of banking models across Europe. On the contrary, the Commission wants to see more consumer choice and more competition in national retail financial services markets. The Commission believes that this can best be achieved through further deepening the Single Market and thereby increasing the level of cross-border trade in retail financial services. This cross-border activity is intended to complement the present supply on national markets; not to replace it.*

*Like the Bundesrat, the Commission is very much aware of rapid technological changes. A recent study of the Lisbon Council<sup>1</sup> illustrates that the take-up of digitalisation in financial services is much higher than in other comparable sectors. This development is not limited to big banks. Cooperative banks have also started digitalising parts of their customer services. The Commission believes that digitalisation and new technologies will have a huge impact on the banking and insurance industry in the future. The lack of choice in some Member States with a rather concentrated banking system, as highlighted by the Bundesrat, can best be remedied by the entry of new market participants, which would be facilitated by new technologies.*

*The Bundesrat questions to some extent the potential of cross-border activities in the retail financial services area and offers a number of reasons why consumers may continue to prefer using their local bank branch instead of carrying out their banking business on-line and across borders.*

*The most important argument the Bundesrat puts forward is the issue of trust. The Commission agrees with the Bundesrat that trust is of crucial importance. In the context of the financial crisis and further to a number of scandals, a number of initiatives<sup>2</sup> to restore consumer trust in retail financial services that were put forward by the Commission have recently been agreed<sup>2</sup>. Most of the texts, which still need to be transposed nationally, require better informing consumers at the pre-contractual stage about the main product characteristics. Though we agree with the Bundesrat that the legislation's combined effect will only be known in the near future, this does not, in our view, prevent the Commission from exploring a more forward-looking perspective in the Green Paper, particularly since the growing digitalisation of distribution channels will pose new challenges to regulators. How can consumers, who wish to purchase financial products on their smartphones, be assured that they will be informed properly of all terms and conditions despite the small screens? Moreover, how can we ensure that automated advice is unbiased and really takes the consumer's preferences into account? These and other related questions are broadly addressed in the public consultation. Only if pertinent answers can be found to these and similar questions, will consumers feel confident enough to purchase more financial products from abroad.*

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<sup>1</sup> <http://www.lisboncouncil.net/publication/publication/125-financial-services-in-the-digital-age.html>

<sup>2</sup> For example, the Mortgage Credit Directive (2014/17/EU), Payment Accounts Directive (2014/92/EU), Payments Services Directive (2015/2366), Markets in Financial Instruments Directive (2014/65/EU) and Regulation (600/2014/EU), Insurance Distribution Directive (2016/97/EU), Packaged Retail and Insurance-based Investment Products Regulation (1286/2014).

*The Commission takes this opportunity to thank the Bundesrat once again for this timely contribution to the consultation on retail financial services. The consultation ended on 18 March. The Commission plans to summarise the replies from stakeholders before the summer. This will provide the basis for any further follow-up.*

*The Bundesrat will find answers to its more specific comments in relation to the Green Paper in the annex to this letter.*

*The Commission hopes that the clarifications provided in this reply address the issues raised by the Bundesrat and looks forward to continuing the political dialogue in the future.*

*Yours faithfully,*

*Frans Timmermans  
First Vice-President*

*Lord Hill  
Member of the Commission*

## ANNEX

As regards the points to which the Bundesrat has drawn the Commission's particular attention, the Commission would like to make the following comments:

*Under point 15, the Bundesrat mentions that the standardisation of certain product characteristics and an increase of the transparency and comparability of retail financial services across Europe could contribute to reducing consumers' inertia in purchasing financial services products from abroad. As part of the public consultation, the Commission is indeed looking into whether the promotion of 'simple financial products' or the establishment of an optional 29<sup>th</sup> regime for selected retail financial products could improve their EU-wide acceptance.*

*Under point 16, the Bundesrat raises the important issue of discrimination by nationality or residence. The Commission has identified the completion of the Digital Single Market<sup>3</sup> as a top priority, including putting an end to 'geo-blocking' in a number of sectors. Moreover, the Commission's Single Market Strategy<sup>4</sup> strives to put an end both to on- and off-line discrimination in the Single Market. As part of the Green Paper consultation, the Commission aims to find out whether 'geo-blocking' also plays an important role in retail financial services and if so, how it could best be addressed. The document, however, also explores possible support actions to facilitate the provision of cross-border services, e.g. via the distance verification of customers, etc.*

*Under point 17, the Bundesrat addresses the current limits to the portability of retail financial services products mentioning that these limits may partly be explained by differences in social security and insurance schemes at Member States' level. The Commission is aware of these differences, but considers it nevertheless important for wider mobility reasons to look into the portability issue with an open mind.*

*Under point 18, the Bundesrat reminds us of Member States' discretion to take certain economic, social and demographic factors into account when transposing EU Directives. Product availability, however, should in the Commission's opinion a priori be left to markets.*

*Under point 19, the Bundesrat recalls the importance of privacy and data protection principles. The EU's Data Protection Regulation will further harmonise the data protection rules across Europe. The Regulation seeks to make Europe fit for the digital age. The new framework is vital for the completion of the Digital Single Market, as well as for ensuring that data in the area of retail financial services can be used to the benefit of consumers, with their consent, for instance when they borrow money and their creditworthiness needs to be assessed.*

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<sup>3</sup> <https://ec.europa.eu/digital-agenda/en/digital-single-market>

<sup>4</sup> [http://ec.europa.eu/growth/single-market/index\\_en.htm](http://ec.europa.eu/growth/single-market/index_en.htm)