

# Consumer credit: keeping supervisors on their toes

**Maria Lúcia Leitão • Head of the Banking Conduct  
Supervision Department**

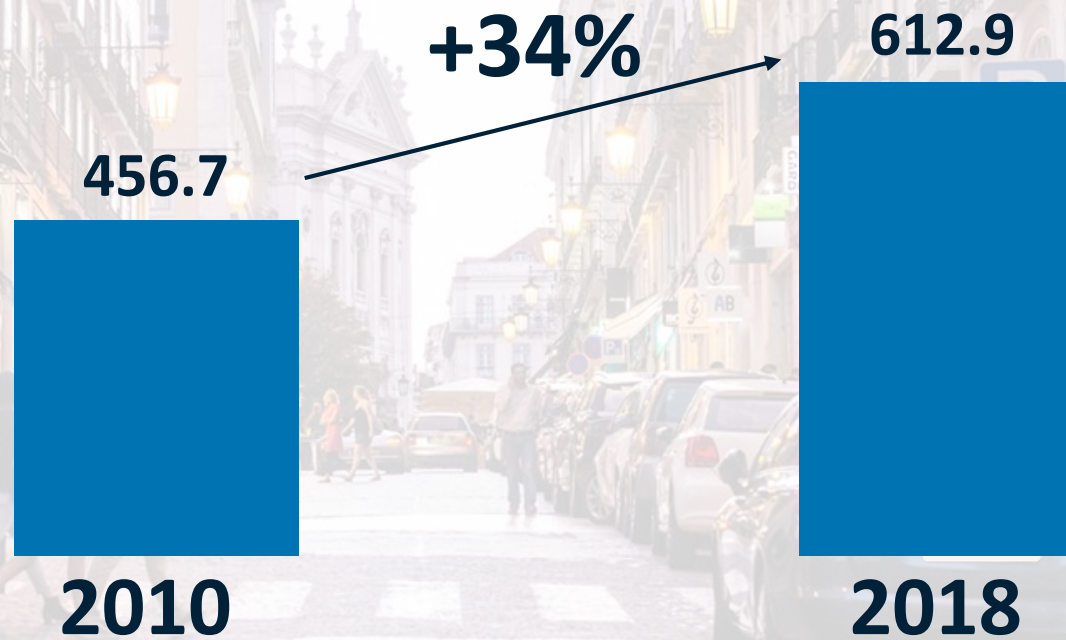
**European Leasing & Consumer Credit Industry Annual Convention**



**BANCO DE  
PORTUGAL**  
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# Consumer credit in Portugal

New loans | monthly average | millions of euros



Retail Banking Markets Monitoring Report, (Banco de Portugal) 2018






*“(…) consumer credit is today a phenomenon with wide economic and social implications (…).*

*It is necessary to regulate and supervise it in order to adequately protect bank customers and also to prevent systemic risk.”*

Excerpt from the Opening Speech at the Association of Specialised Credit Institutions (ASFAC), June 2019

Luís Máximo dos Santos, Vice-Governor of Banco de Portugal





Portugal has in place a **comprehensive legal and regulatory framework** applicable to the provision of consumer credit

The 2<sup>nd</sup> Consumer Credit Directive (CCD) entered into force in June 2009 (Portugal was the first country to transpose it)





The Portuguese legal and regulatory framework applicable to  
consumer credit  
**goes beyond the CCD**



✓ **Comprehensive scope of supervision**

- All credit providers are within the scope of Banco de Portugal's supervision

✓ **Rate cap regime based on market APRC**

- Credit institutions must report new credit agreements monthly
- Cap rates revised quarterly by Banco de Portugal

✓ **Monthly statements**

- Credit institutions must send monthly statements with complete, accurate, up-to-date information on the loan, according to a pre-defined template by Banco de Portugal





✓ **Specific rules for creditworthiness assessment**

✓ **Pre-arrears and arrears regime**

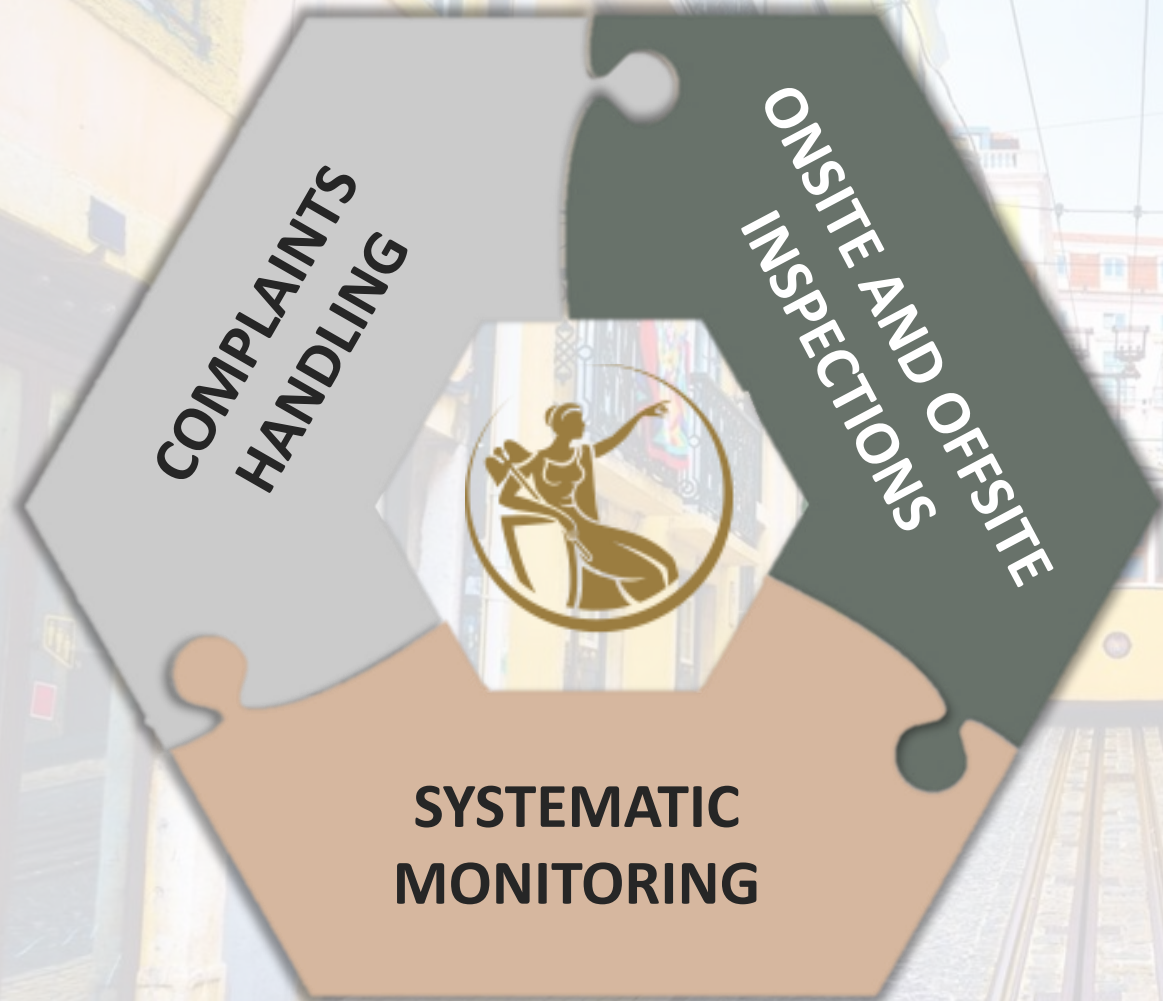
✓ **Mandatory requirements on advertising**

- Criteria and procedures for suitability and affordability
- Different criteria may apply to loans up to 10 x minimum wage

- A legal and regulatory framework for the prevention and management of arrears

- A legal and regulatory framework lays down principles and rules for all advertising campaigns through the different channels





- ✓ Banco de Portugal uses different **supervisory tools** to oversee compliance with the legal and regulatory framework on consumer credit
- ✓ Banco de Portugal also has **enforcement powers** to sanction irregularities and non-compliance; it may launch administrative procedures and apply fines







Banco de Portugal describes its supervisory activity in biannual reports

Publishes every month the amount and number of consumer credit loans granted by credit institutions the previous month

Announces every quarter the cap rates (APRC) for the next quarter

Information available on the Bank Customer Website at <https://clientebancario.bportugal.pt/en/>





# Consumer credit intermediaries

In 2017 credit intermediation was regulated in Portugal

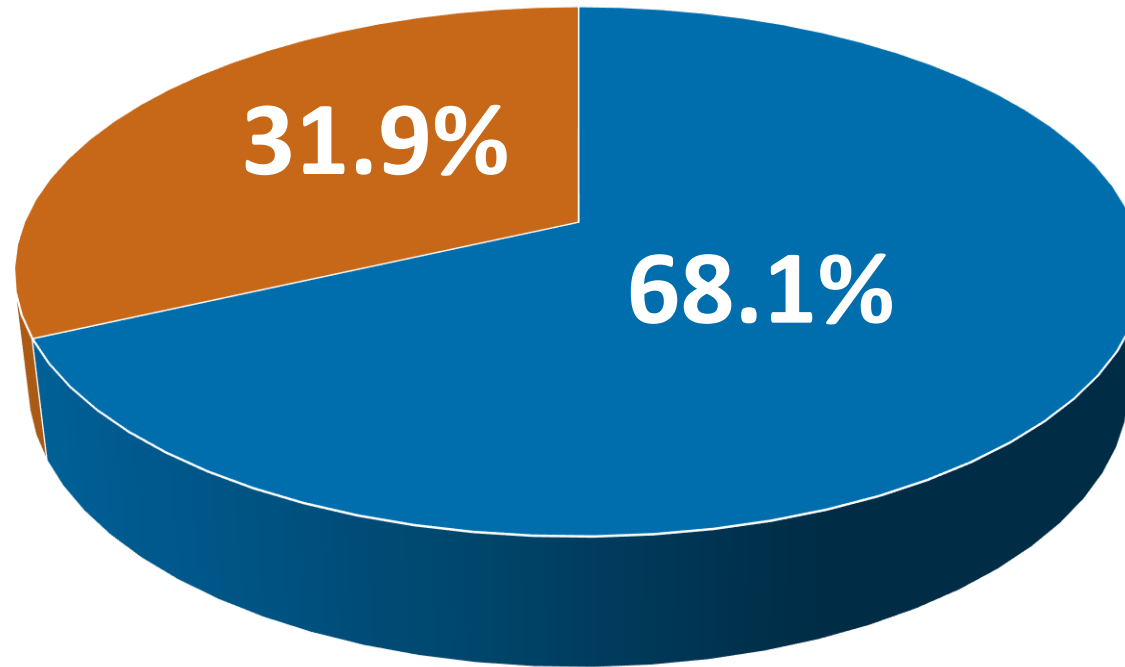
Banco de Portugal received the mandate to supervise it





# Consumer credit intermediation is growing

2013

**Distribution channel**  
Share of total consumer credit (%)



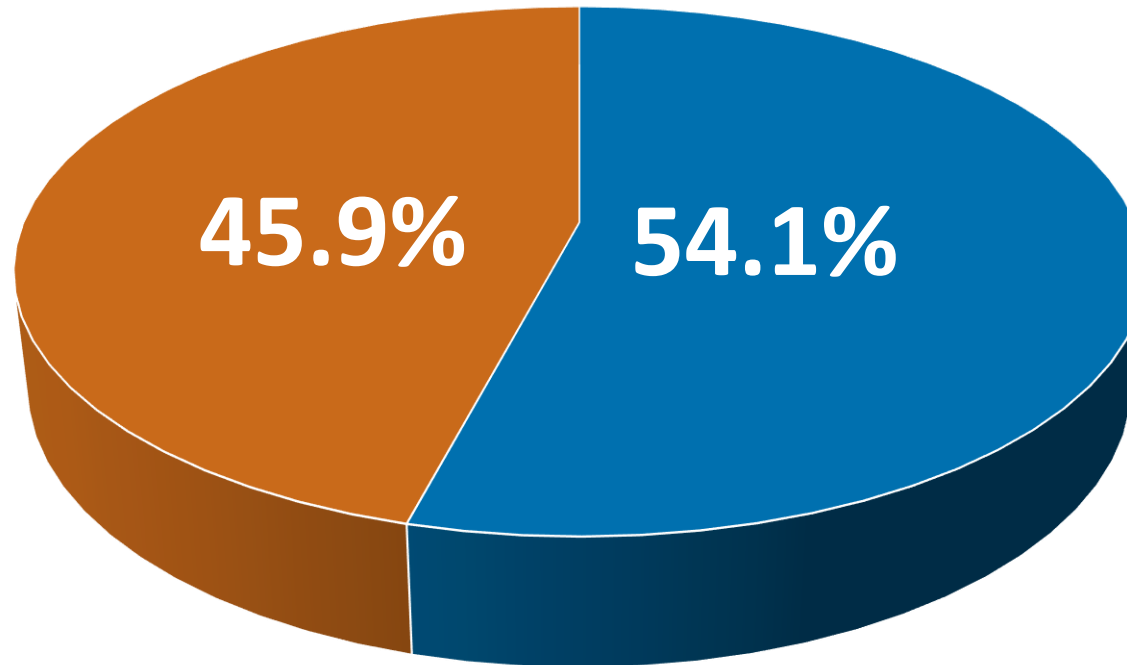
-  Credit intermediaries (in an ancillary capacity)
-  Direct distribution




# Consumer credit intermediation is growing

2018

**Distribution channel**  
Share of total consumer credit (%)

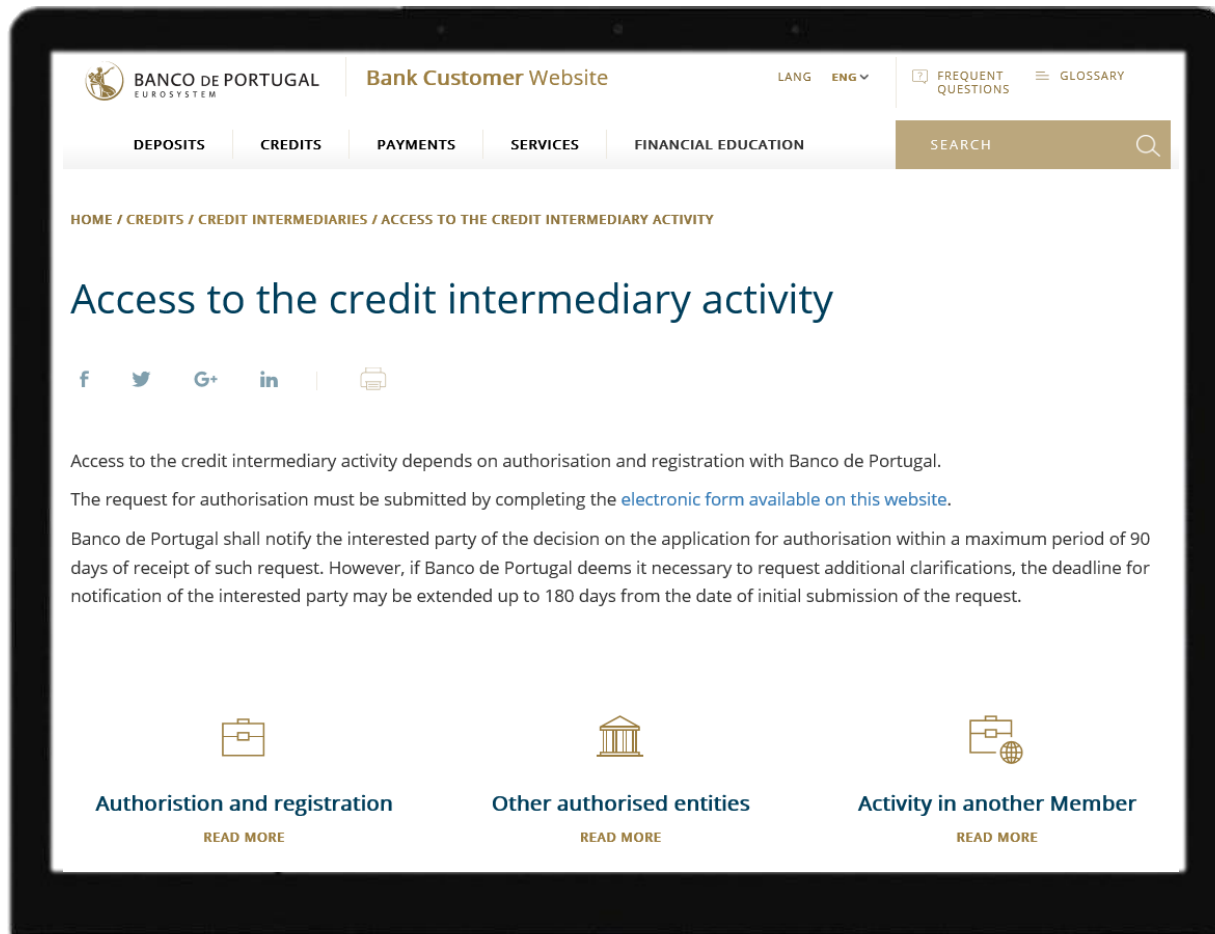


-  Credit intermediaries (in an ancillary capacity)
-  Direct distribution



As of 1 January 2018, Banco de Portugal monitors and supervises the activities carried out by credit intermediaries

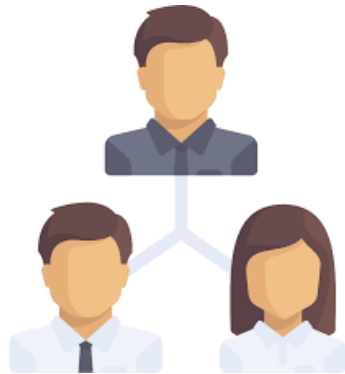
Banking Conduct Supervision Department gives the approval and registration of credit intermediaries and oversees their activity



<https://clientebancario.bportugal.pt/en/>



**Each institution has on average  
247 consumer credit  
intermediaries**



<https://clientebancario.bportugal.pt/en/>

**Consumer credit intermediaries'  
legal and regulatory framework  
includes:**

- Technical competence
- Remuneration rules
- Advertisement rules
- Information duties



# Banco de Portugal faces new challenges brought by digital credit



## Banco de Portugal

Requires comprehensive information **on credit loans granted through digital channels** from credit institutions as from 2018

Credit institutions shall report new or amended credit products explaining the **selling process** and the **features of the credit product ten days in advance**





# Banco de Portugal

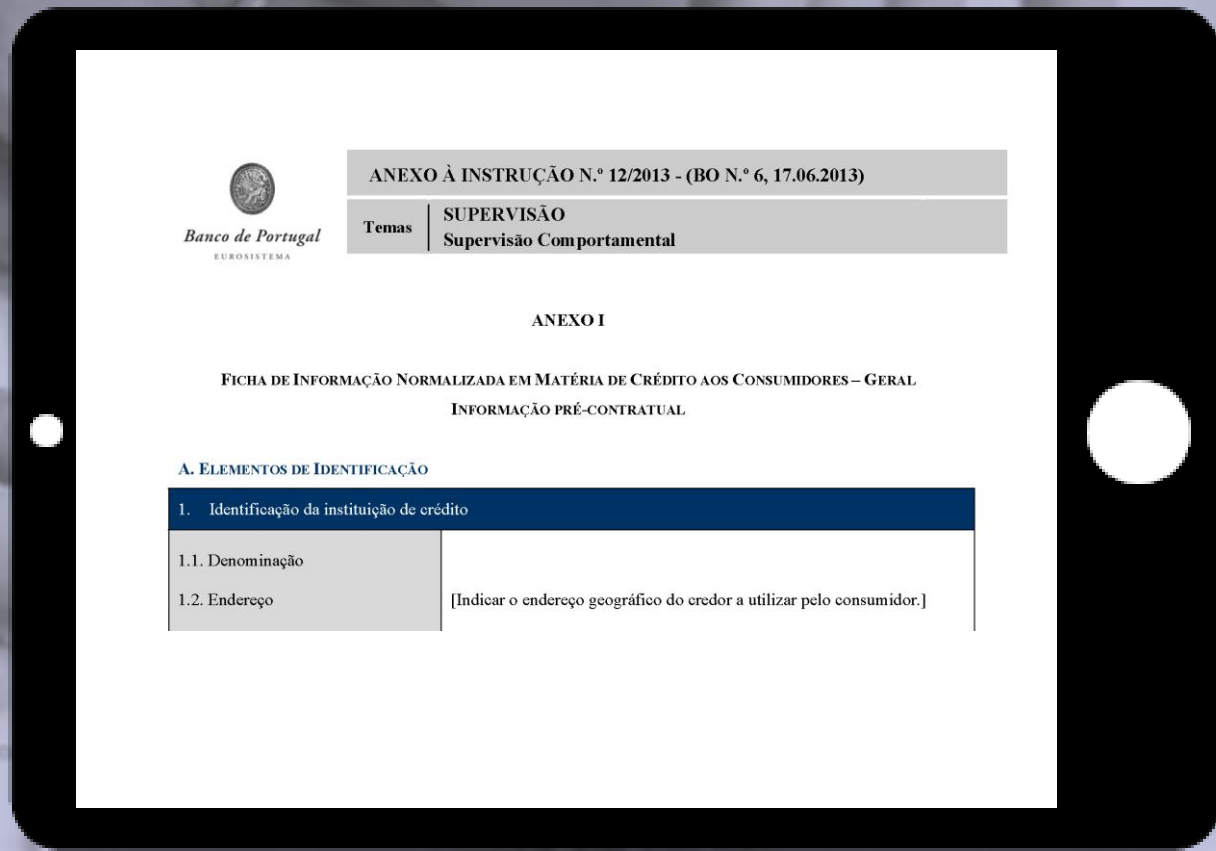
**Oversees compliance** with the legal and regulatory framework

And issues **best practices** to promote technological neutrality (e.g. compulsory scroll-down, convenient right of assistance, no pre-ticked option,...)



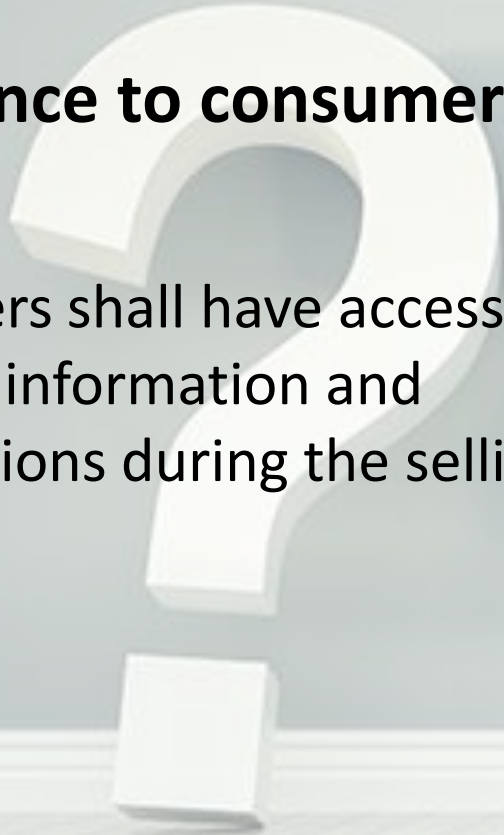
# Compulsory scroll-down

Customers shall have an appropriate opportunity to see and read the pre-contractual and contractual information



## Assistance to consumers

Customers shall have access to all relevant information and explanations during the selling process



# Prohibition of default options



Finance charges and expenses       Personal loan life insurance



Finance charges and expenses       Personal loan life insurance



Customers shall be granted the opportunity to actively choose the different options





## Right of withdrawal and early repayment

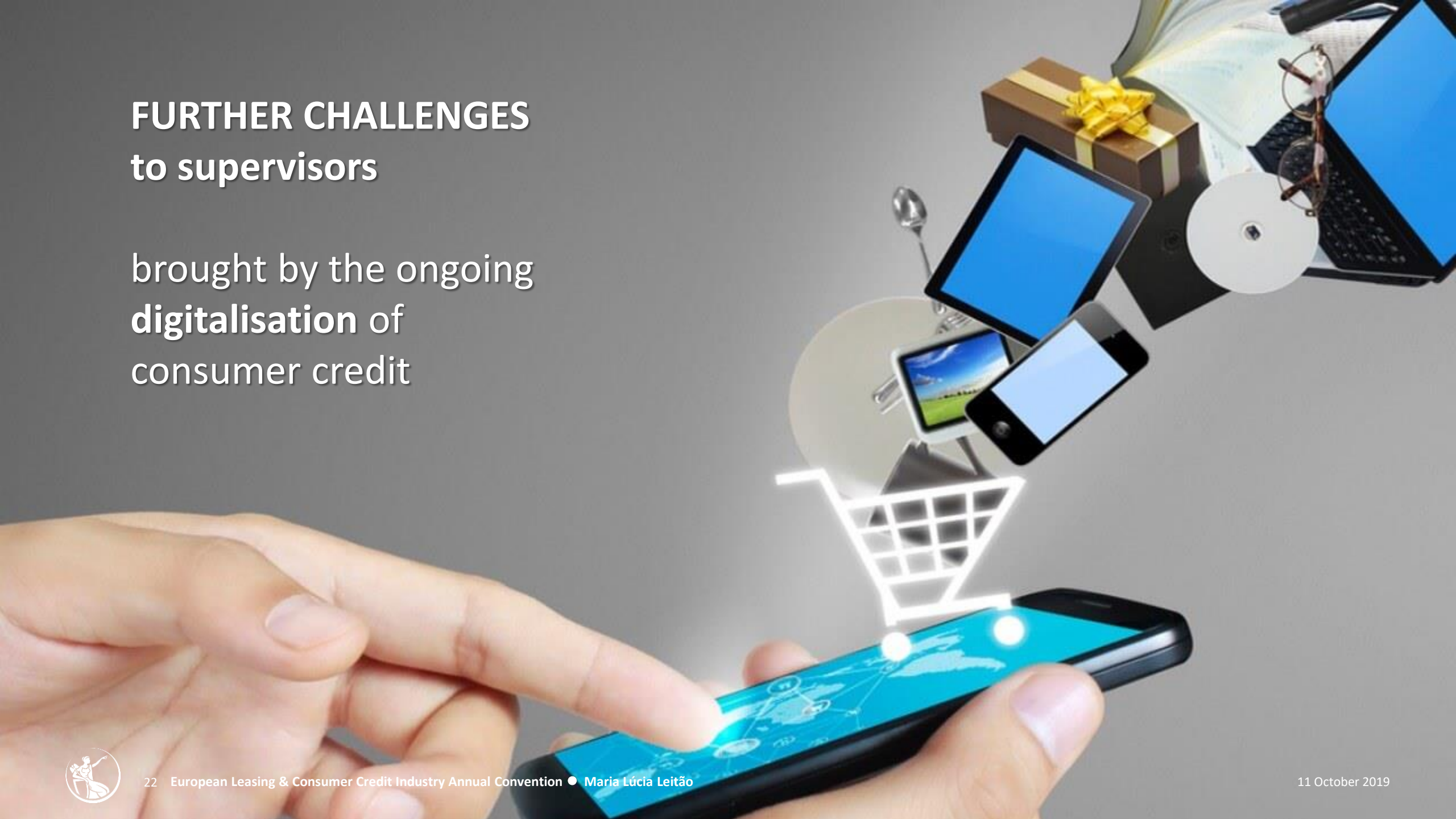
... must be as convenient as entering into the credit agreement

Information on the right to withdrawal and early repayment provided on the digital channel



# FURTHER CHALLENGES to supervisors

brought by the ongoing  
**digitalisation** of  
consumer credit



Sophisticated and complex algorithms based on **artificial intelligence** and **machine learning** are used more and more by financial institutions in the **consumer credit market**



The new algorithms allow institutions to use alternative data, like social media, where customers leave their **digital footprint**...


... to develop **marketing initiatives** targeting specific customer groups and offer **tailor-made products**



**Big Data** is also used by financial institutions to rely on new tools for **creditworthiness assessment**

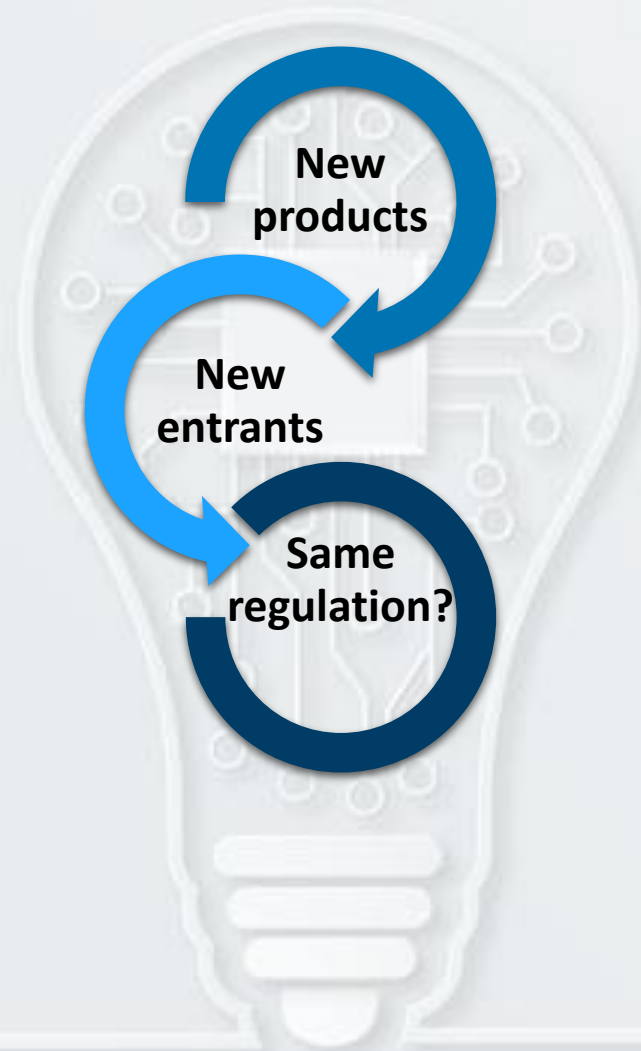






However, the use of more granular information on consumers can result in less competitive offers and discrimination and financial exclusion





The emergence of **new products** provided by **market entrants** (“FinTechs”), sometimes in partnership with incumbents, may challenge the **current legal and regulatory framework and the existent supervisory practices**

- ✓ *New and revised regulation may be required in the future*



Consumer credit  
is becoming a  
key topic on the  
agenda of  
international  
organisations



*“In recent years, the **consumer credit market has developed quickly**. In particular, an **increasingly digitalised market** undergoing continuous innovation creates both opportunities and **risks** for lenders and consumers”*

European Commission (2018), Evaluation Roadmap

## Evaluation of the Consumer Credit Directive

### About this initiative

**Summary** The evaluation will assess the effectiveness, efficiency, coherence, relevance and EU added value of the Consumer Credit Directive. It will focus on progress made to date, costs and benefits in relation to different stakeholders and whether original objectives and tools of the Directive correspond to current needs. It will also monitor how the Directive works together with other pieces of legislation and whether the EU intervention has delivered additional added value.

**Topic** Consumers

**Type of act** Staff working document

**Category** Evaluation

### Roadmap

**FEEDBACK: CLOSED**

**Type**  
Evaluation and Fitness Check Roadmap  
[More about roadmaps.](#)

**Feedback period**  
29 June 2018 - 27 July 2018 (midnight Brussels time)  
[View feedback received >](#)

### Roadmap

**Feedback period**  
29.06.2018 - 27.07.2018  
**FEEDBACK: CLOSED**


### Public consultation

**Consultation period**  
14.01.2019 - 08.04.2019  
**FEEDBACK: CLOSED**

### UPCOMING

### Commission adoption

**Planned for**  
Fourth quarter 2019




## Behavioural study on the digitalisation of the marketing and distance selling of retail financial services

Final Report

Prepared by LE Europe, VVA Europe, Ipsos NV, ConPolicy and Time.lex

April 2019



*“In recent years, the **consumer credit market has developed quickly**. In particular, an **increasingly digitalised market** undergoing continuous innovation creates both opportunities and **risks** for lenders and consumers”*

European Commission (2018), Evaluation Roadmap

## Distance Marketing of Financial Services – evaluation of EU rules

**In preparation**

**Roadmap**  
Feedback period  
07.12.2018 - 04.01.2019  
FEEDBACK: CLOSED

**Public consultation**  
Consultation period  
09.04.2019 - 02.07.2019  
FEEDBACK: CLOSED

**UPCOMING**

**Commission adoption**  
Planned for  
Fourth quarter 2019

### About this initiative

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**Summary**      The evaluation will assess whether the Directive is relevant, effective, efficient, and in line with other EU legislation.

It will focus on:

- progress made so far
- the costs and benefits for different stakeholders
- whether the Directive’s original objectives and tools correspond to current needs
- whether the EU measures have added value.

**Topic**              Consumers

**Type of act**        Staff working document

**Category**          REFIT, Commission Work Programme, Evaluation


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### Roadmap

FEEDBACK: CLOSED

**Type**  
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07 December 2018 - 04 January 2019 (midnight Brussels time)  
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## Behavioural study on the digitalisation of the marketing and distance selling of retail financial services

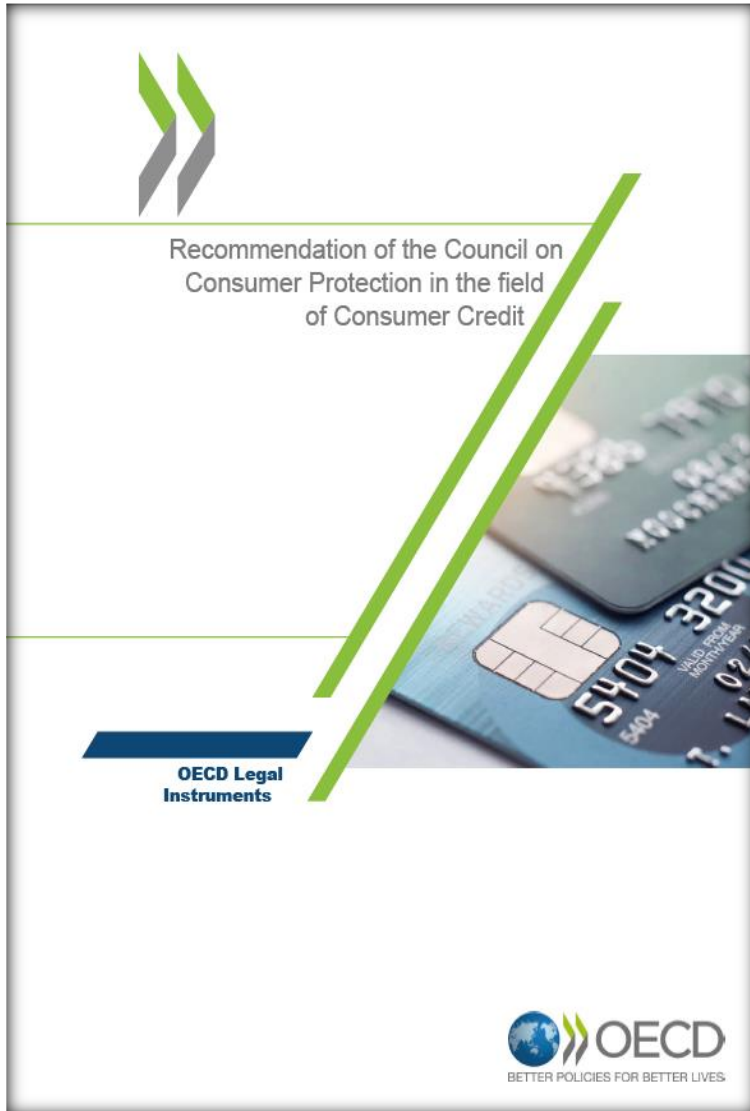
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April 2019







*“(...) requirements relating to responsible lending (...) to:*

*(ii) ensure that, where relevant, **automated credit scoring models comply with data protection requirements, that they appropriately weight all the relevant variables and provide for human intervention, where appropriate, to mitigate against irresponsible or inappropriate lending outcomes or automatic refusals.**”*





**Responsible lending** has been at the top of the agenda of FinCoNet since its inception in 2013

FinCoNet promotes sound market conduct and strong consumer protection through efficient and effective financial market conduct supervision



# Since 2017 FinCoNet has been addressing the challenges posed by the increasing digitalisation of consumer credit

2014



2016



2017



2019







**Digitalisation of short-term, high-cost  
consumer credit**

**Guidance to supervisors**

February 2019

*“(...) the digitalisation of short-term high-cost consumer credit may (...) exacerbate consumers’ behavioural biases and increase the risk of over-indebtedness.*

*Disclosure and assistance to consumers are also significantly impacted by the use of online or mobile channels in the provision of credit.*

*(...) Consumers should be afforded the same level of protection irrespective of the channels used to provide credit.”*



## ... in its PoW for 2019/2020

**FinCoNet** is addressing **creditworthiness assessment** and whether new strategies and adequate tools are being developed to supervise the **use of alternative models in the digital ecosystem**, based on automated processes supported by innovative technologies (e.g. artificial intelligence) and alternative types and sources of data (e.g. Big Data, social media).



# Thank you

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