

summary | annual report 2013

*‘Responsible lending
according to the vfn Code of
conduct is an important source
of economic growth’*

vfn vereniging van
financieringsondernemingen
in Nederland

THE LAST MONTHS OF 2013 showed a gradual recovery of the Dutch consumer credit market. After several years of decline in newly granted consumer credit, several indicators predict a better situation for 2014. The continuous improvement in consumer confidence in 2013 will, with some delay, lead to renewed growth in consumer spending.

Recovery of the consumer credit market is essential to stimulate consumer spending and economic growth. Research which was carried out by Tilburg University, as a part of the celebration of the 85th VFN anniversary, has shown the direct scientific relation between responsible consumer credit and consumer spending and economic growth.

Although the reduction in household debt positions can improve stability for the economy, it is crucial to note that debt minimizing behaviour in a fragile economic environment limits consumption, and therefore slows down economic recovery. The way in which consumer credit is granted is crucial. Responsible lending according to the VFN code of conduct is an important source of economic growth.

The VFN offers more and more tools for consumers to enhance responsible borrowing. Besides the VFN Code of conduct which effectively prevents over indebtedness, the VFN introduces new initiatives to support consumers. The focus is hereby shifting towards more intense communication with consumers after the loan has been provided. The scope of responsible lending practices goes beyond prudent creditworthiness assessment. It explicitly involves offering relevant support during the "loan career".

The VFN also expands its services for members and associate members. The VFN introduced a Consumer Credit barometer in 2013 together with Gfk. Providing insight into the willingness of consumers to buy and the willingness to finance purchases leads to a gladly seen addition to existing market data. Together with the Lindenhaeghe training institute, the VFN has introduced an offer which provides training solutions for members, associate members and their distribution partners. In the next years the trade off between privacy and suitable creditworthiness assessment will become more and more important. Although privacy issues prevented the implementation of an early warnings system for problematic debts, which was to be set up by finance companies, banks, utilities suppliers and social housing organisations, the VFN keeps emphasizing

the importance of early warnings systems. The activities from the government which support the implementation of an early warnings system provide a promising future in this area. Consumer credit regulations increasingly origin from European Directives. The Consumer Credit Directive is currently being reviewed by the European Commission. For the Dutch market the Directive has not delivered the benefits which were anticipated. For consumers the Directive has led to an even bigger amount of paperwork and for suppliers the implementation has led to huge implementation costs. The goal to enhance the internal European market has not been realised.

The Dutch government should enhance the internal market by diminishing the local regulations which apply for aspects which are now governed by the Consumer Credit Directive. It should be expected that Dutch rules for informing the consumer, like the warning sentence "Watch out! Borrowing money costs money", are removed, given the aspired full harmonisation in this area.

The current situation is that the Consumer Credit Directive has insufficiently led to diminishing local regulations which cover aspects that are now governed by the Directive. This leads to the current Dutch situation in which the Directive has only led to an additional layer of regulation without any relevant benefits for consumers and suppliers.

A powerful VFN will remain crucial for creating a sound borrowing environment for consumers and a proportionate set of regulations for suppliers which guarantees responsible lending practices and offers opportunities for entrepreneurship and innovation.

You can count on us.

KEES DROPPERT, CHAIRMAN VFN



Main regulatory developments in the Dutch Consumer Credit Market

LAW ON FINANCIAL MARKETS 2014

The Ministry of Finance annually releases a new set of changes in the Dutch law on financial markets (Wft). In November the law changes in the Wft per January 1st 2014 were finalized. An important aspect of the changes is the legal introduction of the concept of acting on behalf of the consumer interest.

Based on the original proposal, the VFN has argued for changes. The VFN supports the concept that financial services companies act in the interest of the consumer. However, the initially proposed role for the supervisor, to set the standard for types of behaviour that can be considered to be in line with the consumer interest, was not encouraged by the VFN. It should not be up to the supervisor to set these types of standards. This role should be restricted to the legislator.

The VFN has further argued for the role of financial services companies as acting on behalf of several interests. Companies serve the consumer, but also need to serve the interests of shareholders, employees and other stakeholders.

The Ministry of Finance has held on to the legal introduction of the concept. However the initial proposal was mitigated considerably. The new law acknowledges the concept of several legitimate interests. The supervisor can only act upon the new law in case of evident violations of the consumer interest. It is not up to the supervisor to set the standard.

TRAINING STANDARDS

In the last years, the VFN promoted proportional professional training requirements for employees in the financial sector. The Dutch parliament approved a new set of training requirements in 2013. All employees who are acting as an advisor (i.e. recommend a specific product to a specific consumer) need to have prescribed Wft diplomas and pass an exam every three years. Employees who are not advisors need to be trained proportionate to their actual activities.

In the discussions concerning the new training requirements, the VFN has stressed the necessity of Dutch interference in the negotiations regarding the IMD-2. At all cost it must be prevented that training standards which are output based upon knowledge and ability (as in the Dutch system) would have to be further extended with an input based amount of required hours in training (as currently proposed in IMD-2).

Furthermore the VFN has pointed out the importance of legal stability in the concept of advice, given the fact that this concept leads to the requirement of Wft diplomas or to a training system which is based on the actual business model.

After the new standards were finalized, the VFN set up an offer with the Lindenhaeghe training institute. The offer features training solutions for advising and non-advising employees.

FURTHER MAXIMIZING THE MAXIMUM LEGAL INTEREST RATE (CURRENTLY 15%)

In July the Dutch parliament was informed about a report which will be delivered by the Dutch Consumer Authority (ACM). The report was announced after parliamentary questions about the current interest rates in the overdrafts market. The report will focus on the consumer behaviour, market transparency and the desirability of the current maximum legal interest rate of 15%. Although the report will focus on the overdrafts market only, the Minister of Finance has announced that the maximum legal interest rate will be lowered for all consumer credit products in case the report shows evidence to support this action.

The VFN has stressed that the current level of the maximum legal interest rate on overdraft facilities is not the real problem. The real problem consists of consumers who use overdraft facilities to meet their structural need for credit. The VFN considers limiting the overdraft facilities to the applicant's net monthly income to be the best solution to avoid structural overdraft situations.

GOVERNMENT STIMULATION OF ENERGY SAVING MEASURES

A national energy saving measures fund was introduced in October. The fund will provide low interest loans to house owners who want to invest in energy saving measures in their house. The VFN has stressed the existing offers from commercial consumer credit providers for energy saving measures. There is no need for a government supported initiative to impede consumer credit suppliers.

Additionally, the VFN has called upon the supervisor to maintain a level playing field. This requires the fund to comply with all rules which are also relevant to regular consumer credit providers.

LAW ON FINANCIAL MARKETS 2015

The proposed law on financial markets per January 2015 was consulted to the industry in September.

An important aspect is the further extension of the banker's oath. The VFN has proposed to limit the oath to the employees in financial services companies who can substantially influence the risk profile of the company.

The government funding of supervisory activities will be ended. The VFN has stressed the need for new effective cost control measures, given the fact that there will no longer be an incentive for the government to limit the costs which are related to the supervisors.

DEBT MEDIATION BY COMMERCIAL COMPANIES

The Ministry of Economic Affairs has consulted a change in the law which allows private companies to charge consumers for debt mediating activities. These charges are prohibited by the current law.

The VFN has proposed changes in order to guarantee sound practices. Debt mediation concerns vulnerable consumers. The proposed law could lead to mala fide companies re-entering the market for debt mediation. Therefore it is crucial to register debt mediation companies only in case there is compliance with strict quality standard.

Market Figures

The Dutch national statistics bureau (CBS) delivers monthly reports on developments of consumer credit (instalment loans and revolving credit) and overdraft facilities on current accounts in The Netherlands.

Compared to 2012, newly granted consumer credit declined 10.8% to 4.1 billion in 2013. Total net receivables declined 4.7% to 15.0 billion at the end of 2013 (table 1 and 2).

Figures on overdrafts on current accounts are based on a new methodology since the second half of 2013, and therefore less comparable to previous years. For this reason, net receivables are displayed by month in figure 1.

In future years, starting from 2014, CBS will not continue publishing overall figures on consumer credit.

Granted credit and net receivables in euro mio

<i>* provisional figures</i>	<i>*2013</i>	<i>2012</i>	<i>2011</i>
Net receivables 31-12-2013	15,010	15,746	16,042
Granted	4,056	4,547	5,242
Interest	1,168	1,238	1,263
Redemptions	5,958	6,080	6,423

Net receivables for different types of credit in euro mio

<i>* provisional figures</i>	<i>*2013</i>	<i>2012</i>	<i>2011</i>
Instalment loans	3,160	3,219	3,130
Revolving credit	11,850	12,527	12,912

In 2013, the sustaining decline in granted consumer credit continued. This was mostly caused by a decline in granted revolving credit (figure 2).

MARKET SHARES

VFN members represent a market share of 49.6% of total net receivables on consumer credit in The Netherlands and 87.3% of net receivables at finance companies.

FIGURE 1
Net receivables 2009 -2013
per month in euro mio

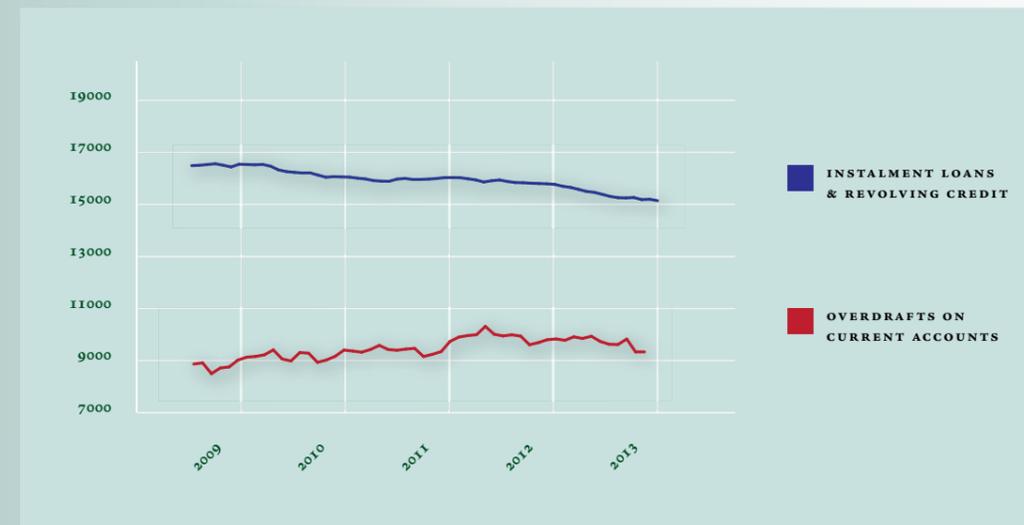


FIGURE 2
Granted credit 2009 - 2013
in euro mio

