

summary | annual report 2012

*‘The Dutch Consumer Credit market is a healthy market; however, consumers can still benefit a lot from increasing awareness in borrowing decisions’*

**vfn** vereniging van  
financieringsondernemingen  
in Nederland

**T**HE DUTCH CONSUMER CREDIT market showed a further decline in 2012. Revolving credits and personal loans are procyclical products. The decrease in consumer spending which was caused by the economic crises, therefore directly led to a further decline in granted credit and net receivables in 2012. Responsible lending and borrowing is crucial in times of economic decline. The changes in the VFN Code of Conduct, which were implemented in January 2012, have resulted in a Code of Conduct which is solid, also in times of economic crisis.

Three important changes in the Code of Conduct were implemented by VFN members in 2012. The changes have led to restricting the granting of interest-only credit to consumers who have sufficient surplus value in their privately owned home. The "Lock-Up" in the market has ended. It has become more easy for consumers to change to a different credit supplier. The Code of Conduct further stimulates responsible lending and borrowing by increasing possibilities for granting instalment loans.

Based on the current level of (self-) regulation in the Dutch Consumer Credit market, it can be concluded that the Dutch market for Consumer Credit is a healthy market; however, consumers can still benefit a lot from increasing awareness in borrowing decisions. Whereas net receivables in revolving credits and instalment loans decreased in the last years, overdrafts on current accounts are still increasing. It is remarkable that consumers choose to fulfil their structural need for credit with overdrafts. Overdrafts lack the desired relation between the loan and the goods which are financed. Furthermore, overdrafts have high interest rates compared to revolving credits and instalment loans.

In 2012, the VFN provided consumers with additional tools, which enable them to engage in more responsible borrowing. The VFN members have approved a change in the Code of Conduct which leads to more understandable communication for consumers. Whereas legislation leads to more and more obligatory complex information, the VFN emphasizes the need to use communication which is understandable and relevant for consumers. The VFN website supports consumers by showing the relevant product characteristics in accessible animations. In the next years the VFN website will be further enriched with relevant and understandable information about responsible lending and borrowing.

The VFN has been involved in setting up a registration system for arrears in payments on rent and utility services. Unfortunately, Dutch banks have decided to withdraw from the initiative. The current legislation on privacy led to a system which contained less information and which was less efficient for consumers and credit providers, compared to the initial initiative.

The VFN still supports the need to set up an early warning system for arrears in order to prevent problematic debt situations. However, given the current Dutch legislation on privacy, it is not possible to launch a system which is both user friendly and effective. Therefore changes in legislation are considered necessary. It is now up to political parties to balance the interests of privacy and reducing problematic debt situations.

The Dutch government shows little consistency in the approach of lending and borrowing. Very strict measures are implemented to limit mortgages. At the same time, Dutch students are encouraged not to fear borrowing. The difference in approach does not reflect a coherent vision regarding responsible borrowing and lending. It seems to be mainly driven by the fiscal effects which are related to the different measures.

This year, the VFN will celebrate its 85th anniversary. During this 17th lustrum, the VFN will present the results of the research which is carried out by the University of Tilburg. This research will focus on the relevance of Consumer Credit for the Dutch economy.

The VFN will continue to facilitate Consumer Credit which supports economic growth.

KEES DROPPERT, CHAIRMAN VFN



## MAIN (REGULATORY) DEVELOPMENTS IN THE DUTCH CONSUMER CREDIT MARKET

### CHANGES IN LAW ON FINANCIAL MARKETS 2013

The changes in the law on financial markets (Wet op het financieel toezicht 'Wft') lead to a structural transformation in the Dutch financial sector on January 1st 2013. The law introduces a complete ban on remuneration from product suppliers to intermediaries for complex and impactful products. The legislator has introduced the remuneration ban to create a shift from product driven sales towards consumer oriented advice.

The VFN has successfully argued that the current remuneration scheme for Consumer Credit balances the interests of consumers, intermediaries and credit providers. Therefore Consumer Credit will not be in the remuneration ban scope.

The changes in the Wft also imply the introduction of an obligatory "knowledge and experience"-test for consumers in case of complex and impactful products. Before a consumer is allowed to apply for a product without advice, knowledge is tested in order to verify whether the consumer has sufficient knowledge to apply for the product without advice. The VFN has been successful in excluding Consumer Credit from the scope. Given the current thorough practices of creditworthiness assessment in the Netherlands, a knowledge and experience-test would have represented no added value.

The final changes were published by the government in the last week of 2012.

### TRAINING STANDARDS

Although most changes in the Wft are in line with the VFN position, the new training requirements which will be introduced in 2013 remain a cause for concern. The legislator has decided to introduce obligatory (Wft) diplomas for all employees who are "advising". Employee activities which involve the recommendation of a specific product to a specific consumer imply advising from a legal perspective.

During the consultation stage and the discussions in parliament, the VFN has stressed the importance of proportionate training requirements for those employees for whom advising on financial products is an activity secondary to the sale of non financial goods and services. The VFN has emphasized the possible negative consequences for the widely available distribution channels for financial products. Furthermore the VFN has accentuated the foreseeable development of financial service providers to set up their business models in such a way that, from a legal perspective, advice is not provided.

The VFN concerns were raised in parliament. However, the concept of obligatory diplomas for all advising employees was not adjusted.

After the publication of the finalized legislation, the VFN will shift its focus to creating optimal transparency for the VFN members regarding the new legislation and presenting, where possible, options for creating efficient operational processes.

### INTEREST RATE RESTRICTIONS ON OVERDRAFT FACILITIES

The Dutch socialist party has asked the minister of Finance to investigate whether the interest rate cap, specifically for overdraft facilities, can be reduced (currently the maximum interest level for all consumer credit products is 15%).

The minister of Finance has stated that the investigation will take place in 2013. Furthermore the minister of Finance has indicated that he will decide to lower the interest cap on overdraft facilities, depending on the outcome.

The VFN supports the political attention for the increasing overdrafts market. However, reducing the interest cap on overdrafts will not lead to more responsible lending and borrowing. The average overdraft on current accounts increased to € 4,000 in 2012. Consumers should not be stimulated to use overdrafts by decreasing the interest rate. Therefore the VFN has proposed to limit overdraft facilities to a maximum of consumers' net monthly income.

### CHANGES IN LAW ON FINANCIAL MARKETS 2014

Although the Dutch financial market is still recovering from a wide range of new legislation to be introduced in 2013, the ministry of Finance consulted new changes which are planned to be implemented in 2014.

The consulted changes imply a new law on serving customer interest. The VFN supports the importance of financial service providers who act in the interest of the customer. However, in the proposed structure, it is up to the Dutch Financial Authority (AFM) to define the customer interest. This would lead to a situation in which the AFM both sets and supervises the rules.

The VFN has stressed that the current legal framework offers sufficient possibilities to the AFM. The new law leads to new liability issues for the financial services industry. Given the resulting uncertainty, the changes lead to an additional barrier for further European integration.

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 2011, newly granted consumer credit declined 14% to 4.5 billion in 2012. Total receivables declined 2.2% to 15.7 billion at the end of 2012. Overdrafts on current accounts declined 3,5% to 10,3 billion at the end of 2012.

Granted credit and net receivables in euro mio

<i>* provisional figures</i>	<b>*2012</b>	<b>2011</b>	<b>2010</b>
Net receivables 31-12-2012	15,690	16,042	15,959
Granted	4,506	5,242	5,173
Interest	1,230	1,263	1,329
Redemptions	6,088	6,423	7,000

Overdraft facilities, net receivables in euro mio

<i>* provisional figures</i>	<b>*2012</b>	<b>2011</b>	<b>2010</b>
Net receivables 31-12-2012	10,251	10,620	9,908
Number of accounts (x 1.000)	2,684	2,671	2,644

Net receivables for different types of credit in euro mio

<i>* provisional figures</i>	<b>*2012</b>	<b>2011</b>	<b>2010</b>
Instalment loans	3,251	3,130	2,788
Revolving credit	12,439	12,912	13,172
Overdrafts current accounts	10,251	10,620	9,908

Over the last 10 years, newly granted consumer credit has declined by 3,3 billion euro (-42%). Whereas granted instalment loans stayed relatively stable, granted revolving credit in 2012 was only half the amount of granted revolving credit in 2003.

[FIGURE 1]

Compared to 2011, all market segments showed a decline in granted consumer credit in 2012. Finance companies granted 572 million euro less consumer credit than in 2011 (-18,1%), Banks 159 million less (-9,0%), Mail-order companies 2 million less (-0,7%) and Community & Social Banking 3 million less (-8,8%).

[FIGURE 2]

In net receivables, vFN members for the first time obtained a market share of over 50 per cent in 2012.

[FIGURE 3]

In total newly granted consumer credit, the vFN members' market share increased to 32%. Market share in granted instalment loans grew robustly and exceeded 80 per cent in 2012.

[FIGURE 4]



FIGURE 1  
Granted credit for different types in last 10 years in euro mio

*\*=provisional figures*



FIGURE 2  
Credit granted per market segment in euro mio

*\*=provisional figures*



FIGURE 3  
Market share vFN members

*\*=provisional figures*



FIGURE 4  
Market share vFN members in different types of newly granted credit

*\*=provisional figures*

win