



Group III – "Various Interests"



European Economic and Social Committee

CONCLUSIONS

of the extraordinary meeting of Group III "Various interests"

"The credit crunch and shrinking savings: how to break the vicious circle to kick-start recovery?"

EESC - 6 June 2013

Limited access to credit and shrinking savings can be seen as two sides of the same coin: borrowers encounter difficulties in borrowing money from financial institutions and individuals are hesitant to entrust their savings to the banks.

On 6 June 2013 the "Various interests" Group of the EESC organized a conference to discuss issues related to access to credit by economic actors and to consumer savings. The current economic situation has trapped citizens – consumers, families and entrepreneurs – in a vicious circle: consumers have absolutely no sense of security regarding their savings and businesses have huge difficulties in accessing fair credit for starting up, operating and growing.

*Group III discussed these issues with relevant stakeholders, such as SMEs, consumers and families, looking for concrete proposals on how to break the current vicious circle. In the end, we realised that **all these very different stakeholders had the same needs and could be allies and form a common platform**, as they ultimately had a common interest in a fairer and more secure credit system, close to the main priorities for citizens, families and different forms of enterprise, such as liberal professions, SMEs and cooperatives, and close to real life and the real economy.*

*Following the debates, a number of **operational proposals** can be confirmed and drawn up:*

1) Restore confidence on both sides – creditors and borrowers

a) Transparency - Appropriate information - Financial education

- Fundamental principle of **responsible lending for responsible borrowers** which requires compliance with detailed rules by the creditor and the borrower, and requires borrowers to provide accurate information regarding their situation
- Honesty, fairness and competence of creditors and credit intermediaries serving consumers
- Advertising that is fair, clear and not misleading

- **Standardisation of financial products** to assist consumers in their investment choices
- The establishment and organisation of **supervisory authorities and cooperation between them** are essential, and all the more important in view of the failings which have come to light during the crisis
- Regulation of credit intermediaries at European level
- Create a "**virtuous triangle**" linking **financial education, market regulation and consumer protection**
- It is the **responsibility of consumers to acquire skills to know what financial products they are buying**: financial education to become a compulsory subject on the school curriculum followed up in training and retraining programmes for workers
- Specific training for staff working in financial institutions
- Financial training to be targeted as a priority at those sections of the population that are at risk of financial exclusion
- Evaluation of the suitability of all the various different education programmes and the extent to which the means of accessing these programmes are effective, and ensuring that all stakeholders work together in this task
 - Best practice* of UNICREDIT (In-formati programme)¹ with ethical and economic commitment to financial education as a comprehensive tool in which all stakeholders work together: institutions, the financial industry, businesses, consumer associations, the education system targeting all sections of the public – elderly people, young people, handicapped people, start-ups
- **Support for intermediary organisations for consumers and SMEs that** provide advice, information and financial education to their members
- Increase awareness, facilitate and engage in public discussion, create forums where interested parties can meet, that can act as a catalyst for development initiatives, including in cooperation with intermediary organisations
- Support and awareness raising for **civil society organisations that aim to ensure that finance works in favour of the public interest and real economy** in a sustainable, fair and transparent manner

b) Credit-worthiness assessment

- Banks have become remote from customers: assessment of **the borrower's credit-worthiness as a person** and with the objective of preventing over-indebtedness
- **Alternative ways of evaluating SMEs' credit-worthiness** with adequate room being left for "relationship banking", proximity, personalised service - healthy relationships and communication between lenders and borrowers should be sought instead of formulaic assessments based solely on figures.

¹ <https://www.unicredit.it/it/chiamo/unicredit-in-italia/educazione-bancaria-finanziaria/i-corsi-gratuiti-per-te.html>.

Best practice of psychometric tests by Entrepreneurial Financial Lab² (currently applied only in emerging economies) reducing default rates and increasing lending volume without increasing risks

- The **obligation to provide reasons for rejections** and opportunities to ask for the application to be re-examined if the rejection is the result of an automated process

Best practice of the Belgian mediator assisting SMEs whose loan application was turned down³ or similar practices in France⁴ and other Member States

- **Databases** used to assess credit-worthiness should not be used for commercial purposes but provide the borrower with the tools required to manage his or her budget, as well as making him or her accountable and to reassure the lender at the same time

Best practice of the Belgian positive credit history files⁵

- The possibility of a **mutualisation premium** to enable more vulnerable people to access credit should be explored, and **exploitative credit** affecting vulnerable households and hindering the involvement of social lenders should be stopped

2) Facilitate access to credit

- **65% of financing is done via bank lending. Strict regulations cannot be an excuse for not investing in the real economy** but, at the same time, the **regulatory environment should be clear, consistent and secure** in order to allow financial actors to operate in a more stable framework
- **Financial institutions should act fairly**
- Promote **diversification** of banks – mutual societies, cooperatives – and **eliminate institutional obstacles** (post Basel) hindering credit market-like insurance businesses from providing credit
- **EIB funds to SMEs** to be increased - the funds currently available should be made **more visible**: banks and public regional authorities receiving money from the EIB should inform their clients of the origin of the funds, in cooperation with relevant intermediary organisations (consumers, SMEs, chambers of commerce)
- Make **structural funds** and **EIB instruments work together** and target local needs via local intermediaries
- Efficient loan **guarantee systems** providing guarantees and counter-guarantees releasing the money from the banks to the real economy and increasing the multiplier effect, creation of a **European Guarantee Platform** as a matter of urgency

² <http://www.hks.harvard.edu/centers/cid/programs/entrepreneurial-finance-lab-research-initiative>.

³ www.cefip.be.

⁴ <http://www.economie.gouv.fr/mediateurducredit/accueil>.

⁵ http://www.nbb.be/pub/04_00_00_00_00/04_02_00_00_00/04_02_01_00_00.htm?l=en.

Best practice of EUROCHAMBRES working on the European Guarantee Platform to engage private capital in schemes for financing the real economy

Best practice of the European Association of Mutual Guarantee Societies (AECM) in which member organisations issue SME loan default guarantees to viable SMEs with promising business plans that would not get access to bank finance simply because they do not have sufficient collateral⁶

- Creation of a **permanent task force** to monitor and improve joint market solutions to facilitate transnational guarantee cooperation among state owned banks and to deliver liquidity to SMEs
- Introduction in Member States of **fiscal stimulus packages** whereby individuals can lend money to SMEs and get a tax reduction in return
 - Best practice* of a win-win loan in Belgium/Flanders⁷ whereby individuals can lend money to SMEs and get a tax reduction in return + Enterprise investment schemes in Ireland
- Support innovative approaches to venture funding such as:
 - **Crowd funding**, in which citizens, and not banks or specialists, invest in SMEs through an online platform, instead of the stock market
 - **Securitisation of SMEs** coupled with the creation of a platform and a guarantor to make it work
 - **Project bonds, social bonds and territorial bonds should be used more proactively**
- **Alternative sources of funding serve different customers and have different rules:** current rules protecting consumers should be applied, to be adapted to the operating requirements of these instruments and to the situation in the Member States
- **Financial intermediaries, SMEs and consumer organisations working in partnership to raise awareness of alternative ways to access credit**, flagging to the community where to go and what the conditions are
- **Late payments** mostly from public authorities are a key element in SMEs financing – the directive should be strictly implemented
- Provide for a full portfolio of diverse and innovative measures to effectively reach other diverse groups of stakeholders, such as various forms of **social enterprise**, taking into account their specific features and their differences in legal form and model of operation from "traditional" businesses, which further complicates their access to finance since these forms or models are not always recognised or understood by financial actors
- Adjust the banks' rules on allowing credit and the staff's skill in assessing the credit rating of **liberal professionals**

⁶ <http://www.aecm.eu/fr/aecm-association-europeenne-du-cautionnement-mutuel.html?IDC=18&IDD=24&LANG=fr>.

⁷ <http://www.pmv.eu/en/services/win-win-loan>.

3) Invest savings safely

- Channel savings towards **socially responsible investment** funds, managed according to a long-term vision, consideration of the general interest, reliability and analytical rigour and investing in those organisations that behave better and encourage sustainable development
- **Regulations**, preferably at European level, **should be simple and aim for transparency**: indicate the criteria defining the socially responsible element and what savings are invested in, and avoid excessive proliferation of socially responsible financial products
- **Public bodies to encourage investment in socially responsible funds** through the creation of appropriate **tax and financial regulations** as well as public procurement itself and the introduction of **standardisation systems and certification** by official bodies
- Develop regulations tailored to the specific features of **cooperative banks** given their particular solidarity and proximity mechanisms, allowing them to continue to provide credit to their clients and members in good and bad times
- Ensure the security, stability, profitability and competitiveness of financial markets to **attract and channel private money into long-term economic growth**

As a **general concluding remark** we can say that it is possible and extremely urgent to build a **strong alliance between families and businesses**, between consumers and entrepreneurs of all kinds, **for a healthier, safer and more universally accessible savings and credit system**.

Data prove that resources are available, and that an increasing share of money in circulation should move from annuities to the real economy, rewarding the risk with appropriate forms of guarantee and insurance that are also available.

Giving life to the many good practices that already exist will make us able to break the vicious cycle and open up roads for the future to the European economy.