



EBA CONSUMER TRENDS REPORT 2020/21

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Table of Contents

Figures	2
Table	3
Abbreviations	4
Executive Summary	5
Background	9
Chapter 1: Retail banking products and services	12
Residential mortgages	12
Consumer credit	19
Payment services	26
Electronic money	37
Payment accounts	40
Deposits	45
Chapter 2: Topical issues	51
Indebtedness, responsible lending and creditworthiness assessment	52
Fees and charges	57
Digitalisation	62
Payment transactions	67
Access to bank accounts	70
Selling practices	73
Regulatory measures to address issues identified in the CTR 2018/19	77
Chapter 3: COVID-19	79
Effects of COVID-19 on standard retail banking products	79
Effects of COVID-19 on the 'topical issues' identified in this report	79
Chapter 4: EBA measures to address the topical issues identified in the CTR 2018/19	85

Figures

Figure 1: Mortgages as a percentage of loans to households in EU MSs	13
Figure 2: Amounts (in Euros) of lending for house purchases, 2015–2020	13
Figure 3: Annualised rate of lending for house purchases in the Euro area, 2015–2020	15
Figure 4: Consumer credit, 2015–2019 (billion EUR, outstanding amounts)	19
Figure 5: Credit for consumption to total household loans (outstanding amounts), 2015–2019	20
Figure 6: Total number of payments per type of payment service (millions), 2015–2019	29
Figure 7: Annual percentage changes in the number of payments, 2017–2019	31
Figure 8: Number of cards issued by resident payment service providers (2015–2019)	32
Figure 9: Percentage of Europeans that use internet banking, 2015–2019 by type of individual	33
Figure 10: Total number of ATMs provided by resident PSPs, 2015–2019	34
Figure 11: Total number of POS terminals provided by resident PSPs, 2015–2019	35
Figure 12: Electronic money issued in the Euro area, 2015–2019 (billion EUR)	38
Figure 13: Percentage of the population aged 15 years or over holding a payment account in the EU	41
Figure 14: Deposits held by households, 2015–2019 (billion EUR, outstanding amounts)	45
Figure 15: Savings rate and interest rates in the EU, 2015–2019	47
Figure 16: Relative importance of the topical issue ‘indebtedness, responsible lending and creditworthiness assessment’	53
Figure 17: Relative importance of the topical issue ‘fees and charges’	58
Figure 18: Relative importance of the topical issue ‘digitalisation’	63
Figure 19: Relative importance of the topical issue ‘payment transactions’	68
Figure 20: Relative importance of the topical issue ‘access to bank accounts’	70
Figure 21: Relative importance of the topical issue ‘selling practices’	74

Table

Table 1: Total value of payments per type of payment instrument (billion EUR), 2015-2019 30

Abbreviations

AISP	Account information service provider
AML	Anti-money laundering
API	Application program interfaces (APIs)
APRC	Annual percentage rate of charge
ATM	Automated teller machine
CA	Competent authority
CCD	Consumer Credit Directive
CTR	Consumer Trends Report
DGS	Deposit Guarantee Scheme
DGSD	Deposit Guarantee Schemes Directive
DSTI	Debt-service-to-income
EBA	European Banking Authority
ECB	European Central Bank
ESA	European Supervisory Authority
EU	European Union
FER	Financial Education Report
FID	Fee information document
FIN-NET	Financial Dispute Resolution Network
FinTech	Financial technology
GDPR	General Data Protection Regulation
IT	Information technology
ITS	Implementing technical standards
KID	Key information document
MCD	Mortgage Credit Directive
MFI	Monetary Financial Institutions
MIFIR	Regulation on Markets in Financial Instruments
MS	Member State
NPL	non-performing loan
PAD	Payment Accounts Directive
PISP	Payment Initiation Service Provider
POG	Product Oversight Governance
POS	Point of Sale
PSD2	Revised Payment Services Directive
PSP	Payments Service Provider
RTS	Regulatory technical standards
SoF	Statement of fees
TPP	Third Party Provider

Executive Summary

In order to fulfil its mandate under Article 9 of its Founding Regulation to collect, analyse and report on consumer trends, the European Banking Authority (EBA) publishes a Consumer Trends Report (CTR) on a biennial basis. The report covers the retail banking products and services that fall within the EBA's consumer protection mandate, which are mortgages, consumer credit, deposits, payment accounts, payment services and electronic money.

The report summarises the trends observed in the European Union (EU) in respect of these products and services and identifies issues that have arisen for consumers as identified by national authorities, the EU Financial Dispute Resolution Network, consumer associations, and EU industry associations. This is followed by the topical issues that have emerged, and the actions the EBA has taken to address the issues stated in the previous CTR two years earlier.

With regard to the trends observed, this report arrives at the following main findings, for each of those products and services.

- *Mortgages* continue to have a significant impact on consumers' personal finances, representing 79% of loans to households across EU Member States (MS) in 2020, up from 77.5% in 2015. However, in some MS, the COVID-19 pandemic lowered, at least temporarily, the demand for these loans and led to a general decrease in the number of mortgages granted. The main issues that have emerged in this product category are related to the high level of indebtedness of some consumers; credit renegotiations between creditors and borrowers initiated by borrowers seeking to benefit from the low interest rate environment; and some mis-selling practices.
- *Consumer credit* has increased in volume by 14% between 2015 and 2019. The main issue that has been reported by CAs is poor creditworthiness assessments, with over-indebtedness, credit management, debt enforcement, excessive interest rates, and fees including early/total repayment fees, shortcomings in regulatory compliance, lack of transparency and mis-selling emerging in a smaller number of Member States (MS).
- In both mortgages and consumer credit the impact of the COVID-19 pandemic has led to a heightened engagement between lenders and borrowers with a focus on the use of moratoria and government guarantees. The EBA has supported such initiatives, with the aim of supporting the short-term operational and liquidity challenges faced by borrowers. Specifically, the EBA has clarified which measures do not to trigger forbearance classification and the assessment of distressed restructuring. The EBA has also underlined the importance of acting in the interest of the customer and avoiding unnecessary impact on their credit rating.
- *Payment services* have seen payment cards continuing to be the most widely used payment instrument in the EU, despite the increased use of other digital or online payment services. The number of card transactions rose in 2019 to just under 87 billion, 10% more than the previous year. Most stakeholders reported an increase in the use of contactless payments during the COVID-19 pandemic, which the EBA facilitated by calling on Payments services

providers to facilitate contactless payments, including by increasing the limit up to EUR50. The main concerns that emerged are fraudulent or unauthorised payments, and internet fraud.

- *E-money services* have experienced, at least within the Eurozone, a near doubling of the number and value of transactions. Not many consumer protection issues have emerged for e-money, which reflects what continues to be a comparatively insignificant volume and value for this type of payment service, despite its steady increase over recent years.
- *Payment accounts* are held by a very high percentage of the EU population, but issues have emerged regarding the impact of ‘de-risking’ on customers who are denied access to such accounts; the lack of awareness of the right of the individual to a payment account with basic features; the level of fees and charges; insufficient account switching; the impact of digitalisation on vulnerable consumers; and privacy issues.
- *Deposits* grew by 14.6% between 2015 and 2019. The main issues identified are the low interest rate environment and the consequent search for yield by consumers via alternative products with higher yields but also higher risks, and the application of negative interest rates by some credit institutions in some jurisdictions.

The report also outlines the topical issues that the EBA has identified as being relevant to consumers across the products and services summarised above. The issues are presented below in order of relative importance.

- *Indebtedness, responsible lending and creditworthiness assessment* – The main concerns raised relate to over-indebtedness, lack of principles and the definition of responsible lending; poor creditworthiness assessment procedures; potential increase of non-performing loans; inadequate selling practices (e.g. high and non-transparent fees on revolving credit); and insufficient transparency on digital contracts.
- *Fees and charges* – Concerns were raised in regard to fees and charges applied to payment accounts, payment services and loans. These mostly relate to transparency and pricing issues including the mismatch between the service rendered and the fee applied.
- *Digitalisation* – The main concerns raised are cybersecurity; data privacy; system failures; insufficient or inadequate disclosure through digital means; lack of awareness of consumers regarding who they are contracting with in cross border transactions; competition issues; and the impact of digitalisation on financial vulnerability.
- *Payment transactions* – The main concerns raised refer to unauthorised payment transactions; hidden fees; incorrect execution of payment transactions (including incorrect withdrawal at ATMs); and surcharges, (i.e. charging consumers for the use of a given means of payment). The EBA will review in 2021/22 the extent to which the security-related requirements it has developed in recent years in support of PSD2 have achieved the aims of the Directive to enhance the security of payment transactions.
- *Access to a bank account* – The main concerns raised are the impact of account providers ‘de-risking’ practices, with respect to entire categories of consumers as they are claimed to incur

higher AML/CFT risks. The EBA will assess the responses to its recent Call for input on de-risking to decide which, if any, steps it can and should take.

- *Selling practices* – Issues related to selling practices, although diverse across jurisdictions, are mostly linked to credit distribution; insufficient information provided to consumers; and incorrect application of the Product Oversight and Governance (POG) requirements. While the Consumer Trends Report was being developed in 2020, the EBA published the second supervisory convergence report with its findings on firms' implementation of the EBA Guidelines on POG. The EBA expects firms to implement the good practices identified in the report.

The EBA will assess these issues to identify which, if any, steps it could take in 2021/22 to contribute to better outcomes for consumers, taking care not to contradict ongoing legislative measures that are being considered by the EU Commission and/or EU co-legislators, such as the evaluation of the Payment Accounts Directive, the Payment Services Directive, the Mortgage Credit Directive, and the Consumer Credit Directive, and cognisant also of the post COVID-19 response including the Commission's Non-Performing Loans action plan. Where the EBA has already taken action, this is explicitly stated.

The evolution of the topical issues from the previous edition of the Report is depicted in the following table:

Consumer Trends Report 2018/19	Consumer Trends Report 2020/21
Fees and charges	Fees and charges
Indebtedness, responsible lending and creditworthiness assessment	Indebtedness, responsible lending and creditworthiness assessment
Data breaches and cybersecurity	Digitalisation
Transparency and disclosure of pre-contractual information and changes to contractual terms and conditions	Selling practices
X	Payment transactions
X	Access to bank account
Cross-border selling of products and services	X
Financial literacy and education	X

The present edition of the CTR includes a dedicated chapter on COVID-19. A significant impact on the retail banking products and services under the EBA's scope of action has been observed as a result of COVID-19, in that the pandemic has accelerated the 'digitalisation' of financial services mentioned above in the banking sector, in the form of a more digital approach to providing and using banking products and services, and an increase of contactless payments has been observed. In response to the global outbreak of COVID-19 and its spread in Europe, the EBA took a number of

actions to mitigate the impact of COVID-19 outbreak on the EU banking sector Including the publication of its Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 pandemic a statement on consumer and payment issues in light of COVID-19.

Finally, the report presents in a separate chapter the measures the EBA has taken in the last two years to address the topical issues identified in the CTR 2018/19. These include the development of the EBA Guidelines on Loan Origination and Monitoring (EBA/GL/2020/06); the EBA Financial Education Report (EBA/Rep/2020/12); the EBA Opinion addressed to the EU Commission on disclosure to consumers buying financial services through digital channels (EBA-Op-2019); a factsheet addressed to European consumers to raise awareness on key steps they should consider when choosing financial services through digital means; the development of Guidelines on ICT and security risk management (EBA/GL/2019/04); the EBA Report on potential impediments to the cross-border provision of banking and payment services; a JC (Joint Committee) Report on cross-border supervision of retail financial services; and two EBA reports reviewing the Guidelines on POG (EBA/Rep 2020/12).

Background

1. One of the mandates conferred on the EBA is to collect, analyse and report on consumer trends, as laid down in Article 9(1) (a) of the EBA Regulation¹ In order to fulfil this mandate, the EBA regularly publishes a Consumer Trends Report (CTR), and has done so in March 2013,² February 2014,³ June 2015,⁴ June 2016,⁵ June 2017,⁶ and, following a change from an annual to a biennial publication, in February 2019.⁷
2. Each report sets out the trends and issues that the EBA has observed in the period covered by the Report on the products and services within its remit, identifies the topical consumer protection issues that arise or have arisen for consumers and reflects on the initiatives that the EBA has taken in response or is considering for inclusion in its work programme for the following year(s). In addition, this edition of the Report identifies the issues that have arisen as a result of COVID-19, as well as the regulatory and supervisory measures taken by CAs and the industry to address these. Finally, this edition of the Report also includes the regulatory and supervisory measures that CAs and the EBA have taken to address the topical issues identified in the previous edition of the CTR (2018/19).
3. The CTR 2018/19 was the first biennial publication of the report. The EBA will continue to publish the report every two years in the future, mainly to allow sufficient time for the EBA to react on the issues and trends identified and to avoid repetition of some topics, which tend to be recurring.
4. The products and services that are covered in the EBA's CTR comprise all retail banking products and services that fall within the scope of action of the EBA's consumer protection mandate. This includes mortgages, consumer credit, payment services and electronic money, payment accounts and deposits (including structured deposits). This edition of the report, which covers the years 2020 and 2021, sets out the trends and issues that the EBA has identified and analysed from a consumer protection perspective.
5. The CTR 2020/21 is primarily based on the consumer protection priorities identified by national competent authorities (CAs) in the 27 EU Member States (MSs). Further input was received from a selection of national and EU consumer associations, the members of the Financial Dispute Resolution Network (FIN-NET) and EU industry associations. All of these

¹ Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority). See consolidated text: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02010R1093-20200101>

² <http://www.eba.europa.eu/-/eba-publishes-consumer-trends-report>

³ <http://www.eba.europa.eu/-/eba-publishes-consumer-trends-repo-1>

⁴ <http://www.eba.europa.eu/-/eba-updates-on-consumer-trends-in-2015>

⁵ <https://www.eba.europa.eu/documents/10180/1360107/Consumer+Trends+Report+2016.pdf>

⁶ <http://www.eba.europa.eu/documents/10180/1720738/Consumer+Trends+Report+2017.pdf>

⁷ <https://eba.europa.eu/eba-publishes-consumer-trends-report-for-2018/19>

stakeholders were asked to name the topical consumer issues they had observed respectively, and the trends in 2020 and related issues that they therefore considered the EBA should address in 2021 and beyond. Unless otherwise stated, all information presented in this report has been obtained from these sources. This was further complemented by the EBA's analysis of statistical datasets and reports, produced by public sources, such as Eurostat, the European Central Bank (ECB) and the World Bank, on market developments across various categories of financial services, which the report credits separately as sources. In the absence of relevant aggregate data for all 27 EU Member States, the report exceptionally refers to data for the subset of EU Member States that belong to the Eurozone. The Report refers to the most recent available version of the data and that can vary across data. Whilst in some cases data of 2020 is available, in other cases the data is available only until 2019.

6. The 2020/21 edition of the report differs from previous reports in that it is split into four, rather than two, chapters. As in previous editions of the Report, chapter 1 covers the retail banking products and services within the scope of action of the EBA's consumer protection mandate and that are therefore monitored by the EBA and chapter 2 covers the topical issues identified for the purposes of the Report. The newly added chapters 3 and 4 cover COVID-19 and EBA measures to address the issues identified in the CTR 2018/19 respectively.
7. The information on retail banking products and services comprises a short introduction to each product/service, the evolution and trends of the product/service, the legal and regulatory framework, the relevant issues observed, relevant regulatory and supervisory measures adopted by CAs and the EBA, and the main reasons for complaints reported by CAs and FIN-NET members.
8. As in previous editions of the Report, chapter 2 outlines topical issues that the sources have identified as relevant to the EBA. These issues tend to vary between the editions of the report, which reflects the varying inputs received over time and from the different sources consulted by the EBA. The topics include 'fees and charges', 'indebtedness, responsible lending and creditworthiness assessment', 'access to a bank account', 'selling practices', 'payment transactions', and 'digitalisation'.
9. As highlighted in chapter 2, while the topical issues of 'Fees and charges' and 'Indebtedness, responsible lending and creditworthiness assessment', 'selling practices' and, to some extent, 'digitalisation' recur from the previous edition of the report (2018/19), others, such as 'access to a bank account', and 'payment transactions' are new to this edition of the Report.
10. The description of each topical issue consists of a brief introduction of the topic and its relative importance, the relevant issues that have been identified as arising from the topic across the EU, and the regulatory and/or supervisory measures the EBA and CAs have already undertaken to address some of the relevant issues. In addition, this edition of the Report includes the regulatory and supervisory measures that CAs have adopted to address the topical issues identified in the previous edition of the Report, 2018/19.

11. Chapter 3 of the report has been introduced for the first time in the CTR. It covers the impact of COVID-19 on the retail banking products and services under the scope of EBA's scope of action, and on the topical issues identified. It also covers the measures taken by CAs and the industry to address the referred impact.
12. References to the impact of COVID-19 are also present in chapters 1 and 2 on retail banking products and services and topical issues respectively, to allow the reader a more comprehensive view when reading only these chapters. However, for having a complete picture on COVID-19 related impact and measures to address this, the reader is encouraged to also read chapter 3.
13. Chapter 4 of the Report has also been introduced for the first time in the CTR. It covers the measures taken by the EBA to address the issues identified in the previous edition of the CTR, 2018-19.

Chapter 1: Retail banking products and services

14. This section covers the retail banking products and services within the scope of action of the EBA's consumer protection mandate. These products and services are monitored by the EBA, feature in every edition of the report, and include mortgages, consumer credit, payment services, electronic money, payment accounts and deposits. In addition, the report covers structured deposits in fulfilment of the EBA's separate mandate under the Regulation on Markets in Financial Instruments (MIFIR) to monitor the market for structured deposits that are marketed, distributed or sold in the EU.

Residential mortgages

Introduction

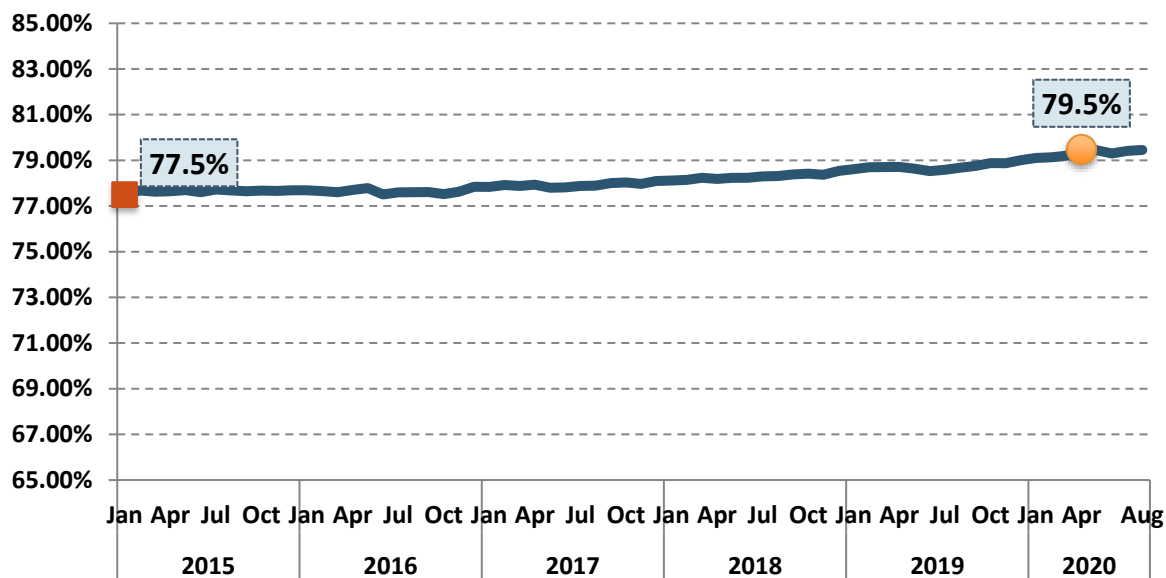
15. For the purpose of this report, 'mortgages' are understood, in the context of Article 3 (1) (a) and (b) of Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property (the Mortgage Credit Directive, or MCD) as credit agreements, entered into by consumers, which are secured either by a mortgage or by another comparable security commonly used in an MS of the European Union on residential immovable property or used to acquire or retain property rights in land or in an existing or projected building.
16. Most CAs explained that residential mortgages represent households' main source of indebtedness and some of them emphasised the importance of mortgage loans by underlining aspects such as the purchasing of a residential property being the largest financial transaction consumers make in their lifetime, and home ownership being preferred over renting.⁸

Evolution and trends

17. Mortgages have a big impact on consumers' personal finances, representing 79% of loans to households in EU MSs in 2020 (see Figure 1). There has been a small but steady increase of the share of loans being drawn down for house-purchasing purposes, up from 77.5% in January 2015 to 79% in August 2020.

⁸ <https://www.statista.com/statistics/246355/home-ownership-rate-in-europe/>

Figure 1: Mortgages as a percentage of loans to households in EU MSs

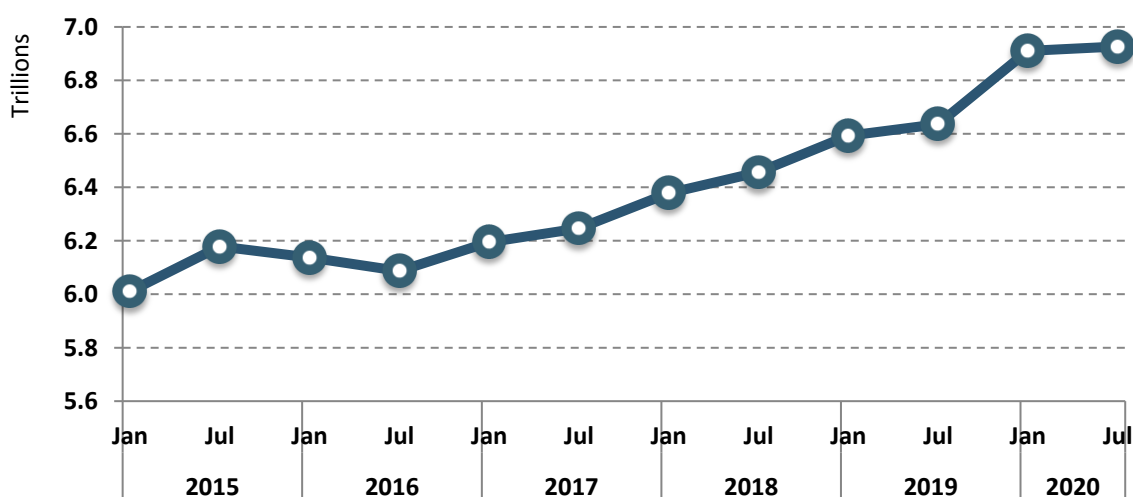


Source: ECB

Note: 28 EU MSs

- 18. Lending for house purchases rose in a steady upwards trajectory from EUR 6.01 trillion in January 2015 to EUR 6.93 trillion in 2020 representing an increase of EUR 920 billion that five- year period (see Figure 2).

Figure 2: Amounts (in Euros) of lending for house purchases, 2015–2020

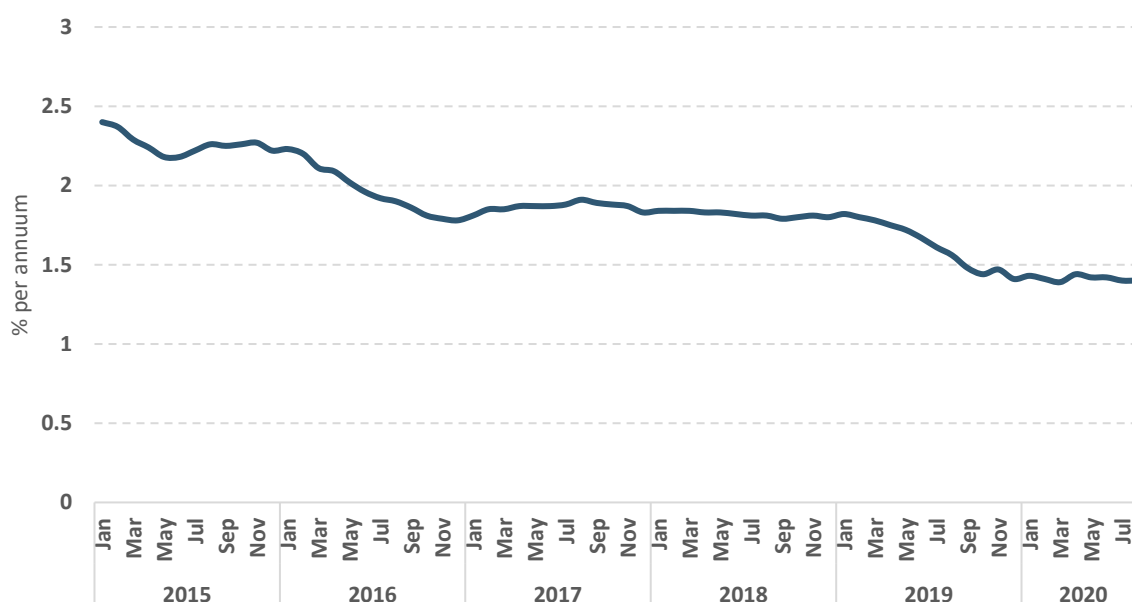


Source: ECB

Note: 28 EU MSs

19. A significant number of CAs confirmed the above aggregate statistics by reporting an increase in the volume and value of new mortgage drawdowns in their respective jurisdictions.
20. Most CAs highlighted that the low interest rate environment has resulted in an increase in the number of residential mortgages in recent years. Some CAs also mentioned that said environment has also resulted in the refinancing of existing mortgage contracts.
21. However, some CAs mentioned that the COVID-19 pandemic lowered, at least temporarily, the demand of these loans and led to a general decrease in the number of mortgages granted. A few CAs observed an increasing trend of the provision of mortgage loans through online channels, including the conclusion of the credit agreement. A few CAs also mentioned the increasing role of credit intermediaries in the contracting process of mortgages.
22. A few CAs also identified an increasing interest of consumers in fixed interest rate loans, given the low interest rate levels at present. Some CAs reported that the share of fixed-rate mortgage loans accounted for almost half of the stock of loans.
23. Figure 3 depicts the annualised rate of lending (AAR)/narrowly defined effective rate (NDER) for house purchase in the Euro area, 2015–2020. The AAR is defined as ‘the interest rate that is individually agreed between the reporting agent and the household or non-financial corporation for a deposit or loan, converted to an annual basis and quoted in percentages per annum’. Instead of the annualised agreed rate, NCBs may require their reporting agents to implement the narrowly defined effective rate (NDER) for all or some deposit or loan instruments referring to new business and outstanding amounts. The NDER refers to an annual basis and is defined as the interest rate that equalises the present value of all commitments other than charges (deposits or loans, payments or repayments and interest payments), future or existing, agreed by the MFI (Monetary Financial Institutions) and the household or non-financial corporation.
24. Based on the data presented in Figure 3, the overall cost of borrowing for home purchases across the Euro area as a whole should have decreased over the past six years because of the decrease in the interest rate of lending for house purchases. However, this figure does not reflect the differences that continue to exist between Euro area jurisdictions in respect of consumers’ access to, and the availability of, affordable mortgage credit.

Figure 3: Annualised rate of lending for house purchases in the Euro area, 2015–2020



Source: ECB

Note: Euro area (changing composition)

Legal and regulatory framework in the EU

25. The MCD aims to develop a more transparent, efficient and competitive internal EU market, through consistent, flexible and fair credit agreements relating to residential immovable property, while promoting sustainable lending and borrowing practices, and financial inclusion, thus providing a high level of consumer protection and promoting financial stability.
26. The entry into force of the MCD across the EU in 2016 also brought about the introduction of a number of Level 2 and 3 measures developed by the EBA, including Regulatory Technical Standards (RTS) on the Minimum Monetary amount of Professional Indemnity Insurance or comparable guarantee to be held by credit intermediaries under the MCD (EBA/RTS/2014/08); an EBA decision specifying the benchmark rate under the MCD (EBA/DC/2016/145); EBA Guidelines on Arrears and Foreclosure (EBA/GL/2015/12); and EBA Guidelines on Creditworthiness Assessment (EBA/GL/2015/11). The EBA/GL/2015/11 have been fully incorporated to the recently published EBA Guidelines on Loan Origination and Monitoring (EBA/GL/2020/06), and will be repealed by them from its application date of 30 June 2021.

Relevant issues

27. The issues related to residential mortgages vary substantially among CAs. However, three common issues have emerged across CAs: the high level of indebtedness of some consumers; credit renegotiation between creditors and borrowers initiated by borrowers seeking to benefit from the low interest rate environment; and some mis-selling practices of mortgages.
28. In this context, a few CAs observed that the expected rise in credit default levels by households mainly due to COVID-19 is an issue of great concern. Although some measures implemented especially to overcome the effects of COVID-19, such as payment moratoria, have helped to mitigate the increase of non-performing loans (NPLs) in the short term, there is still a great uncertainty about default levels in the medium and long term after the termination of such measures.
29. Some CAs also reported concerns on certain banking and selling practices, such as the delay by credit institutions in cancelling a mortgage, serving as collateral to the credit agreement, after the full repayment of the credit, as well as the lack of information on the right for borrowers to freely choose their credit insurance. Another issue reported by some CAs refers to the lack of information and/or lack of transparency on the fees and charges applied and the levels of such fees.
30. In addition to the above-mentioned common trends, the following issues were reported, but by no more than one or two CAs:
 - attempts to circumvent regulatory limits on early repayment fees;
 - lack of clarity on the costs linked to early repayment of the credit when switching creditor;
 - lack of clarity as regards the annual percentage rate of charge (APRC) calculation in relation to additional costs (payment account fees, insurance, administrative fees, cost on evaluation);
 - lack of clarity as regards the calculation of the interest rate for mortgages where the interest rate applicable is linked not just to the value of the reference rate, but also to the products held by the client;
 - rise in the demand for foreign currency loans vs refusal by institutions to provide loans in foreign currencies, so as to not take currency exchange risks;
 - the sale of NPLs to third parties and the impact that this may have on the rights of consumers;
 - on credit intermediaries, issues regarding the provision of inaccurate information, the incorrect calculation of the amount owed when refinancing residential mortgages and hidden fees to consumers that increase the price of mortgages.

Regulatory and supervisory measures at a national level

31. The majority of CAs took regulatory and supervisory initiatives related to responsible lending. These include macroprudential recommendations on:
 - limits to loan-to-value ratio;
 - debt service-to-income (DSTI) ratio;
 - credit maturity;
 - distinction between first time buyers and non-first-time buyers;
 - definition of the minimum cost of living as an essential element to determine the creditworthiness assessment of consumers; and
 - elements of the creditworthiness assessment procedure, such as credit register consultations.
32. A number of CAs have also conducted on-site and off-site inspections to verify compliance with creditworthiness assessment obligations, as well as with pre-contractual and contractual information requirements.
33. Additionally, some CAs also reported having carried out inspections to verify compliance with specific MCD provisions, including APRC calculation, bundling and tying practices, early repayment, the management of arrears situations and the provision of regular information throughout the duration of the contract.
34. A few CAs decided to monitor interest-only mortgages, i.e. those mortgages where the consumer pays only the interest charged each month for the loan and the amount borrowed at the end of the term, and their risks. A few CAs also monitored the advertising and marketing of mortgages. As a result of those activities, shortcomings in the provision of information about loan prices, contractual terms and conditions, benefits offered along with the loan, and advertising of offers that have expired were detected.
35. The following regulatory and supervisory measures were reported by only one or two CAs:
 - establishment of a framework of authorisation and supervision of credit servicing/management firms;
 - communication to the industry on the expectations of the CA regarding the sale, securitisation, purchase and transfer of residential mortgage loans;
 - a legal amendment that allows the choice between customary price (i.e. price expected by consumers) and market price (which may correspond better to real market conditions) to value the immovable property used to secure the consumer credit for housing purposes;
 - introduction of new regulatory requirements that facilitate mortgage switching through enhanced transparency and provides additional protection for consumers who are eligible to switch;

- an initiative that limits the amount of fees to 0.015% of the overdue amount after the termination of the mortgage agreement;
- an initiative on the right to request the deferral of payments in the event of the loss of at least one-third of the income;
- a legal initiative that establishes an obligation for credit institutions to reflect, in full, negative Euribor rates in mortgage agreements, either by decreasing the outstanding amounts of the coming instalments or creating a credit in favour of the borrower to be deducted whenever interest rates return to positive values;
- a recommendation for credit institutions to change variable-rate loans into fixed-rate ones, offering the opportunity to consumers to amend the existing contracts;
- an initiative in cooperation with the industry to define the expectations of the regulator on the development of automated financial services, ('robot-advice'), namely the quality of such services and the duty of care.
- review of procedures and arrangements regarding the knowledge and skills of employees involved in brokering mortgage contracts;
- an initiative regarding requirements to apply and act as a 'credit intermediary'.
- thematic review of compliance with minimum standards for foreign currency loans based; and
- monitoring whether floor clauses (i.e. limit on the lowest interest rate, included in mortgage loan contracts) and whether they are properly applied in accordance with the transparency criteria established in the recent rulings of the European Court of Justice.

36. Some initiatives under development were also mentioned by some CAs, such as:

- technical standards for APRC calculation; and
- simplification of the possibility for the consumer to terminate their credit insurance contract.

Complaints

37. The most common reasons for consumers' complaints about mortgages received by CAs in 2018 and 2019 were about fees and charges, early repayment, refusals of loan applications, pre- and post-contractual information and arrears handling. Only six FIN-NET members reported figures on complaints. Some of the reasons behind consumer complaints about mortgages were related to early repayment of the loan (5), contract termination (5), fees (4) and sales advice (3). Several CAs did not provide complaints numbers, based on unavailability of the information, or not being competent to handle complaints.

Consumer Credit

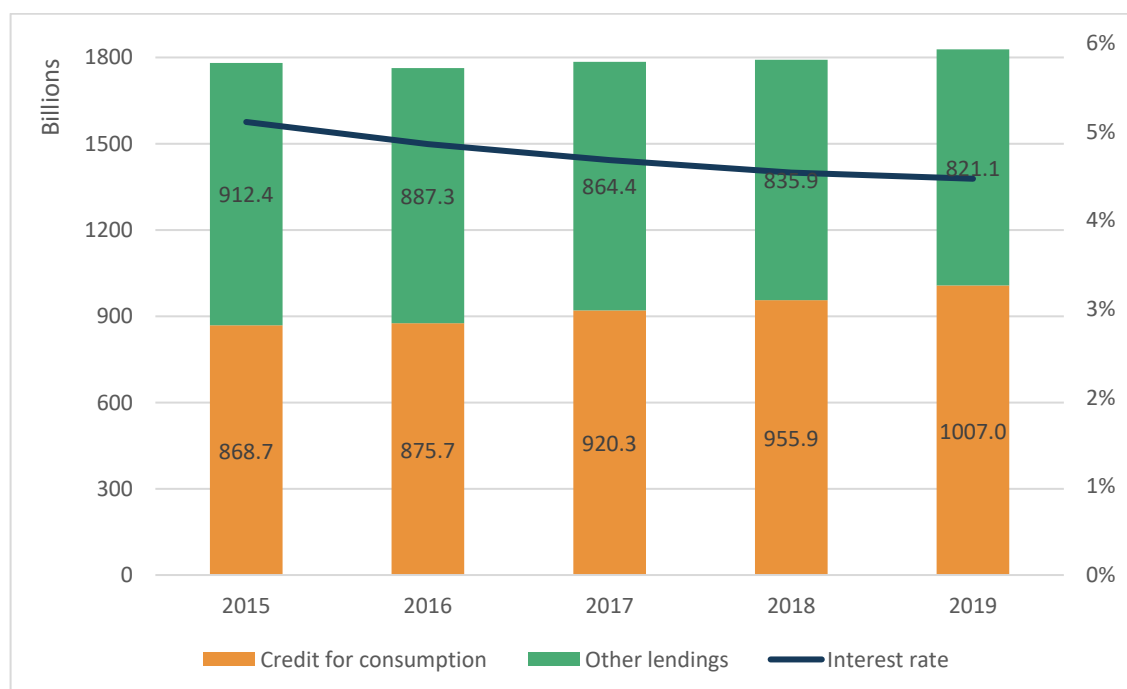
Introduction

38. Several stakeholders highlighted that consumer credit plays an important role in the lives of consumers. These products offer opportunities and have contributed to economic recovery in recent years. However, consumer credit also presents risks to consumers. This is why careful financial service and advice is of great importance, especially when the consumer is in a vulnerable situation. While consumer credit can help consumers with expenses, there is also the risk of over-indebtedness.
39. In some jurisdictions, credit institutions are the dominant providers of consumer credit. Several stakeholders highlighted that consumer credit is becoming more important among credit institutions as digitalisation and automation allows for faster credit granting procedures without the physical presence of the client.

Evolution and trends

40. The volume of consumer credit has increased by 14% between 2015 and 2019 (See figure 4).

Figure 4: Consumer credit, 2015–2019 (billion EUR, outstanding amounts)

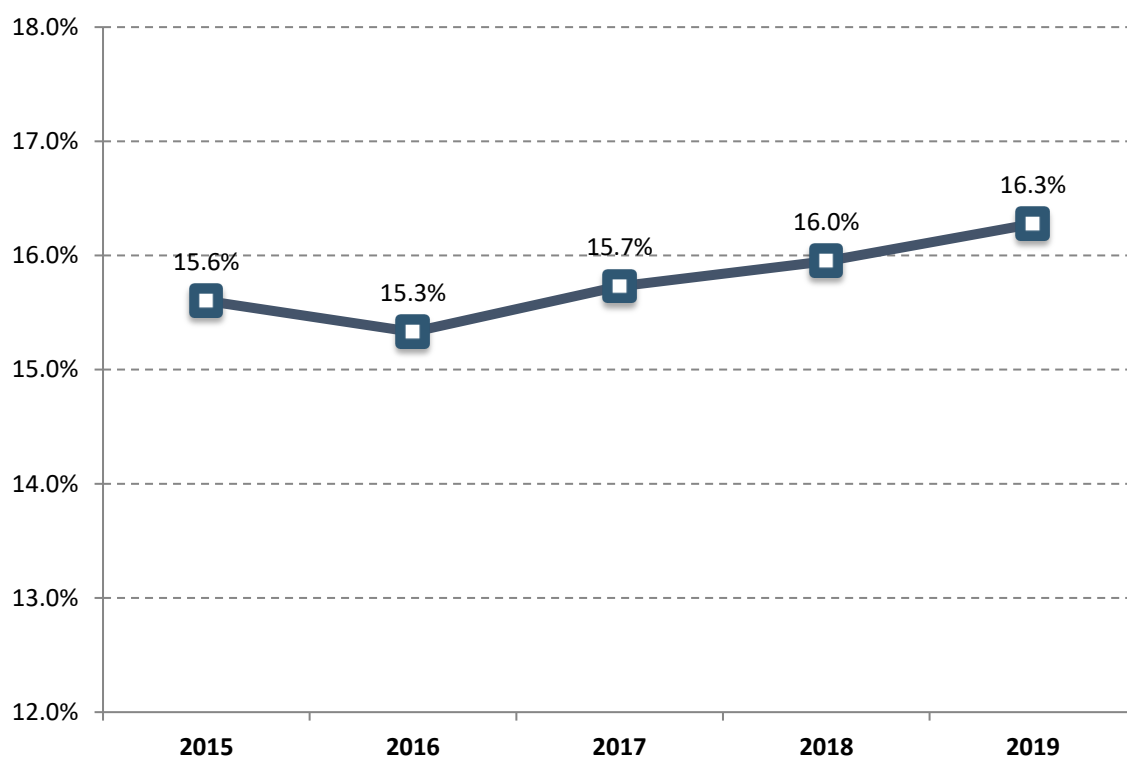


Source: ECB

Note: 28 EU MSs

41. Figure 5 depicts credit for consumption to all loans from 2015–2019. For the purpose of this report, credit for consumption is defined as ‘loans granted for the purpose of mainly personal use in the consumption of goods and services. Credit for consumption granted to sole proprietorships/partnerships without legal status is included in this category, if the reporting MFI knows that the loan is predominantly used for personal consumption purposes’.
42. The ratio of outstanding amounts of credit for consumption to all loans has been relatively stable throughout the past 5 years, between 15.60% in 2015 and 16.28% in 2019 (see figure 5).

Figure 5: Credit for consumption to total household loans (outstanding amounts), 2015–2019



Source: ECB

Note: 27 EU MSs Excluding Denmark

43. In line with the aggregate statistics and trend depicted in figure 5, all CAs with the exception of one highlighted the importance of this product in their jurisdiction. A few CAs highlighted that credit intermediaries are of growing importance in consumer credit, namely in car loans. One CA noted that growth in consumer loans has been slowing since the end of 2019, but dropped sharply when COVID-19 started.
44. One CA reported that the volume of NPLs as a percentage of total volume of the overall credit (i.e. including performing positions) has declined in 2019.

45. Several CAs indicated that the trend is towards the introduction of online personal lending covering the entire lending procedure. More specifically, one CA noted as a long term trend the significantly increasing number of online non-bank providers of micro-loans, which offer the possibility to conclude a consumer credit contract entirely online. Another CA noted that there is a trend for non-bank providers to offer micro-loans to clients free of charge, speculating in their inability to pay back on time and having therefore to pay additional interest to the provider for delayed payment.

Legal and regulatory framework in the EU

46. Acknowledging the different types of credit offered to consumers that have appeared and evolved over the years, EU legislators adopted the Consumer Credit Directive (CCD) on credit agreements for consumers, which has been applicable since 11 June 2008. The revision of the EBA founding regulation brings this EU Directive under the scope of action of the EBA since 1 January 2020.
47. It is important to highlight the relevance of the CCD, which aims to achieve a more transparent, efficient and well-functioning internal EU market in consumer credit while ensuring a high level of consumer protection. The CCD sets out a harmonised set of rules at the EU level, regarding pre-contractual and contractual information to be provided to consumers. In addition, the CCD sets out a set of obligations for lenders, who are now required to provide adequate explanations to consumers, to enable the consumer to assess whether the proposed agreement corresponds to their needs and financial situation, and to assess consumers' creditworthiness prior to the conclusion of a credit agreement, as well as before any significant increase in the total amount of credit.
48. Furthermore, the EBA published Guidelines on loan origination and monitoring in May 2020, with an application date of 30 June 2021. These Guidelines repeal the former Guidelines on creditworthiness assessment (EBA/GL/2015/11) and aim to ensure that institutions have prudential loan origination standards in place, in order to prevent newly originated performing loans from becoming non-performing in the future and to bring together the prudential framework and consumer protection aspects of credit granting. The Guidelines apply both to loans under MCD and CCD.⁹

Relevant issues

49. Regarding consumer credit, the main issue identified by CAs refers to poor creditworthiness assessment. Several CAs reported that credit decisions are made on the basis of too little information, such as the credit applicants' income, credit data, or debt service expenditure, at times relying only on credit reference firms. Other financial situation information is not

⁹ When the loan falls under the scope of the Mortgage Credit Directive (MCD), Section 5 on loan origination procedures applies to creditors, as defined in Article 4(2) of this directive, except for paragraph 93 (i.e. when the borrower is a member of a group of connected clients). When the loan falls under the scope of the CCD, Directive Section 5 applies to creditors, as defined in point (b) of Article 3 of that directive, except for the referred paragraph 93.

always investigated or properly verified which results in the risk of a lack of a comprehensive view of the consumer's total burden when a key element of the creditworthiness assessment is precisely taking into account the consumer's total existing debt. Other examples of poor creditworthiness assessments reported by CAs refer to application by credit institutions of more lenient credit assessment standards than in the case of housing loans and a lack of a uniform methodology. According to CAs' feedback, this particularly applies to revolving credit, i.e. a certain limit or maximum credit granted and available, allowing deferred payments of the amounts used and where, in exchange, the consumer shall pay instalments, they may choose the amount of each instalment, and the refund amounts are disposable again.

50. Other common issues reported by CAs are over indebtedness, credit management, debt enforcement, excessive interest rates and fees including early/total repayment fees, shortcomings in regulatory compliance, lack of transparency and mis-selling.
51. Regarding fees, revolving credits are one of the most reported products when it comes to causing consumer detriment. A high proportion of credit cards allowing several payment modalities tend to be configured by default with the option of a pre-set minimum. This considerably lengthens the time it takes to pay off the credit, and may even imply that the consumer never finalises paying the credit, especially if each instalment only covers interest and fees. These issues have an impact on over indebtedness.
52. A few CAs reported several challenges posed by the growing commercialisation of consumer credit through digital channels. The referred CAs highlighted the importance to ensure that the applicable rules are complied with irrespective of the channel used to provide retail banking products or services (technological neutrality) and that in the context of digitalisation it is sometimes difficult to identify the institution acting behind a certain brand.
53. Other individual issues reported by CAs refer to:
 - concerns regarding credit providers who provide credit indirectly to consumers, by paying a retailer directly upfront for goods and the consumer then pays back the credit in instalments to the credit provider. This type of firm model currently falls outside the regulatory perimeter of that specific jurisdiction;
 - hire purchase provider, (providers who sell their products on an instalment plan) when not required to be authorised in a jurisdiction;
 - inadequate management of financial difficulties by consumers;
 - increasing focus on automating the credit granting process: automatic tools make it at times unclear what weight is given to the consumer's effective ability to repay;
 - attempts to circumvent regulatory limits on early repayment fees by structuring the interest rate as a combination of a higher base interest rate and a bonus discount interest rate. Early repayment would trigger a contractual clause retrospectively cancelling the discount rate and the consumer would be charged

additional interest payment as a direct consequence of the early repayment, effectively paying an additional (legally prohibited) fee; and

- loans provided on a cross-border basis where providers located abroad are not always identifiable.

Regulatory and supervisory measures

54. In order to address the mentioned issues, CAs have been generally very active in adopting a wide range of regulatory and supervisory measures including:

- increase of supervisor's knowledge of the revolving credit¹⁰ card market;
- issuance of guidelines, reports, regulations or recommendations on consumer creditworthiness assessment;
- current work on supplemental technical standards for APRC calculation;
- ongoing monitoring of banks and creditors (on-site and off-site inspections of creditworthiness assessment);
- in response to numerous consumer complaints that various websites were providing deceptive information about consumer loans, one CA conducted an ad hoc off-site review of the issue. This CA identified more than 500 webpages whose content was problematic. These pages were in various ways and degrees misleading or deceptive in their marketing of consumer credits;
- developing a positive credit registry;
- caps for interest rates on consumer credit. Several CAs calculate the maximum interest rates in force for each type of consumer credit. These rates constitute maximum limits on the APRCs that can be contracted in each type of consumer credit agreement;
- regulation of cold calling and the combat against fraudulent calls;
- mystery shopping as part of a thematic investigation on commercial communication of providers of car loans and leasing products, mainly in respect of the annual percentage rate (APR);
- monitoring commercial advertising;
- recommendations on product supervision and governance arrangements related to the retail financial market products;

¹⁰ For the purposes of this Report, revolving credit should be understood as credit granted to consumers where the drawn credit is not repaid in full at the end of each settlement period, but rather paid off in regular instalments. One CA reported that there are credit cards that operate exclusively as revolving credit cards available on the market and that a high proportion of these are issued with the default configuration for the payment of a pre-set minimum instalment.

- recommendations on the consumer protection principles to the financial institutions;
- assisting with the development of legislation to introduce an authorisation regime for hire purchase providers and indirect credit providers;
- one CA has commenced a review of its core consumer protection requirements;
- linked credit agreements, (i.e. credit in the form of deferred payment for a specific good or service), and revolving credits are priorities in several CAs;
- one CA is actively encouraging providers of consumer credit to supply loans only in relation to the product that is being paid off with it (e.g. loans connected to the actual duration of use of the product);
- issuance of a recommendation requiring institutions to provide the CA with information on the marketing of consumer credit products initiated and concluded digitally;
- limits of maturity;
- following the judgement of the EU Court of Justice dated 11 September 2019 (case 'Lexitor' C-383/18), interpreting of Article 16 (1) of the EU Directive 2008/48/CE on credit agreements for consumers, one CA has issued instructions on the early repayment in credit agreements for consumers. Particularly, clarifications have been issued for both new credit agreements and existing credit agreements. In the event of early repayment, consumers' right to the reduction in the total cost of the credit shall include all costs (not only recurring costs, but also any upfront costs which are not linked to the duration of the credit agreement); and
- establishment of a framework of authorisation and supervision of credit servicing/management firms.

Complaints

55. The most common reasons for consumers' complaints about consumer credit received by CAs in 2018 and 2019 were over indebtedness, the level of fees, various issues related to pre-contractual and contractual information, debt collection, inadequate levels of interest rates and management issues.
56. In addition, FIN-NET members reported that the most common reasons for complaints by consumers in relation to consumer credit were collection of fees; advisory services; demands at easing the payment terms (request for rate reduction; debt amount; debt extinction; requests for payment in instalments); and creditworthiness assessment (refusal of a credit request).

COVID-19 response

The data gathered in this report largely stems from the period before the COVID-19 pandemic and thus reflects the more general consumer trends competent authorities observed in recent years. Nonetheless, the EBA and competent authorities have been actively involved in identifying, facilitating and monitoring support measures during the pandemic. In that context, a key issue of relevance in relation to mortgages and consumer credit is the enhanced level of engagement between borrowers and lenders as a result of the economic distress caused by the COVID-19 pandemic. This has taken the form of moratoria as well as the extensive use of government guarantees.

The EBA published¹¹ on 2 April 2020 Guidelines on legislative and non-legislative moratoria on loan repayments identifying the conditions under which exposures covered by the moratoria should not necessarily be classified as forborne and, consequently, would not have to be automatically assessed as distressed restructuring under the definition of default. The EBA also issued a statement calling on financial institutions to ensure that they act in the interest of the consumer, in particular when engaging with customers regarding temporary measures for consumer and mortgage loans in identified cases, avoiding penalty fees, not impacting their credit rating and ensuring the referred measures are granted in compliance with EU law, such as the Mortgage Credit Directive and the Consumer Credit Directive, focusing on the importance of full information disclosure, especially of any potential charges and costs, and the transparency and clarity of terms and conditions. The EBA also observed the best practices document facilitated by the EU Commission on ways to enhance effective engagement between lenders and borrowers.¹²

The EBA risk dashboard, as of Q3 2020, publishes supervisory data on moratoria and public guarantee schemes.¹³ As of September, EUR 936.7bn of loans had benefited from an EBA-compliant moratoria on loans and advances. This represents 6.5% of total loans. Of these, EUR 391.7bn (or 41.8%) were loans towards households, while EUR 533.1bn (56.9%) were

¹¹ <https://www.eba.europa.eu/coronavirus>

¹² https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200714-best-practices-mitigate-impact-pandemic_en.pdf

¹³ https://www.eba.europa.eu/sites/default/files/document_library/Risk%20Analysis%20and%20Data/Risk%20dashboard/Q3%202020/961888/EBA%20Dashboard%20-%20Q3%202020.pdf

towards non-financial corporations. EUR 586.9bn were under current moratoria while EUR 349.8bn had their moratoria expired.

As regards loans towards households, EU banks reported that EUR 231.8bn were under current moratoria, while EUR 159.9bn had their moratoria already expired in September 2020. The majority of the loans towards households under moratoria were collateralised by residential immovable property.

As of Q3 2020, the newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis amounted to EUR 288.5bn (EUR 184.4bn in June 2020). Of these, 94.7% were towards non-financial corporations.¹⁴

As moratoria come to an end, ongoing engagement will be needed and the EU Commission NPL action plan and the need for effective engagement with consumers as per the EBA's NPE guidelines will be important.¹⁵ More information can be found in chapter 3.

Payment services

Introduction

57. Payment services are crucial for a developed economy. Secure, efficient, innovative, and user-friendly payments are beneficial for consumers, enabling them to access a wider range of goods and services, including through e-commerce.
58. The recent, on-going COVID-19 pandemic has shown the increased importance of electronic and digital payment transactions in order to allow consumers to continue making their payments while containing social contact. The sector has experienced a rapid development in the last few years; the presence of new and newly regulated players in the market and the growth of innovative technologies will change and modernise the payment habits of private individuals. Nevertheless, preventing distress and malfunctioning is key to avoid huge losses, financial instability in the system, and to prevent consumers from losing their trust in the payments services industry.

Legal and regulatory framework in the EU

¹⁴ https://www.eba.europa.eu/sites/default/documents/files/document_library/Risk%20Analysis%20and%20Data/Risk%20Assessment%20Reports/2020/Thematic%20notes/Thematic%20note%20on%20moratoria%20and%20public%20guarantees/936761/For%20publication%20-%20Thematic%20note%20on%20moratoria%20and%20public%20guarantees.pdf

¹⁵ https://ec.europa.eu/info/publications/201216-non-performing-loans-action-plan_en

59. The revised payments service directive (PSD2) lays out EU rules on payment service providers (PSPs), regarding their authorisation and registration, use of agents, branches or entities to which payment service activities are outsourced, and supervision of PSPs; transparency of conditions and information requirements for payment services; and rights and obligations in relation to the provision and use of electronic payment services.
60. PSD2 brings under the scope of EU regulation account information services (AIS) and payment initiation services (PIS) and aims to ensure equivalent operating conditions to existing and new players, enhance competition, digitalisation transparency, security in the use of payments, and consumer protection, in a harmonised payments market.
61. It also lays out EU rules on payment institutions and e-money institutions regarding their authorisation and registration, use of agents, branches, or entities to which activities are outsourced, and supervision of these payment service providers (PSPs). It further builds on the requirements for transparency of conditions and information for payment services and rights and obligations in relation to the provision and use of payment services contributing to the consumer protection objective.
62. In support of PSD2, the EBA developed six technical standards and six sets of Guidelines. While the extent to which the protection of consumers is enhanced varies significantly between them, they all merit being mentioned:
- RTS on passporting notifications under PSD2 (EBA/RTS/2016/08);
 - RTS on strong customer authentication (SCA) and common secure communication (CSC) under PSD2 (EBA/RTS/2017/02);
 - RTS on central contact points (EBA/RTS/2017/09);
 - RTS & ITS on EBA Register (EBA/RTS/2017/10) (EBA/ITS/2017/07);
 - RTS on home-host coordination (EBA/RTS/2018/03);
 - GL on authorisation of payment institutions (EBA/GL/2017/09);
 - GL on professional indemnity insurance (EBA/GL/2017/08);
 - GL on ICT and security risk management (EBA/GL/2019/04) which repealed GL on operational and security measures (EBA/GL/2017/17);
 - GL on incident reporting (EBA/GL/2017/10);
 - GL on complaints procedures by CAs; (EBA/GL/2017/13); and
 - GL on fraud reporting (EBA/GL/2019/05).
63. In addition, the EBA has provided further clarity on payment-related questions through more than 130 answers to questions received by external stakeholders via the EBA Q&A tool¹⁶ and through five Opinions.

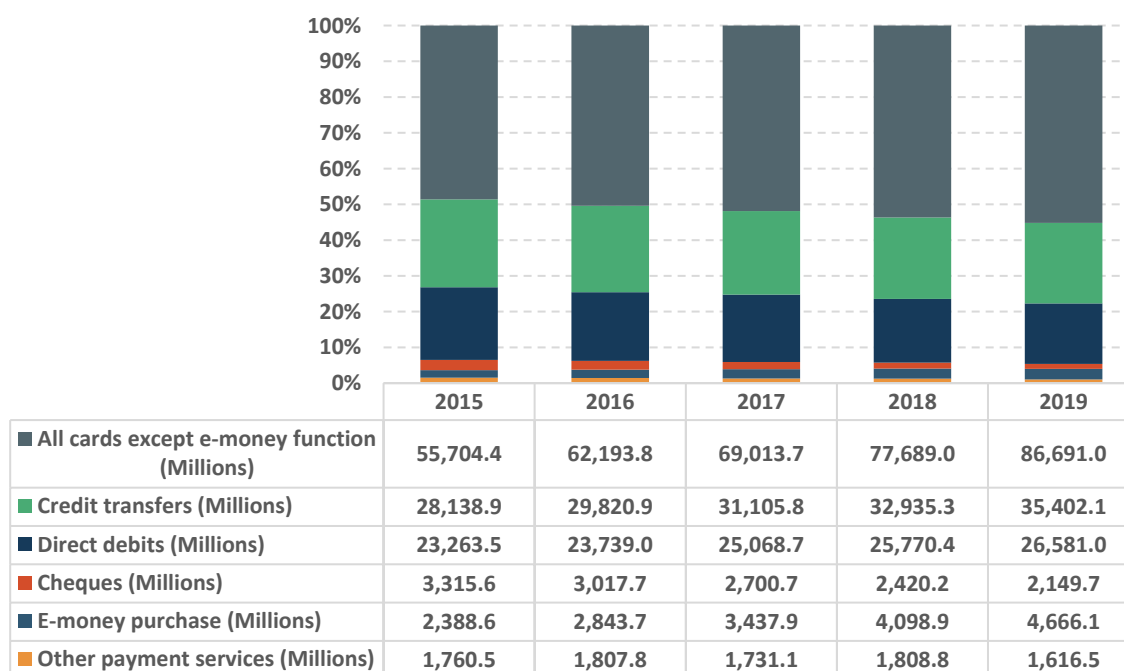
¹⁶ <https://www.eba.europa.eu/single-rule-book-qa>

64. One of the key changes in PSD2 was the introduction of security requirements in EU law, which were further specified in the EBA's RTS on SCA and CSC. These requirements aim to increase consumer protection by ensuring the safety of payment service users' funds and personal data and decreasing the risk of payment fraud, which should also strengthen trust in e-commerce.
65. SCA is a procedure for the verification of the identity of payment service users, including consumers (or their payment instruments) based on the use of two or more independent elements, categorised as:
 - Knowledge: something only the user knows, such as a password;
 - Possession: something only the user possesses, such as a mobile phone or a card reader; and
 - Inherence: something the user is, such as biometrics based on a fingerprint.
66. The EBA played a crucial role in the implementation and application of the SCA requirements by payment service providers. It published the Opinion on the implementation of the RTS on SCA and CSC (EBA-Op-2018-04) and an Opinion on the elements of SCA under PSD2 (EBA-Op-2019-06), as well as more than 100 answers to questions related to these requirements submitted via the Q&A tool, providing further clarity on the application of SCA and other security requirements, SCA exemptions and more.
67. The SCA requirements have been in effect as of September 2019, but following additional time granted by the EBA to national authorities and payment service providers with regard to the subset of payment transactions that are e-commerce card-based payment transaction, will come fully into effect at the beginning of 2021.
68. In addition to the extensive work on SCA, the EBA works on enhancing the security of payment services by developing the GL on operational and security measures, which were repealed and expanded further by the EBA GL on ICT and security risk management in 2019. These GL contribute to better management of risks that may impact consumers from an ICT perspective as they form part of financial institutions' operational resilience and set requirements for financial institutions, including payment service providers, in relation to the mitigation and management of their ICT and security risks. They also implicitly cover the need for cybersecurity within financial institutions' information security measures and aim to ensure a consistent and robust approach across the single market.
69. The EBA also developed the GL on fraud reporting under PSD2 and focused efforts on their proper implementation by collecting and assessing data about fraudulent payment transactions. The EBA also provided additional clarifications to NCAs and other stakeholders on the application of the GL and revised them in early 2020 in order to ensure proper data collection reflecting developments in the payments market in relation to the application of SCA.

Evolution and trends

70. Despite the rapid growth of the different types of electronic payment in the EU, cash remains the most widely used means of payments. The trends across European jurisdictions is very diverse, with some jurisdictions experiencing a predominant use of cashless payments, in some cases amounting to 90% of payments in terms value, whilst other jurisdictions continue to report a wide use of paper-based means of payments. By way of example, one CA reported that in 2010 38% of consumers used cash for their latest purchase, whilst this ratio dropped to 13% in 2020. Another CA reported that, in 2019, a third of all consumers reported to hold no cash at all in their wallets on a regular basis, 16 percentage points more than in 2017, and that currently people under the age of 39 hardly use cash at all.
71. Recent trends also show an increase in the use of contactless payments, as reported by some CAs. More specifically, one CA reported that 43% of the total number of payments in their jurisdiction are executed contactless.
72. Payment cards have been the prevailing retail payment instrument in the EU in the last few years, with the majority of retail payment transactions being executed through them. The number of card transactions rose in 2019 to just under 87 billion, 10% more than the previous year, (see Figure 6). However, the significance of payment card transactions in terms of total value remains very small (EUR 3,475.5 million), as depicted in Table 1. This is because the table also shows wholesale payments. In line with this trend, several CAs have reported a large increase in the usage of payment cards. More specifically, one CA reported that the number of debit cards in circulation increased by almost 90% between 2016 and 2019. Another CA reported that card payments show an annual growth rate of around 20% by number and amount in 2019.

Figure 6: Total number of payments per type of payment service (millions), 2015–2019



Source: ECB Data Warehouse

Note: EU (changing composition)

Table 1: Total value of payments per type of payment instrument (billion EUR), 2015–2019

Period	All cards except e-money function	Credit transfers	Direct debits	Cheques	Other payment services	E-money purchase
2015	2,859.1	257,338.8	8,384.6	-	4,640.5	95.7
2016	2,916.8	262,926.2	8,028.3	-	3,771.1	119.5
2017	3,044.2	270,936.1	8,195.5	-	3,648.4	143.2
2018	3,258.0	264,505.7	8,407.0	2,591.0	3,446.8	173.0
2019	3,475.5	281,501.9	9,010.1	2,421.6	3,760.5	195.8

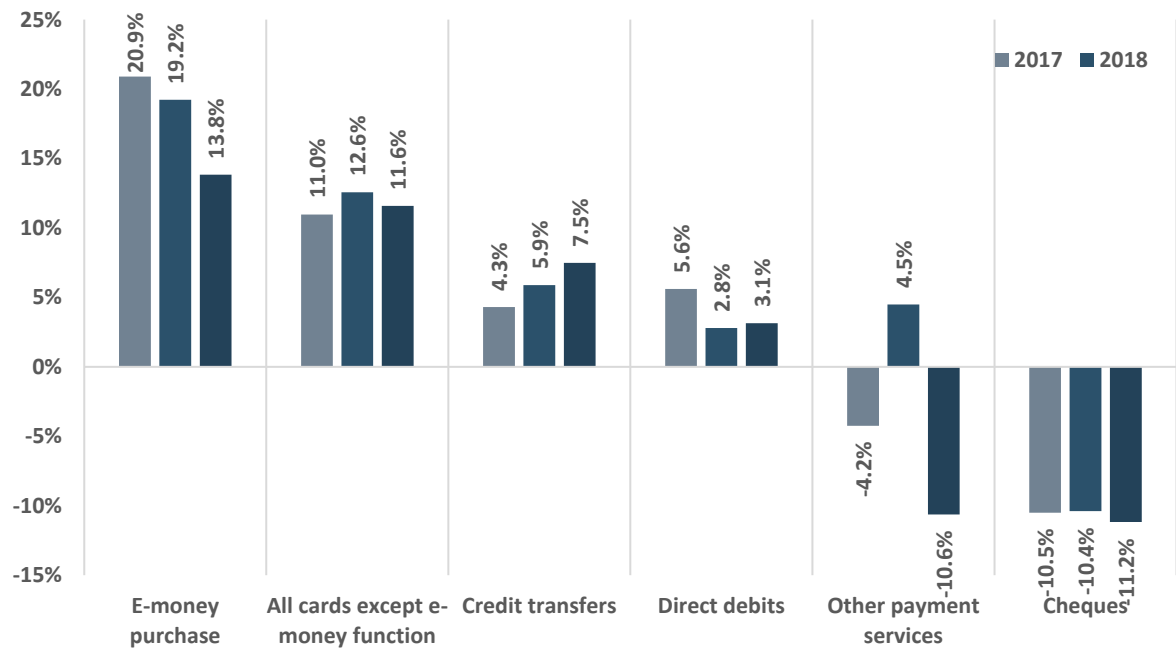
Source: ECB Data Warehouse

Note: EU (changing composition)

In some cases, totals are not shown, to protect statistical confidentiality or because the available components would not be representative of the group as a whole.

73. The information provided in Figure 6 and Table 1 mirror the trend that electronic payments in general are steadily increasing in terms of number and value. Consumers tend to use electronic payment instruments more than before, which also confirms the trend highlighted by several stakeholders that the new and innovative technologies introduced in the EU payments market are growing in use and popularity among consumers.
74. Figure 7 depicts the evolution of the usage of credit transfers, direct debits, cards, e-money and other payment services among payment service users. Although the increase of the use of the e-money has slowed down in 2019 compared to 2018 and stood at 13.84% for that year, it still remained the payment instrument with the highest increase in its use (mainly due to its relatively low share, see Figure 6 above). After e-money, payment card payments showed the biggest increase in its usage from 10.97% in 2017 to 11.59% in 2019. One CA reported an increase of 25% in the number of card-based payment transactions in 2019. Figure 7 also shows a significant rise in the use of credit transfers in line with what several CAs reported. By way of an example, one CA noted that the number of credit transfers increased by 14% in 2019.

Figure 7: Annual percentage changes in the number of payments, 2017–2019

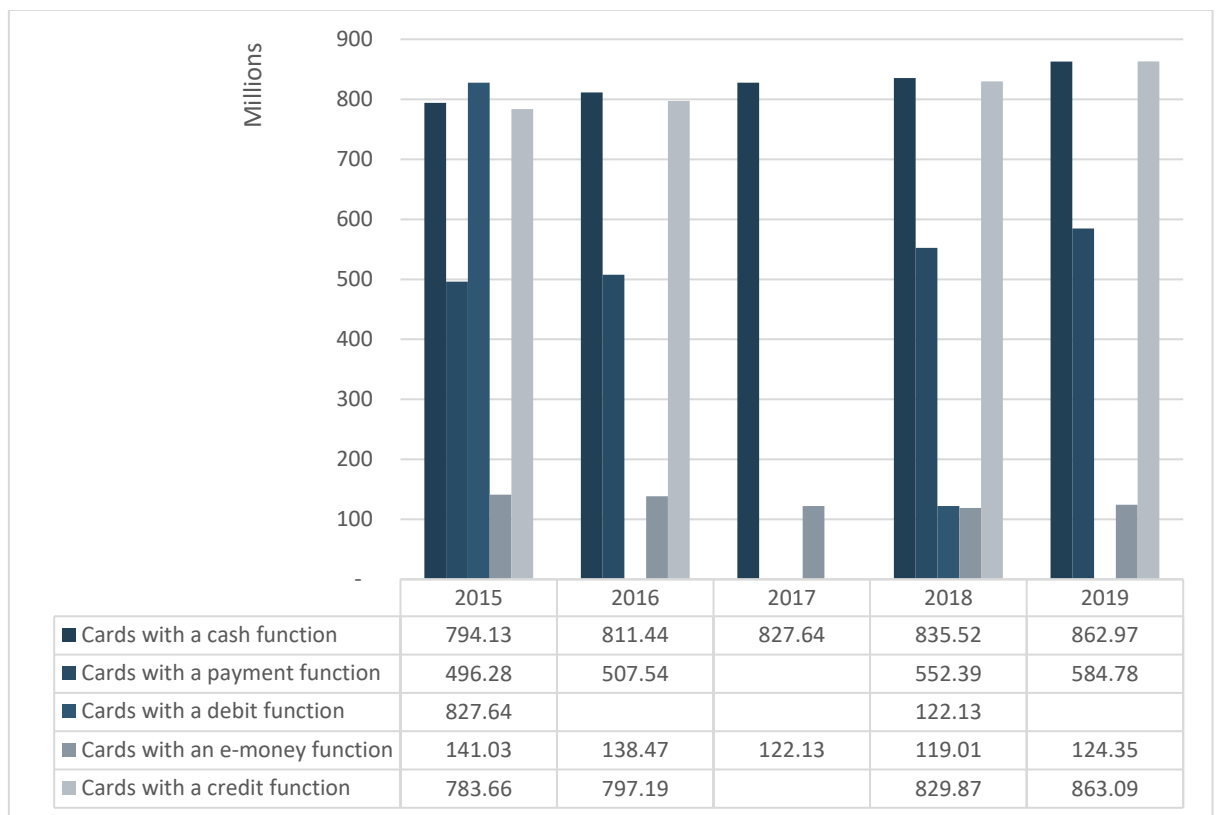


Source: ECB Data Warehouse

Note: EU (changing composition)

75. Figure 8 depicts the total number of cards issued in the EU. In 2019, 863 million cards with a cash function were issued, which represents an increase of 3% compared with the previous year. The number of cards with a payment function in the EU increased by 6% in 2019 to 585 million.

Figure 8: Number of cards issued by resident payment service providers (2015–2019)

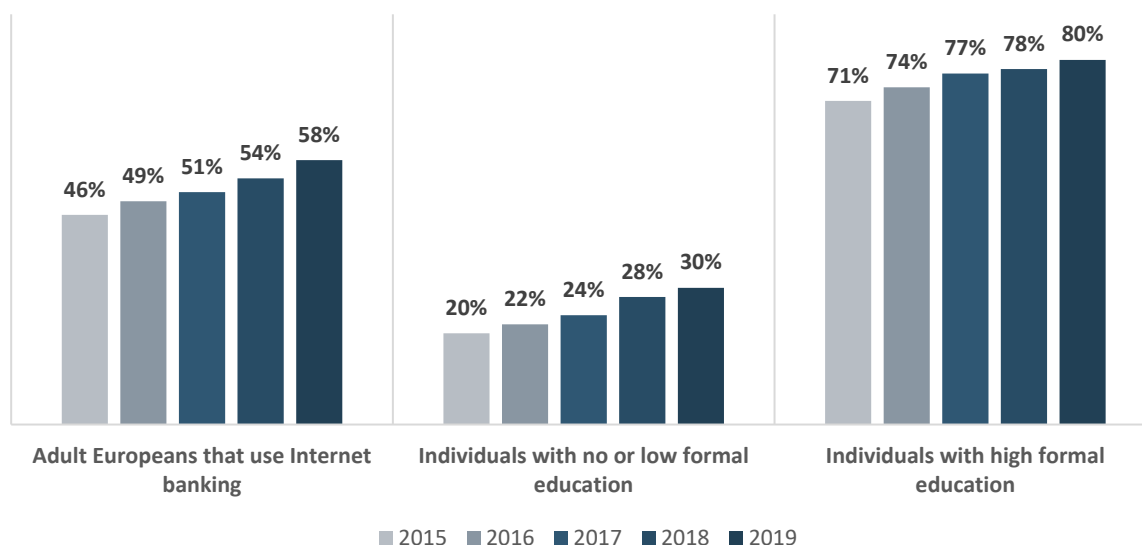


Source: ECB Data Warehouse

Note: EU (changing composition)

76. Figure 9 shows that 58% of adult EU citizens used internet banking in 2019. This percentage is constantly increasing. This trend shows that consumers are gradually becoming more familiar with new and innovative ways of making payments. Several CAs reported that internet banking is particularly popular among 25- to 34-year-olds, confirming that the new generations of consumers are those most willing to interact with their banks and payment institutions through new technologies. Moreover, the use of internet banking tends to increase in line with the education level of the user. While only 30% of those with no or low formal education used internet banking in 2019, 80% of those with formal education used this channel in the same year.

Figure 9: Percentage of Europeans that use internet banking, 2015–2019 by type of individual

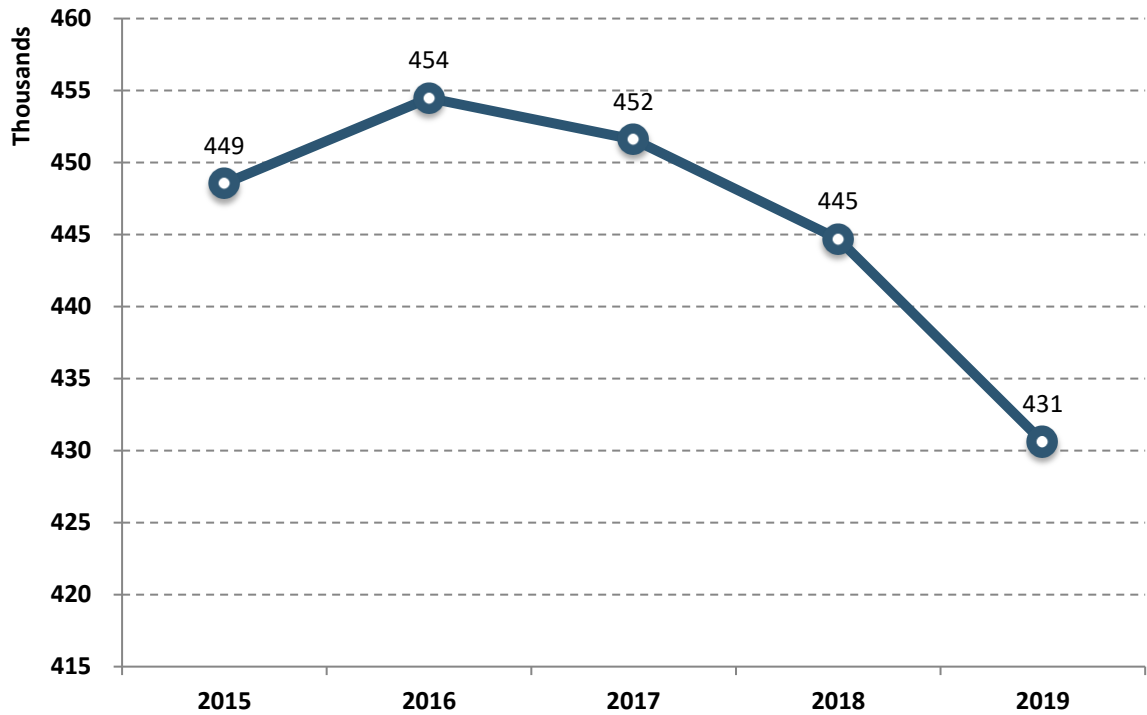


Source: Eurostat.

Note: 28 EU MSs

77. Figure 10 shows the change in the number of ATMs in the EU. Specifically, the total number of ATMs provided by PSPs decreased to 430,601 in 2019, which represents a decrease of 4% between 2015 and 2019. By contrast, Figure 11 shows the upward trend in the number of POS terminals in the EU, with an increase of 47.7% between 2015 and 2019. This growth may reflect the increasing use of credit and debit cards for payment transactions by consumers that has already been highlighted, as well as the rise in popularity among consumers of new and innovative technologies (e.g. mobile payments, including through smartphone payment applications) introduced in the EU payments market.

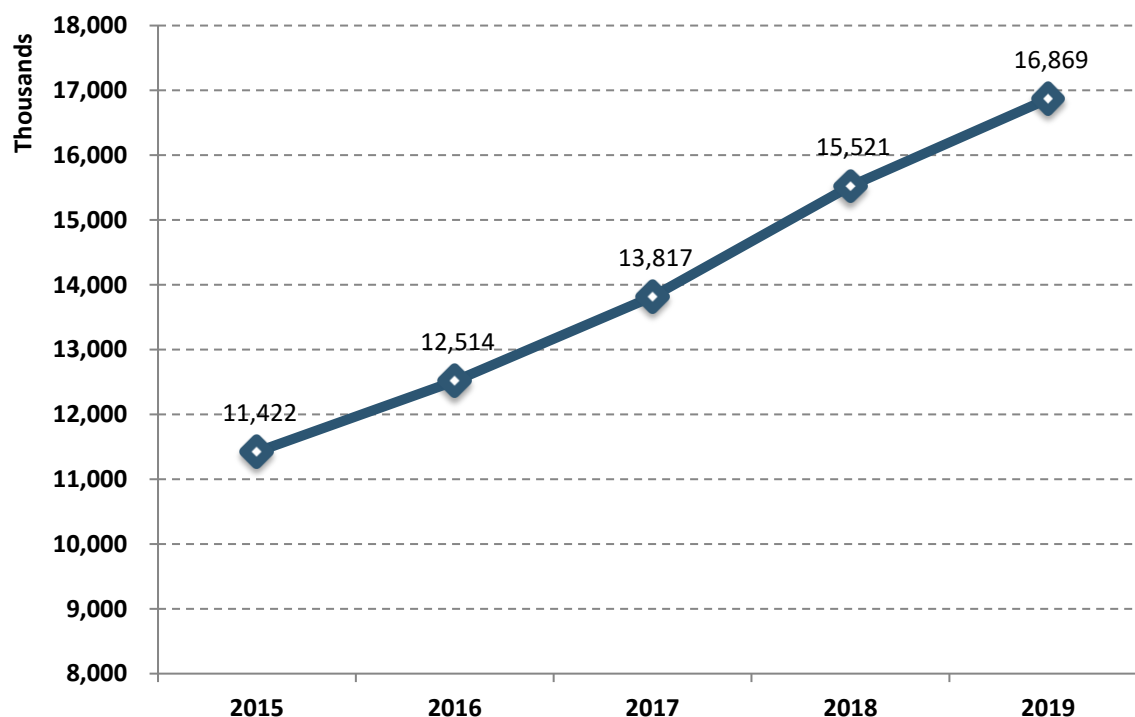
Figure 10: Total number of ATMs provided by resident PSPs, 2015–2019



Source: ECB Data Warehouse

Note: EU (changing composition)

Figure 11: Total number of POS terminals provided by resident PSPs, 2015–2019



Source: ECB Data Warehouse

Note: EU (changing composition)

78. Finally, and in line with the significant growth of electronic and digital payments, the sector has witnessed the entrance of new players, namely third-party providers (TPPs), with more than 400¹⁷ in the EU providing account information services (AIS) and payment initiation services (PIS), as a result of which, many existing players have been pushed to innovate to address the competition. Indeed, newly available technologies have fostered the rise of the referred AIS and PIS which come under the scope of regulation for the first time under PSD2. Both FinTech start-ups and well-established PSPs are embracing these new services, for example credit scoring, spending dashboards and others via several forms of cooperation such as partnerships, mergers and acquisitions. The growth of electronic payments has also been fostered by the recent possibility of making instant credit transfers.
79. The newly authorised Payment Initiation Service Providers (PISPs) and Account Information Service Providers (AISPs), together with other payment and e-money institutions, at EU level can be found in the EBA PSD2 Register.¹⁸

¹⁷ As of 31 December 2020.

¹⁸ [EBA PSD2 Register](#)

Relevant issues

80. The main issues that have arisen for consumers are related to fraudulent or unauthorised payments (e.g. phishing and smishing¹⁹), and internet fraud, as reported by many jurisdictions (BE, BU, FR, LT, MT, PL, PT, SE). Based on the feedback received, issues have also arisen because PSPs had refused to reimburse funds that had been improperly withdrawn.
81. SCA related complaints reported by a few CAs relate to problems in setting up new authentication procedures, resulting in implementation delays of said authentication procedures. As reported by one CA, functions and activities traditionally performed by banks are increasingly being performed by third-party providers, increasing complexity and requiring closer supervisory activity.
82. A few CAs reported issues relating to General Data Protection Regulation (GDPR) requirements, as some consumers claim that their data privacy is not ensured, citing some high-profile cases of data leaks and misuse of personal data by rogue actors.
83. Further issues reported relate to i) irrevocable payments and the impossibility to cancel credit transfers; ii) delayed or inaccurate execution of credit transfers; iii) unsatisfactory communication from credit institutions; iv) restrictions on fund movements and disposals because of the anti-money laundering rules; and v) revolving credit-related issues.

Regulatory and supervisory measures

84. In order to address the described issues, CAs have taken initiatives with a view to amend requirements, develop specific approaches to monitor technological innovations, and enhance consumer protection.
85. Linked to this, supervisory initiatives have been conducted in order to assess the implementation of PSD2 requirements. CAs have mostly focussed on monitoring the compliance with the SCA requirements, for example via requests to PSPs to provide migration plans to SCA and to report periodically on their execution, including on the communication with consumers and merchants. Moreover, questionnaires to market players regarding unauthorised and disputed transactions have been issued.
86. Several CAs reported that their supervisory activities have also targeted compliance with new fees schemes as well as with new common and secure open communication standards.
87. On new fee schemes, targeted initiatives have resulted in facilitating the comparison of fees charged by payment service providers by listing the most representative services associated with payment accounts together with their terminology.
88. CAs have also performed consumer awareness initiatives on the changes stemming from the implementation of PSD2 via websites; dedicated guidance and targeted information campaigns, in particular on, but not limited to, SCA.

¹⁹Phishing' represents the practice of using fraudulent e-mails and copies of legitimate websites to extract financial data from computer users for purposes of identity theft; 'smishing' means the fraudulent practice of sending text messages purporting to be from reputable companies in order to induce individuals to reveal personal information, such as passwords or credit card numbers.

Complaints

89. The most common reasons for consumer complaints about payment services received by CAs in 2018 and 2019 were in relation to (i) credit transfers, (ii) direct debits, and (iii) card-based payment services. The top three issues related to credit and debit transfers reported by CAs are i) the incorrect execution of payment orders; ii) unauthorised payment transactions; and iii) the mischarging of fees. Regarding card-based payment services, the main issues reported refer to i) unauthorised credit card operations; ii) the application of fees and charges; and iii) fraud.
90. On the mischarging of fees, a large share of complaints stem from the application of charges and fees to electronic payments and ATM withdrawal using foreign cards. On fraud, one CA specified that in 2018, 75% of the complaints they had received on payments referred to fraudulent payment transactions. In addition, a few CAs reported consumer complaints in relation to SCA, and more specifically problems that consumers faced when authenticating themselves for the purpose of account access, including being forced to use apps on smart phones despite this not being a legal or regulatory requirement.
91. Finally, FIN-NET members reported that the most common reasons for complaints by consumers on payment services refer to fees and charges and issues regarding payment transactions and digitalisation (cyberattacks).

Electronic Money

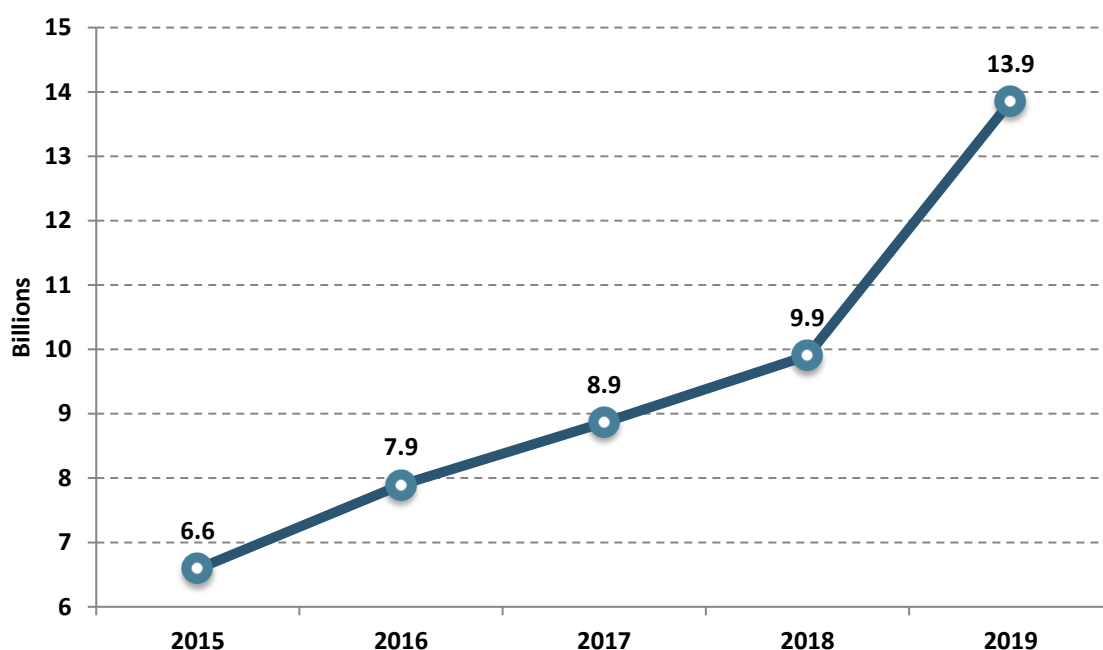
Introduction

92. Electronic money (e-money) is defined under the Electronic Money Directive as “electronically, including magnetically, stored monetary value as represented by a claim on the issuer which is issued on receipt of funds for the purpose of making payment transactions as defined in PSD2, and which is accepted by a natural or legal person other than the electronic money issuer.”
93. E-money products can be hardware based or software based, depending on the technology used to store the monetary value.

Evolution and trends

94. Figure 12 shows the steady increase in electronic money issued in the Euro area from 2015 to 2019, which has doubled over this time period. This upward trend may confirm the growing use of prepaid e-money cards by consumers that has been reported by some CAs.

Figure 12: Electronic money issued in the Euro area, 2015–2019 (billion EUR)



Source: ECB Data Warehouse

Note: Euro area (changing composition)

Outstanding amount at the end of the period (stocks)

95. Overall in 2019–20 there is a steady increase of the issuance of e-money in the EU-27. Nevertheless, several CAs highlighted the small role of e-money in their jurisdictions, some of which also underlined that there is no electronic money association (i.e. trade body representing electronic money issuers) in their jurisdiction. A few CAs detailed that e-money is only relevant in their jurisdiction from a cross-border perspective.
96. One CA indicated that it should be noted the potential in the medium/long term of this activity, owing to the market changes associated with technological developments and the related entry of new players, including BigTech companies. Another CA expressed a similar view, highlighting customer convenience of payment solutions offered by FinTech firms. One CA highlighted the high degree of its penetration becoming one of the most popular services for financial inclusion.

Legal and regulatory framework in the EU

97. Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 lays down the rules for the pursuit of the activity of issuing electronic money. In addition, several provisions of the PSD2 apply *mutatis mutandis* to electronic money institutions (EMI).

Relevant issues

98. Very few CAs reported issues with e-money. This is because of the little importance this service still represents in most jurisdictions.
99. Amongst those CAs that reported some issues, several of them reported that it is not clear at an EU level what the boundaries between payment services and e-money are, i.e. when a financial service falls under the category of e-money service and hence under the EMD regulation, or a payment service under PSD2.
100. A few CAs indicated that the main issue with EMIs is that they don't provide interoperable, closed-loop payment solutions. Another CA referred to the risk of e-money being used for financing illegal activities.
101. Finally, several CAs alluded to the fact that the increasingly cross-jurisdictional nature of the provision of services particularly, due to the freedom to provide services across the EU, means that host jurisdictions may not have immediate and full oversight over all activities of regulated firms operating in their jurisdictions.

Regulatory and supervisory measures

102. Regulatory and supervisory measures reported by CAs to address e-money related issues include:
 - focus on safeguarding requirements;
 - a review of the supervisory framework applicable to the electronic money sector;
 - initiatives aimed at improving among the general public's knowledge of electronic payment instruments that can be used for online payments;
 - initiatives aimed at ensuring the right of Electronic Money Institutions and Payment Institutions to access bank accounts opened with credit institutions;
 - a request to EMI to develop adequate recovery and exit plans; and
 - a review of external audit and periodic monitoring of EMIs.

Complaints

103. The most common reasons for consumers' complaints about electronic money received by CAs in 2018 and 2019 were e-money redeemability, fraud and incorrect execution of payment transactions.
104. In addition, a few FIN-NET members reported complaints about freezing and amendments of General Terms and Conditions of the PSU account.

Payment accounts

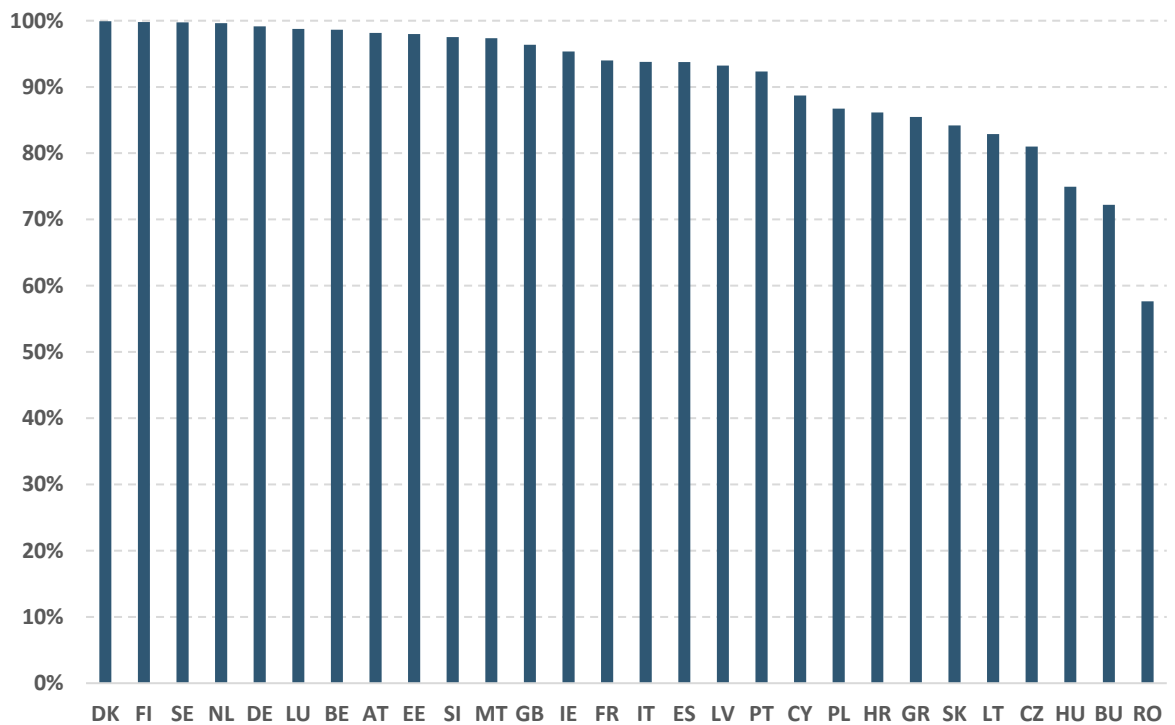
Introduction

105. Payment accounts are widely popular among consumers, as they represent both the first step for accessing a larger variety of financial products and services and a flexible tool for managing personal finances. According to the Payments Account Directive (PAD), a payment account is ‘an account held in the name of one or more payment service users which is used for the execution of payment transactions’. The implementation of the PAD regime in most jurisdictions means that consumers now have access to payment accounts with basic features, i.e. payment accounts that allows consumers to perform essential operations.
106. Consumers need to have access to payment accounts in order to receive their salaries or any assigned benefits, as well as to make regular payment transactions. For this same reason, some CAs highlighted the importance of payment accounts for financial inclusion.

Evolution and trends

107. Several CAs reported a high percentage of consumers having access to payment accounts in their jurisdictions, specifically to a minimum of one payment account). A few CAs noted that the number of payment accounts remains relatively stable with minor fluctuations in recent years.
108. Figure 13 shows the percentage of the population aged 15 years or over holding a payment account in the EU as of 2017. This percentage ranges from 57% to 99%. In addition, the Global Findex Report identifies the cost of payment accounts as one of the top reasons for consumers aged 15 or over not to open a payment account. The report identifies the issue as relevant to several MSs.

Figure 13: Percentage of the population aged 15 years or over holding a payment account in the EU



Source: 2017 — Global Findex Report.

Note: 28 EU MSs

109. In the current context of rapid ongoing development of technology, payment accounts become a crucial product for consumers, as digital payments are increasingly replacing cash payments. This evolution allows consumers to open payment accounts through digital channels (online and mobile) and to make use of more sophisticated financial products and services.
110. From the information reported by CAs, basic payment accounts appear to be free of charge in most jurisdictions, whilst in others they are subject to the payment of certain fees.
111. One CA reported a reduction in the sums deposited in standards deposits, together with an increase of the amounts deposited in payment accounts, possibly due to the current general low interest rate environment.
112. One CA noted that most payment accounts are provided by banks and that only a minority of other types of payment service providers offer payment accounts.

Legal and regulatory framework in the EU

113. PAD, applicable since 2016, lays down provisions concerning the transparency and comparability of fees charged to consumers on their payment accounts held within the EU, and the switching of payment accounts within an MS, as well as rules aimed at enabling the opening of payment accounts on a cross-border basis.
114. Based on PAD, the EBA issued the following legal instruments:
- EBA Guidelines on National Provisional Lists of the Most Representative Services Linked to a Payment Account and Subject to a Fee under the PAD (EBA/GL/2015/01);
 - draft RTS Setting out the Union Standardised Terminology for the Most Common Services Linked to a Payment Account, under Article 3(4) of the PAD (EBA/RTS/2017/04);
 - draft ITS on the Standardised Presentation Format of the Fee Information Document and its Common Symbol, under Article 4(6) of the PAD (EBA/ITS/2017/03); and
 - draft ITS on the Standardised Presentation Format of the Statement of Fees and its Common Symbol, under Article 5(4) of the PAD (EBA/ITS/2017/04).

Relevant issues

115. The main issues reported by CAs refer to fees and charges; de-risking;²⁰ lack of awareness of the right of the individual to a payment account with basic features; insufficient account switching; and the challenge of digitalisation on vulnerable consumers and privacy issues.
116. A few CAs reported insufficient transparency on applicable fees and charges and that the information was not duly provided in the proper format and in a durable medium. One CA reported that the pricing structure of domestic payment service providers is too complex, which hampers the comparability of account fees and market competition. On de-risking, in addition to the numerous complaints received by CAs (see paragraph 126), a few CAs reported unilateral cancellation of accounts based on AML grounds. The referenced CAs highlighted that due to legal confidentiality obligations, it is difficult for customers to prove whether this denial of access/cancellation of their account is due to objective reasons or discriminatory ones.

²⁰ Providers that decide not to service a particular category of customers (e.g. nationals from certain non-UE countries) that are considered to have higher money laundering and terrorist financing (AML/CFT) risks.

In June 2020 the EBA issued a call for input to understand the scale and drivers of ‘de-risking’ at an EU level and its impact on customers. This call, which forms part of the EBA’s work to lead, coordinate and monitor the EU financial sector’s AML/CFT efforts, aims primarily to understand why financial institutions choose to de-risk instead of managing the risks associated with certain sectors or customers. This call for input is of interest to stakeholders across the financial sector.

117. One CA reported that some bank customers seem to be unaware of consumers’ right to access a basic bank account.
118. On account switching, several CAs noted that the number of consumers switching to a different payment account provider continues to be significantly low. One CA specified that this is due to insufficient transparency that hampers account comparability, hence reducing consumers' willingness to switch accounts, which in turn hinders competition.
119. On the challenges of digitalisation to vulnerable consumers, several CAs noted an increasing interest by providers to open and manage payment accounts using online and mobile banking. One CA explained that vulnerable consumers may not have access to online services or may not have the skills that are needed to operate digitally, which makes these consumers more exposed to making errors and to the risks thereby associated.
120. Some CAs reported that vulnerable consumers often face difficulties in using remote services (that are usually cheaper) and/or they are not willing to change their habits and start using remote services. They consequently have to pay fees for cash withdrawals at ATMs and/or performing other cash transactions. Moreover, the branch network serving private customers has been significantly reduced in recent years, and the number of branch offices offering full-time cash services has decreased. The availability of basic payment services has therefore deteriorated for those customers who are unable to handle their financial transactions digitally.
121. One CA reported issues on the application of SCA for accessing payment accounts (‘two-factor authentication’ and its difficulty for elderly customers who face difficulties adapting to new procedures).

Regulatory and supervisory measures

122. Most regulatory measures reported by CAs to address the identified issues relate to the implementation of PAD.
123. Regarding supervisory measures, CAs noted the following initiatives:
 - monitoring compliance with transparency requirements of payment accounts, particularly as regards the Fee Information Document and the Statement of Fees; and advertisement requirements;

- ensuring credit institutions provide consumers with adequate information on their right to access a payment account with basic features;
- monitoring availability, pricing, and commercialisation of payment accounts;
- monitoring the reasons for the low levels of account switching;
- liaising with their economy ministries and their industry on improving the regulation of Payment Accounts (SI), and assessing the possibility of introducing a social payment account free of charge to vulnerable consumers;
- supervisory actions on fees, in particular whether banks comply with national fee caps; changes of interest rates; switching; and modification or termination of contracts;
- monitoring proportionate application of AML requirements, in particular as regards identification requirements for opening a bank account;
- harmonised and consistent detection of financially fragile customers; and
- monitoring of potential de-risking issues.

Complaints

124. The most common reasons for consumers' complaints about payment accounts received by CAs in 2018 and 2019 were (i) application of fees and charges; (ii) denial and unilateral cancellation of a bank account by a bank; and (iii) blocking of payments accounts by the bank.
125. More specifically on fees and charges, several CAs reported numerous consumer complaints about account management fees that had either increased or been introduced for accounts that were formerly free of charge.
126. On de-risking, ²¹a large majority of CAs reported complaints of consumers that have been denied access to a basic payment account based mainly on AML grounds (identification of the customer amongst other aspects of the regulation). One CA specified that the complaints received in their jurisdiction refers to the denial of access of payment accounts more generally, and not only to those with basic features.
127. CAs also reported complaints about (i) unauthorised or incorrect charges; (ii) insufficient transparency in both the pre-contractual and post-contractual phase; and (iii) potential misuse of personal data.
128. The most common reasons for consumers' complaints about payment accounts received by FIN-NET members were (i) termination of payment accounts by banks, (ii) application of

²¹ : Providers that decide not to service a particular category of customers (e.g. nationals from certain non-UE countries) that are considered to have higher money laundering and terrorist financing (AML/CFT) risks.

maintenance fees, (iii) charges and interest rates, and (iv) unauthorised and fraudulent payment transactions.

Deposits

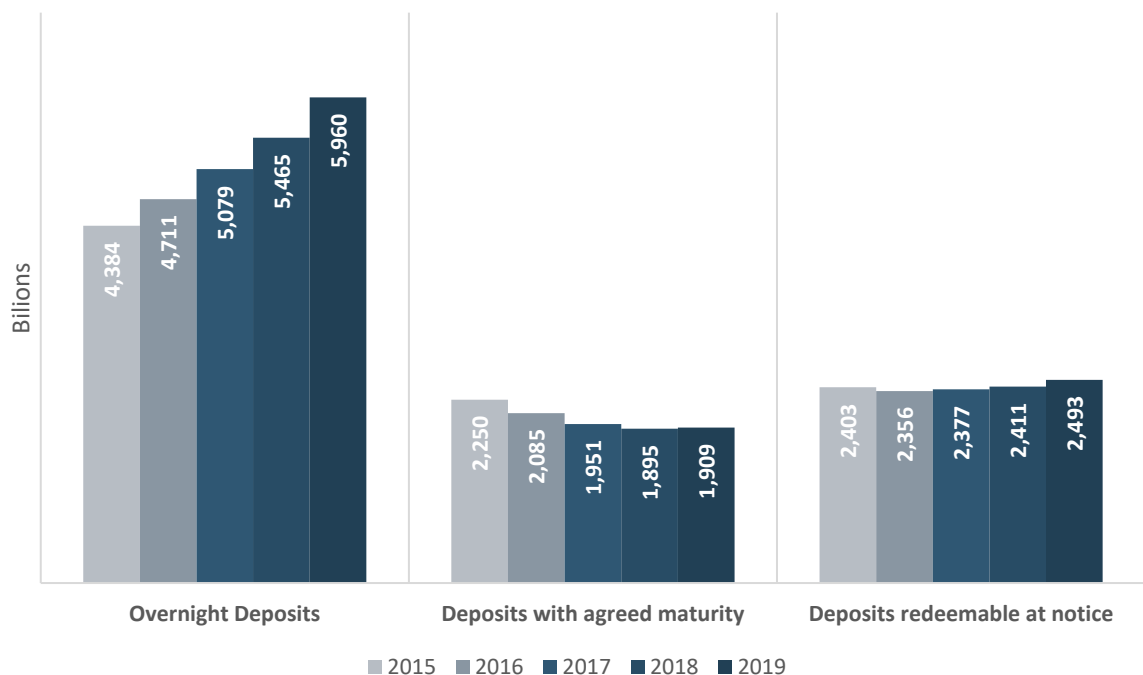
Introduction

129. All CAs reported that deposit accounts continue to be considered an important banking product in their jurisdictions. The reasons alleged include saving purposes, high liquidity that results in convenience and ease of access; traditional habits; and safety provided by the Deposit Compensation Scheme. CAs noted that despite the low interest rate environment, EU consumers keep investing in conservative, risk-averse products including standard deposits.

Evolution and trends

130. In 2019, households held EUR 10,362 billion in deposits, the large majority of which being overnight deposits (5,960 billion), followed by deposits redeemable at notice (2,493 billion) and deposits with agreed maturity (1,909 billion). Deposits held by households have grown significantly in recent years. More specifically, deposits grew by 14.6% between 2015 and 2019 (see Figure 14).

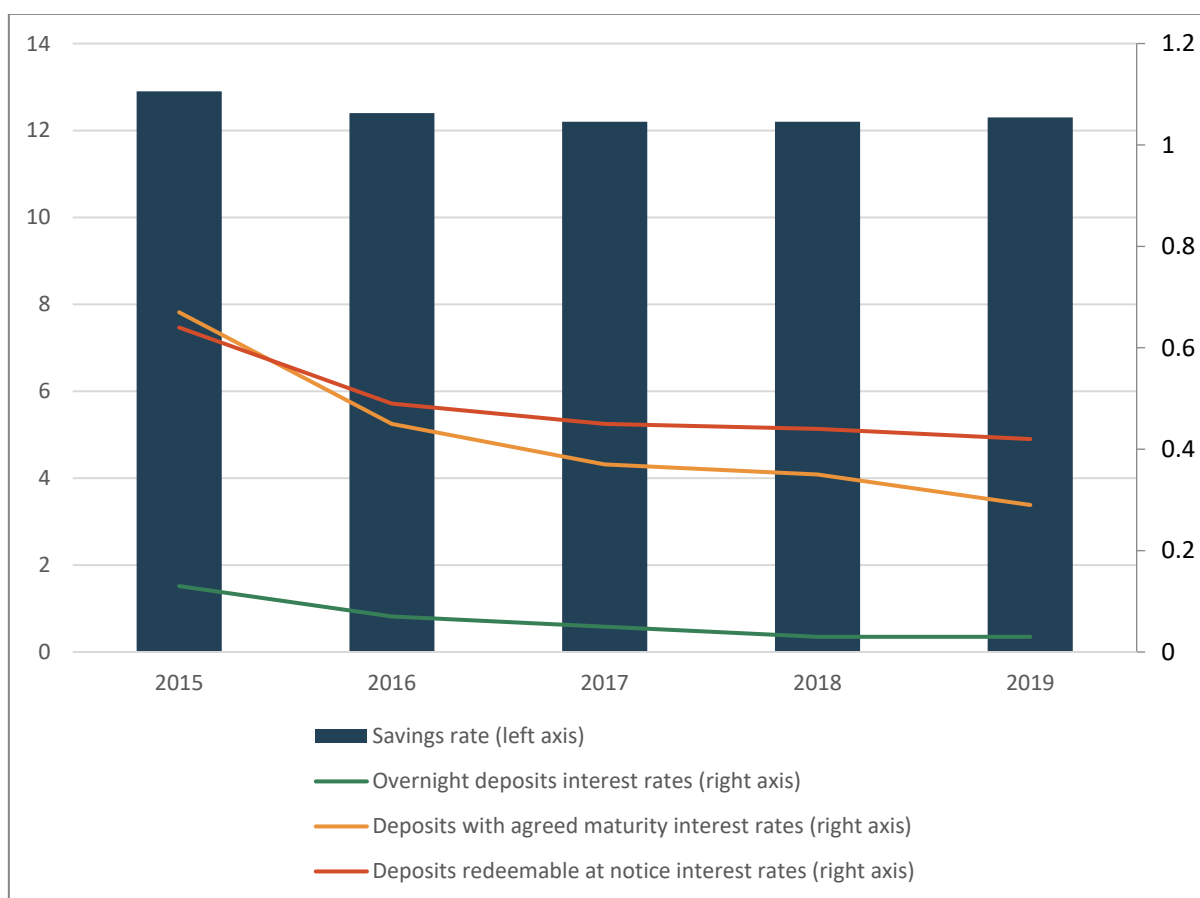
Figure 14: Deposits held by households, 2015–2019 (billion EUR, outstanding amounts)



Source: ECB

Note: 27 EU MSs excluding Denmark

131. Several CAs reported that the number of deposits had increased in their jurisdiction over the last two years. These trends show an appetite for available liquidity in the context of a low interest rate environment. Deposits are also highly safe and convenient, especially in an uncertain economic environment in the context of the COVID-19.
132. One CA indicated that the downward trend observed in its jurisdiction is due to the fact that consumers have increasingly opted to utilise savings for paying off mortgage debt and/or investment in shares and funds.
133. Regarding structured deposits, no significant changes in this market have been observed over the period. The absence of noticeable developments in this market segment is likely to be due to the persistently low interest rate environment.
134. Figure 15 shows households' saving rate from 2015 to 2019. The saving rate is the percentage of disposable personal income that a person or group of people save rather than spend on consumption. Figure 15 also presents the interest rates for (i) overnight deposits, (ii) deposits redeemable at notice and (iii) deposits with agreed maturity. As shown in Figure 15, the saving rate has been falling slowly from 2015 to 2017 and slightly increasing from 2018 to 2019. Figure 15 also shows in the first stage (2015–2017) decrease in the interest rates for the deposits from 2015 to 2017. From 2018 to 2019 the interest rate for deposits continues decreasing despite the previously mentioned slight increase in saving rates.

Figure 15: Savings rate and interest rates in the EU, 2015–2019²²

Source: ECB

Note: Euro area (changing composition)

Legal and regulatory framework in the EU

135. In 2014, the recast Deposit Guarantee Schemes Directive (DGSD) came into force. It provides uniform deposit coverage of EUR 100,000 and aims to provide reinforced protection for depositors, with quicker pay-outs and improved information. This directive also requires that all Deposit Guarantee Schemes (DGSs) be pre-funded to ensure that they will be able to fulfil their obligations towards depositors, contributing, by doing so, to increased confidence in the banking system.
136. Following the entry into force of the DGSD, the EBA developed a number of guidelines supplementing the Directive. These include:

²² Although official data for 2020 is not available at the time of the Report, the EBA understands that saving rates have significantly increased further.

- EBA Guidelines on Methods for Calculating Contributions to DGSs (EBA/GL/2015/10);²³
 - Guidelines on DGS Payment Commitments (EBA/GL/2015/09);²⁴
 - EBA Guidelines on Cooperation Agreements between DGSs (EBA/GL/2016/02)²⁵ and
 - EBA Guidelines on stress tests of DGSs (EBA/GL/2016/04).²⁶
137. The referenced Guidelines aim to help to ensure the consistent application of the new funding mechanisms provided for in the DGSD and to strengthen the resilience of DGSs improving depositors' access to compensation, even in cases of cross-border bank failures. In 2017, the EBA developed a Report on the implementation of the EBA Guidelines on Methods for Calculating Contributions to DGSs²⁷ and in 2020 a Report on the peer review of DGS stress tests and the resilience of DGSs,²⁸ both of which analysed and provided proposals of further improvements to the relevant Guidelines.
138. In 2019–2020, the EBA published three EBA Opinions on the implementation of the DGSD:
- The EBA Opinion on the eligibility of deposits;
 - Coverage levels and cooperation between DGSs,²⁹ and
 - The EBA Opinion on DGS pay-outs,³⁰ and EBA Opinion on DGS funding and uses of DGS funds.³¹
139. Together, the three Opinions included over 80 concrete proposals on how to further improve the deposit protection rules addressed to the EU Commission, including clearer and better information for individual depositors, clearer rules to be applied during complex bank failures, clearer and more harmonised approaches to specific cases such as temporary high balances, a more flexible approach to repaying depositors, and improved transparency.

²³ <https://eba.europa.eu/regulation-and-policy/recovery-and-resolution/guidelines-on-methods-for-calculating-contributions-to-deposit-guarantee-schemes-dgss->

²⁴ <https://eba.europa.eu/regulation-and-policy/recovery-and-resolution/guidelines-on-payment-commitments>

²⁵ <https://www.eba.europa.eu/regulation-and-policy/recovery-and-resolution/guidelines-on-cooperation-agreements-between-deposit-guarantee-schemes>

²⁶ <https://eba.europa.eu/regulation-and-policy/recovery-and-resolution/guidelines-on-stress-tests-of-deposit-guarantee-schemes>

²⁷ <https://eba.europa.eu/sites/default/documents/files/documents/10180/2087449/8ce11a43-d0ee-4550-900f-5e3608ba2682/Report%20on%20the%20implementation%20of%20the%20EBA%20Guidelines%20on%20methods%20for%20calculating%20contributions%20to%20DGS.pdf>

²⁸ <https://eba.europa.eu/eba-publishes-its-first-peer-review-stress-tests-and-resilience-deposit-guarantee-schemes-dgss>

²⁹ <https://eba.europa.eu/sites/default/documents/files/documents/10180/2622242/324e89ec-3523-4c5b-bd4f-e415367212bb/EBA%20Opinion%20on%20the%20eligibility%20of%20deposits%20coverage%20level%20and%20cooperation%20between%20DGSs.pdf>

³⁰ https://eba.europa.eu/sites/default/documents/files/document_library//EBA%20Opinion%20on%20DGS%20Payouts.pdf

³¹ https://eba.europa.eu/sites/default/documents/files/document_library/Publications/Opinions/2020/EBA%20Opinion%20on%20DGS%20funding%20and%20uses%20of%20DGS%20funds.pdf

140. In 2020, the EBA followed up on the proposals in the three Opinions, with a separate EBA Opinion on the interplay between the Anti Money Laundering Directive (AMLD) and DGSD,³² which provided proposals on mitigating risks of money laundering and terrorist financing during bank failures, and on how to enhance cooperation between AML/CFT and DGS authorities.
141. Finally, since 2016 the EBA has been publishing on its website information about covered deposits and DGSs' available financial means,³³ as well as a list of cases where these DGS means have been used.³⁴ The purpose of these publications is to ensure that information about funding levels and the use of DGS funds is publicly available.

Relevant issues

142. The main issues reported regarding deposits refer to the low interest rate environment and consumers' consequent search for yield of consumers via alternative savings products with higher yields, but also higher risks. Several CAs have reported the application of negative rates by credit institutions in their jurisdictions. One CA noted that the number of credit institutions imposing negative interest rates is significantly growing. Consumer associations specified that banks usually apply these on deposits with large amounts, which raises questions about the legal basis of applying negative interest rates. Several CAs concurred with this legality concern. A few CAs noted that there is no specific legal provision in their jurisdiction expressly prohibiting the application of such negative interest rates.

Regulatory and supervisory measures

143. CAs have reported the following individual regulatory measures to address the referenced issues:
- amendments to the Legislation on Payments, limiting the practice of tying together various financial services with payment accounts, including tying a deposit to a payment account. However, the payment service provider has the right to require the consumer, who concludes the deposit contract, to have a limited use payment account for the administration of the deposit. Such payment accounts shall be free of charge. This allows to reduced service-related costs for consumers;
 - a new regulatory framework for structured deposits, with improved transparency of information for consumers;
 - recommendation to credit institutions not to market structured deposits with maturities longer than two years in light of the low interest rate environment and given that this financial product mostly does not allow early withdrawal; and

³² https://eba.europa.eu/sites/default/documents/files/document_library/Publications/Opinions/2020/961347/EBA%20Opinion%20on%20the%20interplay%20between%20the%20AMLD%20and%20the%20DGSD.pdf

³³ <https://eba.europa.eu/regulation-and-policy/recovery-and-resolution/deposit-guarantee-schemes-data>

³⁴ <https://eba.europa.eu/regulation-and-policy/recovery-and-resolution/notifications-on-resolution-cases-and-use-of-dgs-funds>

- a legislative proposal that requires authorisation when conducting deposit operations.

144. CAs have reported the following individual supervisory actions on deposits:

- requirement addressed to institutions to notify the CA on the structured deposits that they intend to sell, at least two days before the date in which these will be made available to the public, by sending the key information document (KID) for approval;
- regular on-site controls in credit institutions and investigation of credit institutions concerning changes of interest rates on payment accounts; and
- supervision release related to negative interest rates on consumer customer deposits where the CA stated that, charging negative interest on basic payment accounts, which are considered to be a necessity, should be approached with caution.

145. In addition, some CAs monitor the development of deposits on an ongoing basis. By way of example, one CA noted that consumers are increasingly interested on this product, particularly on deposit insurance, and hence seek information on its characteristics. Another CA reported unfair advertising practices where the bank advertises a high interest rate without informing the consumer of the maximum amount of capital to which the interest rate is applied.

Complaints

146. CAs and FIN-NET members observed that complaints about deposits have remained relatively stable over the last two years. Several CAs reported less than 10 complaints per year, whereas other CAs reported numerous complaints. In particular, consumers mostly complained about the discrepancy between interest rates on deposits and interest rates charged for loans. In addition, several CAs reported complaints about fees and charges, particularly in the field of account administration and processing.

Chapter 2: Topical issues

147. This section presents the topical issues identified by the various sources of information, namely national CAs, FIN-NET members, consumer associations and industry associations; and summarises the initiatives that the CAs have undertaken to address the potential risks for consumers related to the trends and issues identified in the CTR 2018/2019 and the present CTR.
148. Taking into account the input received, the EBA arrived at the following aggregated and prioritised list of topics relevant to consumers in the EU for the purposes of the Consumer Trends Report 2020–21: (the topics are numbered below and described in this chapter in order of the relative importance assigned to them by stakeholders):
- Indebtedness, responsible lending and creditworthiness assessment;
 - Fees and charges;
 - Digitalisation;
 - Payment transactions;
 - Access to a bank account; and
 - Selling practices.
149. In addition to the topical issues contained in this chapter, consumer associations highlighted the relevance of the topic of NPL management, including the selling of NPL portfolios, debt collection issues and the need to ensure a minimum level of income. Consumer associations also highlighted the difficulties encountered by consumers to identify a particular transaction and its particular relevance to the effects of fraud.
150. A comparison between CTR 2018/2019 and the present CTR shows that some of the topical issues identified in this edition of the CTR had already emerged in the previous one. In view of this, when reporting on measures to address issues identified in the 2018/2019 report, some CAs have referred to measures reported in the relevant section of the questionnaire on topical issues in CTR 2020/21.
151. The table below sets a comparison of the topical issues identified in this edition of the Report with those identified in the CTR 2018/19:

Consumer Trends Report 2018/19	Consumer Trends Report 2020/21
Fees and charges	Fees and charges
Indebtedness, responsible lending and creditworthiness assessment	Indebtedness, responsible lending and creditworthiness assessment
Data breaches and cybersecurity	Digitalisation
Transparency and disclosure of pre-contractual information and changes to contractual terms and conditions	Selling practices
X	Payment transactions
X	Access to a bank account
Cross-border selling of products and services	X
Financial literacy and education	X

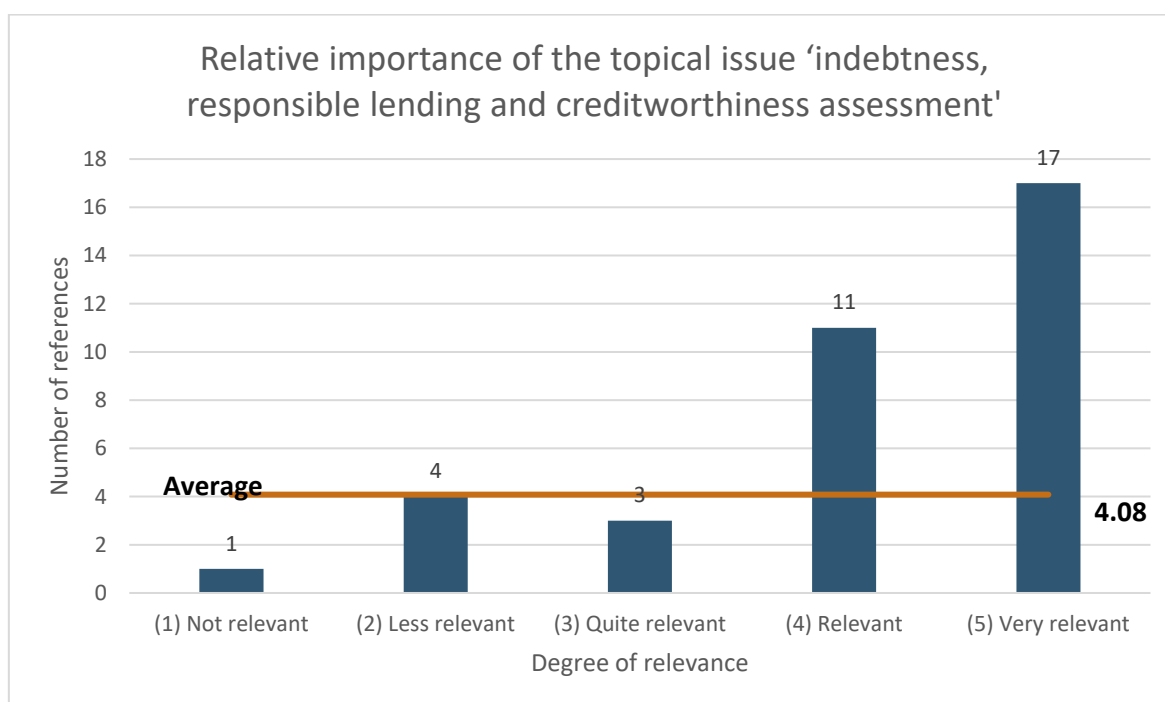
152. The large majority of CAs is reported to have taken supervisory and/or regulatory measures to address one or more of the topical issues identified in the CTR 2018/19 and in the CTR 2020/21. Supervisory measures related to indebtedness, responsible lending and creditworthiness assessment together with financial education measures, appear to be the measures most widely applied by CAs.

Indebtedness, responsible lending and creditworthiness assessment

153. Responsible lending and creditworthiness assessment is considered to be of great relevance to all stakeholders. This topic was also categorised as a topical issue for the purposes of the Consumer Trends Report 2018/19.
154. Figure 16 shows the relative importance assigned to the topic by CAs and other stakeholders, which has an average score of 4.08 out of 5 based on the feedback received from 36 stakeholders. Compared to the last CTR, the relative importance of this topical issue has increased by +0.48.
155. Several stakeholders have reported that banks are currently competing for market share and running aggressive marketing practices mainly because of the current economic scenario characterised by low interest rates and that the attention towards the topic of indebtedness,

responsible lending and creditworthiness assessment is probably going to increase in the near future.

Figure 16: Relative importance of the topical issue 'indebtedness, responsible lending and creditworthiness assessment'



Relevant issues

156. According to the CTR 2018/19, issues related to indebtedness, responsible lending and creditworthiness assessment, range from poor creditworthiness assessment practices and misleading selling practices, to issues related to NPLs (including the purchase of NPLs by unregulated entities) and the proliferation of service providers outside the regulatory perimeter.
157. For the purposes of the CTR 2020/21, stakeholders have identified the following common issues:
- Issues related to sustainable lending and creditworthiness procedures: Several CAs reported an increase in credit demand that can generate issues associated with sustainable lending and over-indebtedness. Relatedly, two consumer associations highlighted the lack of strong responsible lending principles (as well as a lack of definition of responsible lending), which in their view should encompass the whole cycle of the product. Several CAs stressed the low quality of creditworthiness assessment procedures implemented by financial institutions at times because of the low level of information available on the financial situation of borrowers. Consumer associations concurred with

this. Specifically, one CA stressed the concern with the possible use of alternative, poor quality data sources leading to inaccurate creditworthiness assessments. In addition, one consumer association mentioned that the creditworthiness assessment procedure is not sufficiently focused on the borrower, and that informal data sources are used in such assessments. Another consumer association added that the assessment did not take into account the overall expenditure of households and that this resulted in an uptake of NPLs. Another consumer association noted providers' incorrect calculations of the cost of living when conducting creditworthiness assessments;

- a heightened risk of over indebtedness as a result of the growing use of digital channels to access credit, as stressed by few CAs. In addition, consumer associations highlighted that the topic of indebtedness is linked with the increased usage of credit cards, many of which have very high interest rates associated to the usage of that credit, as well as with the shift into e-commerce. This leads to an increase of refinancing small amounts of credit, and thus to higher indebtedness;
- new potential threats as a result of the significant development of consumer credit products and selling practises during the last few years. A large number of CAs have reported issues concerning consumer credit, including revolving credit. According to CAs, the usage of revolving credit cards is also a very sensitive topic because such products can lead consumers to pay very high fees without being aware of it;
- a potential increase of NPLs: several CAs and a few consumer associations highlighted this threat and described the moratoria measures their jurisdictions had implemented to avoid this. One consumer association reported the existence of 20% of NPLs on consumer credit in its jurisdiction; and

On 16 December 2020, the EU Commission launched its NPL action plan aimed at preventing a future build-up of non-performing loans across the European Union as a result of the COVID-19 crisis.

On March 2018 the Commission adopted the proposal for a Directive on credit services, credit purchasers and the recovery of collateral. The proposal aims to ensure that consumer protection obligations are upheld irrespective of how NPLs are resolved.

- insufficient transparency on digital contracts was reported by several consumer associations.
158. In addition, one consumer association raised the concern of the lack of regulation of peer-to-peer lending platforms, the risk of these platforms for consumer lenders and borrowers and noted that this is becoming a widespread issue.
159. Finally, several consumer associations highlighted the crucial element of financial education to prevent over-indebtedness and for individuals in arrears situations and, at the same time,

noted that given the limitations of financial literacy, it is essential to assess how regulation can prevent situations of over indebtedness.

Regulatory and supervisory measures

160. Some CAs have reported regulatory initiatives aimed at setting out requirements relating to indebtedness, responsible lending and creditworthiness assessment. In one case, these requirements have been introduced through the implementation of the MCD. In a different CA, potential enhancements to existing requirements are being taken into account in the review of core consumer protection requirements that is already underway. In another case, one CA has developed detailed legal requirements relating to consumer creditworthiness assessment to complement existing requirements. In another MS, a regulation specifically focused on short-term lending has been issued. One particular CA has issued a recommendation to credit institutions on the lending practices in the process of distributing consumer credit, which sets out requirements aimed at addressing potential conflicts of interest of sales staff (e.g. sales incentives). One consumer association reported caps on the rates of consumer loans.
161. Regarding issues on NPLs, one CA has set up a regulatory framework for the authorisation and supervision of credit servicing/management firms and developed a secondary market for NPL servicing and sales ultimately aimed at reducing NPL levels.
162. Supervisory measures taken by CAs vary in terms of approach and area of focus, depending on the national specificities. Supervisory measures may be planned or be launched in response to consumer complaints and the review may then be specifically focused on aspects related to indebtedness, responsible lending and/or creditworthiness assessment (i.e. thematic reviews), or be part of a wider action.
163. Supervisory initiatives by CAs have focused on both sustainable and responsible lending and creditworthiness assessment. In addition, authorities reported initiatives targeting specific consumer credit products or services in the last two years.
164. As part of the on-site inspections of consumer credit providers, one CA examined the consumer creditworthiness assessment. Another CA highlighted that the supervisory focus was on reviewing the procedures and arrangements implemented in the credit institution to ensure compliance with knowledge and skills requirements of sales forces and the creditworthiness assessment requirements. This CA also examined unlawful sales practices and, more specifically, the advertising used to sell consumer credit online.
165. Some other CAs have used thematic reviews focused on different aspects of the sales process. One CA has reviewed credit institutions' consumer credit practices, including how the credit institutions comply with national requirements when assessing the creditworthiness of the consumer. Also, in a second study, this CA review focused on cross-border lending. Another CA is currently analysing selling practices in relation to the sale of payment protection insurance linked to a loan. One particular CA carried out a thematic review on the creditworthiness assessment.

166. A few CAs carried out, or are carrying out, supervisory action on revolving credit cards with a focus on assessing whether creditors had in place the appropriate procedures, methods and policies to assess the consumers' creditworthiness and to ensure the creditor requires all consumers' relevant documentation needed to duly carry out the referred assessment.
167. As a result of supervisory actions, some CAs imposed fines or utilised other tools such as warnings or sent requirement or recommendation letters to supervised entities.
168. Regarding creditworthiness assessment, most CAs reported that new technologies, like machine learning, are now being employed in the creditworthiness assessment of customers. In one jurisdiction, a wide investigation is going to be undertaken on smaller banks and credit market companies with the aim of investigating how they are conducting creditworthiness assessments and whether they are adhering to generally accepted lending practices.
169. In addition, several jurisdictions have implemented public registries, available to banks, containing information on consumers' credit responsibilities, which can be used for creditworthiness assessment purposes. Public registries allow for the centralising of information about the financial status of customers, thus avoiding the problem of relying exclusively on input provided by the customers themselves and reducing information asymmetry. One CA mentioned that the creation of the register is currently under consideration.
170. One CA reported that information obligations of banks towards borrowers have been extended significantly, and standards have been set for the first time in order to improve market transparency.
171. On consumer credit, one CA has required financial institutions to align requirements on creditworthiness assessment for both mortgages and consumer credit, whereas, according to another CA, authorities issued recommendations on the procedure for granting non-housing loans to consumers in February 2019. Another CA introduced binding macro prudential restrictions on household/consumer lending (limits on maturity and interest rates charged) with the aim to mitigate and prevent excessive credit growth and excessive leverage. Similarly, one CA has employed new measures to limit interest rate charges and other expenses associated with consumer credit. Additionally, one CA announced changes to the rules applying to the moneylending sector in June 2020, in order to enhance consumer protection for those who utilise the services of consumer credit from a licensed moneylender. Another CA carried out a supervisory initiative to increase knowledge of the revolving credit card market, and monitor the degree of compliance with law on credit agreements for consumers.
172. With respect to the COVID-19 healthcare emergency, some CAs issued targeted measures in favour of borrowers, such as: deferral of principal payments on existing loans for hard-hit individuals and firms, reduction in the amount of interest on certain consumer credit products from 20% to 10% per annum, and caps on interest charged to debtors who are in a default situation for more than 90 days. Further information is available in chapter 3 on COVID-19.

Conclusion

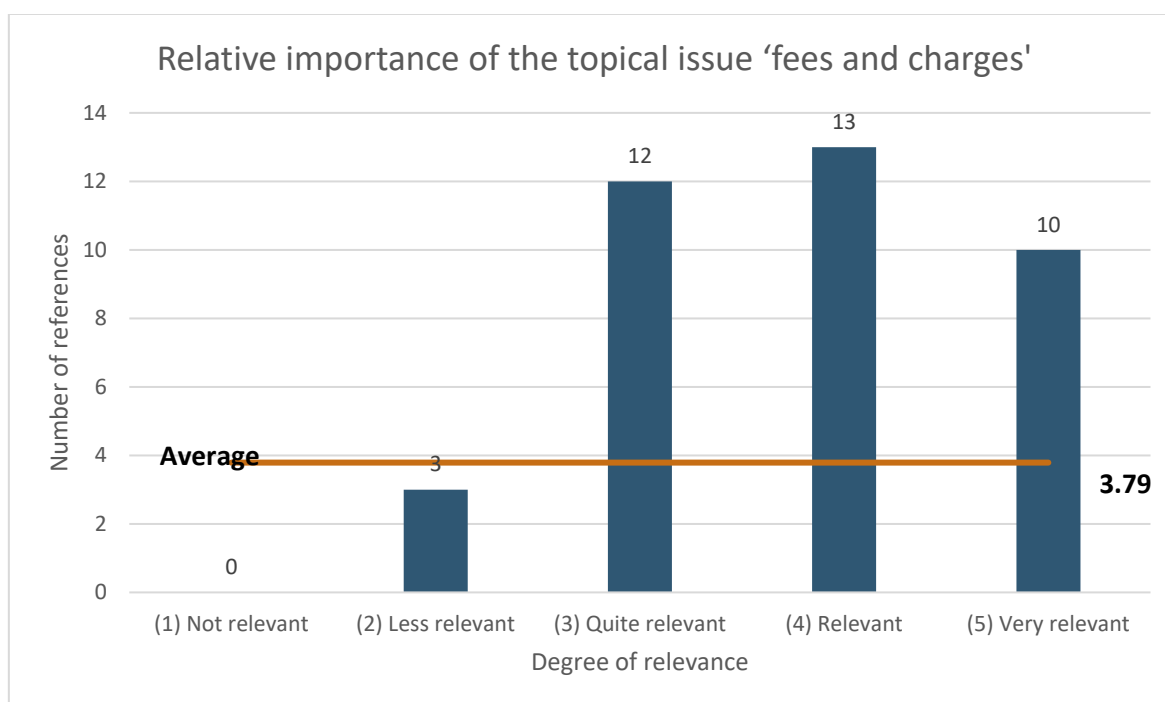
173. Responsible lending and creditworthiness assessment are deemed as very relevant topics for the majority of stakeholders. As a result, several regulatory and supervisory measures have been adopted to address this issue. One particularly important aspect noted by several stakeholders is the link of these topics with the issue of insufficient financial literacy. Stakeholders note that this could be particularly relevant in the current economic downturn, where consumers facing up with financial troubles tend to try to rapidly access credit without a careful review of terms, conditions and costs. In addition, they also note that the effect of COVID-19 on revenues and employment may cause an outbreak of over-indebtedness (or debt repayment difficulties) for consumers and individual entrepreneurs. Most CAs noted that this will require an intense level of monitoring in the coming months.

Fees and charges

174. Most stakeholders noted that the issue of fees and charges continues to be one of the most important topical issues for consumers within the EU, giving rise to a significant number of consumer complaints, especially regarding payment accounts, payment services and loans (both mortgage and consumer credit). Stakeholders also noted that in a context of low interest rates and negative economic outlook, fees and charges are one of the most relevant sources of revenue for banks and financial institutions.

175. The topic of fees and charges was also categorised as a topical issue for the purposes of the Consumer Trends Report 2018/19. Figure 17 shows the relative importance assigned to the topic of fees and charges by CAs and other stakeholders, which had a score of 3.79 out of 5, based on the feedback received from 40 stakeholders. Compared to the last CTR, the relative importance of this topical issue has remained almost the same, with a slight variation of -0.05.

Figure 17: Relative importance of the topical issue ‘fees and charges’



Relevant issues

176. The Report presents the topical issue of fees and charges under the following sub-categories according to the banking products: payment accounts, payment services, and loans.

Issues related to fees and charges on payment accounts

177. Several EU and national consumer associations reported a steady increase and disproportionate application of services rendered to consumers- fee applied.
178. Consumer associations mainly reported on the high fees applied to payment accounts and on the lack of transparency as regards these fees and other information of the general conditions of the framework contract. They noted that consumers do not always receive the information they need at the time of opening an account nor during the life of that account. They stressed the need to inform the consumers of any change in the fees of that account through an individual communication, rather than a press release, as foreseen in Article 54 of Directive (EU) 2015/2336 (PSD2). Consumer associations also noted that credit intermediaries do not always provide clarity on fees and charges.
179. CAs and FIN-NET members added that consumers are not always properly informed about fees and charges on payment accounts as they are not clearly described in the pre-contractual information documents. However, they noted that transparency of those fees had increased due to the implementation of the PAD.
180. Many stakeholders also observed that some consumer complaints are caused by changes in contractual terms and conditions aimed at increasing the fees and charges applicable to payment accounts. Moreover, several stakeholders reported the sudden charge of

maintenance fees after an initial period of exemption from fees associated with a current account. Stakeholders highlighted that consumers are not always aware of these changes, because, in most cases, they were notified by means of a communication for other purposes (e.g. statement of fees, commercial or marketing messages, etc.).

181. In addition, some stakeholders reported several cases of mismatch between the service rendered and the corresponding fee. Indeed, in many complaints, consumers question the correspondence of a particular fee charged to a service being provided, as they consider the amount too high and/or unjustified. From the consumer's perspective, there is a failure in regulations in place with the absence of a clear definition of what is a service related to a payment account.

Issues related to fees and charges on payment services

182. Regarding fees and charges on payment services, stakeholders reported the same transparency and pricing related issues that have been reported on payment accounts set out in paragraphs 177–180. In addition, a few stakeholders stressed the issue of undisclosed fees regarding non-executed or defective cross-border and electronic payments.
183. Also, and similarly to what is stated in paragraph 181, a few consumer associations noted that some fees and charges are not associated with a given service, and highlighted the lack of definition of service by the PAD.
184. Several stakeholders also reported that an increasing number of institutions has begun to charge or to increase charges for cash ATM withdrawals, substitution of payment cards, contactless payments and manual transactions at branches. On the increasing trend of fees on ATM withdrawals, consumer associations noted this practice constitutes an obstacle to access cash when a consumer withdraws small amounts of cash.
185. Many stakeholders identified the differentiation of fees and charges depending on the channel through which services are provided (branch vs. alternative digital channels), being notorious the trend of lower banking costs for users of digital banking services, putting digitally underprivileged consumers at a disadvantage as they have to carry out more expensive transactions.

Issues related to fees and charges on loans

186. The main issues reported by consumers regarding fees and charges on loans relate to the lack of transparency and mischarged fees, being both particularly notorious with regard to the methods for calculation of monthly instalments and charges (for example, charges on opening of the loan), and the early repayment fee of a loan or penalties applicable.
187. Concerning mischarged fees, some stakeholders indicated that financial institutions are making errors in charging undue fees and charges to their clients. As an example, several CAs referred to the incorrect calculation of the APRC.
188. Several consumer associations highlighted excessively high overdraft fees and the impact on financially vulnerable consumers given overdraft fees target consumers with low incomes.

189. Some stakeholders also reported very high fees and charges on credit cards, loan payments in arrears, late payment of consumer credit and early repayment of mortgages. In addition, consumer associations reported high interest rates applicable to payday loans and no caps for APRs in many jurisdictions. Unjustified and mischarged fees was also identified by several stakeholders as regards consumer credit intermediation.

Regulatory and supervisory measures

190. The topic of fees and charges has been part of regulatory and supervisory priorities for several jurisdictions since CTR 2018/19. Most CAs have focused on the implementation and monitoring of compliance with PAD and the RTS on standardised terminology for services linked to a payment account, and the standardised formats and common symbols of the fee information document (FID) and the Statement of Fees (SoF). For example, one CA issued a circular letter to credit institutions on the transparency of fees and charges. In relation to mortgage arrears, another CA issued a recommendation letter regarding the charging of costs associated with the legal process and other third-party charges to borrowers. One CA has established a procedure through which credit institutions are required to notify and seek approval from their CA on new or increased fees and charges. Another CA has been monitoring the obligation of credit institutions to notify the CA of their intention to introduce new fees and charges, or increase any existing charges, in respect of certain payment services. One CA focused on monitoring the maximum APRC applicable. In addition, many CAs have developed comparison websites allowing consumers to compare the fees and charges of the various providers.
191. Some CAs reported inspections on this matter, either planned or unplanned as a result of complaints received. One CA published an interpretation of what costs may be required from consumers in relation to the early repayment of a mortgage according to national law on consumer credit, and subsequently, carried out a thematic review to assess compliance with this interpretation. Based on this review, this CA identified misconduct cases of some credit institutions and sent them individual warnings.
192. Also, CAs build on existing procedures in other areas to address issues related to fees and charges. In this regard, one CA is in the process of incorporating the analysis of fee models related to online consumer credit into existing analysis in other areas (e.g. cost analysis of investment funds). The result of the analysis inputs supervisory standardised terminology for services linked to a payment account, and the standardised formats and common symbols of the fee information document (FID) and the Statement of Fees (SoF).
193. Two CAs reported the issuance of a circular-letter/good practices criteria applicable to the amendments of payment account agreements. To safeguard the transparency of changes in fees, institutions should send individualised and prior notices, in clear and understandable terms, at least two months in advance.
194. Individual initiatives include:

- approval of a recent law to eliminate some of the fees charged during the execution of a contract loan;
- approval of a recent law to limit the fees charged for instant payments performed through payment platforms run by third parties;
- voluntary cap of banking fees applied by banks for all customers identified as financially vulnerable persons, as a fair practice;
- ongoing checks on compliance with the rules for fees related to payment services, including with the information provided before execution of a payment transaction;
- targeted supervision with regard to one category of fees;
- direct inspection of pricelists, in order to assess compliance with the duty to disclose the fees of different services and the accuracy of the information provided;
- issuance of a letter to the industry regarding the charging of costs associated with the legal process and other third-party charges to borrowers in mortgage arrears following the conclusion of an investigation. The CA set an expectation that relevant regulated entities should refrain from charging such legal costs until the conclusion of repossession proceedings, whether this is on foot of a court order or a settlement between the parties;
- development of guidance and a tool that determines the maximum fee that may be charged for early repayment of credit. In this context, checks on compliance with the calculation prescribed were conducted;
- conduction of a thematic investigation on whether the institutions comply with the legal provisions stating the disclosure obligations that are overdue after the conclusion of contracts;
- supervisory focus on the transparency of fees for online consumer credit; and
- off-site and on-site inspections both targeted to verify possible inconsistencies arising between pre-contractual and contractual information, in particular in the case of intermediaries selling consumer credit loans (e.g. delivery of pre-contractual information, interest rates miscalculation, customer care and assistance).

Conclusion

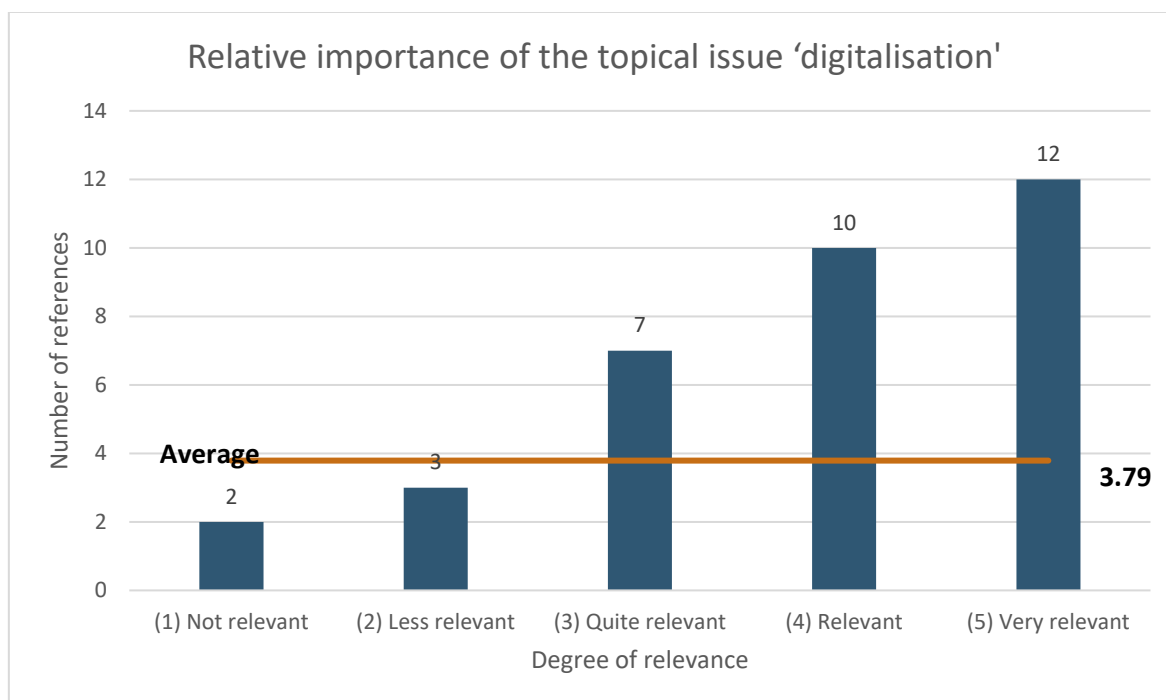
195. Following stakeholders' feedback, the main concerns for consumers relate to the lack of transparency and the excessive levels of fees and charges on payment accounts, payment services, consumer credit and mortgage loans and to the negative interest rates in deposits.
196. Although the implementation of the PAD has arguably contributed to an increase in the transparency of fees and charges, the views conveyed to the EBA on other, related provisions in the PAD are somewhat less positive, such as on the transparency and disclosure of pre-contractual information more generally and the changes to contractual terms and conditions of the financial products and services offered to consumers.

Digitalisation

In September 2020, the EU Commission adopted a proposal for a regulation on the European Parliament and of the Council on Markets in Crypto-assets. This proposal is part of the Digital Finance package, a package of measures to further enable and support the potential of digital finance in terms of innovation and competition while mitigating the risks.

197. Stakeholders noted that the provision of banking services to consumers has been going through a period of rapid change driven by technological advances with a significant increase of digital payment services and consumer credit available in digital channels, and that whereas digitalisation leads to greater convenience, the reach (including cross-border providers) and the speed of the availability of financial services to consumers also presents risks for consumers including fraud, cyberattacks, system failures, theft of personal data and insufficient disclosure in digital channels.
198. Stakeholders reported that health measures that evolved as a result of COVID-19 accelerated the growing trend of digital channels. They also noted the link between the increase of fraud with insufficient consumer knowledge on finance and cyber-security and highlighted the importance of financial literacy initiatives.
199. Figure 18 shows the relative importance assigned to the topic digitalisation by CAs and other stakeholders, which had a score of 3.79 out of 5, based on the feedback received from 34 stakeholders. The majority of CAs and other stakeholders considered the topic very relevant.

Figure 18: Relative importance of the topical issue 'digitalisation'



Relevant issues

200. The main issues reported by consumers regarding digitalisation refer to the increase of cybersecurity; privacy issues; system failures; increase of misspelling of digital content; insufficient or inadequate disclosure in digital means; lack of awareness of consumers regarding who they are contracting with in cross-border transactions; competition issues and impact of digitalisation on financial vulnerability.
201. A large number of stakeholders noted that the increasing digitalisation of financial services leads to an increase in cybersecurity risks. A small number of CAs mentioned that the lack of investment in IT infrastructure and systems significantly increases cybersecurity risks.
202. On privacy issues, several CAs and consumer associations reported the unintended release, theft, corruption, or loss of consumers' personal and financial information. Consumer associations particularly noted the issue of new players accessing sensitive information such as religious and political affiliations, etc. from informal sources of data (e.g. social networks).
203. Some CAs also referred to system failures of credit institutions due to technical problems that result in the temporary unavailability of financial services, such as cash machines, credit transfers, or online banking.
204. Several stakeholders noted the key relevance of financial literacy to promote a secure digital environment within the financial sector and to enhance consumer protection. They noted that consumers with high financial literacy can make better decisions to mitigate security

risks when using digital channels. On the other side, one CA indicated that fraud may be the result of consumers' insufficient knowledge on finance and cyber security.

205. The majority of stakeholders noted the existence of vulnerable groups, such as the elderly or migrants, which have difficulties when using digital channels, adapting to new security procedures, such as SCA, and have no confidence in online and mobile banking when performing everyday transactions. Some CAs mentioned that in some cases consumers are pushed to use mobile phones or the internet to execute and authorise some payment services, or that the offering of the traditional services might not be as good as the level of digital services. Another CA stressed that the increasing digitalisation of services, coupled with insufficient digital financial education, might lead to the financial exclusion of these groups.
206. A small number of CAs also noted the inadequate disclosure of information in digital contracts, and specifically in the case of so-called 'white label banking' where banks open up their application program interfaces (APIs) to let third parties build their own financial products with existing infrastructure, which brings about the difficulty to properly assess the shared responsibility between manufactures and distributors over open banking-platforms in the event of incurred shortcomings.
207. Stakeholders have raised concerns about the lack of consumer awareness about the new participants in the financial market (especially the payments market), whether they are supervised or trustable, the risks of new solutions in payments and security of these types of payments. Stakeholders noted that this risk is particularly high when it comes to cross-border transactions where consumers are often not clear about the identification of the specific service provided, the provider, the applicable legal framework, and the competent supervisors. Stakeholders stressed that in the event of an incident, conflict resolution can be difficult due to the different legal systems or lending practices involved.
208. A few stakeholders reported an increasing risk of mis-selling given that new technologies are changing the method of delivery, with new types of platform and new distribution modalities, with no and/or limited human contact. Some stakeholders also raised concerns about the suitability of targeted consumers for a specific product or service in these digital channels.
209. Consumer associations noted the issue on de-risking, whereby banks only service particular types of customer and some customers do not have access to a bank account, leading to financial exclusion. They highlighted that in the current world where more and more transactions are digitalised, the need for accessing a bank account is stronger and that the referenced rapid trend in digitalisation has also brought about the debate on cash acceptance.
210. Several CAs highlighted the need to ensure that disclosure requirements are adapted to the digital environment in compliance with legal and regulatory requirements throughout the pre-contractual and contractual stages. Consumer associations concurred with this and added the need for digital contracts to be consumer friendly (for example, enabling a

contract to be read in one go in a mobile application, or at least as regards its most relevant points).

Regulatory and supervisory measures

211. In order to promote consumer protection and strengthen security in the payment markets, CAs reported the implementation of SCA requirements under PSD2. In addition, a few CAs issued specific guidelines aimed to address several risks arising from digitalisation, including operational, security and fraud risks.
212. Several CAs have been gathering information from institutions on their approach to digitalisation. A large number of CAs have promoted initiatives to educate consumers about digitalisation and provided awareness campaigns about cybersecurity risks. For example, virtual platforms containing information on financial services on digital channels and the risks associated with them; awareness campaigns to consumers about cybersecurity risks and fraudulent schemes; initiatives targeting consumers' tips to safely use digital channels; launch of an exhibition with interactive games about e-payments and the organisation of initiatives, such as visits, targeting students; and educational initiatives targeting vulnerable groups including senior citizens and migrants.
213. Several CAs reported the launch of regulatory sandboxes, to allow selected potential and existing market participants to test innovations in a live environment under the guidance and supervision of the competent authority, before its release to the market, allowing them to manage consumer-related issues, including the need to better educate consumers regarding that particular product/service.
214. A large number of CAs launched surveys to collect information about the commercialisation of financial services in digital channels. The specific focus and target varied across jurisdictions. Some studies focused on the current status of the digitalisation of institutions, including security measures undertaken and future expectations, while others assessed digital banking customisations and service options for digital transactions and digital counselling offered by institutions. In addition, other surveys also considered the perspective of insurance companies and other financial services providers. Finally, another survey focussed on financial exclusion, specifically on the difficulties in opening an account on digital channels.
215. Other CAs noted the impact of digitalisation on the supervisory activity, resulting in alternative channels to be supervised such as digital reporting, digital marketing, open banking and right to withdrawal in digital channels, in order to ensure consumer protection and that the risks stemming from immediacy in the digital context are minimised.
216. Several stakeholders reported that new technologies have been integrated into supervisory activities, such as machine-learning techniques which allows the analysis of a greater quantity of data and documentation by extracting and automatically identifying certain data, automatically categorising documents and transforming unstructured data into structured reports. One CA specified the introduction in their jurisdiction of a solution which will

automate reporting procedures and reduce the administrative burden for financial market participants.

217. Several stakeholders noted the focus on the monitoring of data breaches and cyber-security risks. Several CAs carried out inspections to verify compliance with SCA, regulatory reporting, prudential and regulatory consultations and the Innovation Hub.

218. In addition, the following regulatory and supervisory initiatives were reported by individual stakeholders:

- the regulation of virtual asset service providers for the purposes of anti-money laundering compliance;
- draft of a circular-letter to financial institutions on the advertising of banking products and services that aims to adapt the existing one to the latest developments in the advertising sector, as a consequence of the impact of digital technology; electronic contracts; and remote electronic identification of individuals;
- recommendations on cloud computing services, and on the security of financial services provided over the internet;
- conduction of cyber stress tests, to check the resilience of the financial sector against various cyber-attacks in a cyber-simulation;
- the launching of a working group about online banking contracts to identify processes and ensure informed consent of the client on internet;
- establishment of a set of good practices applicable to the marketing of banking products and services (namely deposits, consumer credits and payment services) through digital means (online and mobile). These recommendations aim to ensure that consumers are provided with information about products and services in a complete and adequate manner;
- participation in several European and international working groups related to cybersecurity;
- studies on the state of digitalisation, the areas in which digital technologies are being deployed and the key effects of these technologies on the financial market;
- questionnaire sent to firms aimed at assessing their operational resilience especially from an IT/cyber risk perspective; and
- review of the supervisory framework aiming at updating digitalisation-related risks adding IT and cybersecurity risk as a standalone risk within operational and governance risk.

Conclusion

219. Following stakeholders' feedback, the increase in digitalisation, boosted by technological innovations and, more recently, by COVID-19, has been observed. This trend could

potentially increase the exposure of consumers to security risks, including cyberattacks and the theft/loss of personal data.

220. Several CAs highlighted the increase of digitalisation-related risks with insufficient knowledge on risk mitigation measures by consumers. As a result, many measures adopted by CAs focus on financial literacy.

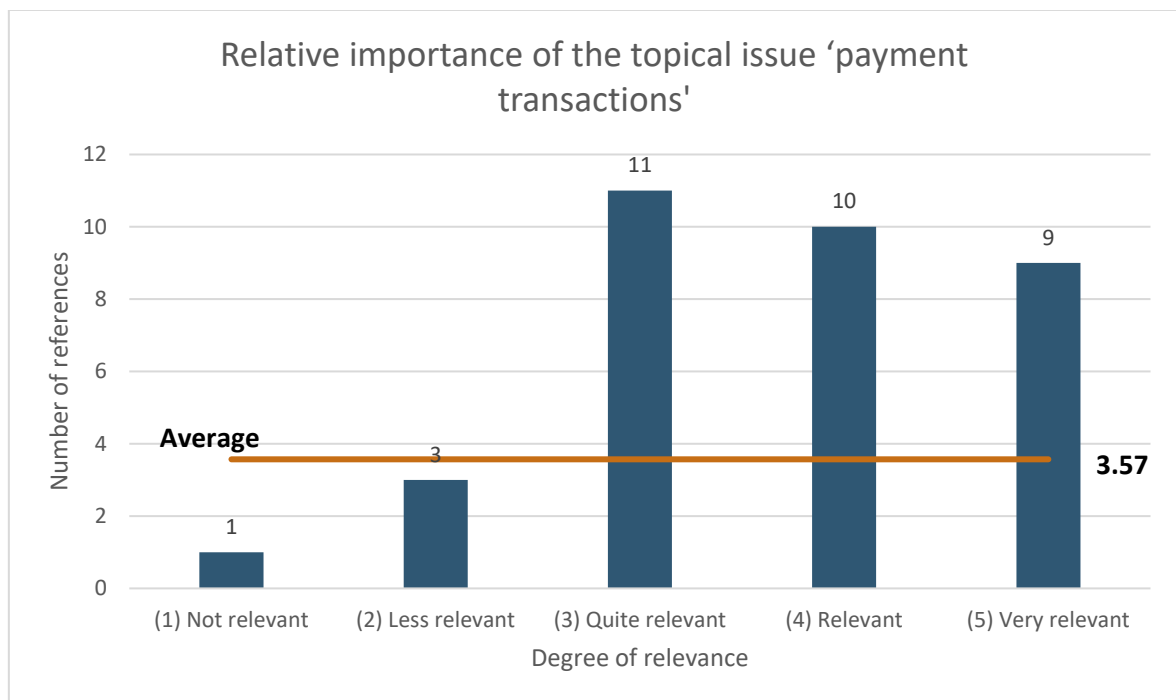
Payment transactions

221. Payment transactions was identified as a topical issue in the CTR 2016, but not in the CTR 2018/19. As general trends, the following observations were made by all category of stakeholders:

- an increase in the use of online and mobile applications for making payments with the associated risk of cyberattacks;
- the importance of cash remains high: consumer associations noted that consumers should have the right to access cash and highlighted the EC initiative on this in the context of the EU digital strategy;
- the high use of card payments;
- a quest for new innovative solutions that combine speed, reliability, security, customer choice and control but within seamless solutions, such as wallets;
- trend towards the increase in the use of contactless payments in the COVID-19 environment. Consumer associations highlighted that enabling contactless payment functionality and the associated threshold should be an option to the consumer and not an obligation and that consumers should be able to opt in instead of having to opt out of this innovation. Consumer associations also noted the increased risk of fraud on these transactions, as well as liability related issues;
- trend towards the increase of mobile and online applications with the associated increase in cyberattack risks;
- trend in the use of instant payments. On this, consumer associations noted that instant payments should be applicable in daily transactions without being subject to charges;
- the entering of new players into the payments market; and
- the consumers vulnerability dimension (specifically the elderly): the main issues reported on payment transactions strongly impact more vulnerable consumers.

222. Figure 19 depicts the relative importance assigned to the topic of payment transactions by CAs and other stakeholders, which had a score of 3.57 out of 5, based on the feedback from 34 stakeholders.

Figure 19: Relative importance of the topical issue 'payment transactions'



Relevant issues

223. The main issues reported by stakeholders regarding payment transactions refer to unauthorised payment transactions; hidden fees; incorrect execution of payment transactions (including incorrect withdrawal in ATMs); and surcharges (i.e. charging consumers for the use of a given means of payment). One FIN-NET member also added issues related to the suspension and/or refusal of payment transactions.

Unauthorised payment transactions

224. Most stakeholders referred to unauthorised payment transactions as the most relevant one, sometimes representing nearly 50% of the total issues faced by the payment service users. Unauthorised payment transactions have been reported mostly as fraudulent.
225. Examples mentioned by stakeholders include unauthorised third parties, misleading the customer in data phishing emails, or telephone calls to acquire customers' bank card data, log-in information to the net bank or the data necessary for the registration of mobile applications via a so-called 'curtain site', very similar to the bank's login-site; and subscription traps.
226. Finally, one CA highlighted issues related to payments drawn from PSU's credit cards and the difficulties for PSUs to stop the subscription. This same CA highlighted the increasing impact on the elderly of fraud associated to payment transactions (i.e. unauthorised payment transactions).

Hidden fees

227. As examples of hidden fees, stakeholders referred to the difference between the amount to be transferred and the amount that is actually transferred which is often due to the charging of non-transparent transfer fees that may be combined with unexpected fees due to the termination of the account, or opaque exchange rates with cross-border transactions.

Incorrect execution of payment transactions

228. As examples of incorrect execution of payment transactions, stakeholders referred to:

- incorrect execution of a payment transaction in relation to the failure of the human factor or technical equipment; and
- incorrect withdrawals from ATMs and issues in providing evidence of the referred to incorrect withdrawal.

Surcharges

229. Some CAs have prohibited beneficiaries from applying surcharges for electronic payments, both in physical and online stores. However, and despite an informative campaign among merchants, the complaints received show that there are still merchants who pass on these costs to the payer.

230. Stakeholders referred to fees applied for different services: (i) fees for using the card abroad; (ii) account management fees and (iii) ATM withdrawal fees.

231. In addition, the following individual issues were mentioned by consumer associations:

- charges when using ATMs of a bank different from one's own bank; and
- increasing costs of engaging in transactions at one's bank branch (which may create financial exclusion problems).

Regulatory and supervisory measures

232. On regulatory measures some CAs have adopted regulations on adapting the regulatory framework to the technological innovations introduced in the payments market while ensuring adequate consumer protection. CAs have also adopted regulations on the transparency of the conditions and information requirements applicable to payment services.

233. On supervisory measures, a few CAs reported on-site inspections, at times preceded by surveys to gather the necessary information. In addition, the following supervisory initiatives were reported by individual stakeholders:

- external monitoring of payment institutions;
- assessment of the migration plans of payment service providers to adapt e-commerce card-based payment transactions to the new security requirements; and

- assessment of the provision of the statement of fees and current account statement and fee refund practices to cards following the termination of the agreement.

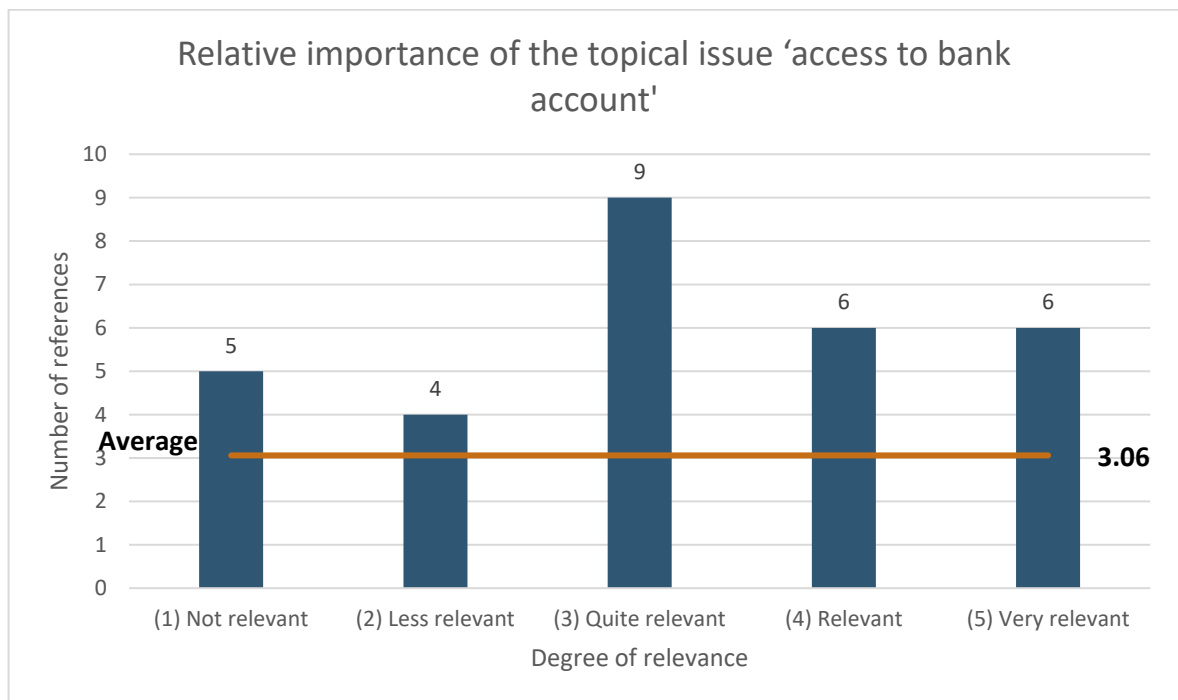
Conclusion

234. Stakeholders noted that payment services are a key element of the efficient functioning of the financial system and that any malfunction can cause significant disruption and instability in the operations to financial institutions but also to consumers.
235. Stakeholders stressed that the management of payment transaction issues is going to be particularly relevant in the coming years due to the increasing cross-border nature of the activity and the effect of ongoing technological developments and digitalisation (shift towards the usage of online and mobile payments). In this regard, stakeholders noted that in recent years, technological innovation has resulted in the rapid growth of electronic payments, the emergence of new types of services and new specialised payment service providers, particularly online.
236. While the technical complexity of the payment services may pose some risks for consumers, the EBA has developed a number of legal instruments, including the detailed requirements on the application of strong customer authentication under PSD2 to address these and ensure the security of consumers when making payments. At the same time, the payment industry needs to balance speed in the payment process and seamless solutions with security measures and adaption to the needs of different groups of consumers.

Access to bank accounts

237. Access to bank accounts appears as topical issue for the first time in the CTR 2020/21. It has been identified as relevant to consumers by a large number of stakeholders.
238. Consumer associations acknowledged the importance of the referenced access in light of the fact that it constitutes a prerequisite to access employment, residence and other financial services. They highlighted that access to a bank account has a very relevant financial inclusion dimension and that at times vulnerable consumers are excluded from access to a bank account. Whilst the majority of consumer associations mentioned there were numerous complaints by consumers on this topic, a minority noted they had no cases of denial of such access based on AML grounds.
239. Figure 20 depicts the relative importance assigned to the topic of access to bank accounts by CAs and other stakeholders, which had a score of 3.06 out of 5, based on the feedback from 31 stakeholders.

Figure 20: Relative importance of the topical issue 'access to bank accounts'



Relevant Issues

240. This topical issue covers issues relating to denial by credit institutions to open a bank account to consumers based on AML grounds; unilateral cancellation of bank accounts by credit institutions to consumers based on AML grounds; and insufficient transparency of AML obligations to consumers.
241. Many stakeholders reported an increasing number of requests and complaints by consumers regarding AML related issues (e.g. in the context of identification requirements, 'freezing' and unilateral termination of accounts, transfers to high risk jurisdictions, video identification and refusal to open a payment account with basic features). Some CAs also mentioned specific problems relating to the identification documents provided by the clients, some of which are considered not suitable for AML purposes.
242. One CA reported that credit institutions denied access to payment accounts with basic features based on other grounds other than AML grounds, such as the consumer not being an EU resident.
243. A large number of stakeholders also reported that some account providers might be following a 'de-risking' policy: account providers that decide not to service a particular category of customers (e.g. nationals from certain non-EU jurisdictions) that are considered to have higher AML/CFT risks. Transfers to high risk jurisdictions are also often an issue. In addition, one CA noted that it is difficult to determine whether institutions refuse to open bank accounts or terminate the existing bank accounts due to their de-risking policy or due to AML requirements. Consumer associations also noted that not having a fixed domicile in some jurisdictions currently constitutes an obstacle for accessing a bank account and called on the EBA to assess which actions could be taken to address this.

244. Several consumer associations highlighted the vulnerability dimension of accessing a payment account. Examples of vulnerable groups include seniors citizens, migrants etc.
245. A few stakeholders noted a potential clash between the requirements set in PAD and those in AMLD. They explained that PAD creates a right for all consumers who are legally resident in the European Union to have access to a payment account with basic features, but that PAD is clear that the right to open and use a payment account with basic features applies only to the extent that credit institutions can comply with their AML/CFT requirements.
246. In this same context, one CA noted that consumers with a longstanding relationship with a credit institution often question why their bank needs a copy of their identification and/or detailed information about the source of their funds. It noted that many consumers feel that in this context their data protection rights according to the GDPR, are compromised and that consumers consider these questions inappropriate and feel that they are implicitly accused of money laundering. Moreover, some CAs have reported that banks tend to react to the referenced concerns by stating this is required by regulation. Some of these CAs consider that there is insufficient transparency of AML obligations to consumers.
247. In addition, one CA highlighted that according to AMLD, risk management measures are based on subjective risk assessment principles. For example, PSPs have the right to subjectively assess what is considered to be a link with a particular state and what documents justify such link. In the CA's view neither PSD2, nor AMLD appear to specify whether and/or to what extent and/or on what legal basis the proportionality of subjective risk management measures could be assessed.

Regulatory and supervisory measures

248. Regulatory and supervisory initiatives aimed at addressing the topical issue of access to a bank account include surveys of basic banking services, with a particular focus on availability and pricing aimed at ensuring compliance with the right of consumers to access a basic bank account; meetings with stakeholders to explain to them AML and PAD obligations; and the issuance of recommendations for the establishment of an internal control system and customer due diligence, for the prevention of money laundering aimed at assisting financial institutions in conducting customer due diligence to reduce the risk of unjustified denial to access bank accounts.
249. Some industry stakeholders made a call for further harmonising on-boarding and KYC requirements in the EU to ensure consistent standards when consumers access banking services. They also called for investigating potential inconsistencies between PAD and AMLD.

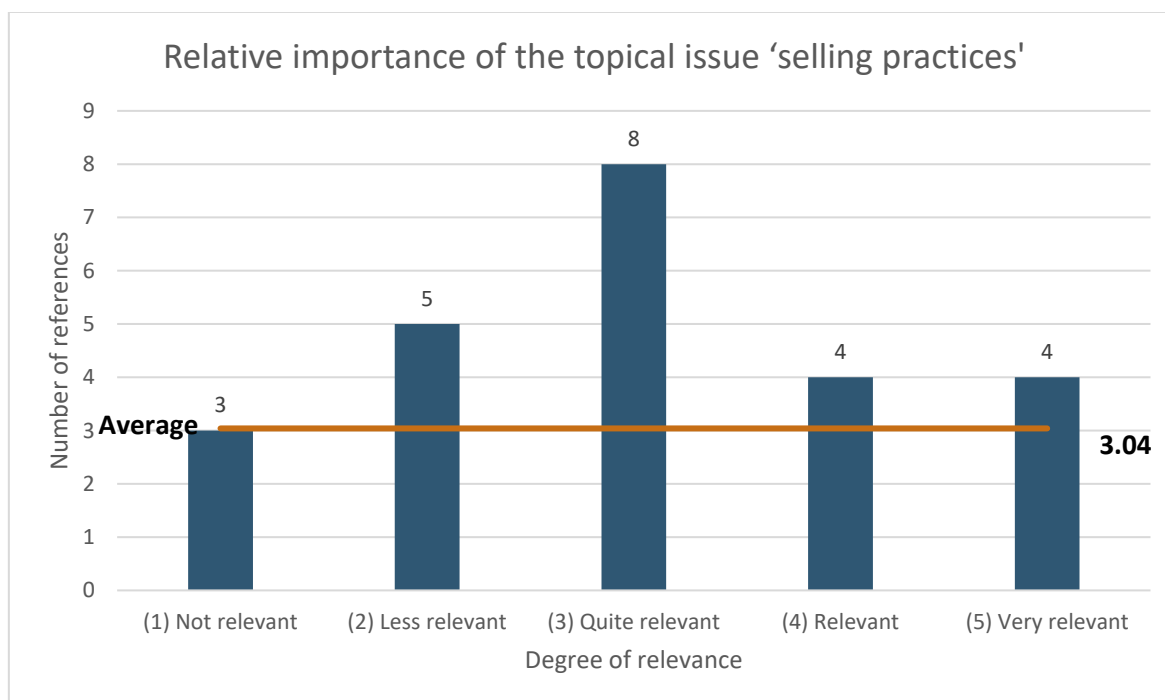
Conclusion

250. Most stakeholders reported that there are consumers that have been denied access to a payment account based on AML-related issues, whilst others noted that several providers might be following a 'de-risking' policy.
251. The PAD creates a right for all consumers who are legally resident in the European Union to have access to a payment account with basic features. However, PAD is clear that the right to open and use a payment account with basic features applies only to the extent that credit institutions can comply with their AML/CFT requirement.
252. While ensuring full compliance with AML requirements is a crucial aspect of PAD, some industry stakeholders believe that there is a need for clarification on the interplay of the two stated directives.

Selling practices

253. Figure 21 depicts the relative importance assigned to the topic of selling practices by CAs and other stakeholders, which had a score of 3.04 out of 5, based on the feedback from 24 stakeholders.
254. Selling practices are mostly identified as an issue by CAs. Only one FIN-NET member and one consumer association have also identified those referenced as a relevant issue for consumer protection. None of the industry associations that have responded to the survey have identified selling practices as an important and relevant topic from a consumer protection perspective.

Figure 21: Relative importance of the topical issue 'selling practices'



Relevant issues

255. Issues related to selling practices, although diverse across jurisdictions are mostly linked to credit distribution; insufficient information provided to consumers; and incorrect application of the Product Oversight and Governance (POG) policy.
256. As regards credit distribution, one CA reported on the high level of fees and lack of clarity regarding the applicability of such fees, the unclear clauses included in the terms and conditions, the mis-selling practices (especially when commission based); and poor creditworthiness assessment. Another CA noted the common practice of cross-selling insurance products with credit agreements (mainly outstanding balance insurance. One CA observed that in some instances commissions paid from insurance firms to the banks were remarkably high and noted that these commissions might be an incentive for credit institutions to increasingly sell payment protection insurance to their customers. One consumer association flagged an issue in the transposition of the MCD in one jurisdiction which allows banks to require consumers to open a deposit account with their bank when buying a mortgage. The same consumer association reported that this issue has been corrected in regulation and that this correction came into effect in 2021.
257. As regards insufficient information provided to consumers, a few CAs observed multiple failures in the contracting phase including failure to provide information required by law to all loans applicants, misleading marketing practices with loans supposedly with a lower interest rate than subsequently provided to the consumer, and failure to give clear information to consumers about the benefits, risks and costs of financial products.

258. On another note, one FIN-NET member noted that consumers' credit indebtedness is largely due to misleading advertising campaigns by financial institutions in the mass media and to the low levels of financial literacy of the average consumer.
259. A few CAs reported the issue of incorrect implementation of the POG. One CA observed that one of the key risks identified in selling practices was a 'lack of consumer-focused culture'. Another CA made a link between non-suitable products for consumers, and long-term over-indebtedness. One consumer association reported the obligation imposed on consumers to have their mortgage and bank account at the same bank.

Regulatory and supervisory measures

260. In order to address the issues identified in the area of selling practices, most CAs reported implementation of POG requirements and regulations aimed at increasing transparency; off-site supervision; on-site inspections; monitoring of complaints-handling processes; thematic reviews; studies on the application of the POG; and communication to market players.
261. As regards the implementation of the POG, 6 CAs took part in the EBA's 2018/19 (first report) review on its implementation. As a follow-up to that first report, a second report was published aimed at monitoring the application of the EBA POG Guidelines by the industry, but this time based on a larger sample of financial institutions than in the first report, and in a larger number of Member States, to enable the EBA to come to more robust conclusions (see paragraphs 343 and 344 for further information).
262. One CA published a circular on the advertising of banking products and services, with the aim to include the rise of digital technology and to reinforce the internal control requirements that credit institutions must comply with.
263. One CA introduced a package of new rules in March 2020 relating to the payment of commissions to financial intermediaries, involving new requirements on transparency for consumers and prohibitions on certain types of commission arrangements. This CA also announced changes to the rules applying to the moneylending sector, in order to enhance consumer protection for those who use their services. The regulations came into effect on 1 January 2021.
264. One CA sent a communication to all credit institutions and branches of credit institutions operating in its jurisdiction requesting information on the procedures for the internal distribution of competences adopted in compliance with Guidelines 2 and 10 of the POG Guidelines (related to internal control functions). The institutions' responses were subject to a thorough assessment and culminated in the identification of a set of good practices recommended to the market in March 2018.
265. In what regards problems identified relating to loans and credit, one CA published on its website 'The Informative List of Loans to Consumers' which provides an overview of the conditions under which credit institutions grant loans in this jurisdiction; and another CA issued a letter to firms setting out their expectations of firms in relation to the information to be provided to borrowers in arrears on the assessment of their case under that CAs

mortgage arrears rules. A CA identified good practices on the provision of certain information relating to revolving credit cards.

266. One CA is currently in the process of finalising a cross-sectorial exercise on the POG to determine the level of preparedness of licensed institutions vis-à-vis the EBA Guidelines on POG. This exercise started off with a cross-sectorial questionnaire which was distributed to 100 licensed entities (20 credit institutions and 42 financial institutions), followed up by an on-site visit to a select number of institutions. Findings from this exercise will be communicated to the industry of that jurisdiction.
267. As regards thematic supervision, one CA further developed supervisory initiatives regarding product bundling. A communication to all intermediaries has been issued in March 2020 jointly with the insurance supervisor in order to address the topic and warn intermediaries about the consequences of their misconduct. Particularly, intermediaries have been invited to comply with rules and regulation when offering insurance products bundled with loans (so called 'Payment Protection Insurance'. Requirements shall be in place to mandate that the insurance is clearly defined as mandatory or optional to get the loan; a dedicated welcome letter has to be sent to the customer in order to recap the features of the insurance product bought. In addition, it is strictly forbidden to sell non-related insurance product as mandatory in order to obtain the credit agreement. Distribution networks have to be monitored in order to avoid mis-selling practices and initiatives to grant higher customer satisfaction are required too. Conflicts of interest among manufacturers and distributors should be avoided, as well as applying costs which vary on the basis of the distribution network used. Furthermore, as consumers have the right to withdraw from a financing contract at any time, the financial intermediary shall take action to ensure that in such cases the combined insurance policy is terminated too, and the customer refunded with the related costs already paid.
268. Several CAs reported inspections or thematic reviews concerning the provision of pre-contractual information, changes to contractual terms and conditions or, more broadly, compliance with contracts and firm practices with the applicable provisions and good practices. Some of these CAs informed of misconduct identified and other adopted remedial actions. One particular CA issued informative letters explaining the interpretation of law and regulations and requested institutions to change their proceedings.

Conclusion

269. Issues related to selling practices are diverse across jurisdictions, which explains why national initiatives are also so diverse and focus on different topics. The main identified trend is the growing interest in the application of POG policy, as several CAs conducted studies on it or in a closely linked topic (e.g. financial incentives in distribution networks). Stakeholders noted that looking into the future, selling practices concerns are likely to underline the need for more appropriateness, by enhancing pre-contractual information and adapting the existing requirement to new products arising from the digital transformation.

Regulatory measures to address issues identified in the CTR 2018/19

Cross-border selling of products and services

270. Cross-border selling of products and services was identified as a topical issue in the CTR 2018/19. However, it has not been identified as a topical issue in this edition of the report. Even if it has not been identified as a 'stand-alone' topical issue, the issue of the cross-border provision of services often emerges in this CTR edition, in particular when linked to digitalisation.
271. According to the CTR 2018/19, stakeholders had overall limited evidence of consumers resorting to foreign financial institutions to access the traditional banking products and services or experiencing major issues with their use. However, stakeholders noted that the increasing use of means of long-distance communication facilitates the growth of cross-border agreements, which may potentially lead to an increase in the challenges for all parties involved (financial institutions, consumers and supervisory authorities).
272. CAs reported being aware of the risks associated with cross-border selling and being prepared to actively monitor those as they emerge. By way of example, and taking into account the potential effects of Brexit on consumers operating across borders, one CA reported Brexit-related initiatives aimed at addressing potential firm continuity issues at the end of the transitional period.

Financial literacy and education

273. Financial literacy and education was identified as a topical issue in the CTR 2018/19. However, it has not been identified as a topical issue in this edition of the report, which only identifies a subset of it, namely digitalisation, which includes the issue of insufficient digital financial literacy.
274. The CTR 2018/19 concluded that financial literacy and education deserved the attention of CAs that have the corresponding mandate and other stakeholders that participate in the financial markets. In response to that request, some CAs have put in place a number of initiatives, many of which are included in the second edition of the EBA Financial Education Report that the EBA published in March 2020. However, some CAs noted that financial education is out of their remit.
275. Financial education measures taken by CAs take a wide range of forms and cover many areas. In view of the horizontal nature of financial education, some of these CAs work in this field in cooperation with other bodies and stakeholders.
276. In order to help consumers improve their financial education knowledge, some CAs carried out financial education days/weeks which consist of a set of financial education activities organised in parallel on specific dates (e.g. money weeks). These initiatives were addressed to youngsters or to the general population. In addition, a few CAs carried out financial education campaigns, for example against disinformation in the financial market.

277. Other CAs referred to the information provided to consumers on a regular basis through websites with general information of most relevant financial products and services.
278. Some CAs provide free advice to consumers in relation to financial products and services, either in person or by phone or email (financial consumer helpline). Other initiatives taken by CAs include textbooks and practical guides on financial matters. Other CAs organised training activities addressed to the adult population on practical and current topics in the field of personal finance, such as lending and crowdfunding. Online tools have been a common tool used by CAs and include mobile applications and e-learning materials, quizzes and calculators.
279. Some MSs have developed national strategies on financial education. The strategies mentioned aimed to improve the public's financial awareness, encourage the use of modern cashless payment instruments and support prudent borrowing.
280. Some CAs developed initiatives focused on vulnerable groups including providing free advice on financial matters to this target group and launching a project following the train-the-trainer approach, by which individuals in contact with vulnerable groups are trained to inform them appropriately.
281. Finally, other CAs took initiatives addressed to school students, including educational modules, trips, workshops, and the promotion of a Financial Education Programme in schools.

Chapter 3: COVID-19

282. The spread of COVID-19 has significantly increased the risks to the financial conditions of households which have become more vulnerable due to the reduction in disposable income. From the feedback received by a large majority of CAs, COVID-19 has resulted in increasing levels of indebtedness.

Effects of COVID-19 on standard retail banking products

283. Impacts on retail banking products and services have been registered by several CAs. On residential mortgages, several CAs reported that uncertainty about employment and income derived into repayment issues, requests for moratoria as well as a general decline in demand for new mortgages.
284. Regarding consumer credit, one CA reported that due to credit institutions' closure of several branches, banks were often unable to formalise a mortgage/consumer credit on the envisaged date which has resulted in economic losses and/or changes in the terms agreed. The same CA also noted that queries were also received from consumers complaining about difficulties and obstacles in the processing of the application for moratoria. Several CAs reported delays and difficulties for consumers to repay existing loans due to reductions in disposable income.
285. Regarding deposits, several CAs reported about the impact of COVID-19 on this product. Specifically and regarding the number of new deposits, one CA reported a decreasing trend due to the impossibility for consumers to access branches and open a deposit account. With respect to deposits amount, several CAs reported an increase in savings: precautionary savings in order to face the new uncertain scenario.
286. On payment accounts, a few CAs have reported a decrease in the number of account openings.
287. On payment services and electronic-money, most CAs reported that online and mobile payments have increased, particularly contactless card payments which represent the safest way to pay in the current scenario. In addition, social distancing measures have affected the traditional operations of the branches of banks, reducing the number of individuals admitted to be physically present. As a result, many branches have closed and the use of digital solutions has been fostered.

Effects of COVID-19 on the 'topical issues' identified in this report

288. On indebtedness, stakeholders reported the worsening of the financial condition of consumers due to the rapid translation of the healthcare emergency into an economic crisis. They noted that the risk of loans becoming non-performing affected consumers' creditworthiness and that jurisdictions rapidly adopted measures, such as moratoria, to

prevent this scenario. However, the increasing level of indebtedness lead to the need for additional loans to pay expenditures, generating trade-offs between the short-term positive effect on consumers' financial position and the medium- and long-term worsening of the overall consumers' level of indebtedness. According to this scenario, CAs noted that over-indebtedness may evolve from an occasional issue affecting some consumers into a widespread and increasing burden for many consumers.

289. On fees and charges, the majority of CAs reported the effects of COVID-19 on this topical issue. For example, CAs have been monitoring the possible lack of transparency in applying costs in case of renegotiations as well as a potential mismatch between the service rendered and the corresponding fees. One CA reported that fees applied to the withdrawal of money from other credit institutions have been temporarily waived. Another CA reported the postponement of the introduction of new fees as well as the suspension of other fees (i.e. contactless payment fee).
290. On digitalisation, most CAs have reported an increase of this phenomenon as a result of COVID-19. Particularly, both financial institutions and consumers shifted their attitudes towards a more digital approach to banking products and services. CAs noted that regarding financial institutions, COVID-19 has speeded up the adoption of a multichannel approach, and, to this end, most of the supervised entities have promptly activated firm continuity plans. In what concerns consumers, CAs noted that the usage of internet banking and mobile applications proved to be the safest solution from a health perspective which resulted in a large increase of their usage and that the shift towards a more digital attitude of consumers has been also favoured by the fact of consumers being forced to operate from home during the lockdown period.
291. On payment transactions, most CAs reported a significant increase in the rates and volumes of contactless payments as result of COVID-19. Some CAs also reported that the increase of the contactless payments limit up to EUR 50, also referred to by the EBA in a Statement³⁵ dated 25th March 2020, helped to reduce exposure of individuals to a potential source of contagion given the reduced frequency of PIN entry activity (which requires POS terminal keypads to be handled). Three CAs called on financial institutions to strictly monitor the potential increase in fraudulent payments as well as cyber-attacks in light of individuals being forced to pay online for most of their daily transactions and thus being exposed to the referenced risks. However, no major incidents were reported by these CAs.
292. On access to bank accounts, feedback was only received from two CAs, who have reported no effects on this topical issue as a result of COVID-19.
293. Regarding selling practices, feedback was only received from two CAs, one of which reported an increase in the use of digital channels as a result of COVID-19, whilst the other reported no effect on this topical issue as a result of COVID-19.

³⁵[Statement on consumer and payments issues in light of COVID-19](#)

Regulatory and supervisory measures

294. On mortgages, several jurisdictions have issued moratoria in order to defer payments for a given period of time. Jurisdictions have generally differentiated between households and firms. Moratoria characteristics may vary among jurisdictions and they are triggered, for example, in the case of verified debtor economic vulnerability situations and employees' suspension from work.
295. In addition, the majority of CAs highlighted the need for reinforcing disclosure to consumers. One CA specified that institutions are required to disclose information on the moratoria they offer on several channels (bank agencies, institutions' websites, home-banking, mobile apps) and to report data to the CA twice a month on the number of moratorium application requests received and the credit agreements covered, including details on the number of application requests accepted, support measures implemented, data on requests rejected and the reasons for rejection.
296. A few CAs reported private initiatives as a result of voluntary industry-wide initiatives from bank associations usually covering credit agreements not included within the public moratoria (e.g. consumer credit such as personal credit, car loan and credit cards and mortgage credit agreements other than credit for permanent own housing) or instead of public moratoria. In one case, a specific industry association moratoria applied to non-residents, including households who suffered a temporary reduction in their income by more than 20%, as a result of COVID-19.
297. Regarding consumer credit, several CAs reported that public moratoria have been issued in order to defer payments for a given period. From the feedback received from stakeholders, moratoria appear to have slight differences between jurisdictions. For example, some may introduce the suspension of the repayment of capital or interest or both of them and measures may differ between consumers and non-consumers.
298. Several CAs have adopted measures on interest rates, with temporary solutions aimed to cap the amount of interest charged. For example, the maximum amount of permitted interest on certain consumer credits has been decreased establishing a maximum applicable threshold and research is currently being performed in order to understand whether the rate can be permanently fixed at a certain level. One CA reported a cap on unsecured consumer loans to ease temporary liquidity strains on households.
299. One CA reported that in their jurisdiction financial institutions adopting measures on consumer credit have been required to report the number of notifications and complaints made by consumers in relation to the debt moratorium and measures taken in relation to the assessment of the consumer's creditworthiness.
300. Regarding both mortgages and consumer credit, several CAs reported that supervisory initiatives have been focused on the monitoring activity in order to ensure the adoption of regulatory and legal measures to support consumers. In addition, one CA reported that surveys on the implementation of COVID-19 measures had also been launched in order to

collect insights from financial institutions, as well as regular conference calls with financial institutions in order to deal with the most urgent COVID-19 related issues.

301. Regarding payment services, some CAs have adopted measures to encourage the use of contactless payments by raising the limits of its use from EUR20 to EUR50. One CA reported that the Payment Service Providers in his jurisdiction and their stakeholder group adopted measures themselves and raised the limits of the contactless payments. One CA reported that additional measures have been issued in order to encourage the use of card-based payments, including the suspension of fixed fees for a card payment transaction carried out at POS terminals or the impossibility to refuse card payments for beneficiaries.
302. One CA reported that Payment Service Providers had been required to submit their contingency and firm continuity plans, taking into account the COVID-19 measures, as well as information about the measures taken for the purposes of efficient reallocation of human and technical resources). In addition, several CAs reported that payment service providers in their jurisdictions had been requested to increase the limit for contactless payments.
303. On electronic money, one CA noted that e-money services are being resilient to COVID-19, with the exception of some difficulties in the provision of some 'in-person' money remittance services.
304. No specific supervisory or regulatory measures have been reported on deposits and payment accounts.
305. On indebtedness and responsible lending, most CAs recommended credit institutions, creditors and credit intermediaries to apply the principles of responsible lending to consumers under economic difficulties due to COVID-19. Several CAs reported that recommendations to financial institutions had been also issued regarding consumer protection and memos aimed at creditors on the principles for responsible lending were published.
306. On fees and charges, a few CAs reported recommendations to financial institutions to avoid charging unreasonable fees, and rising interest rates to restructured loans. One CA reported banks were recommended to temporarily waive fees charged for ATM transactions of natural persons at ATMs outside a bank's own ATM network within the jurisdiction.
307. On digitalisation, one CA reported the introduction of measures to promote transactions via digital channels, including the suspension of fees in case of payments home banking and Apps for consumers affected by COVID-19. Another CA reported the issuance of a dedicated circular on cybersecurity to address the risks deriving from the increased dependency on technology during COVID-19. Another CA reported the issuance of recommendations on IT security requirements of home office and remote access.
308. On payment transactions, most CAs have recommended the increase of the contactless payment limit in order to reduce the risk of contagion. One CA reported that according to government plans retail merchants would be obliged to facilitate electronic payment for their customers from 1 January 2021 and that this may have a significant effect on the further spread of electronic payments.

309. On access to a bank account, no specific measures have been reported.
310. On selling practices, one CA reported that a temporary prohibition of direct marketing of specific products (i.e. consumer credit) came into effect.
311. Several CAs reported that dedicated funds have been also created in order to support financing measures and that in some cases credit institutions have been required to provide reports on a weekly basis on application volumes, loan quality, liquidity, operation risk etc. Another CA noted that conference calls were organised with credit institutions on a weekly basis in order to monitor the situation and developments in the market.
312. In addition, one CA reported that a simplified regime had been introduced in order to manage written contracts in safe and secured way, namely, the requirement of written form is considered to be met also when customers express their consent by non-certified email addresses or by other suitable means. This CA also informed the delivery of contracts hard copy has been postponed and replaced with the obligation to make available to the customer a copy on a durable media.
313. On customer support, several CAs have issued provisions in order to inform financial institutions on how to populate a website section dedicated to government measures and to improve support to clients. Dedicated supervisory initiatives have been targeted to monitor website updates, aimed to assess customer assistance regarding credit operations affected by both legislative and private moratoria. Two CAs reported additional initiatives launched to help consumers, including the creation of a dedicated toll-free number to help customers dealing with COVID-19 related measures (so called COVID-19 'help desk').
314. On customer complaints, several CAs reported that special importance was given to the response of enquiries and complaints submitted by customers in relation to their rights under the moratoria. Specifically, one CA noted that institutions were required to provide an answer to the complainant within an exceptional deadline of five working days, to ensure that the interests of consumers eligible for moratoria were not affected. Another CA reported the performance of weekly deep-dives on complaints filed by the customer of banks and non-banks. Finally, several CAs reported that Financial Institutions had been required to provide the number of notifications and complaints made by consumers in relation to the debt moratoria, and measures taken in relation to the assessment of the creditworthiness of consumers.
315. On financial education, one CA reported that consumers had been provided with daily information and practical advice regarding government support measures for families, and on how to manage their remote relationship with their bank in a suitable and informed way. This CA noted that consumers had been provided with calculators for the suspension and renegotiation of the mortgage instalments and with a guide on how to manage personal finances during COVID-19.
316. In response to the global outbreak of COVID-19 and its spread in Europe, the EBA took a number of actions to mitigate the impact of COVID-19 outbreak on the EU banking sector. One of these actions was the publication of its Guidelines on legislative and non-legislative

moratoria on loan repayments applied in the light of the COVID-19 pandemic (hereinafter the Guidelines on moratoria). In its Guidelines on moratoria, the EBA clarified the implication of payment moratoria introduced across EU member states on the application of prudential rules, including in relation to the application of rules on forbearance and the definition of default and non-performing exposures. More precisely, the EBA clarified that the offering and acceptance of terms set out in public and private payment moratoria meeting the requirements of the Guidelines on moratoria would not necessarily lead to a reclassification of any loan under the definition of forbearance, as either performing or non-performing forborne. In other words, no automatic reclassification is triggered when general measures are being offered.

317. In turn and in keeping with the EBA's Guidelines on management of non-performing and forborne exposures, the EBA asked institutions to ensure that they adhere to their obligation in the field of consumer protection. The EBA noted that payment moratoria or other measures should be offered in compliance with EU law, such as the Mortgage Credit Directive and the Consumer Credit Directive. Institutions were reminded of the importance of full information disclosure, especially of any potential charges and costs, and the transparency and clarity of contractual terms and conditions. Importantly and in line with the prudential treatment and classification the EBA stressed that such general temporary payment moratoria offered by institutions should not automatically lead to negative implications for the consumer's credit rating (or equivalent measures of risk). The EBA is committed to monitor the application of its Guidelines on management of non-performing and forborne exposures to ensure that provisions of consumer protection framework in the workout of non-performing exposures and assessment of forbearance measures are respected.

Conclusion

318. COVID-19 represents a disruptive event widely affecting the whole financial services sector, as consumers' level of indebtedness and financial institutions operations have been severely impacted. To mitigate the fallout, governments, CAs, and the industry have adopted a large number of initiatives.
319. Most public and private measures have focused on moratoria for mortgages and consumer credit, incentives to use cashless payment instruments, and internet and mobile banking to execute payments. Such initiatives also focus on digitalisation to support main banking processes and customers' support and on financial education to help consumers benefit from government/CAs/industry support measures. The majority of these initiatives have been extended and most of these aim to continue whilst the current situation does not improve. Finally, several CAs have noted that it is still too early to have a complete picture of all the mentioned effects.

Chapter 4: EBA measures to address the topical issues identified in the CTR 2018/19

320. Every edition of the CTR outlines the topical issues that the EBA has identified as being relevant to consumers in the EU as identified by various stakeholders, including CAs, national and EU consumer associations, the members of the Financial Dispute Resolution Network and EU industry associations.
321. Taking into account the input the EBA had received, the CTR 2018/19 arrived at the following aggregated and prioritised list of topics relevant to consumers in the EU:
- **Indebtedness, responsible lending and creditworthiness assessment** — the risk of consumers' over-indebtedness is fuelled by the low interest rate environment, poor creditworthiness assessment practices, the use of multiple marketing channels and misleading commercial practices. The EBA intends to assess these issues further to identify the appropriate measures to ensure better outcomes for consumers.
 - **Financial literacy and education** – the most relevant issues identified were the negative consequences stemming from the low level of financial education, as well as the need for targeted education in relation to the new providers and complex services and tools used in the financial market.
 - **Transparency and disclosure of pre-contractual information and changes to contractual terms and conditions** – the main concerns raised relate to the transparency of banking fees and costs, the disclosure of pre-contractual information to consumers, and the unilateral amendment of contractual terms and conditions by financial institutions. CAs and the relevant EU institutions, including where relevant the EBA, could assess whether the undertaken initiatives are effective and sufficient.
 - **Data breaches and cyber-security** – the digitalisation of financial services may expose consumers to new risks and threats such as the risk of misuse of personal financial data and cyber-crime. While CAs should pay increased attention to these risks, the EBA aims to facilitate cooperation between CAs and try to harmonise the approaches taken.
 - **Cross-border selling of products and services** – the relevant issues identified were the lack of awareness of the actors involved in cross-border agreements and their responsibilities and redress mechanisms, and the lack of adequate enforcement powers by host supervisory authorities. The EBA aims to ensure effective

cooperation between home and host CAs in the supervision of the financial institutions providing cross-border services.

322. On Indebtedness, responsible lending and creditworthiness assessment, the EBA assessed these issues and identified as appropriate measure to ensure better outcomes for consumers the issuance of Guidelines on loan origination and monitoring. The Guidelines, published on 29 May 2020 specify the internal governance arrangements for granting and monitoring of credit facilities throughout their lifecycle. They introduce requirements for borrowers' creditworthiness assessment and bring together the EBA's prudential and consumer protection objectives. The guidelines aim to ensure that institutions have robust and prudent standards for credit risk taking, management and monitoring, and that newly originated loans are of high credit quality. The Guidelines also aim to ensure that the institutions' practices are aligned with consumer protection rules and AML requirements.
323. On financial education, while the EBA continues to monitor the national financial literacy and education initiatives, financial institutions should provide consumers with appropriate information that is adjusted to their needs and financial situation. The EBA publishes on a biennial basis a financial and education report (FER) based on the EBA financial education repository, which consists of more than 120 financial education initiatives taken by the national authorities. Its second edition was published on 30 March 2020.
324. In it, the EBA identifies trends and lessons learned in financial education and literacy initiatives. More specifically, the Report identifies lessons learned from more than 120 national financial education and literacy initiatives across the EU as well as key trends and developments that could shape future initiatives. The Report includes a focus on FinTech-related education initiatives.
325. The FER describes the most common approaches used by the national authorities and the lessons learned and experiences gained in the area of financial education and financial literacy. It identifies, for example, that awareness-raising campaigns remain among the key tools used by national authorities to reach wide audiences and, in certain cases, to alert consumers to potential risks they may face regarding the use of financial products and services (e.g. crypto-assets).
326. Compared to the 2018 edition, the 2019/20 edition of the FER includes new aspects such as on the interplay between financial education and financial conduct regulation and supervision of the financial system. In addition, it highlights the increasing role of financial innovation and the growing focus on specific target groups for financial education and literacy initiatives, such as children, youth and the elderly. It also identifies a number of developments that could influence future financial education initiatives, including behavioural economics, sustainable finance, and advanced analytics and big data.
327. The Report provides an opportunity for national authorities to share and compare experiences, and for other organisations and individuals interested in financial education to learn about, and possibly build on, the work carried out so far in this area.

328. On transparency and disclosure of pre-contractual information and changes to contractual terms and conditions, in October 2019 the EBA published an Opinion addressed to the EU Commission (EBA-Op-2019) on disclosure to consumers buying financial services through digital channels addressed to the EU Commission with recommendations to ensure that disclosure requirements in EU law take account of the increasing use of digital marketing channels for financial services and the resultant issues potentially affecting consumers. The recommendations relate primarily to the scope and consistency of disclosure rules, the timing of disclosure, the presentation format and accessibility of information. In addition, they cover advertisements, pre-contractual information, rights of withdrawal, complaints handling and post-sale information.
329. In addition, on 3 December 2019, the EBA published a factsheet addressed to European consumers to raise awareness on key steps they should consider when choosing financial services through digital means. This document aims at helping consumers make better and more informed choices, and has particular relevance in the context of COVID-19, where digital transactions have largely increased.
330. In particular, this factsheet reminds consumer they should check the identity, contact details and legal status of the provider and whether it is authorised to provide the services to avoid them becoming a victim of fraud and provides key tips to protect consumers when choosing online or mobile banking services.
331. In addition, the factsheet includes tips consumers should bear in mind before choosing a service or when concluding an agreement for a particular service such as:
- reading and making sure to understand the terms and conditions before signing;
 - paying particular attention to all fees and charges;
 - thinking about security;
 - filing a complaint in the event that they believe that their rights have been denied.
332. This document was also reproduced by CAs across the EU and contributes to the fulfilment of EBA's consumer protection and financial education mandate.
333. On data breaches and cybersecurity, the EBA issued Guidelines on incident reporting, which are applicable since 13 January 2018. These Guidelines set out the criteria, thresholds and methodology to be used by payment service providers to determine whether or not an operational or security incident should be considered major and, therefore, be notified to the competent authority in the home Member State.
334. In addition, the EBA published a consultation paper in 24 October 2020 to propose revising the referred to Guidelines. The proposal aims at optimising and simplifying the reporting process, capturing additional relevant security incidents, reducing the number of operational incidents that will be reported, and improving the meaningfulness of the incident reports received. The revision of the Guidelines also intends to decrease the reporting burden on PSPs.

335. Moreover, on 28 November 2019, the EBA published Guidelines on ICT and security risk management. These Guidelines were based on preceding Guidelines on operational and security risk that the EBA had developed in 2017 under PSD2, which were applicable from January 2018 and were repealed when the ICT requirements came into effect.
336. The Guidelines on ICT and security risk management have been applicable since 30 June 2020, and establish requirements for credit institutions, investment firms and payment service providers (PSPs) on the mitigation and management of their information and communication technology (ICT) and security risks and aim to ensure a consistent and robust approach across the Single Market.
337. These Guidelines set out expectations on how all financial institutions should manage internal and external ICT and security risks that they are exposed to. This guidance also provide the financial institutions with a better understanding of supervisory expectations for the management of the said risks, covering sound internal governance, information security requirements, ICT operations, project and change management and business continuity management.
338. The Guidelines also cover the management of PSPs' relationship with payment service users (PSUs) to ensure that users are made aware of the security risks linked to the payment services, and are provided with the tools to disable specific payment functionalities and monitor payment transactions.
339. The Guidelines are addressed to credit institutions and investment firms as defined in the Capital Requirements Directive (CRD), for all of their activities, and to PSPs subject to the revised PSD2, for their payment services.
340. On the cross-border selling of products and services, already back in 2016, The EU Commission Consumer Financial Services Action Plan highlighted that, in 2016, only 7% of consumers used financial services from another EU Member States. To address this issue, the EBA has conducted large amount of Financial innovation work including the EBA Report on potential impediments to the cross-border provision of banking and payment services which identifies issues deriving from the body of EU financial services law, including areas that are not fully harmonised or are not yet covered by EU law, which may limit the ability of institutions and other FinTech firms to provide cross-border services, and proposes remedial actions in order to facilitate greater cross-border provision of services.
341. In particular, the EBA focuses on issues arising in the context of authorisations and licensing, consumer protection and AML/CFT. The EBA does not reflect on issues arising in other potentially relevant areas, such as fiscal policies and language requirements, as these fall outside the scope of its remit.
342. The EBA, together with EIOPA and ESMA jointly developed a report on cross-border supervision of retail financial services (JC/2019-22) which was published on 9 July 2019. In this report, the European supervisory authorities (ESAs) identified the main issues that national competent authorities face when supervising financial institutions that provide cross-border retail financial services within the EU and make recommendations to both NCAs

and EU institutions on how to address them. In particular, the report calls for more clarity on when activities carried out through digital means fall under passporting rules, and for considering the identified high-level principles on cooperation as the basis for any new legislation or possible amendment to current legislation.

343. Finally, on 5 July 2019, the EBA published its first report on the way the industry has implemented the EBA requirements aimed at protecting consumers across the EU. The report focuses on the Guidelines on POG, which the EBA issued in 2015 to address large-scale retail conduct failure and mis-selling that was observed in the banking sector at the time. The report identifies a number of good and bad practices and outlines the next steps the EBA will take to fulfil its supervisory convergence mandate. The second report on POG implementation was published on 3 January 2020. As a follow-up to that first report, this second report aims again to examine the application of the EBA POG Guidelines by the industry, but this time based on a larger sample of financial institutions than in the first report, and in a larger number of Member States, to enable the EBA to come to more robust conclusions. The findings of the report are based on the review that was carried out with 78 credit, payment and e-money institutions across 12 EU Member States.
344. This report identifies ways for FIs to strengthen further the application of the EBA POG Guidelines. It does so by outlining good practices identified in the sample concerning the scope of the EBA POG Guidelines and general governance, the identification of the target market, product testing, product monitoring and remedial actions, and the POG arrangements for distributors.



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