

Consumer Redress – EU Regulatory Contagion on the Horizon?

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A Worrying Regulatory Trend

“Consumer Duty is one of the biggest shake ups to UK retail financial services regulation.”

- Regulators Worldwide are radically extending Consumer Protection into all aspects of payments!
- The UK FCA is in the forefront of a new major ‘Consumer Duty’ initiative and mandate!
- Similar initiatives for Consumer Redress for retail Open Banking payments to match cards!
- Will other regulators follow and impose more bureaucracy?
- Have regulators gone too far and overloaded banks?



Why are payments a regulatory focus creating unrecoverable costs for banks?

What Do Banks Say About Regulation?

'Supporting Regulation costs us 50% of our annual IT budget'

'Since the Wirecard fiasco, the German Regulator has eliminated high risk merchants'

'Fraud refund cases have increased 100% in the last 3 years'

'It is impossible to monetise regulations. We have to pay'

'Light touch regulation no longer exists in any EU nation'

'One mistake with AML and they close you to new business'

'Our regulator still struggles to understand payments after 10 years in the job'

'Consumers are never at fault even though they give away their PINs to scammers'

'Regulators are blocking innovation and Fintech start ups'

Banks poor at communicating their reservations – powerless against anti-bank sentiment.

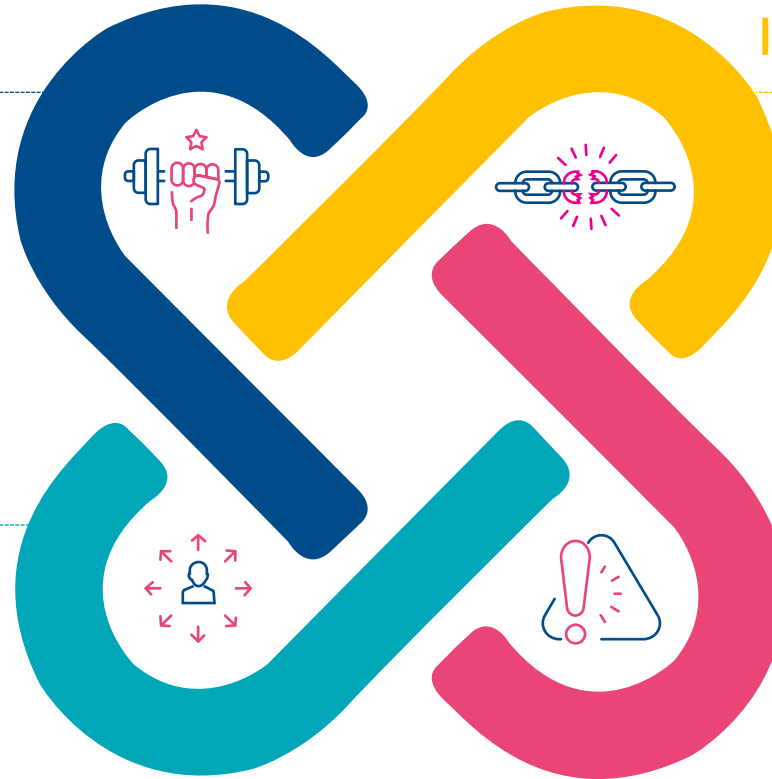
UK – Home of High Fraud and Bad Banking Practices - Free Banking Workarounds

Imposed Responsibility for poor quality products and fraud

- **1975-Consumer Credit Cards** – Enabled reclaim of faulty product/service costs up to €35k
 - **2008 – All Cards** - Extended product guarantees to 3 years if not fit for purpose
 - **Impact: Annual issuer costs €100m**

Imposed refunds for fraud

- **1982 – Card Fraud Repayment** – Card scheme initiative to refund consumers in the event of fraudulent use
- **1990s Chip and PIN** and eCommerce liability transfer
 - **Impact: Annual issuer costs €700m**



Imposed Refund - False Card Insurance

- **2011 - Card Fraud Payment Protection**
- **Stopped card fraud insurance** - already covered by payments guarantee
- **Impact: Bank compensation €15bn**

Only 40% Scam Refunds - Imposed 100%

- **2022/23 – Imposed Full Refund of Authorised Payment Scams.** Obliges banks to cover the full cost of Authorised Payment scams – split liability
- **Impact: Annual bank cost €600m**

UK – Long history of interventions and redress regulation – the Bad Boys of Poor Banking Practices.

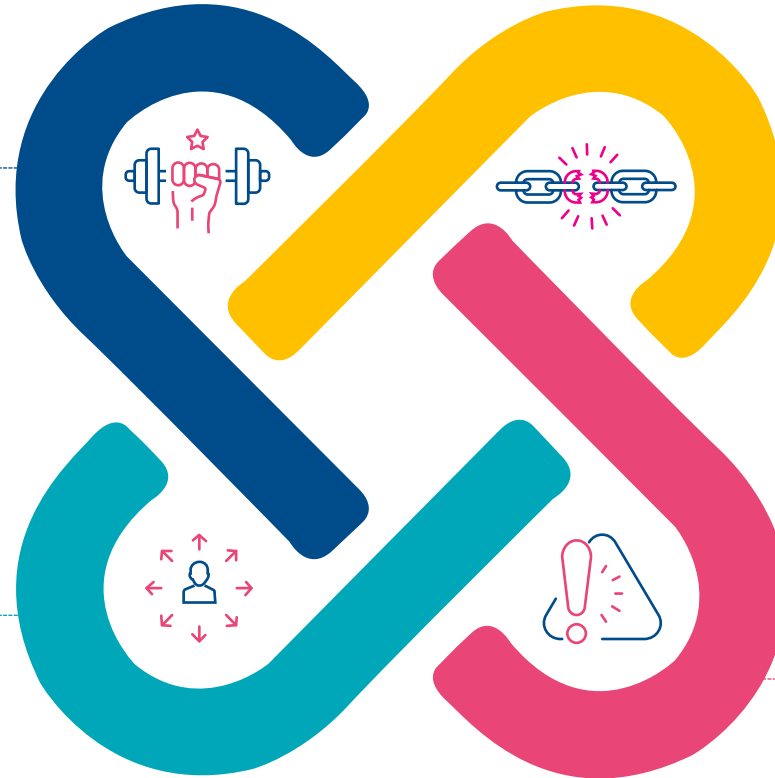
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Overcharging Small Businesses

- **2022 Acquiring Fees.** Obliges Acquirers to offer competitive fees for acceptance and terminal provision
- **Impact:** Reduced bank revenues

Lack of Fee Transparency

- **2023 Duty of Care.** Obliges financial institutions to offer fair prices and to show consumer value outcomes
- **2023 Duty of Care.** Obliges financial institutions to be transparent in their pricing
- **Impact:** Reduced bank revenues



Poor Treatment of Vulnerable Customers

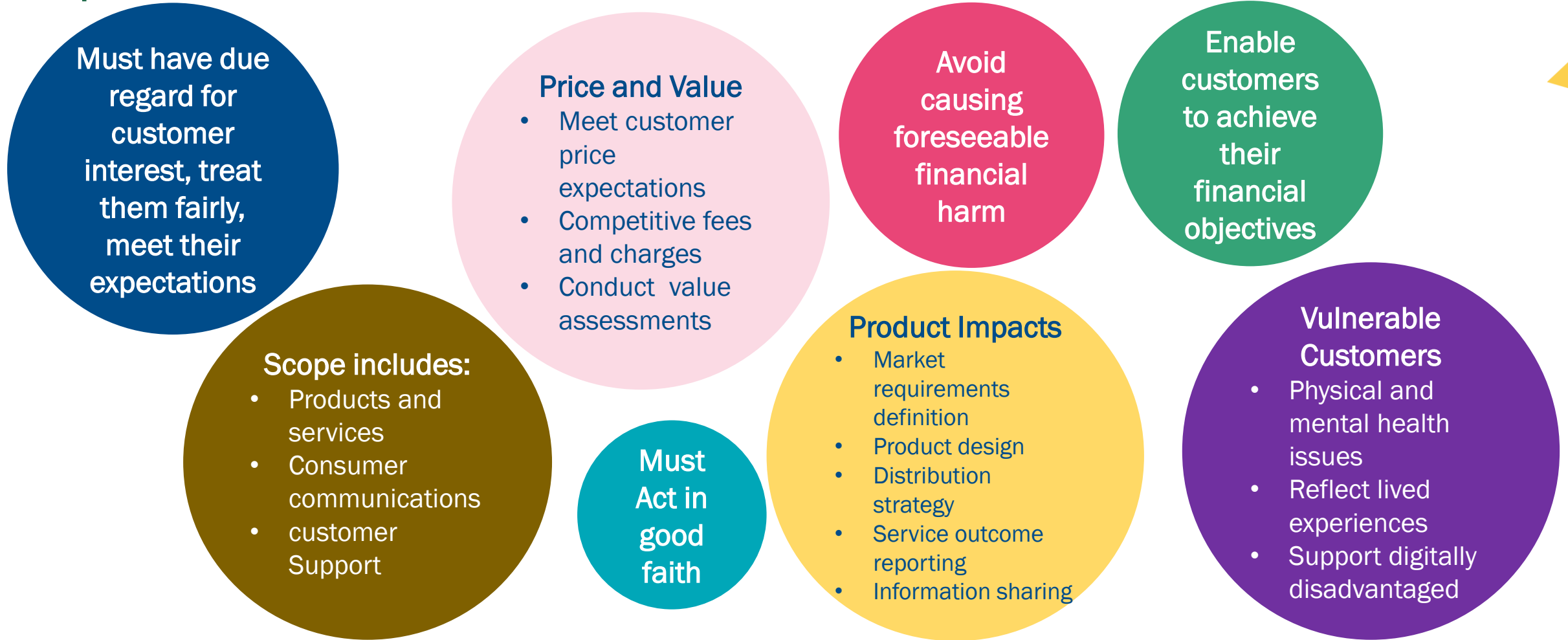
- **2023 Duty of Care.** Obliges banks to support vulnerable customers and ensure the provision of cash
- **Impact:** Additional costs to banks

No Redress for Open Banking

- **2023 New Open Banking Directive.** Mandate to implement consumer redress
- **Impact:** Additional costs to bank

As a result of public and political pressure, UK regulators increasingly proactive.

The Consumer Duty Mandates – A Growing Realisation of Implications!



Consumer Duty – Scope and Impact initially not appreciated but gradually complexity and costs being understood.

Reasons for Regulatory and Copy-Cat Interventions

7 Consumer Group Pressure

- Satisfy members complaints

6 Political Pressure

- Populist Policies/Positioning

5 Regulatory Harmonisation

- Avoidance of Regulatory Arbitrage

4 Digitally Disadvantaged

- Meeting needs of vulnerable groups



1 Stop Bank Bad Behaviour

- Change bad practices

2 Reduce Level of Fraud

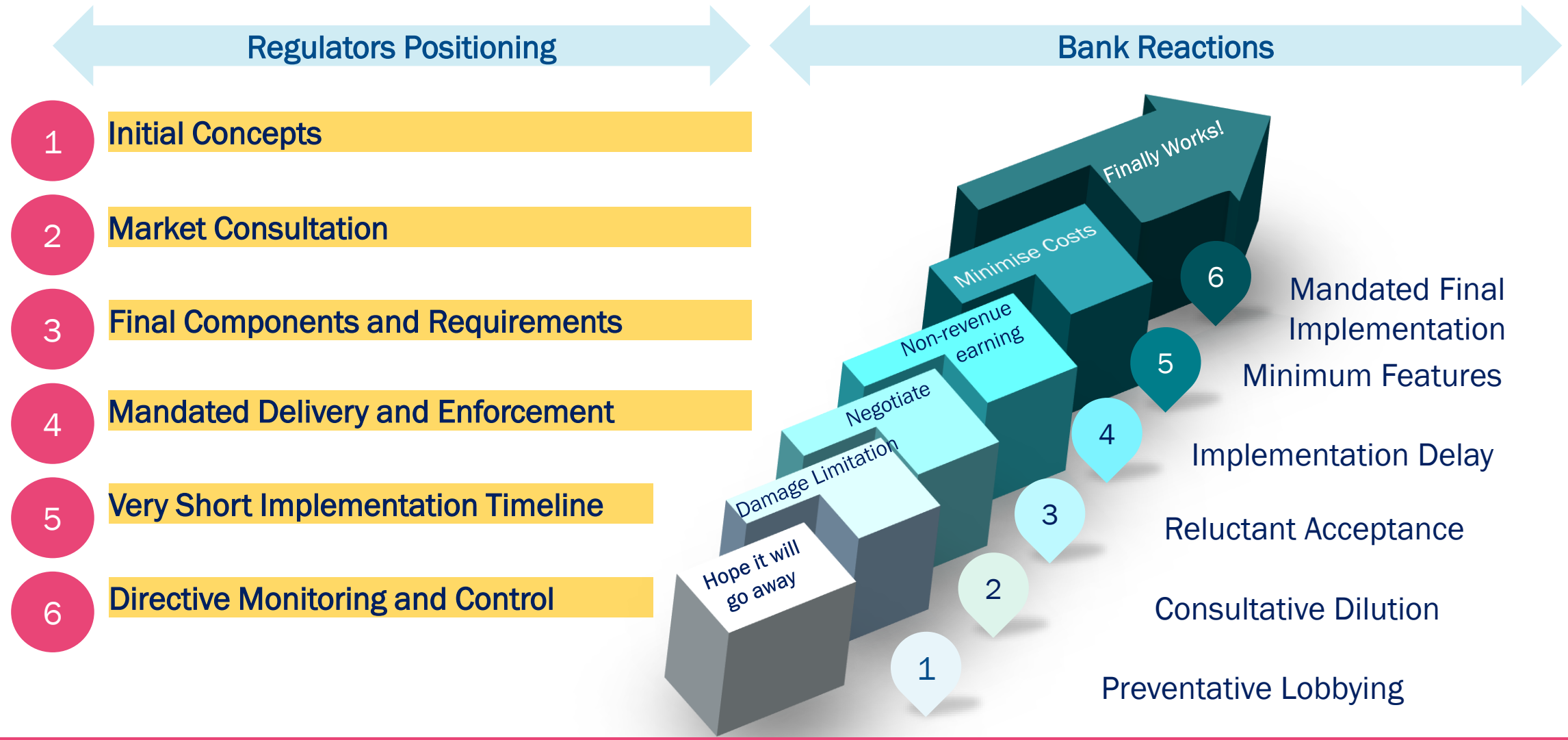
- Crime prevention – not a cost of business

3 Increase Competition

- Enable new entrants and lower fees



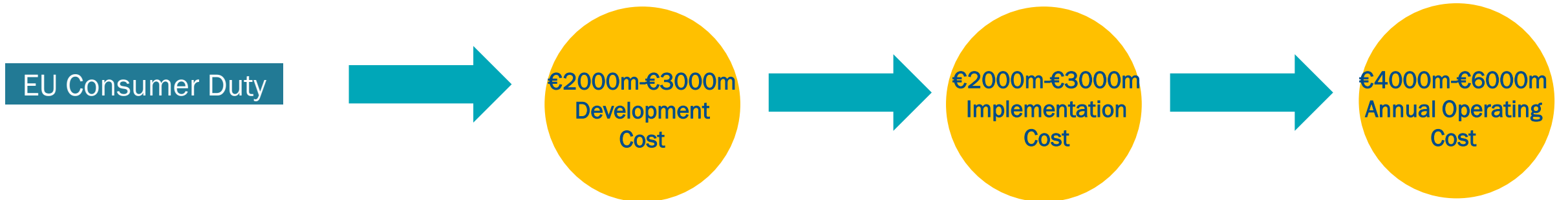
Key Components of Regulatory Mandate Implementation



Typically, Banks feeble pushback. Have reluctantly accepted the imposition of high-cost mandates.

Typical Regulatory Redress Mandate Costs Impacts on Banks

Costs	Large Banks		Smaller Banks		Total Country	
	From	To	From	To	From	To
Development	€20m	€50m	€2m	€10m	€150m	€400m
Implementation	€40m	€200m	€13m	€10m	€350m	€1,500m
Service Delivery pa	€100m	€250m	€1m	€5m	€800m	€2,000m



Consumer Duty if implemented across EU will require substantial upfront investment and significant ongoing operational costs.

Consumer Redress – Can Banks Stop the Regulatory Cost Engine?

- Keep ahead of the regulators and agree proactive voluntary change
- Particular focus on fraud rules and liability shift
- Avoid interbank disputes, fragmentation, break aways
- Build a portfolio of agreed policy responses to regulatory proposals
- Ensure representation on parliamentary finance commissions
- Communicate the costs of change and the disruption from fast implementation
- Argue case to monetise selected components



Summary of Observations and Conclusions

- Regulatory interventions unstoppable
- Banks behaviour partly responsible
- Banks a key target for consumer groups/politicians
- Consumer Redress very high cost
- Regulatory avalanche predicted
- Banks need to be more proactive
- Very High Duty of Care Copy-Cat Costs for EU



