

## **Luís Máximo dos Santos: Opening address - Annual Conference of the Association of Specialised Credit Institutions (ASFAC)**

Opening address by Mr Luís Máximo dos Santos, Vice-Governor of the Bank of Portugal, at the Annual Conference of the Association of Specialised Credit Institutions (ASFAC), Lisbon, 22 October 2018.

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1. Let me start with a word of thanks to all the members of the corporate bodies of the Association of Specialised Credit Institutions (ASFAC), represented by António Menezes Rodrigues, its Managing Director. I am also grateful to be joined by all the other speakers and participants in this Conference.

Firstly I would like to congratulate António Menezes Rodrigues for his recent appointment to chair the European Federation of Finance House Associations (EUROFINAS), and secondly ASFAC for staging another of these Conferences.

The importance and significance of the appointment are obvious and so could not go unacknowledged; regarding the Conference, it is a key date in the calendar for events relating to the financial system and an excellent opportunity to identify trends in the consumer credit sector, and share and discuss problems, fully justifying this word of appreciation.

Therefore it gives me great pleasure to take part in the Conference, with the importance attached to it by Banco de Portugal shown by the presence of Lúcia Leitão, Head of the Banking Conduct Supervision Department, and João Raposo, Head of the Legal Enforcement Department, as speakers.

2. Since its creation in 1991, ASFAC has filled a significant space in a sector with unique characteristics in the credit market, and with increasing importance due to social evolution and market dynamics.

I see it as very important for the country and for the regulators and supervisors that the financial corporations have a strong association behind them, equipped and empowered to achieve critical mass.

We all have something to gain from this. In truth, the more complicated and dense the regulatory framework, whether in banking conduct or in combating money laundering and terrorist financing, the more intrusive and principle-based the supervision should be, and the more important the dialogue with the sector's representatives.

It was exactly with this in mind that in 2011 Banco de Portugal created the Forum for Banking Conduct Supervision, in which ASFAC has been an active participant from the start. The road travelled since then has reinforced the wisdom of that decision.

But our view is not that the conversation should only take place through specific events, but rather on a daily basis, as it is in this context that supervisors and supervised entities can extract full benefit from it.

This availability of Banco de Portugal to talk to institutions on an ongoing basis, in strict observance of the diversity of their respective roles, makes behaviours in contravention of the regulatory framework even more unacceptable, an aspect that cannot be emphasised enough.

3. The publication of Decree-Law No 133/2009 of 2 June 2009, which transposed the second European directive on consumer credit agreements, was a milestone for consumer rights in Portugal.

We have come a long way since then. As a result of the consequences of the financial crisis and the greater awareness of the specific practices that could be so harmful to consumers, institutions and the financial system, the regulatory framework and banking conduct supervision requirements have changed profoundly.

The impetus from Europe, through the publication of various directives, has been key. Ten years after the financial crisis it may now be said that the retail banking markets are more transparent, not least in the all-important consumer credit segment.

Consumers are more protected, in that they have more rights and some of their existing rights have been broadened. The duties of information were made stronger; upper limits were established for the annual percentage rate of charge (APRC) and the nominal interest rate in consumer credit agreements; the duty of assessing creditworthiness was strengthened; the consumer assistance obligation was created; certain banking fees were banned or limited, and, where associated to payment accounts, became more comparable, above all after the format given to the fee comparator launched on 1 October; a system was created for preventing and managing arrears situations, to mention just a few examples.

Furthermore, recent changes to the Legal Framework of Credit Institutions and Financial Companies place new obligations on institutions when setting their compensation and evaluation policy for workers in contact with customers in the sale of retail banking products and services, with a view to minimising the risk of conflicts of interest and avoiding potential harm to customers.

The requirement was also established for institutions to introduce specific procedures for governance and for monitoring credit products, to ensure that they are suited to consumers' interests, goals and characteristics in terms of design and distribution.

Very important also is the fact that on 1 January of this year, the legal framework for credit intermediaries came into force, with the aim of broadening the perimeter of banking conduct supervision. Indeed, access to banking activity now requires the prior permission of Banco de Portugal, which is also responsible for overseeing the conduct of this activity.

However, the legislator established a transitional period of one year, in which natural and legal persons carrying out credit intermediary activity prior to the entry into force of the legal framework may continue to do so without Banco de Portugal's authorisation.

We are well aware that the credit intermediary authorisation process is of great importance to the specialised credit institutions sector, given the relevance of these entities for the distribution of consumer credit products.

It is a challenge for the sector, but also for Banco de Portugal. The credit institutions play a key role in this process, providing the necessary information and support to credit intermediaries with which they have or intend to have binding agreements. The institutions must also ensure that the activity undertaken by their partners observes the rules laid down by the legislator.

I would like to be clear that Banco de Portugal recognises the importance of the work that the credit institutions and ASFAC have undertaken in this field.

We know that this is a transformation with multiple implications and considerable costs, particularly at this point in the transition. But the final result of this process will without doubt be the better operation of the market, which is a goal with benefits for all.

4. The specialisation of supply according to the needs of demand is a source of efficiency gains and is also believed to boost consumer satisfaction. Specialised granting of credit is no different from this rule. A focused business model can bring various advantages.

Society and consumer behaviour are changing rapidly. From millennials to Generation Z, the specific behaviours of consumers are numerous and decisive. Firms in general need to understand them well to be successful in the market. The financial sector is no exception to this – far from it.

Aside from sector-level specifics, which undoubtedly exist, the most important current trend in the area of specialised credit is in truth common to all entities in the financial sector: how to deal with the challenge of the digital economy and society?

The generic name “the digital economy” covers various areas, which progress at different rates, but all with profound consequences at several levels and a common theme between them: the technological revolution in the production and consumption processes.

Monitoring the process of bringing consumer credit to market through digital channels is one of Banco de Portugal’s current challenges.

On 17 January of this year, Banco de Portugal issued a circular letter, which requested the provision of information on credit products brought to market through digital channels from beginning to end. The information obtained is key for monitoring and overseeing the practices of the credit institutions in offering consumer credit through digital channels, namely apps and online platforms. This process has been developed in strict cooperation with the credit institutions, and is a good example of the dialogue between supervisors and supervised entities that I have mentioned.

5. As has been publicised and featured in the news, consumer credit is growing rapidly in Portugal, now at levels akin to those of before the financial crisis.

It is vital to avoid successive cycles of excessive and injudicious lending followed by a sharp and lengthy slump. As is known, Banco de Portugal adopted a macroprudential measure aimed at preventing the accumulation of excessive risk on the banks’ balance sheets and ensuring that households obtain sustainable financing, minimising the risk of arrears. Its purpose is to help bring appropriate rigour to credit standards. Consumer credit agreements signed after 1 July 2018 fall under that measure, which will therefore have an impact on the consumer credit market.

The terms in which consumer credit is sometimes debated seem to me to be a genuine paradox for our time.

In truth, the development and expansion of consumer credit come as a direct consequence of powerful trends, particularly the stagnation or reduction of salaries, the decline in saving and the hyperdevelopment of the financial sector. Consumer credit is inseparably linked to a social model that places consumption as a core value. It is a central element of what we might call the ‘credit society’, and, despite what we might wish to think, is a phenomenon present, albeit to varying degrees, in all the countries with developed financial systems.

When things go wrong and the dream becomes a nightmare, moral judgements appear in public debate. While apparently uncontroversial in nature, in truth they are superficial judgements by and large, as they do not pay due regard to the underlying causes fuelling indebtedness, and ultimately abstract from the real roots of the issue, intentionally or otherwise.

In truth, as is clear, there is nothing intrinsically wrong with consumers taking on credit; on the contrary, for a long time consumer credit has been an economic and social necessity. What should not and must not happen is irresponsible lending, disrespecting consumers' rights, with the intention of taking opportunistic economic advantage of bank customers' weaknesses and insufficient knowledge.

So I end with a wish that should be well within our compass: for the benefit of bank customers, financial institutions, the functioning of the economy and society, responsible credit cannot be a mere objective – it has to be an ongoing action.

Thank you very much for your attention.