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Delegations will find attached document SWD(2021) 171 final.

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COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT

Accompanying the

Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on consumer credits

{COM(2021) 347 final} - {SEC(2021) 281 final} - {SWD(2021) 170 final}

Executive Summary Sheet
Impact assessment on the Review of the Consumer Credit Directive (2008/48/EC)
A. Need for action
What is the problem and why is it a problem at EU level?
In the light of market, technological and behavioural developments since the Directive's adoption, consumers taking out loans face detriment that could be avoided. **Up to 46 million people are estimated to be affected by various problems** linked to key provisions of the Directive. Moreover, businesses face burden and costs from unclear obligations, lowering the competitiveness in EU's internal market for consumer credit, as confirmed by the **Directive's Evaluation** published in 2020 (SWD(2020) 254 final), creating difficulties for consumers to access and for businesses to provide cross-border credit. The problems are exacerbated by the emergence of new risky products and new actors not (clearly) regulated. Coupled with limited consumer awareness, the situation leads to practices exploiting consumer's situation and patterns of behaviour, to credits granted without thorough assessment of the consumer creditworthiness, to consumers falling easily into over-indebtedness because of individual circumstances or systemic economic disruptions. **If no action is taken, the main underlying drivers**, i.e. digitalisation, developments in consumer behaviour, lack of clarity of certain Directive's provisions, insufficient equity considerations and insufficient harmonisation between Member States leading to imperfect competition, **would remain not properly addressed**. Hence, the identified problems would continue affecting stakeholders, likely even on an increasing scale, considering the market trends driven by progressing digitalisation.
What should be achieved?
The **general goals** of the Directive's review are to reduce the consumer detriment and risks in taking out loans in a changing market and to facilitate a cross-border provision of consumer credit and the competitiveness of the internal market. This is **in line with the original objectives of the Directive**.
What is the value added of action at the EU level (subsidiarity)?
In light of the developments since the Directive's adoption, notably different approaches taken by Member States, improving the current regulatory framework can only be achieved by action at EU level. **EU action would ensure a consistently high level of consumer protection and a clearer and more harmonised legal framework for businesses, lowering barriers for offering credit in other Member States** (through direct cross-border provision or the establishment of subsidiaries). **With digitalisation,** and the potential entry in the credit market of new digital actors, **cross-border provision of credit is expected to increase**, hence common EU rules fit for the digital age will be both more needed and more effective to achieve EU policy objectives.
B. Solutions
What are the various options to achieve the objectives? Is there a preferred option or not? If not, why?
The options assessed to achieve the objectives are: a **no policy change** scenario (Option 0 - baseline), **non-regulatory** intervention (Option 1); a **targeted amendment** of the Directive, **only focusing on increasing the clarity and effectiveness of current provisions** (Option 2); and an **extensive amendment** of the Directive to include **new provisions in line with existing EU acquis** (Option 3a) or to include **new provisions going beyond existing EU acquis** (Option 3b). Based on the performed assessment, the

preferred option would be Option 3a, complemented by certain cost effective measures taken from other options.
What are different stakeholders' views? Who supports which option?
Consumer organisations favour an extensive revision of the Directive (Options 3a & 3b). **National authorities** generally support a legislative amendment (Options 2, 3a & 3b), with a number of Member States in favour of an extensive legislative change to address all the problems identified (Options 3a or 3b). Most **industry actors** favour non-regulatory intervention (Option 1) or targeted changes to the Directive (Option 2) to adapt it to the digitalisation developments.
C. Impacts of the preferred option
What are the benefits of the preferred option (if any, otherwise of main ones)?
The **preferred option would be very effective** in addressing the initiative's objectives, ensure a **high level of coherence** with EU legislation and be **efficient** in terms of the economic and social impacts assessed. It is expected to have a positive impact on consumer protection and reduced detriment, trust and inclusion. The preferred option is likely to strengthen the level playing field within and across Member States, thanks to the reduction in the fragmentation of the current legal framework. The quantified measures under the preferred option would entail a reduction in consumer detriment of around EUR 2 billion in the period 2021-2030, plus the benefits brought by measures on debt advice and caps on APR/interest rates which are deemed to be very beneficial for consumers and for society. They would also involve burden reduction for businesses, because of enhanced legal clarity, simplification of information requirements for advertisement on radio channels (EUR 14 million) and adaptation of information requirement for digital use.
What are the costs of the preferred option (if any, otherwise of main ones)?
Credit providers would bear most of the implementation costs of the new Directive, and some measures (e.g. caps) would be more costly for providers currently offering products not covered by the Directive. The cost of the quantified measures for banks is estimated to be between EUR 1.4bn and 1.5bn. Though not possible to determine to what exact extent, it is expected that costs are going to be passed on to consumers.
What are the impacts on SMEs and competitiveness?
Specific impacts on SMEs have not been identified to be significant, so they have not been assessed separately. The proposed measures would have a stronger impact on credit providers offering currently unregulated products. Some of them may even disappear from the market without adaptation of their current business models which often entail important risks for consumers and which would no longer be profitable under the new rules.
Will there be significant impacts on national budgets and administrations?
The proposed legislative amendments are expected to generate moderate cost for EU and national authorities (around EUR 3 million). However, the costs would mostly be one-off, while the benefits would be maintained over time. Moreover, the higher legal clarity should facilitate enforcement, ultimately having a positive impact. The provision of debt advice services in all Member States would require amounts above EUR 20 million per year. However, every euro spent on debt advice is estimated to provide between EUR 1.4 – 5.3 in terms of equivalent benefits, mainly referring to the social costs of over-indebtedness avoided.

Will there be other significant impacts?
The initiative is expected to have a negligible effect on environmental impacts (e.g. environmental risk or climate change), hence those were not assessed. The initiative is not expected to have other significant impacts.
Proportionality?
In accordance with the principle of proportionality, the **proposed measures will not go beyond what is necessary** in order to achieve the objectives. The preferred option would entail high costs for providers but would also represent an ambitious and future-proof approach leading to even higher benefits for consumers and the society.
D. Follow up
When will the policy be reviewed?
The Commission will monitor the implementation of the revised Directive, if adopted, after its entry into force. A commitment to evaluate the impacts of the new legislation will be included in the draft proposal. The Commission will be mainly in charge of monitoring the Directive's impact, based on the data provided by Member States authorities and credit providers, which will be based on existing data sources where possible to avoid additional burdens on the different stakeholders.