

News Release

**For immediate release**

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## **Tougher times ahead for consumer finance in Europe**

**Falling margins, higher credit losses and tougher regulation point to a more challenging environment ahead. Players need to adapt their strategy and operating model.**

Europe's €1.2 trillion consumer finance market is facing a reversal in fortunes after strong growth in recent years, according to a joint study by management consultancy Oliver Wyman and EFMA. The report, "Consumer Finance in Europe, Back to Reality", has found that tougher economic conditions are bringing tighter lending margins and higher credit losses. This, along with stricter regulation, has meant that compound annual growth has fallen from its peak of 9% in 2006 to just 5%.

Jean Coumaros, Head of Retail and Business Banking for EMEA, Oliver Wyman, said: "Last year we observed a turning point in European consumer finance, as some mature markets reached saturation and economic conditions worsened. These changes will present significant challenges to the business models of many participants and result in a radical reshaping of the industry."

The joint report has found that:

- Gross margins in the consumer finance sector have fallen by 12% since 2004, hit by the double whammy of a 5% fall in weighted average APRs between 2004 and 2006, and funding costs rising by 9% over the same period;
- Credit losses have risen 30% since 2004, due to deteriorating economic conditions and the increasing importance of riskier market segments and distribution channels. In some countries, notably the UK, Ireland and Spain, there is a high likelihood of a severe and rapid deterioration in credit quality;
- Point-Of-Sale finance has become a "no-profit zone" in certain mature markets as merchants and dealers negotiate better terms;
- Regulation, notably the new EU Directive on consumer credit, could have a negative impact on the industry's profit pool, as a result of increased price competition and a higher administrative burden.

Given this background, Oliver Wyman expects some striking developments in the sector. The report predicts consolidation both at the global level and within markets. By 2015, the largest 10 global players will manage a combined €3 trillion of outstandings, with their market share growing from 25% today to around 40%. European groups expected to lead this consolidation include Santander, Crédit Agricole, BNP Paribas and Société Générale.

The report also predicts that businesses in this area will invest in high potential emerging markets to take advantage of their strong growth. Jean Coumaros said: "The US and the EU will lose at least 10% global market share in the next five years, whilst the most dynamic regions (China, Latin America, Turkey, Russia and India) will increase from 18% in 2008 to 27% in 2012. In particular, BRIC countries will experience annual growth between 20% and 30% and their profit pool will grow even faster."

Players will also focus on new client segments – such as migrant populations, youngsters and retirees - and invest in improving efficiency through process automation and regional business hubs. Collection activities will be the focus of unprecedented management attention.

The report observes that some players are trying to sell a broader range of financial services products – such as mortgages - although it is not clear yet whether retail lending convergence will become more general.

In addition, driven by technological progress and the evolving attitude of consumers, a new breed of entrants has the potential to bring substantial change to the market. The revolution in payment methods and the rise of social lending offer both opportunities and challenges to the incumbent players.

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This report is sponsored by Santander Consumer Finance, a division of Banco Santander.

#### **About Oliver Wyman:**

With more than 2,900 professionals in over 40 cities around the globe, Oliver Wyman is the leading management consulting firm that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, organizational transformation, and leadership development. The firm helps clients optimize their businesses, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is part of Marsh & McLennan Companies [NYSE: MMC]. For more information, visit [www.oliverwyman.com](http://www.oliverwyman.com).

#### **About EFMA:**

The European financial management and marketing association (Efma) is the leading association of banks, insurance companies and financial institutions throughout Europe. On a non-for-profit basis, Efma promotes innovation and best practices in retail finance by fostering debate and discussion among peers supported by a robust array of information services and numerous opportunities for direct encounters. Efma was formed in 1971 and gathers today more than 2,450 different brands in financial services worldwide, including 80% of the largest European banking groups.