

**RETAIL BANKING SECTOR INQUIRY
PRELIMINARY REPORT II
CONSULTATION FEEDBACK FORM**

Name of organisation: **Poste Italiane**

Type of organisation: **S.p.A.**

Address: **Viale Europa, 175 Roma**

Country: **Italia**

Have you received a request for information as part of the sector inquiry:

Yes

No

A. Market structure and fragmentation

1. *What are the main reasons for market fragmentation in Europe's retail banking sector? Please identify whether they are mainly of regulatory, structural or behavioural nature.*

The market fragmentation in Europe's retail banking sector reflects the combination of structural, environmental and regulatory peculiarities finding their origin in the economic history of each Member State.

We deem, however, that regulatory aspects had a greater influence in producing the current market fragmentation in Europe. The harmonization of the rules governing financial savings in Europe, and the consolidation of the precautionary regulation in the banking system will boost towards a process of convergence of retail markets.

Nevertheless, there are several environmental factors affecting the level of market fragmentation in a country (role of the State, financial behaviours of families and small undertakings, tax regulations).

Regionally, internal socio-economic territorial differences, that may be noticed both in some old Member States and between these and the new Member States, are so considerable to further increase the importance of structural and behavioural factors that lead to the fragmentation of local markets, bringing about the different commercial penetration of some financial instruments rather than others.

2. *What are the main causes and implications of the different level of concentration in the EU retail banking markets?*

The process of concentration of the European retail banking market has already been set up and the conditions for a further acceleration are outlining in a short term. Such a process is nowadays tendentially sustained by national authorities.

However, the reasons of the different level of concentration that may be found across Europe may be referred to both to historical and political factors, as well as to different regulatory and market systems. The main outcome of this situation is that Member States have different market situations and, therefore, a different influence and bargaining power on the market exercised by the national financial operators.

The delay in the competitive evolution experienced in some markets involves the risk of a “colonization” of domestic markets by a limited number of national or foreign financial groups. That could particularly happen in the EU candidate countries, but it could involve also some more vulnerable Member States (i.e.: Italy).

In such a case two diseconomies are outlined:

- Increase of the physical and strategic distance between financial decision-making centres and reference local markets;
- Reduction of the availability of specific competences and expertises relevant to some levels of the production (i.e.: management of financial assets) within national territories.

In our opinion the relation between the level of concentration of markets and final prices is still a controversial point, as a matter of fact it does not seem that the prices of the financial services in countries with a lower concentration are effectively more convenient for consumers.

B. Banks’ financial performance and pricing

3. *What are the main reasons for the varying rates of profitability and income in retail banking across the Member States?*

Profitability levels in the retail banking markets of Member States are remarkably different.

The different profitability level of Member States’ financial institutions reflects, in part, the macroeconomic profiles of the origin country, the per capita income and wealth and the tax systems. As a matter of fact, there are several banking systems presenting differences among them, also according to the economic and operating efficiency point of view and, therefore, with different levels of prices and costs.

That leads to a different contribution margin for some kinds of product within the Member States.

Nevertheless, on this matter, we deem important to consider the trend rather than the level differences. As a matter of fact, a slow process of alignment of the rates profit in the financial

institutions of the main European Member States is ongoing and, to some extent, it will be accelerated after the transposition of the recent European harmonization measures relevant to the financial savings

C. Entry barriers in retail banking

4. *Are there other types of entry barriers in retail banking that have not been identified in the preliminary report?*

In our opinion the elements taken into consideration by the report are the main barriers to entry for the banking industry in the retail banking market.

Nevertheless there are other obstacles, which relate to both economic and regulatory factors and to organizational and trade ones. They can discourage, as a matter of fact, in different ways according to the different Countries, the investment decisions in the financial field.

With reference to the regulatory aspects, besides the aspect enhanced in the report, it is appropriate to add a reference to the safeguard mechanisms relevant to the rights of the consumers and the privacy of the savers, which in some Countries may be considered as being particularly restrictive

The economic barriers can be identified with the elevated fixed costs (staff, technological and IT infrastructures) required to enter markets in which income margins are not such to allow their recovery in a short time.

In certain geographic areas, the strong social rootedness of the co-operative banks represents a disincentive to the investment on traditional channels of sale.

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5. *Where and how does competition law have a role in tackling barriers to entry in retail banking?*

Competition law plays an important role in tackling barriers to entry in retail banking, as it contributes to the development of a competitive environment and to the achievement of a single financial market.

In markets, like the Italian one, characterised by a low mobility, the application of competition law may have the function of safeguarding consumers vis-à-vis commercial practices and contract clauses inserted by banks.

In our opinion the power of tackling the barriers to entry (in retail banking) depends on a careful control to be carried out both through the application of EC internal market rules and the repression of anticompetitive behaviours, even through the application of dissuasive sanctions.

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6. *Access to credit databases and payment infrastructures are sometimes cited as a barrier to entry in retail banking markets. Are there significant barriers to access which merit further investigation?*

Even if we agree that the barriers pointed out in the investigation are the most important ones, a topic to be further thoroughly analysed could concern the identification of causes and interventions necessary to create common and homogeneous regulations on privacy and consumers safeguards. As matter of fact, these could be considered as obstacles to the entry of new players.

D. Customer choice and mobility

7. What are the main reasons for the low mobility of retail banking customers?

The reasons behind customers' low mobility in the retail banking sector could be traced back both to banking practices and to consumers' behaviours.

Besides the difficulties connected to administrative processes, banks could limit or make it onerous for a customer to move from a bank to another one. Among the above mentioned behaviours, we need to point out, for instance: costs connected to the closing of accounts and to the transfer of products and services, the obligation to have only a financial counterpart for several different kinds of products (loans). Moreover, the result of the standardization and the poor transparency, relevant both to the offer of financial products and to the economic conditions, is a poorly competitive market and a scarce incentive for the customer to change bank.

On the other end the consumer is inclined to maintain the relation with the same institute, even with less convenient conditions, when he establishes a high level of confidence and of personalization in the relationship. Last but not least, we need to point out reasons like easiness of access and widespread distribution of agencies across the national territory, and a certain "laziness" of the consumer linked to the onerousness of administrative practices.

E. Development of payment infrastructures in the context of the Single Euro Payment Area

8. Are there features of the payment industry that limit competition either at the level of provision of clearing and settlement services or the provision of retail banking services? Please indicate areas that merit further investigation.

Actually there are some features limiting competition in this field.

In particular, reference can be made to the following points:

- ✓ Barriers to enter clearing and settlement systems:
 - a) only banks and clearings houses with a bank licence can accede Step 2 as direct participants (this is an important obstacle to the competition on the payment and clearing/settlement infrastructures market);
 - b) The fees to be paid to access payment infrastructures are often onerous and, as a consequence, only larger banks can afford to pay them. The consequence is that smaller banks, and institutions other than banks, can only aim at an indirect participation. This situation prevents them from taking part in the more important decisions (i.e.: fixing prices, decisions on standards and technical specifications) and strategic choices.

- c) There is a high number of ACH (national clearings houses), of different platforms of payment and several clearing systems across Europe. Moreover, in some Countries there are different payment and clearing systems according to the different products (i.e.: "card" and "non-card system", different payment and clearing/settlement systems for national or foreign bank transfers).

Generally, it can be asserted that the realization of SEPA will certainly contribute to increase the competition in the European banking market. Regulations aimed at harmonizing rules related to the clearing/settlement with the creation of a single PE-ACH go towards this direction.

The risk to be avoided, however, is that a few important banks partition the market, imposing pricing practices and unfair contractual terms.

9. *Are interchange fees necessary for the development of payment instruments (credit transfers and direct debits) in the EU?*

The existence of various interchange fees for certain kinds of transactions could, as a matter of fact, limit or have a strong impact, both on the competition between payment instruments and between banks.

There are several kinds of interchange fees, as for instance: the administrative commissions fixed through Bilateral Agreements stipulated by the postal/bank institutions of the different Countries or the interchange fees featuring some kinds of transactions (i.e.: transactions with "OUR" option).

With reference to the last kind of interchange fees, we have to point that after the implementation of SEPA, the trend will be towards the use of SHARE type transactions (that do not apply this kind of fees).

Some of these fees are taxes for non-STP transactions (i.e., the non-automated transactions). However, in this specific case, these fees have the aim of discouraging this kind of transactions: they prove to be too expensive because of the amount of manual work they require.

10. *Are there issues related to industry initiatives in the context of SEPA that should be assessed from a competition view point?*

The payment systems in Europe are not integrated yet. They are organized in different ways and involve different costs for the participants. The fees are very different from one Member State to the other, and this is true both for the access fees (i.e.: the fees to accede the payment platforms and infrastructures), and for the clearings fees (organised in periodic payments or adjusted to the volume of processed transactions).

That means that a bank operating in various Member States has to adapt to several national systems of payment, adjusting to different standards and meeting different kinds of costs. The implementation of SEPA will contribute to harmonize fees and will reduce the main obstacles to competition across Europe.

However, there is the risk to create an oligopoly, which would include the main banks with the resources that are necessary for the development of SEPA compliant products and enjoying direct approach to Eba Step 2.

There is still a lot of work to be done in order to avoid this situation and to allow also the new and smaller players to enter the European market.

F. Other issues

11. Please provide comments on any other competition-related issues in relation to retail banking markets.

We think that the development of a strongly competitive environment - provided that a careful control to safeguard the consumers will be exercised - could be positive, contributing also to improve the quality and the characteristics of the offer of financial services.

Moreover, we think that the development of Internet, the on-line bank services and innovative products, can contribute to stimulating competition, developing integration among the bank markets and offering consumers the possibility to access different systems of offer at European level.

General questions:

1. Did you find the content of the report easily accessible and understandable?

Yes, fully

The report was too general

The report was too technical

2. Did you find that the level of detail in the report was:

About right

not sufficiently detailed

too detailed

3. Did the information contained in the report was:

generally new to you/the payment cards industry;

mostly known to you/the payment cards industry

4. Did the market analysis in the report:

confirm your views on the operation of payment cards market;

challenge your/industry's views on the operation of payment cards market

represent a mix of both aspects

5. Did the report raised the right policy issues;

Yes, covered most of the key issues;

no, there were some significant issues left out.

Please note that Poste Italiane would be happy to expand on any of the points above and to participate to any meeting the Commission should organize in the framework of this Sector Inquiry.

Poste Italiane has no objection to its comments being made available to the public.