RETAIL BANKING SECTOR INQUIRY
PRELIMINARY REPORT II
CONSULTATION FEEDBACK FORM

<u>Name of organisation:</u> Grupo Santander

<u>Type of organisation</u>: Bank

<u>Address:</u> CIUDAD GRUPO SANTANDER, 28660 BOADILLA DEL MONTE

<u>Country</u>: Spain

<u>Have you received a request for information as part of the sector inquiry</u>?:

☒ Yes

☐ No

Grupo Santander took part in the inquiry launched by the European Commission and sent information, on a confidential basis, last 21st of March.

This time we just make some additional comments to some of the issues pointed out by the Commission.

Specific questions from Executive Summary:

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 first condition to extend banking activity to other countries is determination and capacity to learn how to work in a new market. That is something not every bank is willing to do. It requires learning the way of conducting business in different markets, dealing with the national regulatory framework, speaking different languages, etc.

In particular, the lack of an effective consolidated supervision results in multiple requests for information from different supervisors, which represents a high cost. Not only differences in the accounting information demanded (and its periodicity), but also in important definitions such as *default* (180 days in the UK and 90 days in Spain, for example), or in the information requested for corporate debt issues, or compliance with money laundering regulation, know your customer (especially in the UK) or codes of conduct (misuse of the market, conflicts of interest etc.). Supervisors in different countries may also ask to see copies of returns made to other supervisors and details of contacts. This can involve considerable time and effort to put together. We do not suggest excluding local supervisors from the process, but we do

suggest the maximum reinforcement of the consolidated supervisor, giving maximum fluidity to the dialogue between home and host supervisors and reducing the workload as much as possible for the banks supervised by various national authorities.

Although all the conditions mentioned cannot be pointed out as entry barriers, they do not enforce market consolidation.

Once the decision has been made, a bank may extend its activity beyond its national market by different strategies: alliances and joint ventures, direct sales, establishment of branches and subsidiaries or cross-border M&A. In the case of retail business, M&A should be quicker and easier than organic growth.

But cross-border M&A is not easy in Europe. The Commission's proposal for a Directive improving and clarifying the procedure and criteria for the prudential assessment of acquisitions in the financial sector is essential to have clear rules under which the market can operate efficiently. Nevertheless, these processes will still need to be more agile. For example, it would be important to consolidate information processes of different central banks involved in cross-border operations.

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

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?**

Banking systems, as every economic sector, achieve different levels of competitiveness and efficiency among and within each country as a result of different factors. The regulatory and supervisory framework, the way of doing business, the competence of their boards and management, their capacity to face successfully new challenges… All these factors explain different levels of profitability and/or income in every business.

For example, Spanish banks have the lowest cost to income ratio (45%) in the EU. In the last two decades they have dealt with the national process of liberalisation in the banking sector, the arrival of foreign banks, the technological development and the demographic changes, in a highly competitive environment, (characterised also by the existence of very strong local competitors in every region: saving banks). Also, banks have managed to extend their activity beyond their national borders, learning from others. The capacity and experience developed by their boards and management in this process, and the tools developed (mainly technological), help to explain the outstanding position of Spanish banks.

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?**

Santander has a broad experience entering other markets. It operates in 12 European countries. It is a leading retail bank not only in Spain, but in Portugal and the United Kingdom and has a consumer credit franchise in nine other countries, some in the Euro zone and some outside (Poland, Norway and the Czech Republic for example). Santander's growth strategy in Europe has been based mainly on acquisitions of local banks and consumer finance companies.

From Santander's experience, the main challenge for a Bank entering another market is precisely the entrance. Once in, the challenge is the same banks have to face in any other country and including the bank's home country: get good knowledge of the market and adapt your products and services to it.

Regarding market entrance, in our opinion, the major barrier is the prudential assessment from host supervisor (already commented in question 1).

Other barriers also exist. In Santander's latest major acquisition (Abbey National plc ("Abbey") in UK), the prudential assessment was not a problem, but there were other barriers that made the operation difficult at the beginning: the double taxation of dividends and the difficulties that the Abbey shareholders had in receiving their Santander shares, given the lack of coordination among stock registry and settlement systems.

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

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?**

D. Customer choice and mobility

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

The reasons for customers not switching has been the subject of much debate. There is always some inertia. Customers tend not to move unless they are dissatisfied with the existing bank. Switching costs are not a reason:

⇒ There are no closing charges in case of switching current accounts.
⇒ Switching banks does not entail a heavy administrative burden. In Spain and UK there is a switching service to which all the banks subscribe to facilitate this. The only requirement is that the consumer informs the new bank, who will then handle the administration for the customer.
⇒ Regarding pricing, Grupo Santander makes every effort to explain charges to customers, but in a competitive market, providers have different charges which may be applied in different ways. Imposing a uniform pricing structure, which would be the only way of ensuring complete comparability, would remove customer choice.
⇒ Cross-selling is a practice related to customer policy. Neither Santander nor Abbey require a customer to buy more than one product. It is always possible to contract the products separately and with different banks.

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

As mentioned in Santander's answer to the Interim Report on Payment Cards and in the letter sent by EPC to Commissioner Kroes, the industry (through EPC), is working on SEPA. Santander believes that the agreements adopted under SEPA will improve market competitiveness and make unnecessary and even counter-productive, other regulatory initiatives. The industry needs to make great efforts to comply with SEPA's objectives.

In our view, the interim reports on retail services do not fully reflect the measures that have been and are being taken under SEPA to increase competitiveness of the payment systems.

The industry is committed to the project and objectives of SEPA and to assuming the work and cost that its implementation represents. It is necessary to reach reasonable solutions that allow business development and new investments, especially if the objective is to reduce cash payments.

In our opinion policy concerns should focus on the creation of highly competitive and efficient banking markets. The pricing policy of financial institutions, as far as it is transparent, should not be a relevant issue from a competition policy viewpoint.

Also, we think that the application deadlines of the Payment Services Directive should be aligned with those of SEPA, in order to get an optimal implementation.

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.**

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

Interchange fees are certainly necessary for the development of payment instruments in the EU. Interchange fees compensate the asymmetric distribution of cost and benefits in two-sided markets, ensuring that both sides have incentives to participate, to invest and to provide good quality services, allowing such markets to grow to their full potential.

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

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

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 retail banking industry;

  ☐ mostly known to you/the retail banking industry.

4. Did the market analysis in the report:

  ☐ confirm your views on the operation of the retail banking market;

  ☐ challenge your/industry's views on the operation of the retail banking market

  ☐ represent a mix of both aspects

5. Did the report raise the right policy issues;

  ☐ yes, covered most of the key issues;

  ☐ no, there were some significant issues left out.