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CONTRIBUTION TO THE INTERIM REPORT II CONSULTATION ON CURRENT ACCOUNTS AND RELATED SERVICES

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Banco Bilbao Vizcaya Argentaria (BBVA) is a multinational financial services group based on people: 95,000 employees, 35 million customers and over 1 million shareholders – in 32 countries. For more information about BBVA, please visit www.bbva.com

BBVA very much welcomes the opportunity to express its views on the Interim Report on current accounts and related services, published by DG Competition on July 2006.

We will focus our comments on a few of the main issues in the sector of retail banking, identified by the Commission in the Interim Report. Thus, our contribution will not be detailed but rather of a general nature.

We hope that the concerns expressed in this paper will contribute to provide the Commission with a better understanding of the banking industry's view regarding competition in retail financial markets.

The Interim Report on current accounts and related services, published by DG Competition on July 2006, clearly identifies the market fragmentation and the lack of consumer mobility as some of the main concerns in the sector of retail banking.

BBVA would like to make a few comments on both issues.

Regarding **market fragmentation**, BBVA shares the view of the Commission about the low level of European integration and consolidation in the retail financial services sector. Integration of the markets is indeed very important for the growth of the EU economy and for the achievements of the Lisbon Agenda goals.

Nevertheless, we must not forget that, despite market fragmentation, the sector at stake is already highly efficient and banks, in almost every Member State, have taken advantage of the value enhancements driven by technology.

Moreover, we do not consider that the lack of integration in retail banking markets does necessary reveal particular problems in the area of competition, or anticompetitive behaviours. In our view, fragmentation is due to a range of several barriers that still hinder retail markets consolidation:

- Cultural barriers: the consumer demand and necessities are very different from one country to another. Language also constitutes an obvious barrier in this field.
- Regulatory barriers: differences between national regulations, as it is the case for consumer protection legislative frameworks, are an important obstacle for European integration. A targeted harmonisation scheme on consumer protection would be desirable.
- Fiscal barriers often constitute a disincentive to cross-border activities.
- Divergent national supervision structures, as well as discretionary powers of some national authorities in the field of banking supervision are an important obstacle for banking sector consolidation, including retail banking activities. In this regard, BBVA welcomes the Commission proposal on procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of shareholdings in the financial sector.

BBVA strongly encourages the Commission to tackle these barriers. Nevertheless, we ask regulators to avoid overregulation since excessive legislation can hinder product innovation, preventing credit institutions from satisfying the needs of consumers. Self-regulation should thus be prioritized. Moreover, any initiative must be subject to open consultations and a cost and benefit analysis in order to avoid unnecessary costs that at the end could reduce or even eliminate the potential benefits expected by the proposal.

The interim Report has also identified as a major concern the low level of **customer mobility** in the current account market.

In this regard, BBVA does not believe that competition failures or anticompetitive behaviours are a direct cause of the low level of customer mobility. The Commission is certainly aware of the constant efforts undertaken by the banking industry in order to improve the quality of the services offered to their clients. Credit institutions are continuously adapting to technological advances (electronic banking, more sophisticated products, etc.) and the efficiency enhancements are shared with consumers on the provision of more and better value added services. In spite of this, the level of costumer mobility has not increased, even for countries where a code to facilitate switching of bank account has been put in place.

We are of the opinion that other factors can easily explain this lack of mobility. First of all, it is important to take into account the particular nature of the relation between the customer and his bank, which is highly confidence-based. That is the reason why consumers prefer to have long term current accounts, rather than switching on a regular basis.

Secondly, we would like to express our views about some practices (such as cross-selling) considered as potentially anticompetitive by the Commission. It is important to highlight that these practices are not only beneficial for industry and consumers, but are also often necessary for prudential reasons (for instance, considering a current account when contracting a mortgage loan may be an understandable requirement bound to ensure the repayment of the debt). Cross-selling is a two ways street relationship based on mutual rewarding benefits.

Finally, the removal of the before mentioned barriers (regulatory, supervision, fiscal barriers) could promote a higher mobility in current accounts markets. Nevertheless, the Commission should take into consideration that the mobility issue is not considered as a problem by a great majority of consumers.