RETAIL BANKING SECTOR INQUIRY
PRELIMINARY REPORT II
CONSULTATION FEEDBACK FORM

Name of organisation: Banca Intesa

Type of organisation: Banking institution

Address: via Monte di Pietà, 8 20121 Milano

Country: Italy

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

yes

☐ No

Introduction

Banca Intesa is the holding company of the Intesa Group, which is one of the largest Italian banking groups and one of the main players at European level. The Intesa Group is also active in new Member States like Hungary, where Central-European International Bank-CIB is the fourth largest bank, and Slovakia, where Všeobecná úverová Banka-VUB is the second largest bank.

Banca Intesa and its subsidiary banks in Central and Eastern Europe have received a request for information in connection with the sector enquiry.

Banca Intesa appreciates the considerable and valuable work that DG Competition has done with respect to the analysis of the retail market for current accounts and related services and would like to submit the following comments.

1. Metodology

Diachronic data

Banca Intesa remarks that the Commission has used in the Sector Enquiry Interim Report (the "Report") sets of data related to different time periods. As an example we mention i) the data included in Table 19 on the gross income per customer which refer to 2004, whereas all the other data collected during the Sector Enquiry pertain to 2005 and ii) the data on profitability in Table 21, 22, 23 and 24 which refer to 2002-2004.

Banca Intesa believes that these data are partly outdated, are not homogenous and do not describe accurately the different aspects of the retail banking industry within a given time frame. Therefore, the data do not allow comparing trends among the different areas of analysis.

Specific questions from the 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**.

   Banca Intesa has identified the following five main reasons for market fragmentation:

   - **Historical and political barriers**: the Italian market, as the German one, is highly fragmented as a result of political divisions of the territory which lasted until the XIXth century. Even after the achievement of national unity, local banks have maintained an important role in pursuing projects related to the development of the territory, often in partnership with local administrations. Consider for example the case of the Savings banks, which were controlled until the beginning of the Nineties by banking foundations, whose members were representative of the local territorial authorities. This has substantially changed thanks to the extensive privatization process which occurred successfully in Italy in the last 15 years.
   - **Cultural barriers**: Since banks play a significant role in addressing and meeting the needs of local customers, cultural and local proximity is essential in maintaining a long term relationship with clients. This is particularly true for less developed urban areas and for rural areas.
   - **Regulatory and policy barriers** may have hindered in the past the consolidation process of the banking sector in some Member States. These barriers can i) either be enshrined in the law or ii) fall into the discretionary powers pertaining to Supervisory Authorities or iii) be the result of interpretation of national rules on takeovers. Under this latter case for instance, some banking Supervisors have refused to grant authorizations to launch *hostile* takeovers on banks they supervised, since that could have threatened the stability of their banking systems. This was in fact considered to be the main priority of these Supervisors. This practice is no longer in use. Currently, Supervisors take into account both the stability and the contestability of the banks they oversee. In this context, we underline that any existing regulatory barrier or discretionary power will be removed by a new Directive recently tabled by the Commission on the "Procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of shareholdings in the financial sector" proposed by the Commission COM (2006) final.

- Different **tax systems** tend to increase compliance costs and to penalize smaller banks willing to merge. Those barriers have correctly been identified on page 34 of the Report.

- **Credit institutions' legal forms:** Different companies' legal forms are clear obstacles in the consolidation process. In some cases domestic laws strongly limit the acquisition of credit institutions established in a given region and incorporated under a specific legal structure. We refer in the first case to mutual or cooperative banks, whose acquisition is possible only when the majority of their members agree to change the legal form of the cooperative bank into a joint stock company; and in the second case to the German savings banks, which cannot be acquired by commercial banks.

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

Banca Intesa believes that concentration and fragmentation are two aspects of the same issue. Therefore, as mentioned in the response under point 1), we believe that the main reason of different levels of concentration was the existence in some Member states of regulations which have hindered the concentration process of the banking system, both at the domestic and cross border levels.

As far as the Italian market is concerned, the removal of these barriers, together with a favourable business and market environment, has led both to the expansion of regional banks into nearby territories and to the acquisition and merger of banks.

Recent announcements about the integration between Banca Intesa and San Paolo IMI and possible mergers among cooperative banks clearly show that the process is still open. The achievement of a higher degree of concentration in the Italian market is only a matter of time.

As to the implications of the forthcoming higher level of concentration, Banca Intesa believes that the following considerations should be taken into account.

- Although from a purely theoretical point of view it could be argued that further consolidation will reduce competition to the detriment of final customers, the characteristics of proper relevant markets should be considered.

- Notwithstanding the development of remote channels, the relevant market for retail banking services can still be considered local, due to reasons of limited information and of geographic and cultural proximity (see also Question 1). Experience shows that a high degree of concentration at the national level does not exclude fierce competition in local markets between large and small players, to the benefit of final retail customers (both households or SMEs)[1].

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[1] See Pierluigi Ciocca, *The Italian Financial System Remodelled", 2005, where it is mentioned that 1) the number of banks operating per province has increased from 30 in 1994 to 35 in 2003; 2) 80% of Italians can choose to deal with at least 3 banks in their places of residence; 3) the number of branches has progressively increased from 23.000 in 1994 to 31.000 in 2003.*

- Of course, it is up to the competition Authorities to ensure a proper balance between concentration and competition in local markets, in order to avoid that consolidation translates into excessive market power by the largest players.
- Finally, one should consider that — leveraging on sophisticated professional skills and larger volumes — large banks can offer their customer a wider range of services at competitive prices (*e.g.* Banca Intesa offers a number of financial products aimed at supporting the internationalisation of medium-sized companies and financing innovation and R&D).

Banca Intesa appreciates the Commission's efforts to extend the analysis on concentration looking also into regions, which has proved to be a meaningful and useful analysis to assess the concentration degrees of the banking sector at all levels.

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?**

- Banca Intesa appreciates the extensive analysis carried out by the Commission under chapter 5 of the Report, related to the financial performance of retail banks and would like to submit the following comments in relation to the Italian market.

  <u>As to the methodology used:</u>

  - **Diachronic data used**: Banca Intesa remarks that data on the gross income per customer by consumer product line in Table 19 relate to 2004, whereas the sector enquiry covers data related to 2005. We believe that the 2004 data are outdated and therefore they do not mirror the current situation, since in the meantime the costs related to current accounts have considerably decreased;
  - **Calculation methodology applied**: The gross income on current account is for Italy 204 EUR. This appears not to be in line with the findings of a research carried out on behalf of the Italian Banking Association in March 2005[2]. Therefore, we would like to ask the Commission to explain more in detail how the calculation was made. In our view, the income on current accounts should only include management fees and the income related to the services connected to the bank account. Active interests, which in Italy are normally paid to current account holders on bank deposits, should be deducted, if the aim is to give an idea of the cost of current accounts per customer/client. In this context, "since Italy - as acknowledged by the Report - has a strong tradition of joint accounts, thus suggesting that

[2] Mercer Oliver Wyman, Indagine sul pricing dei servizi bancari in Europa, March 2005.

the effective cost of a current account may be lower than the per customer average of EUR 204", it would be meaningful to calculate the data on the income from current accounts on the basis of the actual income per client and not per current account. In fact, Banca Intesa internal data show an average of 1,5 clients per current account. The result would show that the gross income of Italian banks is significant lower and thus in line with the EU-15 average;

- Italy is amongst the less profitable countries (see page 73 of the Report). This might be due to several reasons such as the tax regime, cost structure, administrative burdens and national limits on the provision of financial services (e.g. the threshold of 80% of loan to value in the case of mortgage loans). This proves that banks do not currently enjoy a level-playing field in the EU. In turn, it appears to us that it would be simplistic to conclude that less profitable countries are those where competition is more intense.

- The cost-income ratio is instead rather low, indicating an efficient management. Hence, it makes sense to assume that factors unrelated to the business, such as tax regime, cost structure, administrative burdens and national limits, contribute to determine a rather low degree of profitability.

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?**

   Banca Intesa believes that the Commission's analysis is very thorough and identifies all types of relevant entry barriers.

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

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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?**

D. Customer choice and mobility

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

- Trust and mutual understanding are the essential ingredients of a retail banking relationship, which implies a thorough knowledge of the environment and the ability to meet customers' needs with tailor-made products. Therefore, in our view a low mobility could be due to a reasonable degree of customer satisfaction. Banca Intesa believes that this reason has not been sufficiently emphasised by the Commission.
- Routine and conservative behaviour can also play a big role, especially in rural areas, where the opportunity-cost of switching to another bank, possibly located far away, is not attractive to consumers or small retailers. Personal relations and trust can also be considered in certain contexts as an "intangible" asset for which the retailer is eager to pay a higher price. This brings the consumer to choose the less efficient local bank to nation-wide operators.
- The report shows that the Italian market presents one of the lowest longevities across EU-15 for both consumers and SMEs and a good churn percentage. This datum exhibits a normal degree of mobility and customer choice. In any case we believe that the mobility of Italian bank account holders will increase thanks to a number of initiatives taken either at the industry level or at regulatory level.

- <u>Initiatives adopted by the Italian banking industry:</u> the following sets of measures have been taken by "PattiChiari", a consortium of banks promoted by the Italian Banking Association, which aim at increasing the level of transparency and facilitate the switching of bank:
    - A guide on the rules and procedures for the transfer of current accounts services will be available on the PattiChiari website (www.Pattichiari.it) as from 15 October 2006,
    - The right of customers to require banks to send periodically the list of services settled on their current accounts as from 15 December 2006;
    - The automatic (i.e. without customer intervention) transfer of direct debits positions from the old to the new bank account as from 12 February 2007;
    - The Consortium is already working on a new project, which covers the automatic transfer of the credit cards debits from the old to the new bank account.

- <u>Initiatives taken by the Italian Parliament:</u> On the legislative side, Law 4 August 2006 n°248 – the so called Legge Bersani -, amending Art. 118 of the Testo Unico Bancario, has abolished the fees related to the closing of open ended contracts, such as those related to bank, securities and savings accounts. The new provision has entered into force on 16 August 2006. Therefore, fees that were traditionally considered to deter the customers' mobility have now been removed.

- The Report mentions **information asymmetry and low price transparency** as reasons for the low degree of mobility. Banca Intesa would like to point out that Italy has enacted in 1992 a law that mandates full transparency on the economic conditions of the banking products. In particular the law provides for the following mandatory information:

- i) Pre-contractual and contractual information for all customers, be they natural or legal persons, on all financial and contractual terms and conditions;
- ii) Periodical information on the economic conditions applied has to be sent at least once per year to all holders of current and securities accounts, credit cards, loans and mortgages.

- Moreover, the banking industry through the PattiChiari initiative has also shown a commitment to transparency, by developing on its website (www.PattiChiari.it) a system which allows customers to compare contractual and economic conditions on banking services provided by the banks adhering to the Consortium.

- **Bundling and tying** have been mentioned by the Commission as factors that can deter mobility, for a number of reasons as they i) reduce price transparency, ii) increase the switching costs the more services are sold to customers and iii) do not allow comparability of products and their costs.

- Banca Intesa believes that bundling is a widely used practice which pursues different aims: i) meeting customers' needs with the provision of tailor-made products; ii) making the relationship with the client more efficient and iii) safeguarding and facilitating the bank's provision of services.

Banca Intesa, following a market trend is offering more and more unbundled products, in order to meet a growing demand. In this context, products traditionally considered to be bundled, as mortgages and current accounts, are now totally unbundled. In fact Banca Intesa requires the opening of an account only for the initial disbursement of the loan and not for the subsequent payment of the instalments, which can be paid to the bank by direct debit or in cash to the bank. The account can therefore be closed immediately after the disbursement of the loan. We would like to mention that 24% of the outstanding mortgage loans of Banca Intesa are not connected to a bank account. Customers usually choose to maintain the account because of the convenience and advantages connected to it, i.e. the easiness for reimbursing the loan, since the account guarantees the payment one day before the due date, thus avoiding possible fines for late payment.

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**.

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

- Interchange fees are usually negotiated by members of payment systems and fulfil the function of covering the management costs incurred for processing transactions, either at national or EU level.

  The following examples provide the evidence that the cost structure and the manner in which banks are remunerated for the provision of direct debit services vary according to practices of different national systems:

  - Banks in some Member states (e.g. UK) are remunerated according to bilateral arrangements among them;
  - In new Member states, e.g. in Hungary and Slovakia, the debtor's bank is remunerated by applying a fee either on the debtor and on the creditor or only to the debtor.
    In other Member states (e.g. Italy, France) arrangements provide for the automatic application of an interchange fee, which is negotiated at the national banking system level. The fee covers exclusively the costs directly related to services provided by the debtor's bank for exacting the payment of the debt. In Italy, the interchange fee amounts to 0,52 EUR for direct debit related to the payment of utilities and to 0,66 EUR for commercial direct debits. In the absence of such a fee or where the fees should be abolished, there are two options: i) negotiating bilateral agreements with European banks; ii) charging the debtor with a fee. The first option, in our view, seems to be costly and impracticable, considering the large number (approximately 7000) of European banks with which agreements should be negotiated and concluded. The second one would represent a major departure from the existing practice, since currently debtors are not charged for the service they benefit of. As a result, national and European consumers' organizations would react negatively to the new practice. Therefore, we believe that interchange fees should be maintained.
  - Moreover, in our view, the abolition of the interchange fee would heavily penalize retail oriented banks, hence active on the debtor' side, which would not have the incentive to stay in this market anymore and could therefore be tempted to offer only corporate services, thus decreasing consumers' choice.

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

F. Other issues

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

- It would be very interesting to gather data about the number of *per capita* current accounts. This would be a genuine indicator about the affordability of this service; in fact if costs are too high people will not open a current account. Furthermore, this data would shed some light on the calculations on gross income per consumer (see Table at page 67 of the Report), which currently shows a significant misalignment of data.

General questions:

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

x

☐ 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

x

☐ too detailed

3. Did the information contained in the report was:

☐ generally new to you/the retail banking industry;

x

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

x

5. Did the report raise the right policy issues;

x

☐ no, there were some significant issues left out.