

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

Name of organisation: Asociación Española de Banca (AEB)
(Spanish Banking Association)

Type of organisation: Banking Association

Address: C/ Velázquez, 64-66, 28001 Madrid

Country: Spain

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

YES (Please see our answer addressed to Mr. Friess, dated 12 May 2006)

NO

COMMENTS FROM THE SPANISH BANKING ASSOCIATION

The Spanish Banking Association (AEB)¹ would like to express its thanks for the opportunity to make some comments on the contents and conclusions of the Interim Report on Retail Banking, and hopes that these ideas may be useful for future initiatives by the European Commission.

Although respondents to the Report are requested to follow the suggested lay-out of the feedback form, due to the fact that the questions brought up are of a generalized and academic nature, we have preferred not to refer to them and focus our contribution from the standpoint of a Banking Association that represents the interests of the Spanish banks.

¹ The Spanish Banking Association is formed by 103 banks. Saving banks and credit cooperatives have their own Associations.

GENERAL COMMENTS

First and foremost, the AEB agrees on the fundamental idea (which opens the Interim Report) that “competitive financial services markets that serve European consumers and businesses efficiently contribute to economic growth”. In this sense, the efficiency of the Spanish financial system has contributed to economic growth in Spain in recent years.

An analysis of the Report reveals that the Spanish banking system obtains a very high score in all the aspects analysed. It can therefore be concluded from the Report that the Spanish banking system is highly competitive, as indeed is demonstrated by the day-to-day workings of the market. The only negative rating is in a single, minor technical point (fees charged on certain transfers). In its length this negative point is strikingly out of proportion with other, much more significant matters.

As a general comment, it is considered that the Report pays too much attention to very specific points, i.e. those regarding specific pricing and fee issues, but refers only briefly to more important questions such as the existence of a high degree of competition between banks, and real options for consumers to choose between different products and services in retail banking. The Report should deal with the different topics in line with their relative importance, giving more emphasis to the more important aspects. Introducing competition where there is none, reducing concentration where it seems excessive and guaranteeing customers effective access to information (transparency) when the legal framework is not able to do so are certainly crucial for retail banking competition in Europe, while specific prices and fees in different banking services and infrastructures is far less relevant.

The description of the Spanish banking system in the report begins with the following sentence (page 8): “The least concentrated countries seem to be Italy, Spain and, in particular, Germany”². It is also relevant that the Interim Report expressly says (page 50) that, also taking into account the number of customer current accounts per bank (CR3), Spain is one of the least concentrated countries with CR3 at 50% or lower.

The strong competition between institutions has been positive for Spanish customers in terms of the pricing of various financial services. Mortgage loan prices in Spain are among the lowest in the countries covered by the Interim Report, and it must be remembered that “mortgages appear as the most significant source of income for retail banks in the EU”³. The Interim Report also contains⁴ interesting figures on weighted average current account gross income per consumer for 2004, which clearly shows that Spanish consumers are by no means among the most heavily charged.

² See also pages 48 and 51.

³ See page 64 of the Interim Report.

⁴ See page 67, figure 18.

Nevertheless, Spanish banks are among the most profitable in Europe. As the Interim Report clearly admits, this is due not to income per customer but to the cost-income ratio⁵. Spain has, again, one of the lowest cost-income ratios of the countries surveyed, at well below 60%

In conclusion, as the Interim Report clearly suggests, the high degree of competition between banks in Spain has been good for consumers and, at the same, has made it possible for Spanish private banks to compete with other European institutions while maintaining a high degree of profitability based on a low cost constant effort.

Giving the fact that several chapters of the Interim Report include no negative comments on the Spanish financial system we shall reduce our comments to the following points.

PARTICULAR COMMENTS ON CHAPTER 6: SELECTED COMPARISONS OF PRICES AND ACCOUNT USE

Banks in Europe establish their prices under different legal frameworks, different regulatory and supervisory standards and in economic and cultural environments which make the ways in which they provide services very different from one place to another.

All these factors have a direct effect on the structure of fees and prices charged by banks all over Europe and it is not easy to compare these structures in different jurisdictions. Comparisons between single products or services and their prices may be easier, but the information obtained may be of scarce relevance.

The central idea is that Banks all over Europe provide different products and services adapted to their respective legal, economic and cultural environments, and they obtain their resources through different structures of prices and fees, based usually on a general framework under governmental or central-bank supervision. Comparisons between single products or services or between specific prices and fees that consumers have to pay for them may lead to a distorted view of the way in which European Banks provide quality services to their clients. Products and services provided by banks in different countries and the corresponding prices and fees should be analyzed globally, taking in to account that business structures are completely different from one European bank to another.

PARTICULAR COMMENTS ON CHAPTER 7: CUSTOMER MOBILITY AND CHOICE.

We would like only to remark that, as a reflection of the high level of competition between banks in Spain, figures 34 and 36 of the Interim Report show the high degree of mobility that currently exists among Spanish customers.

⁵ See page 74, figure 24.

Although it is true that mobility is technically difficult to measure, and doubt may be cast on its direct relationship with the degree of competition between banks, we nevertheless think that Spanish figures are a clear indicator of the choices that are open to Spanish customers due to the high degree of competition between credit institutions in Spain.

PARTICULAR COMMENTS ON CHAPTER 8: RETAIL PAYMENTS-CLEARING ARRANGEMENTS AND INTERCHANGE FEES.

Payment systems are under review in the EU. There are several initiatives in both the European Commission and the ECB that are seeking to improve the efficiency of the European Financial Sector in this area⁶.

In the particular case of Spain, payment systems have changed a lot in recent years. From their original attribution to the Bank of Spain⁷, major investments and developments have been made in order to guarantee to Spanish Banks and users that the system, which is the key to the efficiency of the whole Spanish financial sector, will work properly.

Like other European systems, the Spanish payment system is about to change as part of the future implementation of a real trans-European payment system. That is when a reflection on competition between Member States and their financial institutions should be carried out.

CONCLUSION

From the AEB's point of view, the Interim Report suggests that in Spain there is a high level of competition among banks with a positive impact on customers.

Spanish consumers have, as indicated in the figures of the Interim Report itself, sufficient opportunities to choose, and change, both services and the banks that provide them.

Of course, the Spanish Banking Association is entirely at the disposal of the European Commission to provide any further information that may be of use for the present purposes.

⁶ Single European Payments Area or the future Payment Services Directive.

⁷ Banco de España.

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