



## European Banking Industry Committee

---

European Banking Federation (EBF) • European Savings Banks Group (ESBG) • European Association of Cooperative Banks (EACB)  
European Mortgage Federation (EMF) • European Federation of Building Societies (EFBS)  
European Federation of Finance House Associations (Eurofinas)/European Federation of Leasing Company Associations (Leaseurope)  
European Association of Public Banks (EAPB)

### EBiC Response to the European Commission's Inquiry in Retail Banking Interim Report II: Current accounts and related services

1. EBIC welcomes the opportunity to comment on the interim report. Information-gathering that provides the Commission with in-depth knowledge about the retail banking market is important given the complexity of the issues. In terms of the specific questions raised our comments are mainly focussed on question 7: Customer Choice and Mobility. This should not however be taken to imply that EBIC is in agreement with these observations and findings set out in the report which are not commented upon in this response.
2. While it can be said that subjecting such a report to industry consultation means that the Commission is at least partly meeting its commitment to 'better regulation', it is unfortunate that the report was only published a couple of days before the hearing which was held to discuss both the inquiry which is the subject of this report, and the previously published payments inquiry. This meant that the industry could not sufficiently prepare to air its views on the report in spite of the opportunity which it should have been given at the hearing. In addition while the hearing could and should have represented a public forum for discussion of the issues raised in the report, there was no attempt at ensuring industry representativity in the speaker panels, and no opportunity for questions and a debate with the Commission on its contents.

#### ***Industry dedicated to competitiveness***

3. EBIC has stressed the industry's commitment to achieving a high level of competitiveness in the sector and the provision of the best possible service to European banking customers.
4. In that respect, we believe that we have already achieved a lot and that the sector is one of the most competitive of the European economy. Market forces will continue to increase the competitiveness of the industry whilst competition policy is an important tool to correct anti-competitive behaviours.
5. EBIC wishes to emphasize the importance of promoting competition as a driving force for integration, while also highlighting the importance of respecting "diversity between the providers of banking services in the EU, which appears beneficial to consumers" as was already stated in the banking expert report of the Commission. Members of EBIC agree on the principle of pluralism in the banking sector provided that there is the same level playing field for all kind of institutions and that there is no distortion of competition. EU legislation should not favour one type of business model or corporate structure or one type of product over another.
6. EBIC would like to highlight that the values of an open market economy and free competition are enshrined in the EU Treaty. European competition policy is built on the view that competition is good for the consumer and industry alike. Over the years, increased competition in the banking sector has stimulated banks positively in a number of ways. They have increased efficiency and cut costs; adjusted business strategies, for example by developing new services and distribution channels; and consolidated through mergers and acquisitions. In addition, increased competition has provided consumers with a wider variety of innovative products at competitive prices from a range of different providers, and has thus contributed to increased economic growth in Europe.
7. So far, consolidation of activities has been seen mainly in wholesale banking services such as corporate bond and equity issuance, and mainly within national boundaries or in defined geographic regions such as in the Nordic-Baltic area. Recent developments seem to indicate an increase in cross-border merger activities.

8. The current level of cross-border consolidation partly reflects legal and regulatory differences, such as consumer and competition policies, which make it difficult to develop a pan-European product range as well as the existence of idiosyncratic barriers to integration, such as the specificities of local or regional demand and needs, as well as cultural and language barriers. These facts and market conditions are limiting the extent of consolidation in European financial services.
9. In this context, the full benefits of competition are not always achieved in practice:
  - Decisions of the European Commission have in the past made the case for bank mergers in small countries less attractive (assets sell-off), on the basis of a narrow definition of “national market”. This has in effect prevented banks in those countries from building a capital base large enough to compete at the EU level. But the EU and national authorities also have a role to play. The enlightened application of competition rules should allow the financial services industry to consolidate in a beneficial way for both EU and domestic economies. It should be noted however that further consolidation in already highly concentrated domestic banking markets could potentially be damaging for competition and thus detrimental for consumers.
  - An increasingly “functional” approach to EU-legislation leads to a situation where more and more entities are given the opportunity to provide banking services conditional on a supervisory regime that is lighter than those of credit institutions (i.e: plans of the European Commission to allow telecom operators to provide payment services). EBiC therefore believes that the principle of “same business, same risks, same rules” should apply. This would not only help to ensure a level playing field, but would also assure equal treatment in terms of costs.
10. It also needs to be said that the European financial services industry is very heavily regulated. To meet the needs of increasingly sophisticated customers, product innovation is key and requires cost-sensitive adaptations, both for service providers operating locally and for those oriented in cross-border operations. EBiC calls on the Commission to strive against over-regulation, and recalls that consolidating, implementing, enforcing and evaluating existing legislation, removing unjustifiable obstacles to integration, enhancing supervisory cooperation and convergence, is essential to enable financial service providers to exploit economies of scale and to offer customers a broader range of retail financial services.
11. We take the opportunity to highlight that EBiC favours targeted harmonization, i.e. full harmonization of those key provisions which would facilitate further integration).

*Comments on methodology/ analysis*

12. The report attempts to convey an image of retail banking in Europe. However the numerous caveats on the possible interpretation of the analysis which it contains serve to highlight the difficulties and limitations of such an undertaking. Against this background we doubt that any conclusions can be meaningfully drawn at all at this stage of the process.
13. One important explanation for the difficulty in analysing the European Union's retail banking markets is that they are not homogenous. This means that we are not comparing like with like. For instance, variations in income as well as in purchasing habits will partly explain the different levels of income for banks in different Member States. Furthermore, the methodology used to gather data from the industry participants has several limitations. To name just a few examples:
  - The data collected on banks' retail income is based on an individual interpretation of the term 'retail banking', which evidently appears different across countries.
  - The calculation of current account income is not based on a harmonised understanding/ common interpretation in different legal/ banking systems (and figures therefore do not reflect reality).
  - Banks are often unable to distinguish clearly between consumers and SME customers.
  - Quality of data surveyed may vary significantly according to the methodology applied in banks' internal accounting system.
14. Ultimately, these divergences do not allow any easy conclusions about the market characteristics of the retail banking markets in the EU by analysing solely average income per product. A direct comparison of banks' gross income in different member states draws an incomplete picture and can lead to misinterpretation.
15. This very much points in the direction of having a case-by-case approach if the intention is to resolve apparent breaches of the rules of competition (see Commissioner Kroes's speech quote), rather than attempt a broad comparison of Europe's various and varied retail banking markets.
16. Future investigations of this type would, we believe, benefit from the application of the better regulation principles. For example, pre-consultation on the format (including availability of recipients' linguistic versions) and content of questionnaires, allowing adequate time for completion, avoiding the summer period and year end, as well as allowing the Commission adequate time for analysis, are basic criteria that should be respected.
17. Another of the report's limitations is the fact that the analysis of the Commission is based on a sample of only 250 credit institutions active in retail banking in Europe. The way in which the sample was composed seems questionable as there appear to be major differences in the number of banks sampled in the different countries covered. Furthermore, in view of numerous references to OECD and ECB data, there is a question of how much information provided by banks was actually used.
18. Responding to the very detailed questionnaire sent by the Commission took the banks involved a great deal of time and effort. A statement explaining why much of the information provided wasn't in the end used – perhaps due to the limitation of comparability of the data – would have been welcome.

*Specific comments with regard to question 7*

19. The issue of *customer mobility* is a central theme of this paper. Why this is being raised as a central issue in the context of competition policy in the banking sector is however not made clear. The Commission attempts to explain current levels of customer mobility in Europe but it does not provide any evidence that lack of mobility is a symptom of lack of competition. Many factors, in particular of a behavioural and social nature, influence consumers and SMEs to move or not to another service provider. Some will open another current account with another provider, others yet will shop around for loans and savings/investment products while maintaining their current account with their original provider with whom they are satisfied with. Could it be that mobility is considered a problem by only a small minority of bank customers? Is it not the case, as the Commission itself suggests, that low customer mobility may not imply the existence of high switching costs, rather that the main reason for not switching service providers is that customers are generally satisfied with their current bank (p92)?
20. Operating in highly competitive markets, customer satisfaction is a key-driver for European banking markets. A KPMG study carried out in 2004<sup>1</sup> found out that 78% of respondents declared being generally satisfied with their main bank. The Commission should not down-play the importance of developing and maintaining consumer confidence in banking, recognising too that once customers have confidence in a bank, they generally look to stay with that bank for the long term, rather than change every couple of years. Proof of customers' reluctance to switch is the instances of countries where relatively few customers have opted to change banks in countries where bank codes have been put into place to facilitate switching. Another element that needs to be taken into account is that many European banking customers have more than one account, held in different banks: so-called 'multi-banking', which the Commission highlights in chapter 5 of its report (page 68), on the performance of banks.
21. On the issues specifically of tying, cross-selling and bundling, we feel that these concepts need to be clearly defined. Tying refers to the practice of making the sale of one product conditional on the purchase of a second distinctive product. Bundling refers to the practice of selling two or more products in a package. Cross-selling is the strategy of offering other products to a customer who has either already purchased, or signaled their intention to purchase, a product.
22. It must be recognised that such practices are used with the benefits of banking customers in mind and have a perfectly acceptable economic rationale. Cross selling and bundling represent means of providing customers with products and services at low prices (by making it cheaper to buy the products and services as a bundle than separately).
23. With regard to possible measures to reduce obstacles to customer mobility, we are not clear about the concerns of the European Commission when it comes to information contained in databases. The report rightly points out that there is to date a variety of databases across Member States, in terms of ownership, nature and scope of data collected, and pricing structure. The report contains no evidence of a correlation between the type of information contained in a database and customer mobility. EBiC holds the view that databases commonly available to creditors (residents or non-residents) operating in a given market should be accessed on a non-discriminatory basis. Prescriptive regulations should be avoided as far as scope of information, nature of the database and pricing of access are concerned.

---

<sup>1</sup> Banking beyond borders: will European consumers buy it ? KPMG Audit Tax Advisory, 2004

24. DG Internal market has just launched an expert group to identify whether there are any obstacles to customer mobility. There are also already throughout Europe a number of existing solutions to facilitate customer mobility, the result of either banks' own initiatives or self-regulation. The Commission report rightly points out (page 93) that, according to a 2005 Eurobarometer survey, a great majority of respondents declared that changing bank was an easy or fairly easy process. As regards charges applied to customers wishing to switch their current bank account to a new provider, in a number of countries this facility is already free of charge for customers (e.g. Germany, France, United Kingdom, Italy, Netherlands and Ireland).
25. It is not clear from the report what the Commission is likely to conclude on customer mobility in its final report, to be published by the end of the year. It is important however that these conclusions do not pre-empt or nullify the results of discussions between experts that have been gathered by the Commission specifically to look at the issue of customer mobility in the banking sector.