Income generated by retail banking in the European Union member countries: the figures set out in the EU Commission's "Interim Report II – Current Accounts and Related Services"

On 17 July last, the European Commission presented an interesting report analysing the income generated in the retail banking sector in the EU member countries, based on a sample survey conducted on a sample of 250 banks.

Reprocessing the data contained in the Commission's report, the Abi Study & Research Centre has highlighted how in Italy

1. the ratio of gross income from retail banking to GDP, in Italy, is well below the EU average: 2% compared to 2.5% of both the EU15 and EU25.

2. "Consumer" customers: the reported banks' gross income per consumer for personal current accounts (€ 204) is considerably affected by such practices as: joint accounts, yield on deposits, use profiles, multi-banking, which, if taken into account, may alter (indeed, considerably so) the raw figure; if we consider not only personal current accounts – as the EU Commission does in its report – but other product lines too, such as credit cards, consumer credit, mortgages, savings deposits, we will observe that the gross income per consumer of Italian banks drops below the EU average.

3. SME customers: the same observations made in relation to the "consumer" customer segment also apply here.

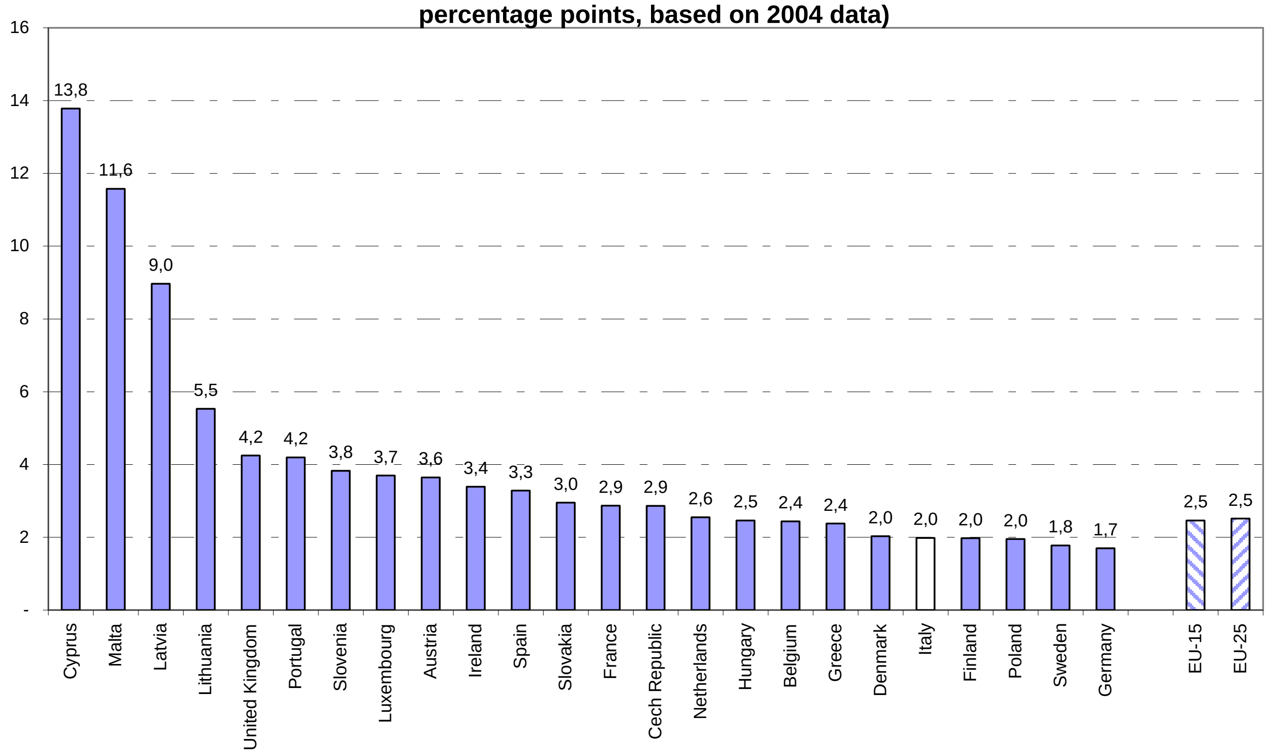
1. The retail banking income/GDP ratio

The DG for Competition has **estimated an overall income in the EU25 generated by the retail banking sector** of between 250 and 275 billion € (in 2004). Italy stands at between 25 and 30 billion €, a figure identical to that of Spain, but lower than Germany (35-45 billion), France (45-50 billion) and the UK (45-55 billion).

Based on the ratio of total income generated by the retail banking sector in the EU countries to the nominal GDP, we have the situation shown in diagram 1.

Italy – with a ratio of about 2% - ranks among the countries with the lowest retail banking to overall GDP ratio; the EU15 and EU25 average, in fact, stands at 2.5%, half a percentage point higher than the Italian figure. Among the principal competitor countries Germany alone ranks beneath Italy, with a ratio of 1.7%, while France (2.9%), Spain (3.3%) and the UK (4.2%) all feature much higher figures.

Diagram 1 – Gross income to GDP ratio in the retail banking sector in the EU25 countries (figures are in percentage points, based on 2004 data)



Source: EU Commission and Thomson Financial Datastream data processed by the ABI Study & Research Centre.

2. "Consumer" customers

In terms of gross retail banking income[1] per consumer (consumers are approximated by the Commission by the number of accounts, see the following observation), the following may be underlined:

a. income from personal bank accounts in Italy averages € 204 per consumer (ranking second – in absolute terms – after Luxembourg), compared to the EU15 and EU25 averages of 133 and 119 euros, respectively. The report also highlights that this figure should be interpreted with caution, because it is affected and characterised by a number of different practices. Following is an overview of the principal critical aspects:

   1. The figure in question **does not represent the cost per customer** because the Commission has surveyed the income generated by the bank, which is significantly affected by the quantity of services rendered and loans paid out. On the contrary, the cost per customer is the result of a combination of many factors, the principal ones being: **yield on deposits**

[1] The annual income generated by the overall retail banking activities, based on the definition adopted by each interviewed bank.

(not included in this survey), **multi-banking**, **joint accounts** (a typically Italian practice) and **use profiles**.

2. **the figure does not express the profitability of each product line, because the related costs cannot be isolated.** This entails that a higher income per account does not necessarily translate into higher profits for the banks because **bank account services differ considerably from country to country: some include very developed services, such as online banking services, others, as in the Italian case, provide a larger proportion of conventional services, such as personal cheque and cash management services (in Italy, cash transactions account for 90% of overall transactions, while in the major European countries this percentage hardly reaches 70%)**;

3. the income generated by each account is distorted by the practices of **multi-banking and joint accounts. With respect to the latter, the DG for Competition itself underlines how Italy features the lowest number of current accounts per capita in the EU15 (precisely, 0.63 accounts per person, which figure is practically the same as the one reported in the research commissioned by ABI from Mercer Oliver Wyman). The report also mentions that the practice of joint accounts too is more widespread in Italy,** suggesting that the effective cost of a current account, for Italian consumers, may be lower than the 'per customer' average of € 204 mentioned above (see page 68 of the report in question);

4. **the income figure also includes the interest yielded by the product in question, i.e. loans tied in with current accounts**. Because this form of loan is particularly widespread in Italy, the income from current accounts per consumer are higher than the European average. We'd like to remind that, considering the total loans to households equal to 100, the proportion of loans tied in with current accounts is 37% in Italy, while the average in the Euro area is only 18%.

b. income from <u>savings deposits</u> stands at € 67 per consumer, in line both the EU15 and the EU25 averages of € 69 and € 64, respectively;

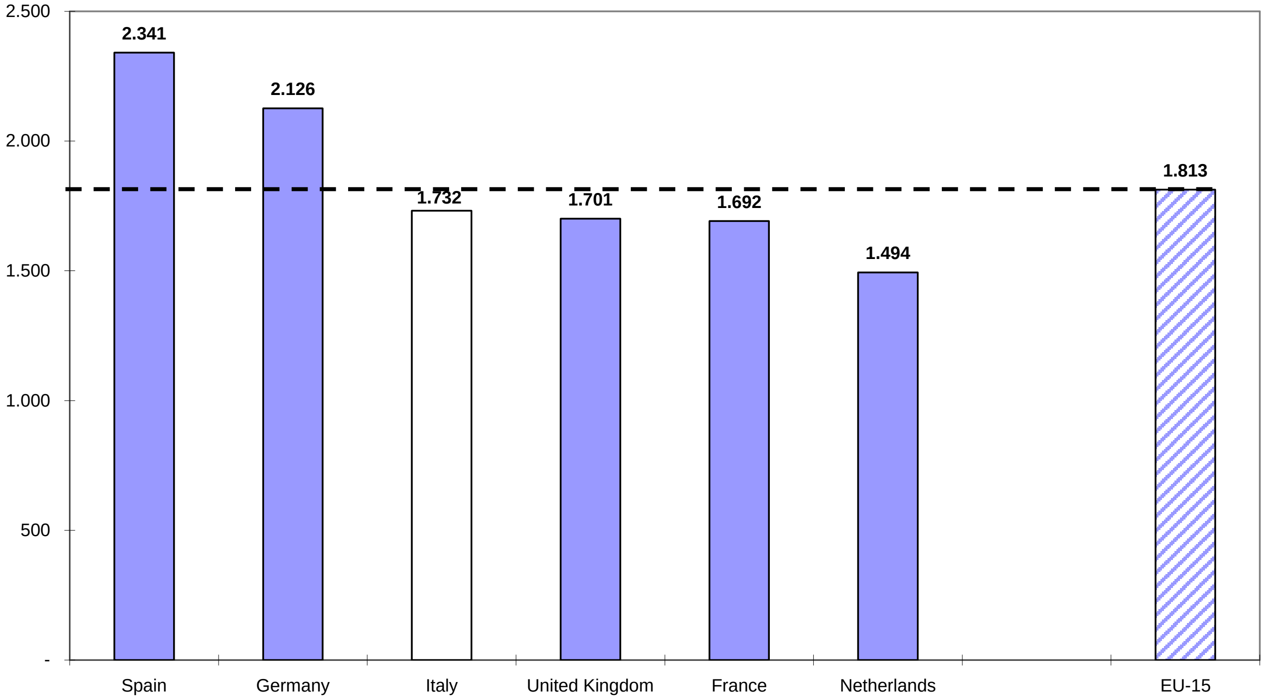
c. income from <u>consumer credit</u> per consumer, in Italy, ranks among the lowest in the sample, standing at € 337 (€ 421 euros in the EU15 and € 367 in the EU25);

d. income from <u>mortgages</u> per consumer is € 1,083, compared to the average of 1,126 euros in the EU15 (€ 1,015 in the EU25);

e. income from <u>credit cards</u> per consumer is € 41 in Italy, which figure is much lower than in the average of both the EU15 (€ 64) and the EU25 (€ 65).

3. Assuming a consumer using all 5 types of products listed above, the average income generated in Italy from such a customer would be € 1,732, compared to € 1,813 of the EU15 average (€ 2,341 in Spain, € 2,126 in Germany, € 1,701 in the UK, € 1,692 in France and € 1,494 in the Netherlands - see diagram 2).

Diagram 2 – Average income generated by a consumer using all the product lines available in the retail banking sector in the major European countries (figures are in euros)

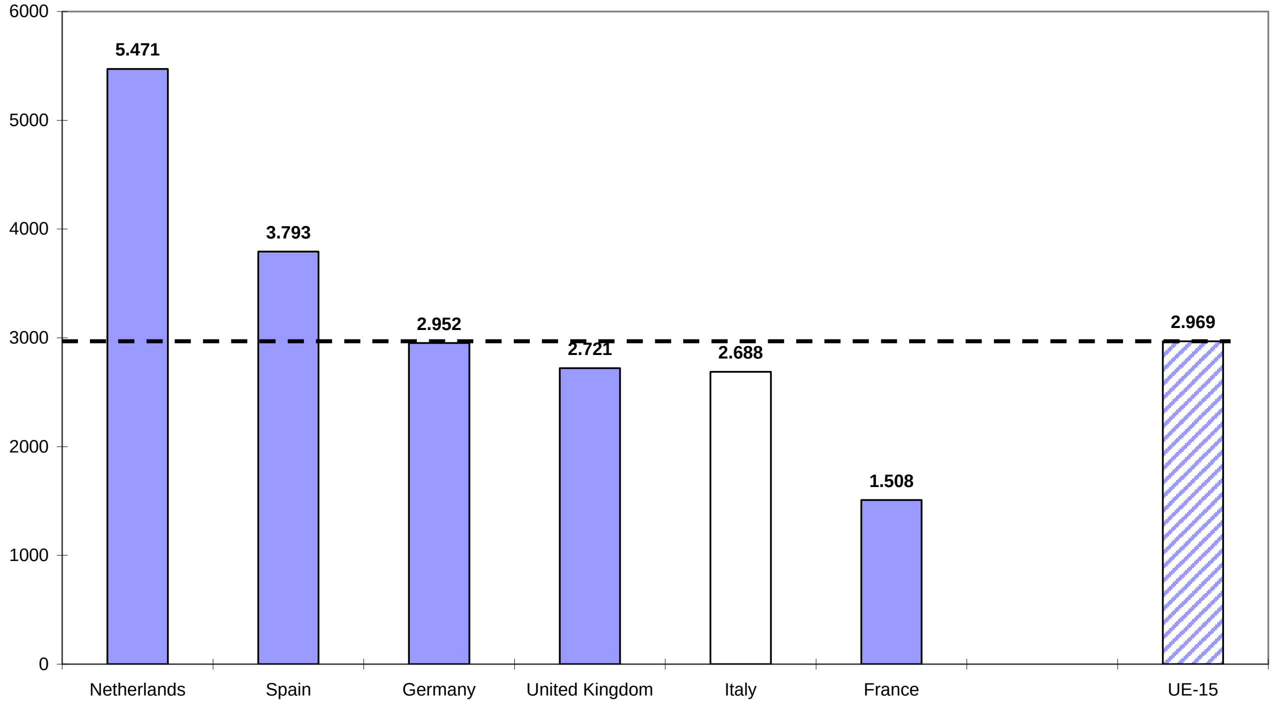


Source: EU Commission data processed by ABI Study & Research Centre (Tab. 19 on page 69, sum of columns 2-6).

"SME" customers

Assuming a SME using short and long-term loans, the average income generated in Italy equal € 2,688, compared to the EU15 average of € 2,969 (€ 5,471 in the Netherlands, € 3,793 in Spain, € 2,952 in Germany, € 2,721 in the UK and € 1,508 in France – see diagram 3).

Diagram 3 - Average income generated by a SME using the current account and term loan product lines in the major European countries (figures are in euros)



Source: EU Commission data processed by ABI Study & Research Centre (see Tab. 20, page 71, columns 2-3).

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In conclusion, **assuming the case of a consumer or a SME using the full range of product/service lines provided, the unit income in Italy is lower than both the EU15 average and the major national markets.**