



**COMMENTS OF THE MINISTRY OF FINANCE OF THE CZECH REPUBLIC ON  
THE RETAIL BANKING SECTOR INQUIRY  
PRELIMINARY REPORT II**

Name of organisation: Ministry of Finance

Type of organisation: Government

Address: Letenska 15, 11810 Praha 1

Country: Czech Republic

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

Yes

No

**Specific questions from 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.

A: We especially see customer behavior as the main reason for market fragmentation of the retail banking sector as customers want their banking institution to be present close to them. Customers do not trust to cross-border offered services when they miss physical presence of the provider in the market and possible "over the counter" contact.

This problem is related also with variable customer protection in the financial markets within the EU that causes high uncertainty when buying cross-border services. The consumer protection legislation across the EU is very fragmented and responsibility on the national level obviously very unclear.

Another argument is also inability to offer some services cross-borderly because they function differently. For example direct debits. In the Czech Republic clients have to authorize their banks to debit their accounts, whereas in Germany clients authorize concrete companies or persons to ask clients' banks to debit the clients' accounts. This is the reason why clients and companies do not know how to establish direct debits abroad and they would not use it as a cross-border service.

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

A: No position.

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## **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?

A: No position.

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## **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?

A: In the Czech Republic we are not aware of any legal barriers in retail banking.

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

A: No position.

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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?

A: As far credit databases, we have no information that they could represent an entry barrier.

As far payment infrastructures, we think they could represent a barrier. Payment infrastructures of cards associations could be an example. They dictate conditions that are binding for all market players including banks. High transaction fees from card payments discourage shops to accept cards. The question is whether banks would be available process it better and cheaper.

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#### **D. Customer choice and mobility**

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

A: In general, we can agree with mentioned causes of low mobility in the banking sector. We want to stress, that in our opinion, understanding of „mobility“ as a number of people who switched bank is inappropriate. We understand “mobility” as a possibility of switching from one product or institution to another, not the statistical amount of clients who have done it. Low number of switches between banks may just indicate customers’ satisfaction with their current banks.

Another debatable point is the longevity indicator. This is the time when a customer has an account at one bank. Again, high number does not necessarily mean problem within the sector, but may only show the level of satisfaction with the current bank. On the other hand, we can expect rather lower number among new member states due to relatively significant changes in the retail banking market in the last ten years. But again, this says nothing about the customers’ options of changing bank or product, but only about the fact that they did so.

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#### **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.

A: In general, we think it should be a matter of a systemic approach. Until recently, SEPA compliant products and services ensured that every product compliant to SEPA standards was acceptable. However during last year it became usual that not only services but also products were precisely defined. We want to highlight some studies here that say that services standards especially, unlike products, have to be clearly defined.

Concerning the competition, areas that we see as problematic are as follows:

- We are concerned with the yet unclear number of clearinghouses handling euro payments after SEPA startup. We would like to know who would decide upon the transaction costs and the whole structure of the system. This applies not only to credit transfers and direct debits but also to the processing of payment cards and sharing of costs and profits.
- High transaction fees from card payments will definitely limit competition.

- As SEPA products are still unspecified there is a threat that those products will not be better and cheaper than existing national ones. To be specific, we really doubt that any other payment infrastructure than Czech CERTIS will be cheaper.
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9. Are interchange fees necessary for the development of payment instruments (credit transfers and direct debits) in the EU?

A: We think that interchange fees are not necessary for development of credit transfers in the EU. As far direct debits, we are not completely convinced yet but probably also not. In general, it is necessary to ensure that banks' costs of transactions are covered in charging their respective clients.

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

A: We would like to mention here the problem of a direct debit proposal. The Czech Republic as a significant majority of other member states supports and considers authorized debits without refund as a better alternative to the current proposal. Some analyses support the proposal too, at least in reference to money laundering or that it could ensure much safer environment to all economic entities (e.g. banks might avoid liquidity attacks etc.). The problem is that this issue has not yet been discussed at the EPC's Direct Debits WG and thus it is almost impossible to include it into the currently negotiated proposal for a directive on payment services. This could cause further problems with completion of the EPC's rulebooks.

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## **F. Other issues**

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

A: We consider consumer protection as a very important aspect for development of the banking sector. Key elements are as follows: high level of customer financial awareness ensured by efficient educational systems, effective dispute settlement arrangements and operative supervisory and guarantee schemes. As a result the consumers' position is strengthened because they are able to choose more suitable and complex products and the competition within the sector is finally also encouraged.

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**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 market;
- challenge your/industry's views on the operation of the retail banking market
- 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.

6. Other comments:

We ask you to be briefer and more to the point next time.