

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

Name of organisation: Association des Banques et Banquiers, Luxembourg

Type of organisation: Banking Association

Address: 59, boulevard Royal, L-2010 Luxembourg

Country: Luxembourg

Have you received a request for information as part of the sector inquiry: No

Please note that, due to the limited number of Luxembourg banks having (apparently) been involved in the survey (through their foreign head offices) and to a limited availability of data, the ABBL will only comment on two of the question raised (question (B) 3 and (D) 7).

☐ 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.

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

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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) Methodology:**

ABBL would first like to express its concerns with respect to the question of comparability of the largely diverging gross income numbers reported. The standard referred to in the questionnaire (OECD standard model on bank profitability: Financial statements of banks) seems to contain only very general definitions, which may give rise to diverging numbers reported. The interest definition for instance uses terms like "... generally includes ..." and "... it may also include ...".

### **b) Representativity**

For Luxembourg, in particular, ABBL would also like to raise a question of representativity. As far as ABBL is aware only very few Luxembourg banks have participated in the survey (through their head offices). Given that more than 150 banks are registered in Luxembourg, out of which a much higher number than three (?) banks are offering retail services, the results of the survey simply cannot be representative. The Commission itself recognizes the - by far - lowest coverage for Luxembourg among all European Countries on page 17 of the draft report. In the opinion of ABBL, these facts should encourage the Commission to carefully handle these numbers, at least as far as Luxembourg is concerned.

Despite the low coverage for Luxembourg, the Luxembourg figures on current accounts have however been specially highlighted by the Commission at the public hearing in Bruxelles on July 17, 2006

### **c) Consolidated approach**

ABBL is further wondering why the Commission has first chosen a consolidated approach, and then presented the figures as per country results. It is common knowledge that cost and income allocations within groups of companies are driven by a large number of facts, including after tax return considerations.

### **d) Other aspects**

According to ABBL's information, the use of special pricing methods ("packaging") on both client types (retail and PME) by a number of Luxembourg banks, of which one at least was participating in the enquiry has probably further biased the results of the study. "Packaging" integrates services and products, such as card and check services, and may lead to the fact that credit income is reported under current account income. It is thus possible that this income comprises in some cases income that is not contained in classical current account income.

In this respect ABBL would like to point out that the EU banking market seems to be characterized by a great variety of products and a large diversity of services that expressing a healthy competition. It is logic hat as a consequence of these differences

profitability varies. In this context, ABBL is concerned that potential steps and actions to be taken by the Commission may lead not only to a standardisation of pricing structures, but that there is a risk that this approach may impact the product diversity and thus lead to a harmonisation of products.

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

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

#### **a) The low mobility argument**

ABBL would first like to remind the Commission that customer mobility can not be an aim in itself. The same statement applies to cheaper services. If good services are provided by a local bank, there is no evident reason to open an account with a remote bank. Market developments (certain banks sold their branch network a few years ago and are now buying it back) show, that customers are often conservative and prefer personalised face to face services to the anonymous services via telephone or e-banking. So if it is clear that both types of services should be offered to customers, one should not underestimate the relation of confidence between a customer and its bank.

Internal studies made in Luxembourg further show that most bank customers already have several bank relations. This is true in particular in a cross border environment, like it is the case in Luxembourg (due to the small size of this country).

This being said, ABBL is wondering whether the low mobility is not also induced by the fact that banks are overregulated. Banks are not responsible for this high level of regulation. The administrative burden imposed by the three EU money laundering directives may also refrain customers from opening new accounts. It is very easy for a customer to retire his/her

money from a current account (without closing it), but the opening of a new account is very burdensome for the customer.

b) Cross-selling

ABBL is further astonished about the non-mobility argument drawn by the Commission from the fact that banks require, in case of long term loans (such as housing loans), that customers also open a current account. The retail working group of ABBL reports in this respect in particular in the field of housing loans, customers are “cherry picking” since many years. Perhaps due to the large number of banks concentrated in Luxembourg, it is of common use for a customer to ask several banks about the price for a housing or consumer loan. The same is true at cross border level, e.g. for housing loans, given the fact that – due to the high real estate prices in Luxembourg – and to the small size of the country, a large number of the Luxembourg working population is crossing the border every day.

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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.

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

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

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**F. Other issues**

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