Speaking Notes for Frederic Nze, Barclays PLC
EPFSFG Briefing Dinner
Retail Markets and Consumers
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It's a great pleasure to be able to speak to you again. I have been to the Financial Services Forum Group and an EMAC Hearing on Consumer Credit, once respectively. I enjoyed both these experiences enormously.

I was asked to speak on the topic of "Retail Markets and Consumers" and I think that title points to one of our biggest problems; we do have retail markets, not one European Market.

So that is the line I want to pursue; to talk about why one European Market matters; the extent of integration or the lack of it and what can and should be done to facilitate even greater integration.

So why does integration matter? It does strike me as odd that I still feel it necessary to have to make the case for an integrated market some dozen years after Jacques Delors launched the 1992 programme and nearly five years after the start of the Lisbon Agenda. But to restate the obvious.

First and foremost it is consumers who benefit most through increased choice and improved pricing which means they are advantaged when it comes to saving for later or borrowing to enhance their life now.

Second, integration opens the door to more markets. Firms stand to benefit from having access to bigger domestic markets. Make no mistake, financial services is developing into a global market and in the longer run it is the bigger firms that will prosper most. US banks are already significantly larger than EU institutions and if EU firms are denied access to bigger home markets, then this will be another area of influence ceded to the Americans.

Thirdly, the corollory will be healthier European banks and consumers who are better able to access finance. This will invigorate the EU economy – playing a positive role in promoting the Lisbon Agenda.

Now that I have mentioned lending, and by way of an aside, it does strike me as very odd – inconsistent even – that in the consumer arena there are elements of the Consumer Credit Directive which will have the effect of curtailing credit provision even to good risks whereas there are those, in the context of the Capital Adequacy Directive, who are seeking to protect bad risks from higher pricing or limited access to finance.

So ~~it~~ integration is good for consumers, for providers and for the EU economy as a whole; that's why integrated markets matter.

If they matter so much how are we doing? I think the picture is pretty mixed with some conflicting evidence. Here are some examples.

One test of market integration commonly used by economists is the degree of price variation. On that basis, a study in the mortgage market found that there was less than half a percent difference between highest and lowest prices across seven countries. This might suggest a high degree of integration.

On the other hand, another study showed that UK consumers pay less than a quarter for their typical use of banking products then they would pay in Spain and less than half of the average EU consumer.

This would suggest that there is little integration and highlights possible significant savings for non-UK consumers.

Another way of looking at integration is to ask how many foreign providers are there in each Member State. By way of a proxy for this in the UK 51% of bank assets are foreign owned; here in Belgium half that at 25% but in Germany it is just under 5%.

There may be many reasons why this is the case but it is clear that there is no integration by this measurement.

What about from the consumers' perspective? People often say that there are cultural differences and preferences. I agree with that as "un Francais" – I face it every day dealing with my Anglo-Saxon colleagues.

But I do not agree that because of those differences a provider from one country cannot do well in another. Look at ING in the UK for example. Even with one national market there are many types of consumer [you might want to say a bit more here] and to successfully meet their needs we have to have the right products presented to them in the right way.

Those skills transcend borders. The trick is to recognise diversity and adapt behaviour accordingly not to ignore or decry it.

To close this section my conclusion is that whilst there is some evidence of integration the great weight of it says we are operating in a very fragmented collection of national markets.

What can be done? And my start point is that the status quo will not do.

There may well be room for some further harmonisation but I do not think that of itself harmonising legislation will deliver an integrated market for the EU.

Let me point to some examples which demonstrate that harmonisation is not a pre-requisite to increasing foreign provision. And let's be clear an integrated market means there will be more foreign providers in each national market.

The first is in the UK credit and store card market where we have many foreign suppliers such as MBNA and GE. With credit cards figures from Mintel show MBNA as having the third largest market share, only 3% behind the joint market leaders Barclays and RBS. Those American firms have successfully entered the UK market not because the rules in the UK and the US are the same, no, the rules are very different.

The second example, if we look at several of the new Member States, we see that their financial industry is dominated by foreign owned companies. This could be in expectation of rules converging with accession but I believe had more to do with a willingness of the authorities to welcome foreign investment.

So by all means continue with harmonising legislation if there is a cost benefit reason for doing so but do not believe it is a panacea for integrated markets.

What really allows markets to integrate is the ability of new entrants to compete in them and this does not have to get bogged down in an argument over home or host regulation.

For the last seven years, the UK government has been working to make UK financial services a more competitive environment and that has been very uncomfortable for some incumbents but we do have an open vibrant market place which is good for providers and even better for consumers.

Can the same be said for other Member State markets? Are they really open to competition? The Kok Report thought not and I quote "Europe remains fragmented into separate national markets. Many of these markets are effectively closed for business to potential competitors based elsewhere in what should be a single market. As a result, prices are too high, productivity growth is too low".

Is the picture any brighter in our particular corner of the market?

The number of cross border mergers and acquisitions provides some evidence which suggests not. I am somewhat encouraged to see that the informal ECOFIN in September considered this issue and action may follow. It needs to.

By way of one more specific example we have the La Caixa case which, over simply, means interest can now be paid on current accounts in France. This is an example of how some administrations tend to keep competitive offerings out of their markets.

And maybe it is not just administrations but also market participants, at least the Commission has that suspicion as it is investigating possible illegal anti-competitive activity in the French credit card market.

My suggestion is therefore that without markets open to competition, then all the harmonisation in the world will be of little use.

The Commission must therefore take a lead in looking for activities or regulations which stifle competition.

The Commission should bear these criteria in mind:
- Will its actions make competition easier?
- Will it open up the market?
- Will it extend choice?

These are the right questions from a consumer's point of view. I am a consumer and I would always prefer to have two people selling me something not just one and half a dozen would be better still.

Consumers are best protected by choice and free markets, not unfettered free markets in terms of consumer protection but certainly free when it comes to competition.

This fits with where the New Commission seems to be positioning itself, as a Commission for jobs and growth. To achieve this it needs to drive to open markets, why not start with financial markets and why not with the support of the Parliament and Member States.