

EPFSF Briefing: Competition: sector inquiry on retail banking

The Commission (DG Competition) decided in June 2005 to open sector inquiries into two areas of the financial services sector: retail banking and business insurance. The instrument has its legal basis in Article 17 of Regulation 1/2003, according to which the Commission may conduct an inquiry into a particular sector of the economy or into particular types of agreements across various sectors, where the trend of trade between Member States, the rigidity of prices or other circumstances suggest that competition may be restricted or distorted within the common market. Those inquiries have an exploratory purpose but their conclusions may lead to individual inquiries by the Commission or national competition authorities.

In its sector inquiry on retail banking, to which about 300 financial institutions were requested to answer, the Commission has examined two complementary areas: first, the **markets for payment cards and payment systems**, and second, the **markets for current accounts and related services**. The final Report, released by the Commission on 31 January 2007, consolidates the conclusions on payment cards on the one hand, and current accounts and related services on the other.

The Commission identifies the seven main competition issues:

- national fragmentation of markets;
- a high concentration as far as acquiring is concerned;
- variations and levels of interchange fees in some Member States and payment systems;
- cooperation mechanisms between banks, in particular in the area of standards and infrastructures;
- difficulties of access to credit registries;
- product tying; and
- some obstacles linked to bank mobility.

Importantly, the Commission notes that the incidence of these issues varies considerably amongst Member States. In addition, the Commission points at specific cooperation arrangements and ownership structures in the savings and cooperative banks sector.

Many of the presupposed findings of the inquiry are presented by the Commission in its conclusions as evidence of a lack of competition whilst they are often the result of historical, cultural or regulatory specificities at the national level. The absence of harmonisation as regards civil law or fiscal legislation is illustrative in that respect. Similarly, the lack of convergence of banking supervision does not favor the integration of retail banking services.

As far as **payment cards and payment systems** are concerned, it is important to note that the Commission Report comes at a critical time as financial institutions are working hard to ensure that SEPA is functioning by 1 January 2008. SEPA will deepen the integration of payment markets in Europe and will intensify the competition between payment service providers. The Commission itself acknowledges that several of the conclusions reached in the enquiry may be eliminated by SEPA; it would therefore seem advisable that no action be taken until the impact of SEPA becomes clearer. Moreover, a large proportion of payments are still based on less efficient and often more expensive payment means i.e. cash and cheques. An increase of card payments will not only lead to cost reductions but also to more efficient and secure payment systems for merchants and consumers alike and society more widely. The EPC's SEPA Card Framework in particular will address many of the issues identified in the Report as its primary objective is to enhance competition in EU card markets.

Cooperation mechanisms between banks, particularly in certain areas of payments, are absolutely necessary to generate efficiencies, as recognised by the Commission, and its report now focuses on interchange levels in certain payment systems and not the concept of interchange. SEPA, which is strongly encouraged by the Commission, will need the endorsement of DG Competition. DG Internal Market and DG Competition must fully cooperate in that respect.

The **mobility of bank accounts** is already generally facilitated by regulation, self-regulation or bank voluntary practices in many Member States. The reasons for a still relatively low level of bank account mobility at domestic and European level is to be found not in presupposed restrictions of competition practices but rather in the fact that customers who are satisfied with their bank do not see a need to move to another bank. The bank-client relationship is still often of a more long-lasting nature than in other sectors. In addition, tax obstacles sometimes do not encourage bank mobility, for instance in the field of pillar 3 pension savings. Furthermore, an expert group commissioned by the European Commission currently evaluates this issue in more depth and is expected to release its recommendations in mid-2007. Hence, no actions should be taken prior to the group's final report.

In conclusion, financial institutions are committed to continue working on the achievement of integrated retail banking markets and therefore share the overriding objectives of the sector enquiry. However, any intervention should only take place when clear market failures have been identified. Current market developments should be respected and taken carefully into consideration. In addition, any potential measures should be strictly based upon (quantified) cost benefit analyses. SEPA is certainly the most illustrative example of such a commitment by industry. But they need the full support of the Commission, Parliament and the Member States. Regulatory initiatives to further foster the integration of retail financial services markets are therefore welcome. A further delay in adopting the payment services Directive is not a good signal for SEPA and industry, and society more widely. Efforts should be concentrated on the following issues:

- the quick adoption of the payment services Directive;
- the guarantee of applying equal competition conditions to providers carrying out similar activities and consistency on a national level;
- the full endorsement by the Commission and the Member States of SEPA; and
- the convergence of supervision practices across Member States.

Briefing notes are prepared by the Financial Industry Committee to the European Parliamentary Financial Services Forum. For further information on the subjects raised in the briefs please contact the Chairman, Members or Secretariat of the Financial Industry Committee.

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