



## European Banking Industry Committee

---

European Banking Federation (EBF) • European Savings Banks Group (ESBG) • European Association of Cooperative Banks (EACB) European Mortgage Federation (EMF) • European Federation of Building Societies (EFBS)  
European Federation of Finance House Associations (Eurofinas)/European Federation of Leasing Company Associations (Leaseurope)  
European Association of Public Banks (EAPB)

Brussels, 16 March 2010

Mr. John Dalli  
European Commissioner for Health and Consumer Policy  
European Commission  
B - 1049 Brussels

Dear Mr. Dalli,

The European Banking Industry Committee (EBIC) congratulates you on your recent appointment as the Commissioner for Health and Consumer Affairs and wishes you every success in this challenging task. Building on the fruitful cooperation and established contact with the Commission Services, EBIC would like to express its willingness and availability to continue to engage in forward-looking discussions with the Directorate General Health and Consumer Affairs.

EBIC brings together European banking associations with a mandate to provide advice, assure a comprehensive consultation of market participants and to ensure representative industry views on policy aspects related to banking activities.

As a result of the positive interaction at European level, EBIC would like to draw your attention to the recent achievement of the European Banking industry - the Common Principles on bank account switching. These high-level principles, which were elaborated by a special task force at EBIC level consisting of national experts from the banking industry, have the objective to facilitate the switching of bank accounts for consumers. This will allow for enhanced consumer mobility, so that they can benefit from competition between banks. The Common Principles were presented and formally acknowledged by the European Commission in December 2008. The implementation, which was set for 1 November 2009, has been conducted successfully and EBIC has regularly informed the Commission of the progress made.

The Common Principles on bank account switching are one example of EBIC's commitment to promoting a competitive environment in the European retail banking markets and to providing reliable and valuable services for EU citizens.

This aim also drives the EU Commission in its effort to conduct surveys of the market in the context of better regulation and to further the understanding of the individualities of different national and product markets in the area of retail financial services, which has our full support.

However, this, in theory, favourable approach has recently brought some issues of concern to EBIC in its practical realisation. In fact the methodology and conclusions drawn in the study on *data collection for prices of current accounts provided to consumers*, are met with some reservations. More detailed EBIC views are contained in the note which is attached to this letter.

Through this letter and the attached note, EBIC would like to convey to you the common concerns of its Member Associations in relation to the study. May we reiterate at this point our availability to discuss the issues raised in a more in-depth manner with your services at any time.

We thank you in advance for taking our views into consideration and look forward to continuing the rewarding dialogue with you and your services in the future.

Yours sincerely,



Gerhard HOFMANN  
EBIC Chair

## **EBIC – COMMENTS ON THE STUDY ON DATA COLLECTION FOR THE PRICES OF CURRENT ACCOUNTS**

### **I Introduction**

EBIC wishes to comment on the methodology of the study on data collection for prices of current accounts provided to consumers, conducted, on behalf of the European Commission, by Van Dijk Management Consulting in cooperation with CEPS.

In this context, EBIC already commented and cooperated with contractors on several Commission studies undertaken so far, examining issues regarding mortgage and consumer credit markets.

EBIC generally supports market surveys carried out by the Commission as part of its evidence based approach and welcomes the dialogue with the Commission on the subject.

However, as regards the current study on data collection for the prices of current accounts, EBIC believes that it is not based on optimized methodology and relies, in some instances heavily, on assumptions. This has impeded the ability to achieve an objective data basis for further monitoring of bank fee developments. Amendments are therefore essential, not only for future data collection, but particularly in the context of policy decisions based on the results of such studies.

A stronger involvement of the relevant sector in the collection of data, also for the Consumer Market Scoreboard, in order to enhance the suitability of data and to contribute towards an appropriate analysis could therefore be considered. EBIC in particular can allocate experts in a particular area, available for the verification of assumptions, the interpretation of the data used and to offer specialised knowledge, where appropriate.

Reservation must however be made that the involvement of the banking industry will not always guarantee the availability of market data to all aspects of the analysis.

## **II General Remarks**

The stated purpose of the study is to determine the transparency of fees charged in the context of having and using a current bank account and to compare prices for the services linked to that account. In addition, it aims to improve the Commission's ability to analyse the underlying factors behind price differences within and across Member States.

EBIC would like to highlight the lack of transparency in the report. For example the composition of the "shopping list" of each consumer profile for each country is not publicly available. This element however is a key to understanding the study.

Before commenting further, EBIC would like to reiterate its support for the Commission's commitment to conduct extensive surveys of the market in the context of better regulation. EBIC members have conducted an analysis of the methodology of the study, which unearthed several flaws which, had EBIC been consulted, could have provided a useful contribution to the study and avoided public misperceptions.

## **III Specific comments**

### **1. Findings**

#### **Inter Country Comparison**

Specific legal obligations and the availability of products in individual countries have been disregarded in some circumstances and presumed in others. Therefore, the perception of a "fragmented market" in the report is a consequence of a distorted cost-benefit analysis on the supply side (providers) and particularly on the demand side (consumers).

For instance, the use of cheques differs greatly between the Member States of the European Union. It would therefore appear questionable to base assumptions for the entire EU on the analysis of a limited number of Member States, as this would not adequately reflect the actual use of the particular product and project a distorted image of consumer behaviour. Further, for certain countries, the extrapolation of data is particularly risky as those figures just do not exist (for instance the cost of overdrafts by client's profiles).

When determining the frequency of overdraft facilities, regardless of whether authorized or not, the report makes assumptions based on national studies from mainly the Netherlands and the UK, which are not supported by empirical evidence (see table 2, page 84). Yet, the assumptions are used in the construction of profiles, which are applied to all Member States. Further, the estimates on duration of overdrafts are based on the UK, a market which would have significant higher usage of overdrafts than many other Member States. This renders those estimates unreliable.

While the report acknowledges that assumptions were made, the use of these assumptions in conclusions and public comments of the European Commission gives them a validation they may not deserve. Practices throughout the European Union are so different that the extrapolation of research findings in one Member State to all Member States unfortunately undermines the relevance of the study.

Finally, any cross-country comparison needs to take into account that, even within the EU, economic development differs strongly. Against this background, in order to measure charges in relative terms, factors such as purchasing power, per capita income or average disposable income per household, as well as the respective national price level should be taken into account in such calculations in order to assess how much of a ‘real’ burden the charges impose on the customers in the different countries. Regulatory and legislative requirements, as well as overall economic circumstances differ between the Member States, leading to national differences in income levels and costs factors, as well as in demand patterns. For both reasons the expectation to have similar prices is, at present, unrealistic.

Differences in products used, distribution of services and means of communication with customers (usage of branches, internet or telephone banking) should also be considered in the calculation of rankings since differences in practice throughout the European Union can affect the cost of the services provided by banks.

In addition, comparison of current account prices in the EU loses meaning if it is attempted in the absence of data on the use of cash in a particular country and on the diversity of use of the various non-cash payment instruments.

As the above findings demonstrate, the price of current accounts is determined by a variety of factors, which differ in the 27 Member States. The use of rankings in the given study is therefore difficult, also in the context of the data limitations, as it may create a biased or misleading image.

### **Dispersion within Countries**

As regards the dispersion of pricing arrangements for current accounts, the report interprets this information as evidence for the absence of competition. Again, this conclusion is not backed by empirical evidence. Moreover, quality of service (QoS) might be another reason to drive price levels and, besides other factors, has to be taken into account before concluding on the level of competition in the different Member States. This aspect remains outside of the scope of the study and as consequence conclusions such as the absence of competition cannot be drawn from it.

The application of the “law of one price” is questionable for several reasons; most notably, because current accounts are not homogeneous products across and within Member States.

Alongside these methodological shortcomings, which have a direct impact on the calculation of the price of a current account, there are several other irregularities related to assessments made in the document regarding the level of competition in the current account market.

In particular:

- Socio-environmental factors - the study reiterates that the low usage of bank and financial products stems from their high cost. This statement should be backed with empirical evidence, also taking several country-specific socio-economic factors into account, such as for instance black economies, the percentage of consumers with an account, the number of branches or ATMs, internet services or number of transactions per person, as this will impact on the cost of services.
- The study bases the rationality of demand on the assumption that “demand points to a limited capacity to make optimal choices”. This theory enables the authors to sustain that the imperfections in the current account market from a demand perspective are mostly related to the “unsatisfactory nature of the information” available to customers. However, this theory is based on a simulation of theoretical dispersion of prices between banks within each country and between different countries, and therefore does not provide accurate evidence of the conditions in which customers access the service in reality.

### **Transparency and Comparability of Prices**

Transparency and comparability are defined largely in a generalised and subjective manner on the basis of an assessment made by data collectors. The fact that the surveyors use a qualitative indicator, based on whether or not additional contact was necessary, leaves any evaluation and interpretation to be treated with caution.

The statement that two-thirds of all providers had to be contacted to complete, clarify or obtain price information is interpreted without any qualifications. Further, the study discriminates information channels other than the internet. In a Eurobarometer survey in January 2009<sup>1</sup>, half of respondents from the EU27 said that they found comparing charges for bank accounts easy. Measuring the relative simplicity of tariffs by the number of tariff components is not long-sighted enough in our view – the complexity of tariffs also depends on the complexity of the product. Apart from this, the other figures are not sufficiently meaningful. As they are calculated relative to the average, the results are not significant in absolute terms. Measured against the data collection methodology and information content, the indication of percentages in this context seems to be too abstract. Furthermore, a correlation only explains the original connection between two indicators to a limited extent.

In addition, in many Member States, the relevant information is further available in the public area of banks where customers can inform themselves about prices etc. Especially for the customers without internet access, the availability of information in branches is a determining factor for the transparency of prices. Therefore, by disregarding the network of banks branches means that the study findings are neither reflecting real market situation nor consumers' behaviour regarding transparency of prices.

---

<sup>1</sup> [http://ec.europa.eu/public\\_opinion/flash/fl\\_243\\_sum\\_en.pdf](http://ec.europa.eu/public_opinion/flash/fl_243_sum_en.pdf)

The study includes the comparison of products which are incommensurable, due to the national market differences. The features and prices of, for example, debit cards within the European Union differ greatly, which therefore cannot be considered to be an identical product for all Member States.

Through extrapolation, data is applied across the board for products which are not available in every Member State, for example unarranged overdrafts. Yet, even for those countries where such facility is available, no additional form of financing is considered, which limits the achievement of an EU-wide comparison of the retail banking market.

## **2. Methodology**

The reference figure for the study is a standard consumer who uses cash management services and payment services, as well as financing services, although only considering overdrafts. The study therefore adds the fees and the interest generated on overdrafts, both authorised and unauthorised, to current account service charges.

However, in this way, an important methodological error is committed, insofar as, at European level, habits of consumers as regards financing services differ considerably. In Italy, for example, consumers use overdraft facilities when they wish to purchase any asset and/or service on credit, while the use of consumer credit is much lower, also considering that the large-scale retail business is not very widespread. On the other hand, in countries in which the use of indebtedness is much more common, overdraft facilities are less popular, while the use of consumer credit is significantly higher. If we just consider the flow of interest expense generated by overdrafts, as opposed to the expense produced by other types of financing which are particularly widespread in many European countries, such as mortgages, consumer credit and credit cards, the result is an unequal comparison.

The study selected a number of financial institutions from the Member States with the objective to obtain a representative sample of institutions offering retail banking services to private customers, from a quantitative as well as qualitative point of view. Yet, the unclear weighting of countries (according to “banked adults”) as well as the highly differing degree of market coverage delivered by the sample (in Germany, 53% and thus by far the lowest coverage, although Germany comes second in the EU measured in terms of deposits) raises doubts about the representativeness of the study.

As pointed out in the study, it is imperative that the sample had to represent a significant part of the market as well as the diversity of institution categories. However, the aspired representation of 81% of the market in terms of customer deposits is not provided for in all Member States. In France for example, the cooperative and savings banks only hold a market share of approximately 9 % in the study whereas in reality, this percentage is considerably higher (around 50% regarding customer deposits according to “Banque de France” data). In Cyprus, the selected banks hold a total share of around 45% of the local market in terms of loan facilities and around 55% in terms of deposits for the years 2008 and 2009 (until October 2009). Regarding the representation of the Italian market share, the percentage in terms of customer deposits equals 54% versus 68,5% reported by the study. For Germany the market shares of the selected large private banks with 41.3% is overstated as the Bundesbank data on domestic households’ deposits

indicate only 11%. On the other hand, while savings banks hold nearly half of this market, only 10 out of 446 have been looked at. Furthermore, the inclusion of post offices in the study is not applied consistently. This represents a limitation to the comparability of the data set. Finally, for several markets the selection of banks is based on incorrect market shares. In light of the above EBIC questions the representativeness of the study.

Further, the use of “customer deposits” as a weighting factor seems unsuitable for modelling the actual market shares in retail banking. For example, the customer deposits shown in banks’ balance sheets include not only deposits held by private customers but also those held by corporate and institutional clients. This means that in the sample the importance of universal banks is systematically overstated compared with banks specialising in retail financial services.

Particular concern exists over the use of customer deposits as a benchmark for estimating the proportion of on-us as against off-us ATM transactions (in the active user profile). This assumes that the frequency of cash withdrawals made by customers at ATMs of their own bank (on-us transactions) is a linear function of the bank’s market share measured in terms of customer deposits and that, consequently, the majority of transactions are made at ATMs of other banks (off-us transactions). Firstly, institutions in certain countries, such as Ireland and Austria, do not make price differentiations between on-us and off-us transactions, which renders any assumption drawn irrelevant. Secondly, the existence of “ATM cash groups” popular for example in Germany, which allow customers to make off-us transactions for the same fee as on-us transactions, has been ignored. Thirdly, it assumes that customers are not price-sensitive and that consumer behaviour does not reflect the higher charges for off-us transactions.

### **Data collection**

The current accounts study was based on prices displayed by financial institutions on their website only. However, given that internet usage differs greatly in the 27 Member States, it is essential to ensure that information is collected by multiple means. In this respect, the study revealed various weaknesses. Individuals who solely rely on information provided in bank branches or via telephone are not taken into consideration. Providers whose customer portfolio includes a large proportion of such less internet-minded individuals, and who strongly promote personal contact between the bank and the client, are automatically considered ‘less transparent’. Another shortcoming is the factor that still many people do not have access to or do not use Internet.

In general, it should be noted that no price list, whether available in the internet or at a branch, can ever cover all information for all scenarios nor can it be intended and efficient to do so. Therefore, when assessing the availability of information, more emphasis should be put on the providers offering quick and efficient means for further inquiry.

The study uses “official price lists” as its main source of price information, which indicates the maximum conditions applied to customers, and not those actually applied. More advantageous rates and promotions are not being considered. It should therefore be acknowledged that the data collected, provided it is analyzed and calculated correctly, would therefore only ever indicate the absolute maximum amount which could apply to consumers.

The data for generating the four types of user profile (basic, active, passive and average) is based on a number of sources, which include, in addition to the ECB's Blue Book and individual national surveys, numerous assumptions as well as interviews with national experts. It is due to competition restrictions that the latter often do not themselves have any detailed data on the usage rates in their countries.

### **Setting-up the profiles**

The methodology adopted does not grasp the basic distinguishing features the products on offer, in particular between standard accounts, accounts with special arrangements (for specific circumstances) and packaged accounts.

The accounts consulted, namely "basic/social account", "current account", "electronic account", "package" and "young people and student account" do not appear, to identify separate types of account (e.g. "electronic account" may in some circumstances be a way in which the service is used and not the type of service). This results in an incorrect weighting when calculating the average cost of a current account.

Further, the choice of products used in the database was made without sufficient consideration of the most appropriate and therefore economically suitable product for each customer target. Instead the study refers to a general principle of "suitability" ("compatible with each user profile", page 7). This approach has led the authors of the report to indicate products that are usually used by "passive users" as suitable for high use profiles (active). The annual fee of those products may however only include a limited number of transactions, with additional services being charged in addition. Whilst this would satisfy the demand of a "passive user", it would be unsuitable for "active users" (see graph 1, page 122).

In France, it has been estimated that 100 % of customers have a "package" of services when reality seems closer to 60 %. Some of these packages include the cost of a debit or credit card. On top, 1.7 debit or credit cards per account are counted when, technically, customers only have one in the same bank.

In addition, the assumption that an "active user" overdraws more frequently is not appropriate because the decision to use an overdraft is a separate decision, not related to the frequency of other transactions on the account.

The inclusion of the European profiles distorts the ranking to some extent. For example, Latvia moves so far up in the price ranking because of the use of cheques, while in fact it is virtually non-existent. This has an above-average impact in the European profiles. This inconsistency has indeed been recognized by the authors of the study. However, it seems they were not taken into account when setting up the ranking.

Further, as mentioned above, the use of rankings in the given study seems questionable, both in the context of data limitations and the variety of factors, determining the prices for current accounts in the individual Member States.

**Pricing the profiles**

For the calculation of the price, the study multiplies, for each type of service that characterizes the usage profile, the number of transactions by the corresponding price. In this regard, the methodology condemns packaged accounts, where the price of the service is already partially or totally included in the annual fee.

Another factor that has an impact on the evaluation of the cost of a current account to consumers that was not taken into consideration in this study is the use of joint accounts, which greatly reduce the real cost of the account for the respective user (also highlighted in the Interim Report ‘current accounts and related services’ by DG Competition from 17 July 2006).

The study does not mention that in several other countries, not only in Spain as indicated, pricing arrangements may be subject to individual negotiations. It would have been preferable to include a universal disclaimer, which is not limited to Spain (page 24 “the actual costs could therefore be expected to be lower than the official price lists”). In addition, charges and fee structures may be adjusted to the customer’s individual situation or circumstances, depending on the relationship of the consumer with the bank and the internal risk assessment mechanisms of the financial institute.

In Annex 3, paragraph 5.3 charges, the cost items also include taxes. Including this item as a cost component of current accounts and then using the results obtained to draw conclusions on the degree of market competition is inappropriate and disadvantages operators subject to high taxation both on their own accounts and on the products offered to customers.

In addition, the method with which credit interest on accounts is calculated is not adequate. The used method is approximate and discriminates against consumers which are highly savings-oriented. In particular those markets which have a higher average balance in current accounts than the European average is put at a disadvantage through this method of calculation.

**Data analysis**

Average switching rates were based on assumptions from a Flash Eurobarometer, which covered all services. It is questionable to project such results to financial services in general and to bank accounts in particular.

Further, the report produces no convincing proof that consumer mobility is linked to low prices. In fact, the Netherlands, scoring highest in terms of transparency and simplicity, has the lowest current account switching rates in Europe. On the other hand, Spain, which is considered by the study as the second worst performing country in relation to price, has one of the highest switching rates for current accounts in Europe. The image of the level of mobility may be further distorted by the practice of multi-banking, where consumers who are not satisfied with their current provider, transfer all their funds to a newly open bank account, without prior closure of the old one.

### **Other request for amendment**

It remains to outline that the use of the word “penalties” (in the Staff Working document accompanying the study on Page 17, footnote 58) with regard to the UK business models is not appropriate and is legally incorrect. EBIC would hereby like to draw attention to the judgement of 24 April 2008, Justice Smith<sup>2</sup> who ruled, following a careful analysis, that the fees are not penalties. Moreover in a unanimous decision, the UK Supreme Court recently concluded on 25 November that the banks' unarranged overdraft charges are part of the price paid by the banks' current account customers for the package of services provided to them by the banks and accordingly that the amount of the charges is not assessable for fairness under the Unfair Terms in Consumer Contracts Regulations 1999.

Therefore, EBIC recommends that the paper be amended accordingly.

### **IV Conclusion**

The improvable data base and the correspondingly high proportion of assumptions reduce the reliability of the study's findings.

A weak correlation between stronger price competition and lower prices conflicts with the underlying assumption of the Consumer Market Scoreboard, which bases its indicators on the opinion that more transparency will increase competition, lead to lower prices and stimulate consumer mobility between providers. Whilst the price dispersion indicators appear to constitute a reasonable and useful basis for a European comparison, they would benefit from, where possible, enhanced data and the use of more stringent evidence for the setting up of user profiles.

EBIC believes that the need for stronger involvement of stakeholders in the collection of data for the Consumer Market Scoreboard and related studies has been proven. The opportunity to comment in advance on survey methodology and examination of the plausibility of findings by the relevant European associations should not be missed. Consequently, EBIC would like to encourage the European Commission to consider enhancing the dialogue with the industry as a possibility to improve the reliability and value of studies conducted.

EBIC would like to have the opportunity to provide its comments in the context of future studies, involve its experts in a particular area for the interpretation of the data used and to offer specialised knowledge, where appropriate.

---

<sup>2</sup> [http://www.judiciary.gov.uk/docs/judgments\\_guidance/oft\\_judgment\\_240408.pdf](http://www.judiciary.gov.uk/docs/judgments_guidance/oft_judgment_240408.pdf); (paragraph 449, page 119)