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Consumers: Commission Report criticises “opaque” bank fee charges

There are widespread problems with the way banks inform and advise their customers according to a European Commission report on retail financial service published today. Specific problems include information which in many cases is difficult to understand, opaque bank fees, problems with advice and low levels of switching. The report describes the price structures of current accounts as "very opaque making it almost impossible for consumers to know how much they are paying and to compare different offers." For 66% of banks surveyed, bank fees were so unclear that experts compiling the report needed additional explanatory contacts with the bank to find the real costs of an account. Austria, France, Italy and Spain score poorly on transparency and are among the most expensive countries for banking accounts. The EU market is fragmented depriving consumers of the advantage of an EU Internal Market. Only 9% of EU consumers switched current accounts for the two years 2007-2008.

EU Consumer Commissioner Meglena Kuneva said: "Retail bankers are letting consumers down. There is widespread evidence that basic consumer principles are being violated with problems from complex pricing to hidden charges and information that is unclear and incomplete. Banks need to put their house in order with a culture change in the way they treat customers. And Member State Authorities need to fulfil their obligation to enforce EU consumer laws.

Internal Market Commissioner Charlie McCreevy said: "This consumer market monitoring shows the difficulties that consumers face in their dealings with retail financial products and services. The Commission is determined to combat those problems. That means imposing transparency with understandable and comparable information and setting the ground rules for the conduct of business. As Europe's citizens continue to feel the effects of the economic crisis, this work has become even more important."

The reports

As a follow up to the Consumer Market Scoreboard 2008, the Commission published today a Staff Working Paper "Follow up in Retail Financial Services to the Consumer Market Scoreboard," with an independent bank fees study analysing the prices of accounts for 224 banks covering on average 81% of the EU market.

The results

1. Opaque bank fees

- The **fee structures of current accounts** are often **opaque**. Almost a third of consumers surveyed are not able to compare current account offers.

- **Online price information is incomplete.** In two out of three cases (66%), experts compiling the bank fees report needed additional contacts with the bank to clarify the pricing information on fees. Even then, banks in many situations only offered oral information on their tariffs, but refused to send tariff lists. Around 10% of the banks had little or no price information available on their websites and 33% had incomplete price information in their tariffs.
- **In some EU countries, consumers pay considerably more for current accounts than in others.** The prices of accounts with average usage range from as high as € 253 in Italy to as low as €27 in Bulgaria. For "intensive" users, the difference is even clearer: from a maximum of € 831 in Italy to a minimum of € 28 in Bulgaria. Austria, France Italy and Spain score poorly on transparency and are among the most expensive countries for banking services. Bulgaria, the Netherlands, Belgium and Portugal secure low rankings, in terms of current account prices.
- Consumers in countries with opaque price structures are likely to pay more for bank accounts.

2. Information and advice

- Consumers find pre-contractual information, in many cases, difficult to understand; **"incomprehensible" and "insufficient" information** are major obstacles to cross border shopping of financial services.
- 79% of EU citizens want **clear and comparable standardised information** as for instance foreseen in the new Consumer Credit Directive.
- There is growing evidence that consumers often do not obtain suitable advice on financial services. For example, German data show that consumers terminate 50-80% of all long-term investments prematurely because of **inadequate advice**, leading to estimated loss of € 20-30 billion a year.
- Those selling financial products **may not have sufficient understanding** of the products to effectively advise consumers. Bank employees may often be faced with an inherent **conflict of interest**.

3. Switching

For current bank accounts, switching rates remain **low at 9% for 2007 and 2008**, compared for instance with 25% for car insurance.

What happens next?

The evidence will feed into the ongoing work in the area of retail financial services that the Commission has announced in the Communication "Driving European Recovery" March 2009. The EU's Unfair Commercial Practices Directive already prohibits practices which mislead consumers and distort choice, for instance omitting information linked to bank accounts or giving so unintelligible information that the average consumer cannot work out the price. Member States have an obligation to enforce these laws in financial services. Industry (voluntary) common principles to facilitate bank account switching will apply on November 1st 2009. The Commission will monitor implementation carefully.

The report: http://ec.europa.eu/consumers/rights/fin_serv_en.htm

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