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**EXPERT GROUP ON CUSTOMER MOBILITY
IN RELATION TO BANK ACCOUNTS
REPORT**

DISCLAIMER

The views expressed in this report are the views of the Expert Group and its members, and not of the European Commission.

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FOREWORD BY THE EUROPEAN COMMISSION

The Commission considers that customer mobility is a key factor to boost competition in retail financial services markets. This is confirmed by the findings of the Commission sector inquiry into retail banking. According to the report on retail banking sector inquiry¹, customer mobility and choice exert competitive pressure on existing and potential suppliers to continually improve their performance and thus should be seen as an important contributor to competitive retail banking markets. Furthermore, obstacles to mobility can function as entry barriers.

In May 2006, the Commission set up the Expert Group on Customer Mobility in relation to Bank Accounts (the Group) in order to identify existing obstacles to customer mobility in relation to bank accounts and provide recommendations to the Commission on how the obstacles identified should be addressed.² Experts, a list of whom can be found in Annex 1, were selected in a personal capacity and do not necessarily represent the views of their respective organisations. The Group was requested to produce a final report containing its findings and recommendations.

The Commission considers the Group's report as a very important contribution in the preparation of its own policy decisions in the area of customer mobility in relation to bank accounts. It is, however, important to note that the Group was not asked to measure the impact of its recommendations. In line with better regulation principles and as a follow-up to the Group's work, the Commission will hold a public consultation on the Group's report and will assess the impact of the Group's recommendations. The Commission will then evaluate what actions should be taken to improve customer mobility in relation to bank accounts.

¹ Commission Staff Working Document, SEC(2007) 106, 31 January 2007. Available at: http://ec.europa.eu/comm/competition/antitrust/others/sector_inquiries/financial_services/sec_2007_106.pdf.

² Commission Decision 2006/355/EC of 16 May 2006 (OJ L 132, p. 37).

EXECUTIVE SUMMARY

INTRODUCTION

The Expert Group on Customer Mobility in relation to Bank Accounts (the Group) was asked to cover three scenarios of customer mobility: national switching (switching from one bank to another within the same Member State); cross-border switching (switching from a bank in one Member State to a bank in another Member State); and cross-border opening (opening of a bank account in another Member State, with or without physical presence).

The Group members' views diverged on most issues. While consumer experts consider customer mobility in relation to bank accounts as a problem, banking industry experts do not consider that it represents an actual problem. Both groups of experts base their view on a number of available reports, studies and surveys.

This final report of the Group summarises its discussions and presents the recommendations of the experts participating in the Group. Where possible, the report reflects unanimous views and, where necessary, the various positions expressed. The recommendations have been made on the basis that appropriate impact assessments are completed before any implementation of the recommendations can be considered.

The scope of the report is customer mobility in relation to current accounts, including payment facilities attached to the latter (credit transfers, direct debits and cash withdrawal), and simple savings accounts (excluding savings such as securities accounts or life insurance) in as much as obstacles and solutions are the same or similar as for current accounts. It covers retail customers (individuals and micro and small enterprises).

GENERAL

This section covers a number of issues that the Group, or parts of it, considered relevant to the discussion on customer mobility.

a) Future developments in payments market

The Group considers that the Directive of the European Parliament and of the Council on payment services in the internal market (the Payment Services Directive – PSD) and its interplay with the implementation of the Single Euro Payments Area (SEPA) will have an impact on the issue of customer mobility in relation to payment accounts, since they both define the future market for payment services. However, views differ on what kind of impact this will be, and how it will affect various scenarios of customer mobility. Consumer experts consider that there is still a large degree of uncertainty as regards the implementation of the PSD and the launch of SEPA products. Banking industry experts disagree with consumer experts and argue that the PSD will remove some obstacles to customer mobility, such as closing fees, while SEPA, according to them and some academics, will decrease the need for consumers to open a bank account in another Member State but also will give consumers an opportunity to shop around and open a bank account in another Member State. The Group acknowledges that, in order to maximise the potential benefits of SEPA, it is necessary to address obstacles to cross-border opening and switching of bank accounts.

According to the Group's banking industry experts, another important development in the payments market which should be taken into account when discussing customer mobility is that payment services will be increasingly provided by new players, such as new (branchless) credit institutions, public transport providers, mobile operators etc. Banking industry experts point out that it is important that any measure considered to further increase customer mobility applies in a non-discriminatory way to all players in the market alike, be they credit institutions, e-money institutions or payment institutions. Consumer experts argue that the extent to which new players would enter the market might have an impact on the level of competitive pressure on the payment services market. However, in consumer experts' view, the issue of new players is not related to the core discussion of improving customer mobility, since barriers to switching still remain. Furthermore, the extent to which consumers would use services offered by new providers will depend, amongst other factors, on the level of consumer confidence in these new actors but also on the adaptation of the products offered to consumer needs.

b) Switching versus multi-banking

Some banking industry experts see multi-banking (i.e. having bank accounts with more than one bank) rather than switching as the main form of mobility and an alternative to switching. According to consumer experts, multi-banking has limited impact on competition and is not a substitute for switching.

c) Consumer behaviour

According to the Group, consumer behaviour essentially depends on whether: consumers are satisfied with their current bank; they are acting under inertia; they believe that all banks are the same; they are interested in and understand what services they receive and what services and prices are offered elsewhere; and on various factors that are important to them when choosing a bank (product quality, service or product features, price, trust, geography etc.) or deciding to switch to another one (dissatisfaction with the current bank, better prices or service or personal reasons, such as changing jobs, moving houses, marrying etc.). Banking industry experts consider that there is hardly one switching or multi-banking determinant in Europe and thus it may be difficult to implement a uniform solution.

According to banking industry experts, low customer mobility rates are not a problem in themselves but rather a reflection of high consumer satisfaction rates and of the fact that consumers often have multiple banking relationships. According to consumer experts, when assessing the need for measures to improve customer mobility and competition, consumer satisfaction has to be considered with caution as it depends on the level of their expectations. They argue that what is important is to give consumers a possibility to exercise their mobility without obstacles, in which case even satisfied consumers might be willing to switch if there are better offers on the market.

Banking industry experts also point out that a number of sources indicate that consumer demand in some Member States' banking market is very much domestically oriented. Consumer experts argue that limited consumer demand for cross-border services is, at least partly, due to a lack of cross-border competition between banks but also, more generally, due to obstacles to switching, including lack of transparency and comparability of offers, compounded with a lack of consumers' confidence in foreign providers. Banking industry experts argue that there is enough useful information and that the majority of consumers are sufficiently educated to understand the tariffs of current accounts and associated services.

d) Bank strategies

The Group's banking industry experts consider it important to analyse bank expansion strategies since, according to them, some scenarios of customer mobility may be more relevant than others, depending on the banks' expansion strategies and market orientations. In particular, they refer to examples of bank strategies that do not require customers to switch. Also, according to banking industry experts, banks providing services to customers in more than one country are faced with diverging legal and regulatory requirements for opening bank accounts, which creates additional costs for banks. According to consumer experts, bank strategies as such are not relevant to alleviating demand side obstacles to customer mobility, such as the lack of transparent and comparable information or closing fees.

DISCUSSIONS AND RECOMMENDATIONS³

a) Switching

Information asymmetry and untransparency of prices

According to consumer experts, information on products and prices is not transparent, hard to get and not comparable. Also, there are many types of charges. They argue that information asymmetry, the complexity of products as well as limited signalling, cognitive and computational skills of consumers lead to a limited substitutability of complex products and services. Consequently, consumers tend to use imperfect proxies for identifying alternative products (brands, reputation, proximity) instead of prices and contract terms and conditions. Banking industry experts see consumers as increasingly sophisticated and possessing a broad range of skills and abilities to make their choices. According to them, proximity, branding and reputation should not be considered as imperfect proxies. They argue that competitive markets allow diverging price structures to emerge, which, for them, is the reason for many types of charges. They stress that banks already face the obligation to communicate their fees to customers under Regulation 2560/2001 and a whole host of domestic disclosure requirements. Furthermore, according to them, Title III of the PSD introduces a uniform transparency regime in the area of payments, which should reduce information asymmetry and thus, for them, the Group's recommendations should not duplicate what is in the PSD. For consumer experts, Title III of the PSD provides a good uniform basis for increasing price transparency, from which further necessary measures can be devised.

The report contains 9 recommendations (with varying levels of support from the Group) to reduce information asymmetry and improve price transparency: a pan-European study to determine how the actual search and choice process for bank accounts occurs in different Member States; financial education programmes; review of regulatory information requirements; provision to consumers of lists of charges, of yearly statements of bank charges that they have paid and of information on modifications to price lists; public domestic glossary of retail banking vocabulary; database comparing prices of products and services in each Member State; and an EU portal containing links to national comparative and information web platforms.

³ The recommendations presented are either unanimous Group recommendations or attributed only to some members of the Group.

Bundling and tying

According to consumer experts, bundling and tying may reduce transparency, making it more difficult for consumers to compare offers and prices. Cross-selling increases consumers' reliance on their bank and thus it might be more difficult for a consumer to exit a contractual relationship or have more than one bank. Also, consumers may not end up with the best deal. Consumer experts are of the opinion that customers should always have the possibility to buy services in isolation, without having to open a bank account as a prerequisite of buying other services and vice versa (tying).

According to banking industry experts, bundling is convenient for consumers, in that they are able to pay a one-off fee for a package of services that would cost more if requested outside the bundled package. Furthermore, as long as consumers are able to terminate a contract, whether tied/bundled or not, there is no problem. According to consumer experts, while some specific consumers could reap some benefits from bundling, this is a purely static effect, outweighed by the dynamic effect in terms of restricting competition, which is to the detriment of all consumers. Furthermore, in many cases consumers are not able to terminate a contract since the cost of doing so is very high because of bundling.

Consumer experts recommend that tying and pure bundling of products be prohibited. In case of mixed bundling, consumer experts recommend that consumers be provided with more information. Banking industry experts, while recognising the importance of transparency, recommend leaving the issues of tying and bundling to competition between banks.

Administrative burden

According to consumer experts, switching current accounts can be a complex operation for consumers because of the range of everyday functions that are conducted through the account. Filling in the necessary forms for opening a new account, closing the old one, transferring balances, transferring direct debits, setting up payment instructions, informing customers about the new account number requires time and effort from a consumer. In addition, there is a risk that direct debits or other transactions might be lost.

According to banking industry experts, the barrier is not the switching itself but consumers' perception of it being difficult. Some banking industry experts underline that it is the administrative burden and barriers within governments and companies, which seem to be unable to quickly change the account number of their clients in their own administration for executing direct debits, which create problems for customers who change to another bank account.

Banking industry experts refer to the fact that the banking industry in a number of Member States has already introduced switching facilities that, in their view, work successfully and help customers to switch more easily. According to consumer experts, even where switching schemes exist, some of them demand a lot of action by consumers themselves.

According to consumer experts, having to change an account number may be a barrier for customers to switch to another bank, since they would have to inform all third parties (employers, direct debit originators etc.) about their new bank account number. They therefore regard account number portability as being necessary and refer to the Swedish "Bankgiro" system as an example. According to banking industry experts, the "Bankgiro" system bears no comparison to any proposal to create an EU overarching current account mobility system that would need to be used by all European banks and, most importantly, would require massive changes to fundamental infrastructure within every single bank.

The report contains 10 recommendations (some unanimous, some not) to reduce administrative burden: leaving it to competition between banks; switching guides by each bank; European cross-border switching guide; national switching services and their basic features; European Payments Council to develop additional optional service, based on its current standards, or to examine the possibility to extend its standards for SEPA products (for example, R-messages) to facilitate mobility; banks to provide switching consumers with the summary of recurrent banking operations; obligation for direct debit originators to change bank account details within a defined period of time; and EU-wide account number portability.

Closing charges

Closing charges increase the cost of switching to another bank and thus constitute an obstacle to switching. While more than half of EU Member States abolished charges for closing current accounts, other countries still maintain them and some banks do charge customers for closing accounts.

Banking industry experts consider that any recommendations of the Group should not duplicate with what is in the PSD and any measures going beyond it should be left to self-regulation by banks. Consumer experts underline that the PSD abolishes closing charges only for contracts of more than 12 months and consider that measures going beyond the PSD should be imposed by regulation.

The report contains 3 recommendations (with varying levels of support from the Group) to address the issue of closing charges: prohibition of closing charges on simple savings accounts; clear indication of charges for closing products related to current accounts; and abolition of penalties and closing charges for consumers exiting their current account contract at any time, including contracts of less than 12 months.

b) Cross-border opening

The Group identified a number of obstacles to open a bank account in another Member State.

Legal and regulatory barriers

According to banking industry experts, the most frequent reason for refusing the opening of an account is insufficient knowledge of the customer and therefore the non-compliance with the “know-your-customer” and anti-money laundering rules.

The Group has 2 recommendations: the Commission shall analyse the impact of anti-money laundering rules on customer mobility and the impact of divergent legal and regulatory requirements for opening of bank accounts in the EU.

Information barriers and uncertainty

According to consumer experts, it is difficult for consumers to get information about the offers, about what they need to do and what documents they need to provide. Websites and contact forms are almost always in national languages only. Information is often incomplete. Requirements imposed on consumers seem to vary not only within a given Member State but also between different branches of one bank. According to banking industry experts, this is caused by uncertainties about the application with regard to non-residents of anti-money laundering rules and “know your customer” rules. They also point out that stricter regulatory requirements are set in relation to non face-to-face business. Relative uncertainties surrounding e-commerce and digital signatures remain.

The report contains 6 recommendations (with varying levels of support from the Group) to address these issues: promotion of bank websites in more than one linguistic version; open and non-discriminatory access to all EU banks to the existing registers containing relevant information on consumers; creation of a unique mobility form; prohibition of administrative requirements which could be considered as direct or indirect discrimination under EC law; the Commission to look in detail into the possibility to open bank accounts by means of a qualified electronic signature throughout the EU; and the Commission and national authorities to explore whether Tax Identification Number could be made a direct proxy for residence.

Commercial decisions by banks

Apart from several countries where there is a legal right to a basic bank account, banks are not obliged to open bank accounts. According to banking industry experts, this freedom to contract is a fundamental principle of market economy, guaranteed in several Member States' constitutions. Consumer experts argue that it is impossible nowadays to participate in social and economic life without a bank account. Consumers without a bank account have severe difficulties to find work and are threatened by social exclusion. That is why the provision of a basic bank account could be installed by means of a universal service obligation. Banking industry experts point out that the issue of social exclusion falls outside of the scope of this report and that the Group did not discuss universal service obligations in depth as such.

The report contains 3 recommendations (with varying levels of support from the Group): provision of information at EU level to consumers about banks which offer bank accounts to consumers from other Member States; investigation into why in some Member States banks do not offer bank accounts to non-residents, if there are such Member States; and a legal right to have a basic bank account.

Opening and closing charges

The same issues and recommendations as under 'switching' apply.

1. INTRODUCTION

The Expert Group on Customer Mobility in relation to Bank Accounts started its work in September 2006 and met 9 times. This report summarises the Group's discussions and presents the recommendations of the experts participating in the Group.

The Group members' views diverge on most issues. Consumer experts consider customer mobility in relation to bank accounts as a problem. They base their view on the findings of the Commission's sector inquiry into retail banking⁴ as well as on various studies on consumer experiences. Banking industry experts do not consider that customer mobility represents an actual problem. They base their view on various surveys, for example, on the Eurobarometer survey on Public Opinion in Europe on Financial Services of 2005⁵ and on the Commission sector inquiry, which, according to them, show that customer mobility is not a problem.

The Group members' views also diverge on the relevant context for analysing the issue of customer mobility, such as the impact of the future EU single payments market, consumer behaviour, and bank strategies.

The report presents, where possible, unanimous views, and, where necessary, reflects the different positions expressed.⁶ The high diversity and the broad range of ideas presented makes the report a rich pool of intensively discussed expectations and possibilities. The work process of the Group unveiled that in order to assess the appropriate measures to reap the benefits of higher customer mobility in Europe for customers and banks, complementary studies, along with the development of future payments markets, might be necessary to provide decision-makers with the basis for appropriate evaluation of the different recommendations given in this report.

⁴ Interim Report: Current accounts and related services (available at http://ec.europa.eu/comm/competition/antitrust/others/sector_inquiries/financial_services/interim_report_2.pdf) and Report on retail banking sector inquiry (see footnote 1).

⁵ Available at http://ec.europa.eu/consumers/cons_int/fin_serv/cons_experiences/report_eurobarometer63-2_en.pdf.

⁶ The Group's experts with the banking industry background will be referred to as 'banking industry experts', while the Group's experts with consumer background will be referred to as 'consumer experts'.

2. GENERAL

2.1. Scope

The scope of this report is customer mobility in relation to current accounts, including payment facilities attached to them (credit transfers, direct debits and cash withdrawal), and simple savings accounts (excluding savings such as securities accounts or life insurance) in as much as obstacles and solutions are the same or similar. Furthermore, when discussing bundling and tying⁷, it is inevitable to consider financial services tied or bundled with current accounts.

The report covers retail customers, meaning individuals and micro or small enterprises, as long as barriers are the same for both.

2.2. Three scenarios

The Group was asked by the Commission to cover three scenarios of customer mobility:

- (1) "national switching": switching from one bank to another within the same Member State;
- (2) "cross-border switching": switching from a bank in one Member State to a bank in another Member State;
- (3) "cross-border opening": opening of a bank account in another Member State, with or without physical presence.

2.3. Future developments of the payments market

The Group considers that the Directive of the European Parliament and of the Council on payment services in the internal market (the Payment Services Directive – PSD)⁸ and its interplay with the implementation of the Single Euro Payments Area (SEPA)⁹ will have an impact on the issue of customer mobility in relation to payment accounts, since they both define the future market for payment services. However, views differ on what kind of impact this will be, and how it will affect various scenarios of customer mobility.

⁷ Further discussed under section 3.1.2.

⁸ COM(2005) 603 final.

⁹ The SEPA project aims to create an integrated market for payment services which is subject to effective competition and where there will be no distinction between cross-border and national Euro payments within the EEA area and Switzerland. SEPA is explained in more detail in the EPC document "Making SEPA a reality", available at http://www.europeanpaymentscouncil.eu/documents/EPC066_06%20SEPA%20Overview%20v1.3.pdf.

Consumer experts consider that there is still a large degree of uncertainty as regards interpretation and implementation of the PSD at national level, as well as the launch of SEPA products by banks, in particular how they would compare with current national products in terms of price, quality and adaptation to customers' needs. Consumer experts fear a forced transition to more expensive and/or less efficient SEPA products than the ones currently on offer at national level.¹⁰ Already now there are, according to them, cases showing the potentially negative impact on the level of banking charges for payment services and on competition.¹¹

Banking industry experts argue that there is no uncertainty with the implementation of the PSD, since it is a full harmonisation directive, leaving little room for interpretation in its application. No uncertainty may be attached to the launch of SEPA products either. According to them and some academics, there is a strong interaction between SEPA, competition in payment services and bank accounts markets, and customer mobility. They think that the PSD, which aims at creating a legal framework for the functioning of payment services markets, will eliminate some barriers to switching, such as closing fees, which, according to Article 34, may no longer be applied by payment service providers. Consumer experts argue that other fees and opportunity costs are also important when considering customer mobility and that Article 34 of the PSD concerns only payment services and contracts of more than 12 months.

Banking industry experts and some academics predict that there can be two main effects of SEPA on customer mobility. First, it will decrease the need for consumers to open a bank account in another Member State if they move (especially for a limited period of time), since they will, in principle, be able to carry out all transactions from their home Member State bank account.¹² According to banking industry experts, this may decrease user demand for cross-border opening or switching of bank accounts. Second, consumers will have the opportunity to shop around and open a bank account in another Member State, if a bank of that state offers better conditions than those offered by providers of their home Member State.

Banking industry experts and some academics think that the promotion of mobility will strengthen the business case for SEPA, since the latter's underlying philosophy is to foster competition amongst banks and new entrants in the EU, removing national barriers to cross-border banking. They acknowledge however that, in order to maximise the potential benefits of SEPA, it is necessary to address barriers to cross-border opening and switching of bank accounts. For example, even though SEPA would allow consumers to shop around for bank accounts in other Member States, it does not in itself remove barriers to opening of bank accounts cross-border. Also, barriers such as legal and administrative regulations, local customs and language will continue to apply. Consumer experts underline that, in practice, when consumers move temporarily to another Member State, it may still be more beneficial for them to open a bank account in that Member State if, for example, they would be faced with substantial fees for withdrawing cash at an ATM outside the network of the bank of their country of origin, at national and cross border level, even when considering the implementation of Regulation (EC) No 2560/2001 on cross border payments in

¹⁰ For instance, as regards 'one-leg' payments and liability in case of misappropriation.

¹¹ In Belgium, Slovenia, and the Netherlands, for instance.

¹² According to the brochure by the Eurosystem "The Single Euro Payments Area (SEPA): An integrated retail payments market" of November 2006, consumers "*will only need one bank account. From this account, they will be able to make credit transfers and direct debit payments anywhere in the euro area as easily as they make national payments. People who live, work or study outside their home country will no longer need a bank account at home and another one abroad.*" Available at http://www.ecb.int/pub/pdf/other/sepa_brochure_2006en.pdf.

euro¹³, which provides for equivalence of charges for national and cross-border payments. Banking industry experts argue that this example is only applicable for banks which apply higher fees for ATM withdrawals outside their network.

The Group thinks that when discussing the impact of SEPA on customer mobility, it is important to be aware of the fact that SEPA concerns only payments in euro within the EEA area and Switzerland, whereas the Group examines customer mobility throughout the EU. Banking industry experts suggest that, given the changes in payments market brought by SEPA, a distinction should be made in the cross-border switching scenario between switching from euro account to euro account, and switching between different currency accounts.

According to the Group's banking industry experts, another important development in the payments market, which is enabled by the PSD and which should be taken into account when discussing customer mobility, is that payment services will be increasingly provided by new players, such as new (branchless) credit institutions, public transport providers, mobile operators, distributor chains, internet service providers, and internet based payment companies.¹⁴ They also predict that customers will have an increased number of payment relationships, which will happen in combination with the use of other payment technologies, such as internet payments via e-mail, payments via mobile phone and payments using contactless technology. In the future, customers will be offered a variety of identifiers to make payments: IBAN¹⁵ and BIC¹⁶, mobile phone number, e-mail address and others. Consumer experts argue that the extent to which new players would enter the market might have an impact on the level of competitive pressure on the payment services market. However, in consumer experts' view, the issue of new players is not related to the core discussion of improving customer mobility, since barriers to switching still remain. Furthermore, the extent to which consumers would use services offered by new providers will depend, amongst other factors, on the level of consumer confidence in these new actors but also the adaptation of the products offered to consumer needs. Banking industry experts point out that it is important that any measure considered to further increase customer mobility applies in a non-discriminatory way to all players in the market alike, be they credit institutions, e-money institutions or payment institutions.

2.4. Switching versus multi-banking

Both multi-banking and switching banks are forms of customer mobility.

Switching refers to a situation in which a customer decides to obtain services from a different service provider than his current one, and usually ends the relationship with the old provider.

¹³ OJ L 344 of 28.12.2001, p. 13–16.

¹⁴ For example, Vodafone is one of many mobile phone operators that offer micro-payment facilities to its customers, enabling them to make small-value purchases with their mobile phone accounts.

¹⁵ International Bank Account Number ISO 13616.

¹⁶ Bank Identification Code.

Multi-banking means having bank accounts with more than one bank. According to some banking industry experts, multi-banking is the main form of customer mobility. For example in France, multi-banking concerns 41% of retail banking clients.¹⁷ In Italy, the percentage of multi-banking clients is 35%.¹⁸ Consumer experts do not see the importance of discussing multi-banking in relation to customer mobility. They point out that this figure does not support the statement that multi-banking is the main form of mobility. According to them, multi-banking has limited impact on competition and is not a substitute for switching. They argue that in case of, for example, bundled products and high fees for terminating or transferring a contract of a specific product in the package, consumers may be forced into multi-banking, while the optimal market situation for them could be to switch provider entirely or at least for the product(s) considered. In this context, whether consumers use this form of mobility depends on service and product offers and on pricing strategies of banks. Multi-banking is more likely when banks do not charge high account maintenance fees. Bundling (in particular pure bundling) or tying practices might also have a negative impact in this respect.

On the contrary, banking industry experts think that multi-banking has a major impact on competition and is an alternative to switching. According to one banking expert, multi-banking is often used by consumers as a more gradual and cautious form of changing banks. Consumers engage in a new relationship and multi-bank to try out a new provider and decide at a later stage if and which relationships with old providers can be terminated. According to them, the relevance of multi-banking is reflected in research revealing that, in 2005, 55% of the European consumers agreed with the statement "I always shop around for financial products" (as opposed to 19% in 2002).¹⁹ In the view of consumer experts, this is not relevant to the discussion on multi-banking since it does not imply that consumers would necessarily have or subscribe to a bank account with another bank.

2.5. Consumer behaviour

The Group considers consumer behaviour to be relevant and important for the discussion on customer mobility.

Consumer behaviour essentially depends on whether: consumers are satisfied with their current bank owing to the various expectations as regards the required level of service and prices; they are acting under inertia; they believe that all banks are the same; they are interested in and understand what services they receive and what services and prices are offered elsewhere; and on various factors that are important to them when choosing a bank or deciding to switch to another one.

According to the European Competition Authorities (ECA) Financial Services Subgroup report²⁰, the most important factors for customers when choosing a bank are product quality, and service or product features. Prices, trust and geography, convenience and number of counters are also important. According to banking industry experts, reputation and e-commerce availability are as important.

¹⁷ Observatoire permanent de la banque, de l'assurance, et du crédit, CSA Institute, 2006.

¹⁸ Indagine ABI – Eurisko, 2005.

¹⁹ Forrester's Consumer Technographics Q2, 2005.

²⁰ Report on Competition Issues in Retail Banking and Payments Systems Markets in the EU, 2006. Available at http://www.nmanet.nl/Images/ECA%20FINAL%20REPORT%20PUBLIC%20VERSION_tcm16-89513.pdf.

The most important factors causing customers to switch fall under three categories: 'push' factors (negative reasons), such as dissatisfaction with the current bank; 'pull' factors (competition-based reasons), such as better prices or service; and personal reasons, such as moving, changing jobs, divorcing, marrying or retiring, which are not linked to dissatisfaction or search for better offers. Box 1 below contains some statistics on main factors causing customers to switch in various countries.

Box 1:

Country	Factors causing customers to switch
Denmark ²¹	Better prices: 30% Dissatisfaction: 29% Personal reasons: 22%
Cyprus ²²	Better service: 46% Better prices: 33%
Italy ²³	Dissatisfaction: 66% Better prices: 38%
Netherlands ²⁴	Dissatisfaction: 22% Maintaining services with one bank: 21% Better prices: 2%
Ireland ²⁵	Better deal/service: 55% Dissatisfaction: 25%

Banking industry experts underline that there is hardly one single switching or multi-banking determinant in Europe; they vary from country to country since, as recognised by the Commission's sector inquiry into retail banking, payments markets are still very much based on national practices, customs and price levels. Therefore, because of the number of differing reasons prevailing for switching, it may be difficult to implement a uniform solution. Consumer experts disagree arguing that similar trends and factors have been identified by competition authorities and by consumer organisations surveys.

²¹ "Gebyrer på penge- og realkreditinstitutmarkedet", The Ministry of Economic and Business Affairs, 2005. Available at http://www.oem.dk/graphics/oem/nyheder/Pressemeddelelser_2005/RapportGebyrer.pdf;

²² Cyprus Consumer Association, 2006.

²³ Altroconsumo, Italy, 2006.

²⁴ The Dutch Interbank Switching Support Service, Simon Lelieveldt, October 2006. Available at <http://www.simonl.org/docs/TheDutch.pdf>.

²⁵ TNS mrbi – Consumer Survey, March 2006.

Referring to a number of reports outlining high consumer satisfaction rates, which are summarised in Box 2 below, banking industry experts argue that low customer mobility rates are not a problem in themselves but rather a reflection of high consumer satisfaction with their providers rates and the fact that consumers often have multiple banking relationships. Banking industry experts also refer to the report on the retail banking sector inquiry²⁶, which says that "it is likely that a large proportion of banking customers – probably the majority in most Member States – would describe themselves as satisfied with their current bank."

Box 2:

Study	Customer satisfaction with their main bank (%)
KPMG report "Banking beyond Borders" (2004)	78%
Forrester report "Building Stronger Customer Relationship" (2006)	64%
IREQ study, "French People and their Bank" (2006)	81%
Consumer Union survey, the Netherlands (2006)	85%
Research on behalf of Dutch banks (2005)	94%

Consumer experts argue that low customer mobility is a problem, since immobile customers cannot exert sufficient competitive pressure on providers in terms of prices and quality of services. Therefore, it is important to focus on fostering customer mobility. Since obstacles such as bundling exist in almost all Member States²⁷, there is a case for at least some degree of uniformity in the solutions. In addition, according to consumer experts, when assessing the need for measures to improve customer mobility and competition, customer satisfaction has to be considered with caution as it depends on the level of their expectations. Since a large proportion of consumers do not know how much their bank costs them and how much the same services would cost in a different bank, they are not able to assess whether they are paying too much or whether a different bank would be cheaper. Furthermore, a large proportion of consumers are not well aware of their rights in the ever more complex field of retail financial services. They have difficulties assessing when their rights are violated and tend not to be assertive on their rights in a relationship with their bank. Finally, while the quality of service in the field of retail financial services is at least as important as the price of the service, it is difficult to assess it when there is little information on the quality standards and when it is not possible to know about the quality offered by other providers. According to banking industry experts, at least in some Member States²⁸, consumers are already able to choose between many different providers and therefore competitive pressure on banks is sufficient.

²⁶ See footnote 1.

²⁷ Banking industry experts do not consider bundling as an obstacle. For them, it is a matter of transparency and possibility to compare bundled products. See further discussion under section 3.1.2.

²⁸ For instance, on the German banking market around 2000 banks compete against each other. According to consumer experts, in any competition analysis, the geographical markets have to be considered since banks can restrict their activities to specific regions, as, in some cases, in Germany, for instance.

According to the Group's consumer experts, before using customer satisfaction indexes as the basis for decisions on whether there is a need to take measures on customer mobility, two main problems need to be tackled: the low level of consumer education and the low level of useful information provided to consumers by banks.²⁹ According to consumer experts, what is important is to give customers a possibility to exercise their mobility without obstacles, in which case even satisfied consumers might be willing to switch if there are better offers on the market. Banking industry experts disagree, arguing that there is enough useful information and that the majority of consumers are sufficiently educated to understand the tariffs of current accounts and associated services. Furthermore, according to them, many initiatives have been launched in Member States to foster financial literacy of retail customers.³⁰ Also, some banks have, in recent years, launched internal reviews regarding the information provided to clients in order to favour simple and easy bank-customer relationships. As a result, the quality of information has become a factor that exerts competition among providers.

Banking industry experts also point out that a number of sources indicate that customer demand in some Member States' banking market is very much domestically oriented. They refer to the Eurobarometer survey on Public Opinion in Europe on Financial Services of 2005, according to which, 85% of citizens spontaneously declare that they have never obtained financial services from another Member State, and 75% do not intend to do so in the next five years, with only 7% considering obtaining a bank account cross-border.³¹ Banking industry experts underline that the 2004 KPMG Study³² on cross-border banking shows a similar conclusion: "Most European consumers are happy with the banking system in their country and want to keep it as it is."

Banking industry experts note that it may not just be the existence of a 'home-bias' of EU customers with respect to financial services that constitutes a barrier to user mobility in Europe. It is worthwhile taking a broader look and appreciating that financial integration in Europe as such can hardly continue to advance if there is no progress in the integration of other markets, such as the product and labour markets.³³ Therefore, it may be that barriers to cross-border banking services are essentially the same as the barriers that prevent consumers from purchasing other cross-border services. In this context it may be necessary to first focus on those generic barriers (data protection/privacy concerns, language barriers, internet access etc.).

Consumer experts argue that limited consumer demand for cross-border services is, at least partly, due to a lack of cross-border competition between banks but also, more generally, due to obstacles to switching, including lack of transparency and comparability of offers, compounded with a lack of consumers' confidence in foreign providers.

²⁹ See further the discussion under section 3.1.1.

³⁰ In Italy, PattiChiari, which includes 161 banks aggregated in the form of a Consortium, developed 10 initiatives related to the areas of banking services, savings and credit. Under these initiatives simple information is provided to retail customers, who can compare it with respect to different services, including bank accounts, bonds, timing of credit procedures for SMEs (www.pattichiari.it).

³¹ See footnote 5.

³² "Banking beyond borders: will European consumers buy it?", KPMG, 2004.

³³ "Single Market Trails Home Bias", J. Delgado, Breugel policy brief 2006/05, October 2006. Available at http://www.bruegel.org/doc_pdf_496;

2.6. Bank strategies

Banking industry experts consider it important to analyse bank expansion strategies since, according to them, some scenarios of customer mobility may be more relevant than others, depending on the banks' expansion strategies and market orientations.

The following bank strategies were identified:

- focus on domestic provision of bank services;
- expansion cross-border by joint ventures;
- expansion cross-border by focused penetration;
- expansion cross-border by takeovers of local banks;
- expansion cross-border by selling across borders.

These are to be considered together with a number of market-orientations: niche player; product specialist; customer specialist; and full service bank.

Banking industry experts note that customers that need banking services in different EU-27 markets are faced with different requirements for opening bank accounts. These differences are based on national legal and regulatory requirements of Member States and create additional costs for banks that serve customers in more than one Member State.

According to banking industry experts, some bank expansion strategies will not require customers to switch. They mention the case of, for example, ING Direct, a subsidiary of ING Group. In 2000, ING Direct launched a simple saving account, "Livret Orange" in France and "Conto Arancio" in Italy. Six years later, ING Direct claims 600 000 clients and EUR 12 billion assets on "Livret Orange" and around 700 000 customers use "Conto Arancio". This example shows that competition and new entrants' development do not necessarily mean switching accounts but clearly relies on multi-banking consumer behaviour.

Another example is ING Diba in Germany, which made use of the possibilities of internet banking, the relatively easy procedure to open a new account via the so called "PostIdent", and combined these new technical and procedural features (e.g. 24 hours / 7 days services) with economic incentives (e.g. higher interest rate for short term deposits and bank accounts free of charge). According to some sources, this service package enabled ING Diba to gain more than 5.4 million new customers in Germany.

Banking industry experts also note that customers' preference for domestic providers, mentioned under section 2.5, is an additional challenge to the banks when designing their expansion strategies.

Consumer experts do not see the relevance of the discussion of bank strategies to customer mobility. According to them, limited mobility of customers cannot be equated to a limited supply, neglecting the obstacles, such as lack of transparent and comparable information, red tape, closing fees and opportunity costs, on the demand side. Bank strategies as such are not relevant to alleviating these obstacles.

3. DISCUSSIONS OF BARRIERS AND RECOMMENDATIONS

3.1. Switching

Before deciding to switch to another bank, customers have to decide whether the benefits of such a move outweigh the costs incurred due to various barriers.³⁴

Banking industry experts refer to the Eurobarometer survey³⁵, according to which 7 out of 10 EU citizens believe they can easily change banks.

Consumer experts of the Group identified a number of barriers to switching, which are similar to those identified by the Commission in its sector inquiry into retail banking³⁶, by the European Competition Authorities (ECA) Financial Services Subgroup in its Report on Competition Issues in Retail Banking and Payments Systems Markets in the EU³⁷, and by Nordic competition authorities in their report on Competition in Nordic Retail Banking.³⁸ According to consumer experts, the suggestions as to how the barriers could be addressed contained in these reports need to be taken into account too. In the report on the sector inquiry, the Commission identified a number of possibilities to address barriers to customer mobility: provision of transparent information on prices ex ante, disclosure of prices and charges applied to particular products ex post, and promotion of financial awareness and product knowledge by consumers. ECA recommended to national competition authorities to promote the introduction of a consistent set of transparency rules that make it possible for consumers and SMEs to compare retail banking products. Possible examples can be objective and up-to-date comparison sites³⁹ and comparison statistics.

3.1.1. Information asymmetry and untransparency of prices

According to consumer experts, information on products and prices is not transparent and hard to get. Also, there are many types of charges. Consumer experts underline that consumers have a limited level of signalling and of cognitive skills. In Denmark, 7 out of 10 consumers have stated that they found bank prices confusing, which suggests lack of transparency, and at the same time they state that they do not trust the public price lists⁴⁰. In Cyprus, 59% of consumers stated that they

³⁴ According to UFC – Que Choisir "Etude sur le coût des services bancaires" (2004), taking into account both direct contractual costs and indirect costs, such as administrative burden, consumers in France are faced with switching costs of around EUR 335. A banking industry expert disagrees with the findings and methodology of this survey. According to him, when measuring switching costs, only monetary costs and not subjective costs, such as time spent to find a new bank, should be taken into account. He argues that in all service markets changing a supplier involves non-monetary costs (psychological, social etc.).

³⁵ See footnote 5.

³⁶ Interim Report: Current Accounts and related Services, July 2006. See footnote 4.

³⁷ See footnote 20.

³⁸ Available at http://www.kkv.se/upload/Filer/Trycksaker/Rapporter/nordiska/rap_nordic_bank.pdf.

³⁹ According to the Report on Competition in Nordic Retail Banking by Nordic competition authorities, websites where consumers can get accessible and clear information in Sweden and Denmark have proved useful in facilitating for consumers to compare alternative offers.

⁴⁰ http://www.oem.dk/graphics/oem/nyheder/Pressemeddelelser_2005/RapportGebyrer.pdf.

had difficulties in comparing both prices and products⁴¹. A banking industry expert points out that, in France, 68% of customers consider it easy to find prices of bank services and 56% consider it easy to compare prices between banks.⁴²

According to banking industry experts, a broad range of product offers exists in competitive markets, with product features ranging from basic to complex. Competitive markets allow diverging price structures to emerge and free pricing is one of the principles of market economy. This, for them, is the reason why there are many types of charges.

Consumer experts point out that prices can be difficult to compare because they may not be publicly available (especially “real” prices, namely prices that a given customer actually has to pay, as opposed to prices disclosed as a range, depending on customer's credit risk, for instance) or, if they are available, they are available in a way that implies high search costs. They refer to the survey by the French consumer organisation CLCV, according to which, more than 47% of French bank branches did not have public folders on tariffs available in spite of a voluntary agreement to provide them. According to a banking industry expert, this consumer organisation survey is in contradiction with the results of the French competition authority's controls, according to which 10 months after the banks' commitments, less than 10% of the branches did not display correctly their tariffs and less than 1% received a written warning.⁴³ According to consumer experts, however, this was contradicted by a new survey of 2007⁴⁴, which indicated that although some progress has been made, a lot still needs to be done in this respect. Consumer experts also underline that, in Belgium, only 25% of the branches (amongst the 183 branches of 8 big banks analysed) respected the law in terms of making information on charges available to consumers and that, in 75% of branches, information on charges was incomplete, obsolete or non-existent.⁴⁵ According to a banking industry expert, this information is out-dated. Moreover, penalties are foreseen for not respecting this mandatory obligation.

According to consumer experts, information asymmetry, the complexity of products as well as limited signalling, limited cognitive and computational skills of consumers lead to a limited substitutability of complex products and services.⁴⁶ Consequently, consumers tend to use imperfect proxies for identifying alternative products such as brands, reputation and proximity, instead of prices or contract terms and conditions. According to banking industry experts, proximity can be a vital aspect of the service available to consumers and therefore should not be considered as an imperfect proxy. Also, in all industries, branding and reputation are the pillars around which customer loyalty revolves. Such pillars are built with continuous efforts by banks and are based on the competitiveness of their products. Their importance should not, therefore, be discounted, as it would be if they would be considered “imperfect” proxies.

⁴¹ CCA, 2006.

⁴² "Les Français et leurs Banques", Ireq, November 2006.

⁴³ Rapport 2006 du Comité Consultatif du secteur financier.

⁴⁴ "Tarification bancaire: l'enquête annuelle de la CLCV. En collaboration avec Mieux Vivre Votre Argent", CLCV, 2007.

⁴⁵ Test-Achats, 2003.

⁴⁶ According to one banking industry expert, product substitutability derives from product features and not from external circumstances.

Banking industry experts see consumers as increasingly sophisticated and possessing a broad range of skills and abilities to make their choices. They note that the increased use of internet is an important factor in overcoming the barriers identified by consumer experts. According to banking industry experts, banks see it as their role to ensure that customers receive the information they need to make financial decisions. They argue that consumers want to conduct their business on their own responsibility within the confines of a proportionate and balanced consumer protection regime.

Consumer experts disagree with the idea that consumers are increasingly sophisticated and underline that this view is not shared by public authorities across the EU and does not reflect the evidence on consumer behaviour in the field of financial services.⁴⁷ However, they stress that education is not a substitute of good products, fair charging structures and consumer protection measures.

Banking industry experts stress that banks already face the obligation to communicate their fees to customers under Regulation 2560/2001⁴⁸ and a whole host of domestic disclosure requirements, thus the claim that information on products and prices is not transparent and hard to get is not acceptable. Furthermore, according to them, large consultancies regularly compare the price levels of payments services.⁴⁹

According to consumer experts, statistics show (see Box 3 below) that many consumers do not know how much they pay for their banking services. For them, this supports their arguments on untransparency of prices. According to consumer experts, consumers need to know, before they consider switching, how much they pay for their current bank services and how much they would pay if they were to switch.

⁴⁷ For example, according to research conducted by the UK Financial Services Authority, *"people do not take adequate steps to choose products to meet their needs. Most households spend material amounts on financial services, yet many do not shop around to find a good deal."* Furthermore, *"the distribution of scores shows relatively few people demonstrating behaviours that would be considered more capable. Even of those who have bought financial products, approximately one third are clearly not very capable at choosing them."* Available at http://www.fsa.gov.uk/pubs/other/fincap_baseline.pdf.

⁴⁸ Regulation (EC) No 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in Euro, OJ L 344 of 28.12.2001, p. 13–16.

⁴⁹ For example, "The Price of Banking", Oxera, November 2006, available at http://www.bba.org.uk/content/1/c4/79/87/Oxera_Report_November_2006.pdf and the CapGemini/EFMA World Retail Banking Report 2007, available at http://www.efma.com/wrbr07/pdf/WRBR_Cap_Utrecht.pdf.

Box 3:

Country	Awareness of bank costs
France ⁵⁰	70% of consumers do not know how much their banking services cost them
Spain ⁵¹	12% of consumers are well informed about how much they pay, 35% have a vague idea, 22% have no idea
Portugal ⁵²	43% of consumers do not know how much they pay
Belgium ⁵³	20% of consumers do not know how much they pay
Italy ⁵⁴	20% of consumers do not know how much they pay

Banking industry experts point out that this may mean that consumers are not interested in knowing how much their bank costs them, especially in countries where bank expenses are only marginal compared to other household expenses. According to a Mercer Oliver Wyman survey, in France, the average of banking costs for customers is EUR 130 (EUR 10.8/month).⁵⁵ According to the French National Institute of Statistics, banking services represent 0.6% of the expenses of households (telecommunication: 4.4%; transport: 14.9%; housing (including mortgage credit): 22.7%). They also note that the majority of customers consider it very easy to find the price of a banking service when they need to know it (68% of customers in France, according to Ireq survey, November 2006). Furthermore, according to a Eurobarometer survey⁵⁶, only 35% of the EU population find it expensive to have a bank account. In such a situation, it is more rational for customers to spend time optimising their purchase strategy for the expensive items in their budget rather than the less significant items. It may be that the cost of current accounts is too low and the potential reward from switching so small that customers do not shop around or seek alternatives. According to consumer experts, consumers may not seek alternatives due to the diversity and lack of comparability of prices. They argue that the Eurobarometer survey has to be seen with caution, since the surveys in Box 3 show that, in fact, many customers do not know how much they pay for banking services.

Banking industry experts claim that the problem may not be that the information is not given to customers but that the amount of information given at the pre-contractual stage is excessive, often because of regulatory requirements (for example, Directive on Distance Marketing of Financial Services, Payment Services Directive and the proposal for Consumer Credit Directive).

⁵⁰ Survey by UFC – Que Choisir.

⁵¹ OCU, Dinero y Derechos n° 87, March-April 2005.

⁵² DECO, 2006.

⁵³ Test-Achats, 2006.

⁵⁴ Altroconsumo, 2006.

⁵⁵ Prices of retail banking in Europe, Mercer Oliver Wyman, 2004.

⁵⁶ See footnote 5.

Banking industry experts argue that transparency regimes are in place in most Member States. A few are named as examples by banking industry and consumer experts (see Annex 2). Consumer experts express doubts as to the effectiveness of some of these regimes. According to them, self-regulatory measures by banking associations produced limited results, for example in Denmark, where consumers contest the reliability of data used in price comparison, and Slovenia.

Title III of the PSD (Transparency of conditions and information requirements for payment services) introduces a uniform transparency regime in the area of payments, which should reduce information asymmetry. Therefore, banking industry experts consider that any recommendations of the Group should not duplicate what is in the PSD:

- Article 30(1): *"Member States shall require that in good time before the payment service user is bound by any framework contract or offer, the payment service provider is to provide to the payment service user on paper or on another durable medium the information and conditions in accordance with Article 31..."*
- Article 33(1): *"Any changes in the framework contract as well as information and conditions specified in Article 31, shall be proposed by the payment service provider in the same way as provided for in Article 30(1) and not later than two months before their proposed date of application..."*

According to consumer experts, Title III of the PSD will provide a good uniform basis for increasing price transparency, from which further necessary measures can be devised.

Recommendations⁵⁷

- (1) The Group recommends that the Commission consider commissioning a pan-European study to determine in detail how the actual search and choice process for bank accounts occurs in practice in different Member States. In particular, the study should seek to determine the perceptions, the knowledge and satisfaction of customers with respect to having or changing a bank account, either at national level or cross-border. It should also seek to establish whether there are differences between Member States with regard to factors that cause consumers' decision to change a bank account, the main sources of information used by consumers, and the relative importance of choice factors such as price, nature of the offer (packaged/unpackaged), proximity of bank branches and others (usability, accessibility). To ensure that the results of the study are used as a shared basis for developing EU policy, the methodology and design of the study should be agreed beforehand between the representative organisations of consumers and banks.⁵⁸

⁵⁷ The Group is aware that some of the recommendations contained in its report might be superseded by existing or planned EU legislation.

⁵⁸ According to consumer experts, this study should not be a prerequisite to any EU initiatives in the field of customer mobility.

- (2) The Group recommends that national authorities be strongly encouraged to develop and provide financial education programmes suited to, for example, a range of age groups (school children, young people, families and older people) to enhance the skills of these groups in respect of financial decision making. Finance should be considered as a school subject in the educational systems of Member States. According to consumer experts, educational programmes should be devised in a neutral manner and allow consumers to assess risks and pricing structure over time.
- (3) Banking industry experts and academics recommend that the Commission carry out a review identifying existing and planned legal and regulatory information requirements, at both domestic and EU level, in respect of bank account opening. The information collected should then be used to see how best to address the issue of information overload versus transparency.

Transparency

- (4) The Group agrees that it is necessary that banks provide consumers with a list of charges for retail banking products in branches and on the banks' websites. Banking industry experts suggest that the provision of list of charges in branches should be upon request. Consumer experts recommend that consumers have access, free of charge, and without necessarily requesting it, to this list of charges, before they actually ask for the services involved. Consumer experts and some academics recommend regulatory measures, while banking industry experts recommend no further regulation than currently stated in the PSD and national law.
- (5) Part of the Group (consumer experts, some banking industry experts and academics) recommends that banks provide consumers with yearly statements of bank charges which they have actually paid (both fees and interests) in order to create post-transparency.⁵⁹ One banking industry expert suggests that the provision of statements of bank charges should be "at least once a year". Consumer experts recommend that the Commission proposes a Directive, obliging banks to provide such information, while banking industry experts suggest leaving it to self-regulation.
- (6) Consumer experts recommend that consumers are informed about bank driven modifications to price lists 3 months (i.e. 1 month earlier than under the PSD) before the application of new prices. According to consumer experts, market driven modifications (linked to changes in interest rates, for instance) could apply more quickly, provided they are linked to an independent index and customers are informed of the changes before they take effect.

⁵⁹ According to consumer experts, this initiative should be designed together with the initiative in recommendation 8, in order to provide connection between transparency measures before and after the switch.

- (7) Part of the Group (some banking industry experts, consumer experts and academics) recommend the creation of a public domestic glossary of retail banking vocabulary in order to facilitate customers' understanding of the terminology ("same words for the same services"). According to academics and consumer experts, such glossaries should be promoted through free leaflets and should be accessible in every branch and on banks' websites (one banking industry expert suggests only websites). The vocabulary contained in the glossary should be used by all banks in their written communications to customers, whenever possible. According to consumer experts, use of this vocabulary should be imposed by national regulatory authorities through binding measures. According to academics and banking industry experts supporting this recommendation, this initiative should be left to self-regulation.

Comparability

- (8) Consumer experts and academics recommend that the Commission propose a Directive which would provide that a database comparing prices of products/services, within the scope of this report, is made available for consumers. This would place an obligation of result on Member States and thus different solutions could be envisaged at national level. In order for information to be put in the database to be consumer friendly, consumer associations should be involved in the national solutions and should be given the appropriate means to fulfil their missions. Payment providers shall report on a defined set of tariffs quarterly, while each change of prices/introduction of a new service shall be reported to the relevant national authority. Consumer experts recommend that the database be updated in real time.⁶⁰ One banking industry expert could support this recommendation if it were specified that the scope is national and if the database would be snapshots rather than a continuous database and would be confined to the more basic or standard products. Another banking industry expert would suggest a database comparing prices of products/services addressed to different usage profiles. Another banking expert suggests creating a pan-European database.
- (9) The Group recommends that an EU portal, which would refer users, through links, to national comparative and information web platforms, be created and run by the Commission. Some members recommend that national web platforms be in national official languages and at least in English.

⁶⁰ For instance, comparative tables would include: payment instruments, tariffs of traditional/electronic/phone banking, cancellation fees, national/international transactions, debit/credit card operation tariffs, link to the price lists on providers' websites. A modelling tool would be provided as well, simulating yearly cost of operations typed in individually by the consumer using the tool, thus delivering a price comparison according to the needs of an individual consumer (similarly to the modelling tool of Test-Achats in Belgium, see Annex 2). In order for this information to be consumer friendly, consumer associations could, for instance, provide the same information as the regulator or provide the information on their own, or in liaising with the providers.

3.1.2. *Bundling and tying*

According to the Commission sector inquiry into retail banking, tying⁶¹ and bundling⁶² are common practices in retail banking. In some cases they may enable banks to offer a range of products that are better suited to customer needs, while generating savings in production, distribution and transaction costs that can be passed on to the customer in the form of lower prices. However, in some cases they may weaken competition by raising switching costs, reducing price transparency and discouraging the entry of new players. Consumer experts of the Group argue along the same lines. According to them, these practices may reduce transparency, making it more difficult for consumers to compare offers and prices. Furthermore, cross-selling increases consumers' reliance on their bank and thus it might be more difficult for a consumer to exit a contractual relationship or have more than one bank. Also, consumers may not end up with the best deal. Therefore, it is important to assess whether tying or bundling will be permanently beneficial to consumers.

With regard to tying, consumer experts are of the opinion that customers should always have the possibility to buy services in isolation, without having to open a bank account as a prerequisite of buying other services and vice versa. According to banking industry experts, if the opening of a current account is free of charge and customers always have the possibility to switch their main current account to another bank, without having to, for example, prepay the mortgage, a bank can ask for the opening of a current account before granting a mortgage.

According to banking industry experts, bundling is convenient for consumers, in that they are able to pay a one-off fee for a package of services that would cost more if requested outside the bundled package. Furthermore, as long as consumers are able to terminate a contract, whether in a bundle or not, there is no problem. Consumer experts counter-argue that, while some specific consumers could reap some benefits from bundling, this is a purely static effect, outweighed by the dynamic effect in terms of restricting competition, which is to the detriment of all consumers. Furthermore, consumer experts argue that in many cases consumers are not able to terminate a contract since the cost of doing so is very high. According to them, if, for example, a consumer wants to switch his/her bank account, he/she cannot do so if his/her bank account is bundled with mortgage and the mortgage is expensive to repay early. Bundling therefore tends to make it more costly to leave the current provider. Also, customers often do not select which products to include into a bundle and end up buying more products than they actually need.

Recommendations

- (1) Consumer experts and one academic recommend that tying of products, as defined in the Interim Report II of DG Competition, be prohibited. Some banking industry experts could support this, provided there is a clear understanding and definition of what is to be understood as "products" in this context. One banking industry expert suggests that measures could be taken to address consumers' ability to exit tied products, rather than banning tied products across the board.

⁶¹ According to the Interim Report II: Current Accounts and Related Services by DG Competition, tying occurs when two or more products are sold together in a package, and at least one of those products is not sold separately. Tying, unlike bundling, involves coercing customers to take on additional – and perhaps unnecessary – products.

⁶² According to the Interim Report II: Current Accounts and Related Services by DG Competition, bundling means selling two or more products together in a package. These products may only be available as a bundle (pure bundling), or available separately but offered at a discount relative to their individual prices (mixed bundling).

- (2) Consumer experts and one academic recommend that pure bundling, as defined in the Interim Report II, be prohibited.
- (3) Consumer experts and one academic recommend that, in case of mixed bundling, more information be provided in order to increase transparency for comparing alternative offers:
 - when offered a bundle of products, a consumer should be informed about the price of the different products when offered separately;
 - information should be provided to the consumer about the precise consequences of terminating the contract for the bundle or one or several of the products constituting the bundle: necessary steps a consumer has to take to terminate the contract/transfer the product(s), maximum time taken for closing/transferring, termination or transfer costs;
 - information on prices should include the information on the bundled product. For example, this would apply in case of credit/debit card insurance and savings/investment accounts, when they are bundled with the bank account.
- (4) Banking industry experts, while recognising the importance of transparency, recommend leaving the issues of tying and bundling to competition between banks.

3.1.3. *Administrative burden*

Switching current accounts can be a complex operation for consumers because of the range of everyday functions that are conducted through the account. Filling in the necessary forms for opening a new account, closing the old one, transferring balances, transferring direct debits, setting up payment instructions, informing customers about the new account number requires time and effort from a consumer. In addition, there is a risk that direct debits or other transactions might be lost.

Consumer experts refer to the study of the Italian consumer organisation Altroconsumo, which tested the period of time it takes to switch a current account, and found that in some cases it takes more than 2 months to switch to another bank. Banking industry experts argue that this example is not representative for all EU countries and that, depending on actual circumstances, switching can generally be effected in a time period of 2–4 weeks.⁶³ For example, in 2007, in the framework of "PattiChiari", a procedure for the automatic transfer of direct debits together with an automated monitoring system of the time required for the effective closing of a bank account for each bank was established in Italy. People can be informed about these times in the branches of those banks participating in the "Switching my Account" initiative. Comparisons are available on the "PattiChiari" website.

⁶³ For example, under Article 7.3 of the UK Banking Code, banks commit themselves to have a new account working within 10 days of approval of application for a bank account. Available at <http://www.bankingcode.org.uk/pdfdocs/BANKING%20CODE.pdf>.

According to banking industry experts, a distinction must be made between the average perception of the public and the actual experience of those customers who switch. Research by a Dutch market research organisation The Choice, conducted on request of the Netherlands Bankers' Association, shows that 61% of the general public in the Netherlands is of the opinion that switching takes a lot of time and 53% of the general public find switching easy. In comparison, 80% of those customers that have actually used the switching service find that switching does not take a lot of time and 98% find switching easy.⁶⁴ According to banking industry experts, this outcome strongly suggests that the barrier is not in the switching itself but rather in the fact that consumers perceive it as being difficult. Consumer experts point out that the two last figures refer to consumers who have used the switching service and thus simply illustrate that switching services facilitate switching. Furthermore, research conducted by the Dutch Consumer Organisation Consumentenbond in May 2006⁶⁵ highlights that only 71% of consumers using the Dutch Switch Support Service were satisfied with it.

Banking industry experts also note that banks face considerable cost in order to provide the switching, account opening and account closing services to their customers. Particularly the regulatory requirements (and servicing the optional switching agreements) lead to costs that may range between EUR 100–300 per customer.⁶⁶

Some banking industry experts underline that it is the administrative burden and barriers within governments and companies, which seem to be unable to quickly change the account number of their clients in their own administration for executing direct debits, which create problems for customers who change to another bank account.

The banking industry in a number of Member States has already introduced switching facilities, which the Group discussed. In general, they can be divided into two groups: switching services (UK, Ireland, Netherlands, Italy) and switching guides (France, Belgium, Germany, Italy). A table summarising these switching facilities can be found in Annex 3. According to consumer experts, even where switching schemes exist, some of them demand a lot of action by consumers themselves. According to banking industry experts, the switching services work successfully and help customers to switch more easily. In the Netherlands, for example, 94% of consumers who used the Interbank Switching Support Service would immediately advise friends and neighbours to also use it.⁶⁷

⁶⁴ The Dutch Interbank Switching Support Service, slide 19, Simon Lelieveldt, October 2006, available at <http://www.simonl.org/docs/TheDutch.pdf>.

⁶⁵ "Bankklanten tevreden, maar niet echt", Geldgids, July 2006.

⁶⁶ Rough estimate by a banking industry expert based primarily on the work time required for the formal proceedings and manual checks required for opening and closing an account.

⁶⁷ The Dutch Interbank Switching Support Service, slide 22, Simon Lelieveldt, October 2006, available at <http://www.simonl.org/docs/TheDutch.pdf>.

Account number portability and bank account number portability

According to consumer experts, having to change an account number may be a barrier for customers to switch to another bank, since they would have to inform all third parties (employers, direct debit originators etc.) about their new bank account number. They therefore regard account number portability as being necessary, also because it is aimed at unbundling an account and the related services, since, according to them, there is no necessity for a bank account to constitute a bundle of services as it exists in its own right in parallel with any other related services. Currently, however, a bank account is almost without exception bundled with a number of other services, such as debit cards or other payment services. Banking industry experts argue that portability would not support unbundling.

Consumer experts refer to the Swedish "Bankgiro" system as an example of account number portability. According to them, the "Bankgiro" credit system is an example of how both incoming and outgoing payments can be transferred to another underlying account in another bank in a way which is easy to administer and has functioned well in Sweden for many years. Since the Swedish "Bankgiro" system is structured with a central cross-register, the same principle could apply to the administration of the European number portability system. Portability in the telephony sector and the internet have been achieved without a single central body but through a hierarchic structure which keeps track of the position of the underlying unit, i.e. the server or telephone.

According to banking industry experts, there are fundamental differences between bank account number portability and number portability in the Swedish system. The "Bankgiro" system is, for them, not an example of a bank account number portability. It is an example of number portability, since the number that is portable is a Bankgiro number and not an underlying bank account number. The Swedish "Bankgiro" system was designed from the start around Bankgiro numbers. In addition, the system can only be used for crediting (as opposed to debiting) accounts that are linked to only one payment system. Also, the "Bankgiro" system is currently only offered to corporate clients and its business case is valid for those clients only and may be different with regard to individual clients. According to banking industry experts, the "Bankgiro" system bears no comparison with any proposal to create an EU overarching current account mobility system that would need to be used by all European banks, linked to many payment systems (both credit and debit) and, most importantly, require massive changes to fundamental infrastructure within every single bank.

Consumer experts acknowledge that the "Bankgiro" system in its present form has been designed for the Swedish market. However, consumer experts fail to see why it could not be extended to the other Member States. For instance, nothing seems to prevent settlements from being carried out through TARGET.⁶⁸ Consumer experts are not of the view that the "Bankgiro" business case solely applies to corporate customers. Besides, if number portability systems such as the "Bankgiro" were offered to consumers, competition would increase and the incumbent providers' earnings from these customers would fall.

According to banking industry experts, the introduction of portable bank account numbers would mean that the current IBAN and BIC standards would have to be replaced. This would impose an unacceptable burden on both banks and customers (complete conversion of customer databases at banks, other commercial undertakings and public administrations, replacement of all payment cards, alteration of customer letterheads containing account numbers, etc.). Therefore, the costs would outweigh the benefits. Banking industry experts stress that all current investments of banks and businesses in the area of pan-European payments are on current EPC standards, which

⁶⁸ Banking industry experts underline that TARGET is very expensive for individual retail payments.

prescribe the use of IBAN, which is a code linked to a specific bank account number and is different for each individual customer as well as each individual bank, as the unique identifier. Given the amount of these investments, any future change in the format or structure of this identifier will, for cost and efficiency reasons, require comprehensive multi-stakeholder cost/benefit analysis and careful timing, which allows banks and their customers (particularly companies) an as yet undefined adaptation period from the moment that detailed new specifications are made available. Moreover, BIC and IBAN are identification numbers used by 36 countries and banking industry experts do not believe that the EU alone could decide on a new standard.

Banking industry experts refer to the impact assessment of the PSD⁶⁹, which says that "*...studies carried out in some Member States (NL, UK) regarding this question of portability have shown that the recently introduced EU-wide IBAN-BIC numbering system is not compatible with the portability of account numbers without incurring in disproportionate costs and provoking problems for efficient straight through processing. The Commission believes that after the considerable investments in the development of the IBAN-BIC numbering systems, time is needed for this system to prove its effectiveness. It would not be appropriate at this stage to impose a modification of the system. Nevertheless, the IBAN-BIC system appears to be a very complicated system and may need to be simplified in the long run. Therefore the Commission advises the banking industry to launch studies in order to create, in the long run, a more simplified numbering system for payments in the Internal Market.*"

Banking industry experts also refer to the UK Competition Commission's report⁷⁰, according to which, some consulted stakeholders expressed the view that a portable account number would not make switching easier because customers would need to close their old current accounts before opening a new one (as it would be impossible to run two current accounts with the same number with different banks) and customers would be unable to have more than one current account. Also, banks would still need to carry out money laundering checks on new customers and branded products such as debit card and chequebooks would still need to be re-issued by the new bank, and debit cards would need to be re-issued in any case because they carry the International bank identifier number. Finally, account portability would remove the one-to-one relationship between a bank and a sort code, which is important, for example to identify which branch a cheque needs to be sent, and a 'number portability' remedy would increase the risk of fraud.

Furthermore, according to banking industry experts, in the Netherlands a system of account number portability was introduced and operated for some years (1980–1983) for customers of the private banks that used the bankgiro-center to process payments. The portability was limited to the uniform 10-digit bank account of bankgiro banks; covering approximately 50% of the Dutch payments market. In practice, the uptake and actual market demand for this feature was quite limited. As a result, the functionality was abandoned. When, in the late 90s, policy discussions re-emerged on the issue of account number portability, the investment involved in setting up the functionality for the whole payments market (covering both Bankgiro and Postbank account numbers) was estimated at

⁶⁹ The Commission Staff Working Document – Annex to the proposal for a Directive of the European Parliament and of the Council on Payment Services in the Internal Market – *IMPACT ASSESSMENT* – {COM(2005) 603 final}. Available at http://ec.europa.eu/governance/impact/docs/ia_2005/sec_2005_1535_en.pdf.

⁷⁰ UK Competition Commission – Market Investigation into Personal Current Account Banking Services in Northern Ireland, March 2007. Available at http://www.competition-commission.org.uk/inquiries/ref2005/banking/remedies_working_paper.pdf.

EUR 300–500 million. This was deemed to be a prohibitive amount of money, also when compared to the costs of investing in a switching service.⁷¹

In addition, banking industry experts underline that the market for domestically based clearing houses will gradually open up and some may become pan-European in nature. As a result, the EU will be characterised by a multiplicity of payment infrastructures, with TARGET2 being just one of them, where no central routing function is expected to be in place.

According to consumer experts, the introduction of number portability is about creating a 'level playing field' to ensure fair competition between providers since, otherwise, the structure of the market will make it difficult for new entrants to benefit from the network externalities and the economies of scale the incumbent providers enjoy under the current payments system structures. As a first step, in the context of national number portability, a change of all account numbers might not be required since, for instance, the existing Swedish Bankgiro numbers might be included as an individual series of numbers within the IBAN standard and thus keep functioning in the same way as until now. In the medium to long run, to allow for EU-wide account number portability, there would be a need to change the IBAN structure, as both the country and the banks' identity are currently included. Hence, when discussing the costs of number portability, not only the costs to the banks/incumbent providers have to be examined but also the benefits accruing to other providers, consumers and society as a whole. Banking industry experts regard this solution as not feasible and contest the connection between portability and the creation of the level playing field.

Recommendations

- (1) Banking industry experts recommend that facilitation of customer switching be left to competition between banks.
- (2) Some banking industry experts and academics recommend that each bank produce a switching guide, explaining the steps that consumers need to take if they wish to switch accounts. According to academics, pragmatic sample forms can be provided in order to facilitate the process, i.e. sample letters to credit or debit originators. While some banking industry experts and consumer experts suggest that these guides are complementary to switching services, some other banking industry experts think the guides should be an alternative to switching services.
- (3) Some banking industry experts and academics recommend the introduction of a European cross-border switching guide stressing the following points: access to domestic switching guide in every EU country; legal constraint linked to cross-border banking operations and mobility ("know your customer rules", fiscal and administrative rules, anti-money laundering laws, etc); practical advice as to the steps that have to be taken to open a bank account cross-border.

⁷¹ The Dutch Interbank Switching Support Service, Simon Lelieveldt, October 2006, available at <http://www.simonl.org/docs/TheDutch.pdf>.

- (4) Part of the Group (consumer experts, some banking industry experts and academics) recommends facilitating customer mobility through switching services in all Member States. According to consumer experts, the use of these services should be free of charge for consumers, while banks could offer additional services to increase their competitive advantages. The services should exist for current accounts and simple savings accounts, while an extension to other savings and investment accounts should be taken into consideration at a further stage. All national bank account providers should take part in these services. According to consumer experts, a working group should be formed at a later stage to discuss guidelines for some basic features in a switching service. Consumer experts recommend that switching services are introduced through legislation by setting out minimum standards for switching services based on identification of existing EU best practices (e.g. Dutch or Irish model), while banking industry experts recommend leaving it to self-regulation. According to banking industry experts, this measure should be subject to a feasibility assessment in the SEPA context. Consumer experts stress that SEPA should not be used to block measures necessary to improve customer mobility.
- (5) Consumer experts recommend that switching services include a precise description of the steps to be taken, who is responsible for them, and the maximum amount of time they will last. The relevant details (including the information on standing orders and direct debits) should be passed on to the new institutions within 3 days, otherwise banks would have to reimburse the charges incurred.⁷² According to banking industry experts, it should be at least 5 working days.
- (6) Some banking industry experts and academics recommend that the European Payments Council examines the possibility to extend its standards for SEPA products, for example reply messages (R-messages). When a customer closes an account, the 'old' bank could offer a mobility service. In the closing form, the customer would include his new IBAN and BIC and request the 'old' bank to store it and to use it as follows. In case of the 'old' bank receiving a credit transfer for the closed account, the bank would send an R-message with a code for closed account and with the new IBAN and BIC. The originator would receive this new IBAN and BIC, update the beneficiary database and re-initiate a credit transfer with the new IBAN and BIC. In case of a direct debit, the R-message would imply a mandate amendment.

⁷² In all cases, the most efficient procedure should be the one adopted at Member State level, and this could vary from one Member State to another. The following basic standard features could be considered, for instance:

- the consumer contacts the new bank and informs it about his intention to switch;
- the information on the switching service should be provided in bank offices, bank web-pages and when the customer opens his account;
- the new bank opens a bank account for the consumer, informs the old bank on the consumer's intention with a standardised form;
- the old bank informs the direct debit originators, sends a list of direct debits and standing orders to the new bank, transfers the account balance and closes the account;
- the new bank reinstalls the standing orders and direct debits with the consumer's consent;
- in case of SEPA instruments, the old bank sends the consumer exact instructions on how to report the account switching to the creditors.

- (7) One banking industry expert recommends that the European Payments Council examine the possibility to develop an additional optional service, based on the current European Payments Council standards in order to facilitate rerouting of payment transactions for users that have switched banks. Consumer experts could support this provided that the service would not be optional. Also, according to them, the European Payments Council should be asked to develop an additional service rather than examine the possibility to develop it.
- (8) The Group recommends that banks provide their consumers wishing to switch with summary of recurrent banking operations, such as direct debits. According to consumer experts, banks should be obliged to provide it free of charge. According to banking industry experts, banks should be able to charge for the summary. They recommend leaving it to self-regulation.
- (9) The Group recommends that direct debit originators be obliged to process, within a defined period, any change of the customer's bank account notified to them either by a customer or (where authorised to do so) by a bank.
- (10) Consumer experts recommend that an EU-wide account number portability system be designed. As a first step, national number portability, in line with the Swedish "Bankgiro" system, could be considered, before EU-wide number portability is introduced. A more simplified unique numbering system for bank accounts has to be considered to allow for an EU-wide account number portability, which would imply reviewing the current IBAN and BIC standards.

3.1.4. Closing charges

Some banks may charge customers for closing their bank accounts. Closing charges increase the cost of switching to another bank and thus constitute an obstacle to switching.

According to the Commission's sector inquiry into retail banking, in more than half of Member States fees for closing current accounts have been abolished⁷³, for example in France, Germany and Italy. However, some countries still maintain them, for example, Austria, Slovakia, and Slovenia.

According to banking industry experts, the PSD addresses the issue of closing charges:

- Article 34(1): *"Termination of a framework contract which has been concluded for a period of 12 months or for an indefinite period shall be free of charge for the payment service user after the expiry of 12 months. In all other cases charges for the termination shall be reasonable and in line with costs."*
- Article 34(2): *"Charges for payment services levied on a regular basis shall be payable only proportionally up to the termination of the contract by the payment service user. If such charges are paid in advance, they shall be reimbursed proportionally."*

Banking industry experts consider that any recommendations of the Group should not duplicate with what is in the PSD.

⁷³ See footnote 1.

Consumer experts emphasise that consumer mobility would be limited if termination charges were applied when the contract is of duration of less than 12 months or less than 12 months have elapsed in the lifetime of the contract. Consumers should be able to terminate a framework contract instantly and without charges to secure mobility and competition. Banking industry experts refer to Article 34(2b) of the PSD, which allows Member States to offer more favourable provisions to payment users.

According to banking industry experts, any measures going beyond what is foreseen in the PSD should be left for self-regulation of banks. Consumer experts think that these measures should be regulatory.

Recommendations

- (1) Consumer experts recommend that closing fees on simple savings accounts be prohibited. Some banking industry experts could support this if this recommendation would not include fixed term savings accounts.
- (2) Banking industry experts and some academics recommend that charges for closing products related to current accounts be clearly indicated in the relevant agreement.
- (3) Consumer experts and one academic recommend that consumers have an opportunity to exit their contract at any time, without penalties (particularly if the decision to switch is due to non-acceptance of new banking or contractual conditions), including when the contracts are of less than 12 months, and they must be reimbursed *pro-rata temporis* for the fees they paid in advance for the services linked to the account (bank card etc.). In particular, consumer experts recommend that closing fees on current accounts be prohibited. According to one banking expert, consideration may need to be given to fees paid relating to third parties, e.g. taxes, the reimbursement of which is beyond the control of the bank.

In addition to the barriers identified above, **cross-border switching** could also entail the same barriers as those identified for cross-border opening of accounts (see section 3.2 below) since cross-border switching involves opening a bank account in another Member State.

According to some banking industry experts, one needs first to assess whether there will be sufficient demand for cross-border switching in the future, before designing the appropriate remedies (whether at voluntary or regulatory level). The technical implications of cross-border switching should be further investigated.

3.2. Cross-border opening

According to banking industry experts, cross-border opening is growing but remains a limited and very segmented “niche” market which primarily concerns specific categories: non residents living near a border, non resident property owners (secondary residence or investment), foreign students, expatriates, temporary workers (tourism, agriculture, building, etc), non-residents having parents living abroad, people married with a foreigner etc.

The Group identified a number of barriers to cross-border opening of bank accounts.

3.2.1. *Legal and regulatory barriers*

Banks are obliged by national or Community legislation to apply anti-money laundering rules, "know your customer" rules, and differing tax rules when opening a bank account to both domestic and cross-border clients. Furthermore, the third Anti-Money Laundering Directive⁷⁴ imposes a higher standard on entities in terms of identifying customers who are conducting business through non face-to-face channels. According to banking industry experts, the most frequent reason for refusing the opening of an account is insufficient knowledge of the customer and therefore the non-compliance with the "know-your-customer" rule.

Recommendations

- (1) The Group recommends that the impact of existing anti-money laundering rules on customer mobility be analysed by the Commission.
- (2) The Group recommends that the impact of divergent legal and regulatory requirements for opening of bank accounts (documentation, storage etc.) in the EU-27 be analysed by the Commission.

3.2.2. *Information barriers and uncertainty*

According to consumer experts, it is difficult for consumers to get information about the offers, about what they need to do and what documents they need to provide. Websites and contact forms are almost always in national languages only. Information is often incomplete.

Requirements imposed on consumers seem to vary not only within a given Member State but also between different branches of one bank. The policy of the head office of a bank may differ from the way the opening of a bank account to a non-resident is handled at branch level.⁷⁵ Banks apply different requirements to prove identification, for example, some ask for a passport, others only for an ID card. Furthermore, in some Member States banks require a prospective customer to have a national health security number, to provide proof of employment or of residence, or even to guarantee that a customer will stay in the country for a certain period of time. Sometimes consumers are required to provide documents that they are unable to provide, for example, retired people are required to provide employment contract.

According to banking industry experts, this is caused by uncertainties about application with regard to non-residents of the rules mentioned under section 3.2.1.

Banking industry experts underline that, while domestically customers generally have a choice as to the channel (branch, internet), they are less likely to have this option at a cross-border level. Travel time and costs is a real obstacle, if any aspect of a relationship may require face-to-face contact. Stricter regulatory requirements are set in relation to non face-to-face business. Relative uncertainties surrounding e-commerce and digital signatures remain. Currently, the check on customers' identity takes place following differing national procedures. For example, in Ireland,

⁷⁴ Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, OJ L 309 of 25.11.2005, p. 15–36.

⁷⁵ Budget & Droits, Test-Achats, September/October 2004, n° 176, p. 41–43.

there is a lack of legal certainty between the Consumer Credit Act and the E-Commerce Act, resulting in doubts as to whether one can conclude a credit agreement electronically. In Germany, the “PostIdent” procedure is used to open an account at an online bank. Under this procedure, the customer downloads the forms needed to open an account from the Internet, his signature is verified by a German post office employee and the forms are then posted to the bank. This time-consuming and costly procedure could be avoided by creating a legal basis expressly allowing customers to open an account throughout the EU by means of a qualified electronic signature.

Banking industry experts also note that there is generally a need to verify addresses (although this is not specified in the Anti-Money Laundering Directive⁷⁶ and is more explicit in the requirement to confirm residency in the Savings Tax Directive⁷⁷ or in the transposition of the Directive into national law). Legal requirements to verify addresses are virtually impossible to reconcile with a mobile population and with bank account mobility, to the extent that it takes place through physical mobility. Difficulties include a lag period in issuance of initial utility bill, several people residing at one address with utility bills being in the name of one individual etc.

In addition, according to banking industry experts, the management of risks in each bank has to follow a very strict set of rules (Basel II) and the discretion left to banks in this area by regulatory rules, which is in any event minimal, may result in different attitudes vis-à-vis potential new customers. New customers (without a credit history) create an additional administrative burden, which will lead to risks costs.

Recommendations

According to the Group, some recommendations under section 3.1.1 will also serve to address barriers to cross-border opening of bank accounts.

Transparency

- (1) Some banking industry experts and academics recommend the promotion of bank websites in more than one linguistic version, especially regarding fees, main contractual conditions and contact forms. Consumer experts see the necessity of disclosure of prices, interests and terms and conditions at the same level as for domestic consumers as well as their legal rights and obligations (applicable law, competent court). The academics recommend that binding measures be adopted in this regard. For some banking industry experts this should be market and demand driven.

⁷⁶ See footnote 74.

⁷⁷ Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments, OJ L 157 of 26.6.2003, p. 38-48.

Information asymmetry

- (2) The Group, with the exception of some banking industry experts, recommends open and non-discriminatory access to all EU banks to the existing registers containing relevant information about customers, such as their credit history, incidents of misuse of means of payment etc. Consumer experts underline the need for wrong data to be corrected and for data protection rules to be respected. According to them, these rules should be adapted so that specific issues in the area of financial services are thoroughly covered. Furthermore, every citizen should obtain his/her credit history from each of the relevant databases before they are opened EU-wide.
- (3) All academics recommend the creation of a unique mobility form, to be filled in by a customer's bank, which would include relevant and useful information on the customer's ability to contract.⁷⁸ The mobility form could include identity and address, duration of a contractual relationship with the old bank and other relevant information, such as previous misuse of means of payment. The validity of the mobility form should be restricted to a short time limit. Consumer experts could support this recommendation if it would be free of charge to consumers and the data protection rules are respected. Some banking industry experts could support this recommendation, provided it is clear who would cover the costs.

Uncertainty

- (4) Consumer experts and academics recommend the prohibition of any administrative requirements which could be considered as direct or indirect discrimination under EU law, particularly with regard to identification requirements or conditions of duration of stay in the EC Member State.
- (5) According to banking industry experts and academics, certainty in areas of e-commerce and digital signatures is critical for true cross-border banking. The Commission should look into issues such as the possibility to open bank accounts throughout the EU by means of a qualified electronic signature in more detail.
- (6) Some banking industry experts recommend that the Commission and national authorities explore whether T.I.N (Tax Identification Number) could be made a direct proxy for residence under the Savings Tax Directive in order to remove address verification requirements which impede new bank account opening. Any existing data protection restrictions on the use of T.I.N as part of ID process should be removed.

⁷⁸ Such mobility form has been promoted by the Council of the Bars and Law Societies of the European Union so as to comply with the Directive 98/5/EC of the European Parliament and of the Council of 16 February 1998 to facilitate practice of the profession of lawyer on a permanent basis in a Member State other than that in which the qualification was obtained.

3.2.3. Commercial decisions by banks

Apart from several countries where there is a legal right to a basic bank account, banks are not obliged to open bank accounts. According to banking industry experts, this freedom to contract is a fundamental principle of market economy, guaranteed in several Member States' constitutions. Furthermore, banks need to make profits, which is an important factor in deciding whether to open a bank account to a particular individual, non-resident or not. Risk is another important factor, which may be the main reason why practices in different branches of the same bank may differ. For cost/efficiency and linguistic reasons, banks cannot provide the service of opening a bank account to non-residents in every branch. They therefore dedicate specific platforms for that. This means that, normally, even if one branch cannot open a bank account to a non-resident, another branch will be able to do so. Banking industry experts emphasise that banks must be left free to make a decision on whether to accept a client on the basis of their risk management assessment.

Consumer experts argue that it is impossible nowadays to participate in social and economic life without a bank account. Consumers without a bank account have severe difficulties to find work and are threatened by social exclusion. That is why the provision of a basic bank account could be installed by means of a universal service obligation, as in the field of telecommunications and energy provision, which has not lead to a detriment for the suppliers.

Banking industry experts point out that the Group did not discuss in depth universal service obligations as such and that, according to them, the issue of social exclusion falls outside of the scope of this report. They underline that there is a common misconception that such an obligation would translate directly into an obligation for all banks to offer a basic bank account. The TILEC report on universal service in banking⁷⁹ outlines different policy options and alternative solutions available to implement such universal service obligation. The report also stipulates that in order to balance and choose among the alternative options, an in-depth cost/benefit analysis is required. Banking industry experts support this latter observation.

Recommendations

- (1) Consumer experts and academics recommend that consumers be provided with information at EU level about banks which offer bank accounts to consumers from other Member States. This information should at least be general information on banks but could also include elements on administrative requirements for bank account opening. According to consumer experts, public authorities and/or consumer associations (provided they are being given the financial means to do so) have to be involved to allow for neutral reporting but they could provide information as well. For some banking industry experts, the key issue would be the level of detail of the information provided.
- (2) According to consumer experts and academics, if there are Member States where banks are not offering bank accounts to non-residents, an investigation into the causes of this in that Member State should be considered.

⁷⁹ "Universal service in banking", TILEC, March 2006. Available at <http://www.tilburguniversity.nl/tilec/publications/report/usobanking.pdf>.

- (3) Consumer experts and academics recommend that customers be granted a legal right to have a basic bank account, irrespective of whether they are nationals or non-nationals in a country. The exact features of this account should be determined at national level. Some banking industry experts could support this recommendation, provided a bank account is not free of charge and provided that such a right would always be without prejudice to the freedom of banks to limit their commercial focus to specific geographic regions and not to conclude contracts with customers outside that region. Also, according to banking industry experts, only banks that operate current accounts for all sections of the population should be covered. Furthermore, in banking industry experts' view, banks should be able to reject applicants in some circumstances, e.g. reasons of fraud, credit risk and/or lack of sufficient identification and verification. According to consumer experts, the granting of basic bank accounts should not be rejected on credit risk grounds. Some banking industry experts recommend self-regulation in this area.

3.2.4. *Opening and closing charges*

A wide range of opening and closing fees exists throughout Member States.⁸⁰

Recommendations

See recommendations under section 3.1.4.

⁸⁰ "Click of the Mouse, European Student looking for a bank to open an account", Alexandre Giraud and Elie Beyrouthy, Euredia, 2004.1 and "L'accès au compte en droit bancaire européen", Alexandre Giraud, CRDE – Université Bordeaux IV, 2005.

ANNEX 1: LIST OF EXPERT GROUP MEMBERS

Name	Organisation	Country
Ms. Lotte AAKJÆR JENSEN	Forbrugerrådet (FBR)	Denmark
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Ms. Anne-Lise EVRARD	Test-Achats	Belgium
Mr. Kim Boyle FOGDE	Danske Bank A/S	Denmark
Mr. Dominique FOREST	BEUC	EU
Mr. Alexandre GIRAUD	Université Jean Moulin, Lyon III	France
Mr. Enrico GRANATA	Associazione Bancaria Italiana (ABI)	Italy
Mr. Marc HEMMERLING	Association des Banques et Banquiers, Luxembourg (ABBL)	Luxembourg
Mr. Arndt KALKBRENNER	Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V.	Germany
Mr. Boštjan KRISPER	Zveza potrošnikov Slovenije (ZPS)	Slovenia
Mr. Simon LELIEVELDT	Nederlandse Vereniging van Banken (NVB)	Netherlands
Ms. Eimer O'ROURKE*	Irish Banking Federation (IBF)	Ireland
Ms. Patricia MOORE**	Lloyds TSB	United Kingdom
Mr. Jacques SAINCTAVIT	Crédit Agricole S. A.	France
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Dr. Jarmila TKÁČIKOVÁ	University of Economics Bratislava	Slovak Republic
Ms. Tineke VAN EERDEN	Consumentenbond	Netherlands
Mr. Patrick WYNANT	Belgian Bankers' Association – Febelfin	Belgium
Mr. Reiner ZORBACH	Dresdner Bank AG	Germany
Observer: European Payments Council (EPC)		

* Replaced Ms. Louise O'Mahony from the Irish Banking Federation from January 2007.

** Replaced Ms. Angela Raper from Lloyds TSB from December 2006.

ANNEX 2: EXAMPLES OF NATIONAL MEASURES TO IMPROVE INFORMATION, PRICE TRANSPARENCY AND COMPARABILITY

In **Italy**, PattiChiari, a consortium of banks, has been established. It involves participation from 161 banks (approximately 27 000 outlets, equal to 83% of the total national territory). PattiChiari's objective is to foster financial education and comparability of services in the financial services, savings and credit. In particular:

- “Bank Accounts Compared”: customers can compare on a web platform the costs of over 500 bank accounts products referred to homogeneous items;
- “Average Reply Terms for Credits”: small businesses can compare the time periods required by individual banks for the grant of credit, based on territorial location and amount. This enables them to carry out a more accurate planning of their investments;
- “Financial Investments Compared”: customers are in a position to assess, based on information and communication tools, the consistency between a given investment and their personal features, make informed choices and be aware of the implications and give continuity to their investments over time.

In addition to the above, PattiChiari has fostered comparability on other services/products, such as structured finance (particularly bonds), service levels of ATMs, timing of the availability of funds deposited by means of checks and products offered under the basic banking services umbrella.

In **France**, a common glossary of the current banking vocabulary exists. Furthermore, since 2003, it is an obligation for banks to sign a current account agreement with their clients. The agreement describes the functioning of the current account and the price of each service. In addition, prices are displayed in all branches and websites and given to consumers for free, if they ask for them.

In **Germany**, banks are required to inform their retail customers about their main banking services and the fees charged for these in a price display on show at their branches. The charges for other services in normal business with retail customers are set out in the comprehensive List of Prices and Services that is also displayed at branches or may be viewed on the Internet. The central associations of the German banking industry have agreed (in the case of the Price Display, in consultation with the Federation-Länder Committee on price information) on a uniform catalogue to make it as easy as possible for retail customers to compare prices.

In **Belgium**, there is a mandatory model with a uniform designation of the services concerned, as well as of any informational material relating to the services and the order of presentation of the same information exists. Furthermore, Belgian law requires banks to, once a year, issue a probative document to all consumers having acquired banking services. The probative document must, for each service or element of information, indicate the unit price of the transaction, the number of transactions completed over the course of the past year, and the total annual cost (where interest is concerned, only debtor and creditor interest must appear on the document). Communication of the above mentioned probative document must be made in writing, if applicable, by account statement.

Furthermore, the Belgian consumer association Test-Achats, in collaboration with the Ministry of consumer protection, developed a bank account cost calculator on its web site: while answering some simple questions, consumers can quickly and easily get a list of the accounts that correspond to their user profile.

In the **Netherlands**, the consumer organisation regularly publishes and compares information on bank account and card fees for its members and the public at large.

In **Ireland**, banks provide information to the Financial Regulator, which publishes regular price surveys comparing features and prices across a range of providers, in respect of various products on internet.⁸¹

⁸¹ www.itsyourmoney.ie.

ANNEX 3: SUMMARY OF NATIONAL SWITCHING ARRANGEMENTS

Switching scheme	Coverage	Re-router	Who does what?				Timing
			Old bank	New bank	Customer	Re-router	
<p>UK Banking Code (2001) Introduced as a result of Cruickshank report. Voluntary with 99% commitment Adherence to the Code is subject to annual reviews by the Banking Code Standards Board.</p>	<p>Current accounts of personal and business customers. Does not directly cover dealing with any cheques a customer may issue during the process of transferring of accounts. Transfer of salary and other regular credits not covered. However, banks tend to provide written details of the new bank details for the customer to use in order to ask employers to change bank account details.</p>	BACS	<p>Gives the new bank information on client's standing orders and direct debits within 3 working days of receiving new bank's request to do this.</p>	<p>Tells a client how the process of transferring the account will work and who is responsible for each step in the process. Tells a client what info old bank will pass to new bank. Tells a client what features he will be offered with the new account. Tells a client how long the transfer is likely to take. Gives a client what he needs to operate the account within 10 working days of approving his application. Provides a client with direct debit and standing orders details received from old bank to enable his/her to check their accuracy. If a client fails to respond within a reasonable period, the new bank assumes that he/she wants all of them to be transferred to the new account.</p>	<p>Chooses whether to close an old bank account. 80% close.</p>	<p>Re-routs direct debits</p>	<p>A new bank will give a customer everything that he/she needs to operate a bank account within 10 working days of approval of application for a bank account.</p>

Switching scheme	Coverage	Re-router	Who does what?				Timing
			Old bank	New bank	Customer	Re-router	
<p>Irish Banking Federation Code of practice on Switching Accounts (2005) and Irish Banking Federation Business Account Switching Code (2006)</p> <p>Introduced as a result of Competition Authority interim report into Retail Banking (2003).</p>	<p>Current, deposit and savings accounts.</p> <p>Current accounts and demand deposit accounts.</p>	–	<p>Provides the new bank with information on customer's standing orders and direct debits. Informs customer's existing direct debit originators of his new account details. Closes old bank account. Transfers the balance to customer's new bank account. Sends an account closing statement to a customer.</p>	<p>Gives a customer a switching pack. Explains to a customer the process and actions required. Sends Account Transfer Form signed by a customer to the old bank. Sets up customer's standing orders on his new bank account once it receives the list.</p>	<p>Generally deals only with the new bank, using the forms provided in switching pack. Informs his/her employer and other credit transfer sources of his new account details (using a sample letter). Signs the Account Transfer Form.</p>	<p>Opening a new account, setting up payment instructions, provision of cards: 10 working days. Closure of old bank account, transfer of balance, notification of new bank and third parties paid by direct debit: 7 working days. The whole switch completed in 10 working days.</p>	

Switching scheme	Coverage	Re-router	Who does what?				Timing
			Old bank	New bank	Customer	Re-router	
Dutch Interbank Switch Support Service 2003: private customers 2004: businesses	Current accounts.	Interpay clearing house, ING Postbank payment hub and individual banks (in case of incoming cross-border transfers).	Cancels standing orders for the old account and provides a customer with a detailed specification. May close an account.	Activates standing orders, as requested by a customer.	Opens a new bank account first. Applies to activate switching service. Informs his/her employer and other credit transfer sources of his new account details (using a standard form). Gives the list of standing orders to the new bank requesting it to activate some or all standing orders on the new account.	All direct debits destined for the old account are automatically re-routed to the new account. Direct debit initiators are automatically informed about new account details for each payment and requested to update their databases. All credit transfers destined for the old account are re-routed to the new account.	Re-routing of payments: 13 months. Application to start switching service: 2 weeks for consumers and 4 weeks for SMEs.

Switching scheme	Coverage	Re-router	Who does what?				Timing
			Old bank	New bank	Customer	Re-router	
Italian switching service for direct debits (RID) and PattiChiari 10th initiative (2006-2007)	Current accounts.	Interbank processors (Centri Applicativi)	<p>Provides a customer with a list of all direct debits (RID) to be moved to the new account.</p> <p>Terminates mandates for collections as from the date communicated to the new bank (and agreed upon by the customer).</p> <p>Should undue collection requests arrive, it informs the creditor that the customer has changed bank.</p>	<p>Provides a customer with a Guide to Switching Bank Account, on request.</p> <p>Requests the customer to authorise the debiting of the new account, the revocation of mandates lodged with the old bank and the acquisition of data from the old bank.</p> <p>Requests the old bank to transfer any direct debit to a new bank account.</p> <p>Agrees with the customer the timing of the switching process.</p> <p>Informs creditors of the change in the customer's account number.</p> <p>Gives formal notice to the customers of the successful closing of the process.</p>	Asks the new bank to transfer its direct debits, and authorises it to perform the relevant activities and use of data (see previous column).	Processes the interbank messages.	5–10 working days.

Switching scheme	Coverage	Re-router	Who does what?				Timing
			Old bank	New bank	Customer	Re-router	
French Guide on Mobility (2005)	Current accounts, savings accounts.	–	Provides a customer with a Guide on Mobility. Free tariff leaflets. Prohibition of direct closing charges.	Provides a customer with a Guide on Mobility. Free tariff leaflets.	<p>Opens a new bank account first.</p> <p>Makes a list of all direct debits, standing orders and credits on the basis of bank account statements.</p> <p>Informs all credit transfer sources about new account details (using a standard letter).</p> <p>Informs all direct debit initiators about new account details (using a standard letter).</p> <p>Asks the old bank to close the old bank account (using a standard letter).</p>		

Switching scheme	Coverage	Re-router	Who does what?				Timing
			Old bank	New bank	Customer	Re-router	
Belgian Bankers' Association Personal Bank Moving File	Current accounts.	–	Provides customer with the Moving File, at his request. Provides complete list of direct debit mandates.		Opens a new bank account. Makes a list of debtors based on bank statements and sends them a notice about a change of bank account to them, using a standard form from the Moving File. Closes standing orders with old bank and opens them with the new bank, using a standard form. Transfers all direct debit mandates to a new bank.		

Switching scheme	Coverage	Re-router	Who does what?				Timing
			Old bank	New bank	Customer	Re-router	
German Cooperative Banks' Account Switching Service ("VR-UmzugsService") ⁸²	Current, deposit and savings accounts.	–	Provides a client with information material. Closes old accounts and transfers the balance to customer's new bank. Cancels standing orders for the old accounts. Eventually gives the new bank information on client's standing orders and direct debits.	Causes the old bank to <ul style="list-style-type: none"> – delete the old accounts and transfer the remaining balance to the new account, – debit the new account by the amount of a debit balance, – terminate remaining standing orders and communicate the standing orders to the new bank. Informs the old bank about <ul style="list-style-type: none"> – returned and destroyed forms and cards, – the clients' new account in order to be debited if further transactions are charged to the old account. 	Opens a new bank account. Informs his/her employer and other credit transfer sources of his new account details. Informs all direct debit initiators about new account details (eventually using standard postcards given to him by the new bank).		

⁸² As an example of switching services in Germany.