

Competition: Commission sector inquiry finds major competition barriers in retail banking

The European Commission has published the final report of its competition inquiry into the retail banking sector. The inquiry has found a number of competition concerns in the markets for payment cards, payment systems and retail banking products. Particular indicators are large variations in merchant and interchange fees for payment cards, barriers to entry in the markets for payment systems and credit registers, obstacles to customer mobility and product tying. Some market participants have already offered voluntary reforms following the publication of preliminary findings on payment cards in 2006 (see [IP/06/496](#) and [MEMO/06/164](#)). The Commission will use its powers under the competition rules to tackle any serious abuses, working closely with national competition authorities. The outcome of the inquiry should boost retail banking competition in the run-up to the creation of the Single Euro Payment Area (SEPA).

Competition Commissioner Neelie Kroes said: “The inquiry has found widespread competition barriers which unnecessarily raise the cost of retail banking services for European firms and consumers. The Commission will make full use of its powers under competition law to tackle these barriers, in the market for payment cards and elsewhere when they result from anticompetitive behaviour.”

Payment cards and payment systems

The European payment cards industry is large and provides the means for consumer payments with an overall value of €1 350 billion per year. Such payments generate an estimated €25 billion in fees annually for banks from EU firms. The Commission's inquiry found indications of several concerns:

- **highly concentrated markets** in many Member States, particularly for payment card acquiring, may enable incumbent banks to restrict new entry and charge high card fees
- **large variations in merchant fees** across the EU. For example, firms in Member States with high fees have to pay banks three or four times more of their revenue from card sales than firms in Member States with low fees
- **large variations in interchange fees** between banks across the EU, which may not be passed on fully in lower fees for cardholders. The Commission is not arguing for zero interchange fees; however, their operation in some payment networks raises concerns
- **high and sustained profitability** – particularly in card issuing – suggests that banks in some Member States enjoy significant market power and could impose high card fees on firms and consumers

- **rules and practises** which weaken competition at the retailer level; for example blending of merchant fees and prohibition of surcharging and
- **divergent technical standards** across the EU prevent many service providers from operating efficiently on a pan-EU scale.

After publication of the interim report on payment cards and systems, the Commission met banks in a number of Member States to discuss where self regulation could address competition concerns. This approach is yielding promising results. Good examples are Austria, Finland and Portugal, where market players have taken initial steps to address the Commission's concerns.

The European banking industry – with the full support of the Commission and the European Central Bank – is working to create a Single Euro Payments Area (SEPA) to improve efficiency and lower the cost of retail payments. The sector inquiry has highlighted several market barriers that should be addressed in the SEPA context.

Retail banking product markets

The EU retail banking industry generates €250-275 billion per year in gross income, equivalent to 2% of EU GDP. Markets are generally fragmented along national lines, divided by factors including competition barriers and regulatory, legal and cultural differences. The sector inquiry found indications of competition problems in several areas:

- in some Member States, the conjunction of sustained high profitability, high market concentration and evidence of entry barriers raises concerns about banks' ability to influence the level of prices for consumers and small firms
- some **credit registers**, holding confidential data that lenders use to set loan rates, may be used to exclude new entrants to retail banking markets
- some aspects of **cooperation among banks**, including savings and cooperative banks, can reduce competition and deter market entry
- **product tying**, e.g. where a loan customer is forced to buy an extra insurance or current account, is widespread in most Member States. This could reduce customer choice and increase banks' power in the market place to influence prices and
- **obstacles to customer mobility** in banking – notably the inconvenience of changing a current account – are high. The inquiry's analysis suggests that banks' profit margins are lower where customers are more mobile.

The sector inquiry opened in June 2005 (see [IP/05/719](#)). Interim reports were published on payment cards in April 2006 (see [IP/06/496](#)) and current accounts and related services in July 2006 (see [IP/06/999](#)).

The final report of the Commission's sector inquiry and associated documents are available at:

http://europa.eu.int/comm/competition/antitrust/others/sector_inquiries/financial_services/

For further information, see also: [MEMO/07/40](#).