



# European Commission final report on the retail banking sector

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## The Commission's findings on market structure and competition

The final report examines two main areas within the overall retail banking sector, payment cards, and current accounts and related services.

Regarding payment cards, the Commission's findings in the final report build upon the conclusions of its earlier interim report. These include concerns over the highly concentrated nature of certain national markets, large variations across the Community in fees and the operation of certain rules and practices.

As for current accounts and related services, the final report largely reflects the findings of the Commission's earlier interim report. That is that, in general, retail banking markets and payment and credit infrastructure remain fragmented along national lines, and there are significant obstacles to switching bank accounts.

Regarding competition, the final report suggests that it is being impeded in the sector, especially within member states (as opposed to cross-border). The Commission expresses a concern that, in a number of member states,

banks may be able to exploit market power over consumers and small firms given high levels of concentration, sustained profitability and barriers to entry.

In coming to these conclusions, the final report identifies a number of industry features that it believes may make the sector susceptible to weak competition. These include the Commission's findings that:

- the banking industry is characterised by a variety of possible entry barriers, such as regulatory rules, network and standardisation requirements or behaviour of incumbents towards new entrants;
- the nature of retail banking activity creates scope for formal co-operation among market players, some of which may extend to strategies, pricing or selling policies. This may lead to collusion, limit competition and/or exclude third parties; and
- competition problems within the industry are exacerbated as a result of information asymmetries between banks and their customers, which contribute to increasing switching costs.

## Identifying areas for potential enforcement action

Specific areas in which action within member states may be required include:

- payment systems (both payment card systems and clearing and settlement systems);
- credit registers;

- co-operation between banks, in particular between savings and co-operative banks; and
- the setting of prices and policies, including product tying.

The Commission also notes that the reduction of switching costs could increase customer mobility, thereby increasing levels of competition.

The final report also indicates that the Commission has identified a number of specific examples of potentially anti-competitive behaviour within member states:

- payment cards – the Commission considers that the prevailing market structure and certain practices may harm competition and be detrimental to consumers by, for example, restricting new market entry and enabling banks to charge higher fees. However, the Commission no longer appears to be arguing for interchange fees to be abolished;
- credit registers – the Commission believes that it has found evidence that shows that registers are being operated in an anti-competitive manner in at least two member states; and
- the setting of prices and policies for core retail banking products – the Commission indicates that it has evidence of convergent behaviour between banks at the national level regarding ATM fees, default charges, account management fees, account closing charges and tying.

## Proposed follow-up action

In view of these findings, the Commission has proposed a number of measures to increase competition in the retail banking sector. These include:

- the possibility of further antitrust enforcement, including further information gathering; and
- monitoring other regulatory and industry initiatives, such as the creation of the Single European Payments Area, and the impact they have on competition.

While the findings on the state of competition in the sector largely reflect the Commission's earlier interim reports, the identification of specific potential problem areas suggests that market participants could face further enquiries, and possibly individual enforcement action, both at the European and the national level.

## Commentary

We would recommend that you review the competition concerns highlighted above in relation to your own organisation. We will continue to monitor and track further action by the Commission and keep you updated on specific developments.

If you would like to discuss any aspect of this report and its likely impact on your organisation in further detail, please do not hesitate to get in touch with your usual contact or

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