

**Neelie Kroes**

European Commissioner for Competition Policy

## **Introductory Remarks on Final Report of Retail Banking Sector Inquiry**

*Check Against Delivery*  
*Seul le texte prononcé fait foi*  
*Es gilt das gesprochene Wort*

**Press conference**

**Brussels, 31<sup>st</sup> January 2007**

Ladies and Gentlemen, the European Commission has today adopted the Final Report of its competition inquiry into the retail banking sector.

The inquiry has found widespread barriers which may raise the cost of banking for consumers and small businesses and deter new players from entering the market.

In some areas the Commission and the national competition authorities may use their antitrust enforcement powers to open markets and stimulate competition. But I am pleased to say that parts of the banking industry are already moving to address the competition problems we have identified.

The Commission's sector inquiry has examined two sets of markets. Firstly, the market for payment cards.

And secondly, the market for current accounts and related services. I will outline our findings in both areas, starting with the market for payment cards.

### **Payment cards**

When we published our preliminary findings on the payment cards market last April, I made clear the Commission's concerns about the extent of competition barriers; the level of card fees in some Member States and the economic effects of interchange fees on the market.

We consulted market participants on these findings and received extensive and valuable feedback. Consumer groups and retailers strongly supported our analysis and urged us to take strong action.

Meanwhile, card networks and many banks disagreed with our analysis and defended their business models. Let me say that we have looked carefully into the arguments and the evidence on all sides.

### **So what are our conclusions?**

Firstly, the entry barriers that we identified are real. There is an effective duopoly for cross-border card payments. But it is not just in the international networks where we see concerns. Several national card schemes run by the main domestic banks are also causing concern.

In several Member States the payment cards networks set a range of discriminatory rules.

Secondly, there is no doubt about the huge variation in payment card fees across the Member States.

Our figures suggest that retailers in some countries pay fees that are up to four times more than in other countries for accepting the same major credit card.

We did not hear a convincing explanation why cost structures differ so greatly across the EU. In my view these high card fees may result from lack of competition in the market, and I would not like retailers and consumers that to be paying more for their cards than they should.

Thirdly, the Commission continues to have serious concerns about the levels of multilateral interchange fees in some card schemes. Our inquiry gathered the best evidence base yet available.

And I'm afraid to say that the evidence we found rebuts several of industry's arguments for the economic benefits of high interchange fees. Card payment networks claim that substantial interchange fees are vital.

And they argue that without these high fees, consumers would be worse off. We have a different opinion. Firstly, the evidence shows that several card networks operate efficiently with low fees.

And secondly, customers already pay the cost of interchange fees, since retailers pass them on in higher retail prices, paid not only by card users but also by customers paying cash. So reducing these fees would, on balance, benefit consumers.

Let me make clear our view of these interchange fees. We are not arguing for their abolition. But it is clear that the present level of interchange fees in many of the schemes we have examined does not seem justified.

As Competition Commissioner I will not – indeed cannot – go further to specify what would be 'acceptable' generic levels of interchange fees across the board, in all Member States.

The effect of these fees on competition varies according to the card scheme in question and has to be studied on a case-by-case basis.

But where the Commission looks at a specific scheme, outside the framework of the sector inquiry, and concludes that the level of interchange fees is unjustified, then we will not hesitate to take appropriate enforcement action on the basis of the EC Treaty's anti-trust rules.

Fourthly, some rules and practices may harm competition at retailer level. For example, 'blending' of card fees – when a retailer is charged the same merchant fee irrespective of the different costs of card types. The ban on surcharging prevents retailers from reflecting different levels of card fees in their final prices.

So consumers do not receive the price signal to use cheaper payment instruments. And joint ventures of acquirers in several Member States mean that retailers have only one 'offer' on the market.

Let me conclude on payment cards on a more optimistic note. Yes, we have found competition concerns in the market.

And yes, we will have to take action. But some market players have already taken steps to modify the structures and the rules and remove entry barriers.

For example, Austrian banks have agreed to (i) review arrangements for setting interchange fees and (ii) foster genuine competition in acquiring between Europay Austria and Visa Austria.

In Ireland – the Laser payment card network has committed to cut its joining fees, which were by far the highest in the EU and Portugal seems to move in the right direction as well. I applaud these initiatives. And I would strongly encourage others to follow suit.

I will turn now to our findings on current accounts and related services.

## **Current accounts and related services**

Markets for retail banking products are largely fragmented along national lines. Our inquiry brings new evidence to explain this fragmentation.

For example, we have found access barriers in key infrastructures – particularly in payment systems and credit registers. Banks need fair access to these facilities to ensure a level playing field for competition. And I regret we are not yet there.

The inquiry has examined the extent of cooperation among banks. Such cooperation can – and often does – result in economic and consumer benefits.

Where, however, independent banks with a significant combined market position enter into cooperation with the object or effect of limiting competition among themselves or excluding new entrants, effective competition can be impeded.

This is a complex area which also involves regulatory issues in some Member States. The Commission will gather further information before considering action.

The inquiry also found that the majority of banks in most Member States force their customers to purchase extra products – such as current accounts or insurance – when taking out a mortgage or a loan. Banks explained that this practice of product tying helps ensure customer loyalty and reduces their credit risk.

I'm sure they're right. But it's not so obvious what's in it for consumers.

Especially as in many countries, there is effectively no choice: all the big banks tie the same sets of products together.

And where such banks are in a position to be able to set prices on these product markets, this raises competition concerns.

Lastly, the inquiry identified a range of unnecessary obstacles to switching bank accounts which weaken competition. I've already mentioned product tying.

But we also see low price transparency and high fees for maintaining and closing accounts in some Member States. The Commission is currently examining these issues further.

## **Single Euro Payments Area**

Let me also say a few words about the Single Euro Payments Area – the SEPA project. The Commission and European Central Bank fully support the industry's initiative.

SEPA has the potential to bring major benefits to the EU economy. It also has the potential to solve some of the problems highlighted by our report.

So I hope to see rapid adoption of the Commission's proposal for a Payment Services Directive to establish the legal framework for SEPA and create an open market for all payment service providers.

We have a good dialogue with the European Payments Council on SEPA.

Where we and the national competition authorities see potential competition concerns, we will work with industry to resolve them quickly, prior to SEPA implementation.

But let me include a word of warning here. The introduction of SEPA should not be used as a pretext by the banking industry to raise prices or lower service quality compared to existing national payment products.

We are aware that in Belgium the transition to the Maestro framework may lead to a steep rise in merchant fees. And this is not an isolated example. MasterCard or Visa debit cards may replace national payment card schemes in several other countries.

We are monitoring the situation closely.

Finally, on interchange fees for payment cards I have made our position clear.

Where we see that interchange fees or entry barriers raise competition concerns in particular card schemes, we will not hesitate to take action under the anti-trust rules – as we have already done in the past.

## **Conclusion**

That concludes my presentation on the results of our inquiry into retail banking. The inquiry has shown the need to address several competition concerns.

The Commission will not hesitate to tackle these obstacles so as to allow consumers and businesses in Europe to enjoy the benefits of an open, competitive banking market.

Thank you for your attention. I am happy to answer your questions.