Advice of the Belgian Competition Authority with respect to retail banking services

(INF-23-011 - *Banks*)

- 31 October 2023 -

I. Executive Summary

This Advice ("Advice") of the Belgian Competition Authority ("BCA") is issued in response to a request from Deputy Prime Minister and Minister for the Economy and Labour Pierre-Yves Dermagne, to assess a possible lack of competition in the retail banking sector due to apparent malfunctions relating, in particular, to the low remuneration of savings accounts in spite of the increase of the key rates of the European Central Bank ("ECB"). Prepared and written in less than 5 months without mobilizing the BCA's usual investigative powers, in the absence of a legal basis for doing so, this Advice can be summarised as follows:

- The Advice observes that the retail banking market in Belgium is currently and historically highly concentrated and has the characteristics of an oligopoly dominated by four major players: BNP Paribas Fortis, KBC/CBC, Belfius and ING. The 2008 financial crisis did not affect the concentration of banking activities in the hands of these four banks. Alongside these four major banks, other players are active in the retail banking market, including independent banking networks (including small and medium-sized generalist banks), banks specialized in private banking and asset management and, to a lesser extent, neo-banks (e.g. Revolut, N26, Aion, Bunq, Monese). The players in the Belgian banking sector are highly solvent, enabling them to absorb financial shocks and to possibly withstand a greater degree of competition without compromising their stability.

- As an oligopoly, the retail banking market displays certain characteristics that facilitate coordination between the main players and limit competition (transparency, offering of similar services, frequent interactions, etc.). In particular, this oligopolistic nature means that the players are capable of easily observe the conduct of their competitors and adopt a similar course of action that reflects their common interests. The BCA notes that the four major banks tend to "ride in peloton" and offer similar consumer products on broadly similar commercial terms. In this respect, interest rates on savings accounts illustrate the absence (or limited degree) of variation in the offerings of the big banks compared to smaller, independent or niche players.

- An initial assessment of the level and development of interest rates on savings accounts indicates that the average return on savings offered by the country's four major banks has historically and systematically been lower than the return on savings offered by the other banks, although the difference between these returns has become very small since 2017. An analysis of the pass-through of the ECB deposit rate to savings rates between June 2022 and May 2023 shows that this pass-through has been slow and incomplete, particularly in Belgium where the pass-through rate of 12% is significantly lower than the average rate of the eurozone (20%) and the rates observables in neighbouring countries (36% for Luxembourg, 35% for France, 26% for the Netherlands and 20% for Germany). According to a number of experts, one of the reasons for this low and delayed pass-through is the lack of effective competition in the retail banking market. The role of competition and its monitoring by the relevant public authorities in disciplining banks' incentives in setting interest rates on savings was also recently emphasised by the President of the ECB.

- A comparison of savings account remuneration systems in other European Union countries reveals the uniqueness of the Belgian system and its impact on the competitive dynamics between banks, particularly due to the dual rate mechanism (base rate and fidelity premium) and the complexity of the interest calculation method. Another specific Belgian feature is the use of depositors' savings to finance mortgage loans, most of which are at fixed rates. This use could also have an impact on the deferred and limited increase in interest rates on savings accounts in Belgium.

- The Advice identifies several obstacles to the competitive dynamics in the Belgian retail banking market. On the demand side, these obstacles are mainly linked to (i) the asymmetry of information and the lack of transparency for consumers, (ii) the lack of customer mobility, (iii) the low elasticity of demand and (iv) the lack of countervailing buyer power. The Advice notes that the supply of these services is also characterised by high fixed costs and other supply-side barriers. Various regulatory barriers make it difficult to enter or expand in this sector (licensing, compliance costs, taxation, etc.). Generally speaking, these barriers are likely to have a negative impact on competition because they increase the market power of existing banks and may discourage entry or expansion. The existence of barriers can also slow down innovation in the financial products and services offered by banks to consumers.

- The Advice suggests a number of ways of stimulating competition in the retail banking market within its existing structure, without jeopardising its stability:

  - Improving information for consumers to enable them to fully exploit competition by comparing offers and choosing the most advantageous. Appropriate consumer information would involve increased publicity for the tools already available (interest rate comparators, account change procedure, etc.), as well as centralising information with a neutral, independent body tasked with educating and protecting consumers.

  - Simplifying the administrative constraints involved in changing banks and solutions to the technical problems associated with this (loss of account history, difficulties in transferring direct debits, etc.). In this respect, the introduction of a Belgium-wide system for portability of IBAN account numbers is worth examining.

- Envisaging a possible termination of the distinction between basic rate and fidelity premium on regulated savings accounts in order to make it easier for consumers to compare savings product offers between and within different banks, and to make use of their mobility to encourage competition. Alternatively, the conditions for granting the fidelity premium could be simplified for consumers.
- Adjusting tax rules to ensure neutrality between investments and savings products, in particular by aggregating savings income eligible for an exemption of the withholding tax up to a particular ceiling.
- Developing other regulated savings instruments along the lines of the French Livret A or Livret d'Epargne Populaire (LEP) as alternatives to traditional savings accounts, and in order to strengthen competition on other savings products. An instrument like the LEP has the merit of taking into account the needs of savers with more modest incomes.
- Mandating products separation and a principled ban on tied sales and other bundled offers, subject to exceptions strictly limited by law and reflecting the consumers' interest, in order to facilitate interbank mobility.
- Developing more effective collaboration mechanisms between the BCA and the various public services/competent public authorities/regulators in the banking sector in order to better monitor and act effectively against possible infringements, for example in the context of or following an in-depth sectoral investigation.

The BCA remains at the disposal of the Minister to contribute to an in-depth reflection on the various avenues envisaged in this Advice and to clarify any possible elements of analysis. In the meantime, the BCA will exercise increased vigilance with respect to potential anti-competitive behaviour within the banking sector and will continue to ensure that banks determine their commercial strategy in an independent way.

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