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COMMISSION STAFF WORKING DOCUMENT

IMPACT ASSESSMENT

Accompanying the document

Proposal for a
DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features

{COM(2013) 266 final}
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1. INTRODUCTION

Every citizen of the European Union should have the right of access to basic banking services throughout the EU, irrespective of their nationality and/or place of residence since access has become an essential condition for participation in economic and social life. Such access is not available to all. Improved access to basic banking services would enable every consumer to fully benefit from the internal market, by for example, encouraging the free movement of persons and facilitating the purchase of goods cross-border.

Furthermore, unclear bank fee information makes it difficult for consumers to make informed choices about which account is best-value for them. Since offers are difficult to compare, EU consumers tend to refrain from switching payment accounts, potentially to an account better suited to their needs. Finally, EU consumers who seek to acquire banking services across borders are often hindered by requirements or practices in domestic markets that place non-residents at a disadvantage. As a consequence, competition in the retail banking sector is hindered. Clearly, these issues and their effects are interrelated, both for the individual and the wider economy. This impact assessment aims to address these problems and thereby:

- **Improve the proper functioning of the internal market and avoid the distortion of competition in retail banking.** The uneven playing field between market actors results in reduced competitive rivalry and missed opportunities within the internal market. Without intervention, there is a risk of further fragmentation in the provision of payment accounts, threatening long-term market integration.
- **Empower consumers by enabling them to make informed choices.** In a competitive and efficiently functioning single market with a high level of consumer protection, EU citizens would have all the tools necessary, and thus be empowered to search for the best product for their needs, whether in their own or in another Member State.
- Allow all European citizens the opportunity to benefit from the single market by promoting economic and financial inclusion and through EU-wide access to basic banking services. Access to basic account services will facilitate financial inclusion enabling all consumers to participate in and benefit from the internal market (including its digital environment). Improving access to this key service constitutes an action of the European Platform against Poverty and Social Exclusion (a flagship initiative of Europe 2020), which is designed to combat social exclusion.[1]

A payment account is one of the most popular and common retail financial services. Through it, consumers conduct many everyday functions, such as receiving salaries or social security benefits, shopping, and paying bills. Consequently, payment accounts are generally known as 'bank accounts' or 'current accounts'. A 'payment account' is defined in the Payment Services Directive[2] and in the Recommendation on access to a basic payment account.[3]

On 28 June 2012, as part of the concept of the 'banking union', EU leaders at the European Council agreed to establish a single supervisory structure for banks in the euro area. The

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[1] The European Platform against Poverty and Social Exclusion: A European framework for social and territorial cohesion [COM(2010) 758], and accompanying document [SEC(2010)1654].

[2] Article 4(14) of Directive 2007/64/EC describes a payment account as "*an account held in the name of one or more payment service users, which is used for the execution of payment transactions*".

[3] Commission Recommendation 2011/442/EU of 18 July 2011 on access to a basic payment account [OJ L 190, 21.7.2011, p. 87–91]. It defines a 'payment account' as "*an account held in the name of one consumer which is used for the execution of payment transactions*".

move towards a European 'banking union' aims to provide a clear longer term perspective on the future of the EU's Economic and Monetary Union. Relevant proposals were adopted in September 2012. Furthermore, the letter from President Barroso to the President of the European Parliament dated 12 September 2012, in relation to the 2012 State of the Union Address, announced proposals in the area of transparency and comparability of bank fees and bank account switching as part of the Commission Work Programme for 2013.[4] Further, the Single Market Act (SMA) II adopted in October 2012 identified a legislative initiative on bank accounts in the EU as one of the 12 priority actions to make citizens and businesses confident in using the Single Market to their advantage. Its aim is to "*give all EU citizens access to a basic payment account, ensure bank account fees are transparent and comparable, and make switching bank accounts easier*."[5]

This impact assessment complements the move towards a banking union in the area of retail banking by:

- Enhancing the functioning of the internal market and strengthening the conduct of banking regime by removing the remaining barriers to the internal market.
- Laying the foundation for a more integrated EU-level treatment of banks and consumers and thus creating a level playing field for all stakeholders in relation to transparency of bank fees, switching and access, while empowering consumers.

Accordingly, this Impact Assessment identifies specific problems in the retail banking sector, (in particular those relating to the restricted access to a payment account, the lack of transparent and comparable fee information and barriers to switching of payment accounts), considers their consequences and analyses the different options for addressing them. Other problems which may also impact on the accessibility, transparency and mobility of payment accounts such as the tying and bundling of payment accounts to other products, social and economic factors (e.g. labour market changes, technological gaps, demographic changes, income inequalities, physical disabilities), the level of banking sector development and the structure of the EU banking industry (e.g. branch penetration) are outside the scope of this initiative.

The focus of this impact assessment is on payment accounts held by consumers. Consequently, accounts held by businesses, even small or micro enterprises, unless held in a personal capacity, are outside the scope of this impact assessment. Furthermore, this impact assessment does not cover savings accounts, which may have more limited payments functions.

In line with the Commission's better regulation approach, policy options need to be considered carefully and their potential impact thoroughly assessed. Comprehensive and comparable pan-EU statistical data in the field of retail financial services is scarce, particularly in relation to payment accounts. Consequently, in order to analyse the problems and the impacts of different options, this report draws on information from a wide range of sources, including academic literature; pan-EU studies (including mystery shopping exercises and the Eurobarometer survey) undertaken on behalf of the Commission; national research by public authorities; mystery shopping exercises and studies at the national level; and reports by the financial services industry and consumer groups. The information from these different sources is generally consistent; where divergences exist, they are noted. The views on the available evidence expressed by stakeholders are taken into account within the assessment.

[4] http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/12/661

[5] "Single Market Act II - Together for new growth", COM(2012) 573 of 3 October 2012, page 16.

Difficulties in collecting and comparing data would be addressed under the foreseen monitoring exercise (see Chapter 9).

2. CONTEXT

2.1. Policy background

European Commission Studies and Research

The Commission has undertaken a thorough review of EU payment account markets over several years. Since the 2007 report of the Sector Inquiry into retail banking, a number of studies have been undertaken. Please see Annex I for further information.

Statements from EU Institutions

There is broad consensus that legislative measures on payment accounts are required in order to open up and improve the functioning of the single market for all citizens. In particular, in its Resolution on a single market for Europeans,[6] the European Parliament called "*on the Commission to submit by June 2011 a legislative proposal on guaranteeing access to certain basic banking services and to improve the transparency and comparability of bank charges by the end of 2011.*" This was reiterated in a recent European Parliament resolution with recommendations to the Commission on Access to Basic Banking Services[7] which asks the Commission to put forward a legal proposal addressing access to basic banking services by January 2013. The report underlines that access to basic payment services is a precondition for consumers to benefit from the internal market, reap the opportunities of e-commerce, and it will also improve social inclusion across the EU. The March 2012 European Council similarly welcomed the Commission's intention to propose a new round of measures on payment accounts designed to open up new growth areas in the Single Market. Finally, the European Economic and Social Committee (EESC) has issued several reports relating to payment accounts[8] which state that retail financial services markets are one of the areas where the greatest shortcomings in the operation of the Single Market have been observed.[9] See Annex I for further details.

2.2. Stakeholder consultation

Since 2007, the Commission has organised several public consultations on account services.[10] There is unanimous agreement that customer mobility and consumer confidence in the area of payment accounts is crucial and that the accessibility of payment accounts and means of payment are vital for fully participating in the economy and society. In the areas covered by this impact assessment, a specific public consultation was held in 2012.[11]

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6 European Parliament Resolution 2010/2278(INI).

7 European Parliament Resolution 2012/2055(INI).

8 *Opinion on the White Paper on Financial Services Policy 2005-2010*, OJ C309, 16 December 2006; *Opinion on the Green Paper on Retail Financial Services in the Single Market*, OJ C151, 17 June 2008; *Opinion on Socially responsible financial products*, C21, p. 33, 21 January 2011; *Opinion on the Communication Towards a Single Market Act – For a highly competitive social market economy – 50 proposals for improving our work, business and exchanges with one another*, OJ C132, p. 47, 3 May 2011; *Opinion on Financial education and responsible consumption of financial products*, C318, p. 24, 29 October 2011.

9 *Opinion on the Communication 'Towards a Single Market Act – For a highly competitive social market economy – 50 proposals for improving our work, business and exchanges with one another'*, OJ C132, 3 May 2011, point 2.2.1.

10 Consultations on the report of the Expert Group on Customer Mobility (2007), on financial inclusion (2009), on access to a basic payment account (2010). See Annex I for details.

11 *Public Consultation on Bank Accounts* (20 March to 12 June 2012). See *Consultation document*, *Summary of responses* and *stakeholders' responses*, published at http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm#consultation and http://ec.europa.eu/consumers/consultations/bank_accounts_consultation-2012_03_20_en.htm

More than 120 replies were received. From consumers and financial services industry, their representative associations at both national and European level, and authorities from half of the EU Member States[12] and from a State of the EEA. In general, all stakeholder groups are aware of the problems in the retail banking sector. More diverging positions emerged on further measures and the level at which these should be positioned, with further nuances across the three areas covered by the consultation, as summarised below.

Access to basic account services

In general, the financial services industry and a number of Member States participating in the public consultation argue that there are no major obstacles for consumers in accessing a basic account. They state that the financial services industry adheres to either the EU Recommendation or similar national provisions to ensure access, concluding that no action should be taken in this area. The financial services industry further emphasises that if any measure were to be taken, it should be at national level to accommodate the different legal and regulatory landscapes across the EU. Any extension of access to basic account services to non-residents is particularly opposed by the banking industry.

On the contrary, consumers, representatives of civil society and some Member States contend that the current situation is unsatisfactory and that difficulties exist in accessing basic account services. Consumers in particular would support a legislative initiative that will ensure access to an account with a range of functionalities likely to enable them to live a normal life. Accordingly, they argue in favour of legislative measures at EU level, to establish an obligation for account providers to guarantee access to a basic payment account to all consumers, albeit with some flexibility for national circumstances. This flexibility is necessary due to different characteristics of national markets and different levels of unbanked consumers in the Member States.[13] Consumer representatives have previously argued that self-regulation or a Recommendation would be ineffective since ensuring access to a payment account is neither a priority for the financial services industry nor for Member States.[14] In terms of concrete impediments to access the following are cited: consumers' financial situations (i.e. low income); high costs of account services; consumers' lack of confidence in the banking system; unsuitability of the products offered by banks; and insufficient financial education.

Presentation and ease of comparison of bank fees

All stakeholder groups recognise the difficulties that exist in relation to transparency and comparability of fees. Specific causes identified by consumer groups and several Member States include: complex and diverse business models of banks across countries; issues linked to the offer of packaged services; charging structures; varying terminology across banks; the speed with which new and innovative products enter the market; cross-subsidisation within retail banking, and lack of clear legislation in this area.

All citizens and consumer groups and a number of Member States participating in the public consultation highlight the importance of coordination across the border and support EU level initiatives. Others, such as the majority of financial industry respondents and other Member States, consider action should be conducted at national level initially. One Member State does not see any grounds for intervention at EU level at this stage.

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[12] Replies from public authorities include: Austria, Belgium, Czech Republic, Estonia, Spain, France, Finland, Hungary, Ireland, Lithuania, Latvia, Netherlands, Poland, United Kingdom as well as Norway.

[13] *Summary of responses to the public consultation on financial inclusion: ensuring access to a basic bank account*, 14 September 2009. http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/consultation_summary_en.pdf

[14] *Ibid.*

The majority of Member States and financial services industry respondents consider that any measures implemented at EU level should take into account existing national initiatives and the need for flexibility. For one bank, while there is no need for EU action, the real issue is the lack of a European retail financial market. Some banks are open to considering a coordinated EU approach in specific areas (e.g. glossaries), but stress the difficulties that such an approach would entail. Most respondents from the financial services industry stress the need for a balance between ease of comparison and excessive standardisation affecting differentiation, qualitative aspects and particularities of national markets.

Payment account switching

Consumers and representatives of civil society argue that banks do not always offer services aimed at facilitating switching. Even where such services are provided, they do not fully comply with the provisions of the Common Principles on bank account switching ("Common Principles").[15] However, the financial services industry considers that most providers offer a switching service in line with the Common Principles. Public authorities tend to fall between these two groups, stating that while most banks across the EU offer a switching service, this service is not always entirely compliant with the Common Principles. Several respondents highlight at least one remaining obstacle to switching; these include the risk of direct debits being redirected, and the possibility of mistakes occurring due to insufficient cooperation between banks and third parties. Public authorities note that bank staff lack awareness of switching services, often due to insufficient training, and that consumers are provided with insufficient information. One public authority considers the Common Principles to be a half-way measure.

Consumers, civil society and Member States consider that the ineffective application of the Common Principles cause delays in the switching procedure, problems with transferring direct debits, a lack of cooperation from and charges imposed by the old bank, a lack of information on the switching process and a lack of preparation of the bank staff. Conversely, the financial services industry argues that the Common Principles solve most of consumers' problems, though it splits on whether misdirection of payments remains an issue. The industry adds that issues with switching facilities are not a key factor in impeding access to the market for smaller financial services providers.

There are mixed views as to whether the Common Principles should be made compulsory. Several Member States and the financial services industry believe that the Common Principles should remain voluntary. Other Member States are more receptive to making the Common Principles compulsory, as this would guarantee more effective enforcement of the provisions. Consumers and representatives of civil society strongly believe that the Common Principles should be made binding.

Consumers are also favourable to measures on the portability of payment account numbers and the automatic redirection of payments. Stakeholders are split as to whether any initiative should also cover cross-border switching. Some public authorities and consumers appear favourable to the introduction of measures covering cross-border switching; others, in addition to the financial services industry, do not.

15 The Common Principles, developed by the European banking industry in 2008, define a model switching aiming at such a facilitation of switching by clearly defining the process of switching (deadlines, tasks of the two banks involved, limiting of certain cost to consumer) and providing for adequate information and assistance to the consumer by bank staff.; *The Common Principles for Bank Account Switching*", http://www.eubic.org/Position%20papers/2008.12.01%20Common%20Principles.pdf

2.3. Market overview

Payment accounts are provided by payment services providers. While in theory, this can cover both payments institutions (i.e. those that are not credit institutions) and credit institutions, in practice, the majority of bank or payment accounts are provided by credit institutions. Data on accounts provided by payment services providers that are not credit institutions is not available; consequently, in this analysis, the focus of the data, where available, is on accounts provided by credit institutions.

2.3.1. Size of EU payment accounts market

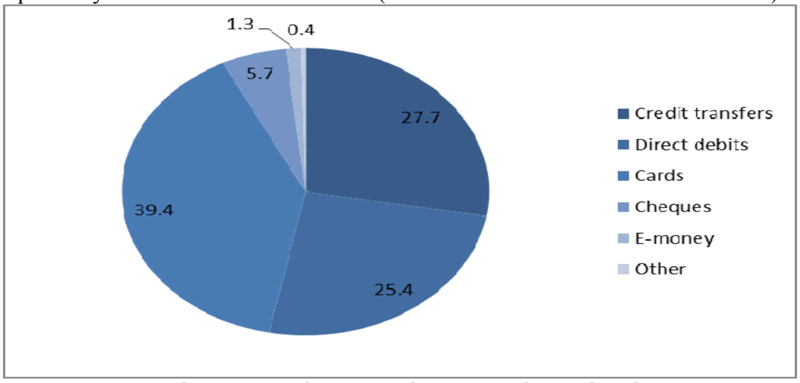
There are at least 368 million payment accounts in the EU.[16] The precise figure is likely to be considerably higher; first, the data excludes those under the age of 15 with payment accounts (though this is a relatively small group); second, the data excludes the possibility that consumers may have multiple payment accounts (multi-banking), which is prevalent in, for example, the UK; third, the figures do not include many dormant accounts. Conversely, the figure may be slightly inflated due to a small number of jointly-held payment accounts. While there is limited data on individuals' access, there is even less data on household access, creating a risk that this data lacks reliability.[17]

Retail banking represents over 50% of total banking activity in the EU.[18] It remained the most important sub-sector of banking which accounted for more than 50% of its total gross income in the EU.

2.3.2. Payment accounts

A payment account usually has a range of different services attached to it, such as the ability to place money in an account, to withdraw cash, to execute payment transactions, to conduct direct debits and credit transfers as well as the provision of a payment card (see Graph I below). Consequently, a payment account plays an important role in the integration of consumers into the wider economy. While there has been a steady growth of the use of card payments, credit transfers and direct debits over the period 2000-2010, the use of cheques has fallen.

Graph I: Payment transactions in the EU (% of the number of transactions in 2010)



Source: ECB data, Statistical Data Warehouse, 2010, http://sdw.ecb.europa.eu/

16 Estimate by Commission services based on the number of EU citizens above the age of 15 with a payment account. Source: *Measuring Financial Inclusion, The Global Findex Database,* World Bank, April 2012 and Eurostat.

17 Similar conclusions are reached in *Measuring Financial Inclusion, The Global Findex Database,* World Bank, April 2012, p. 5.

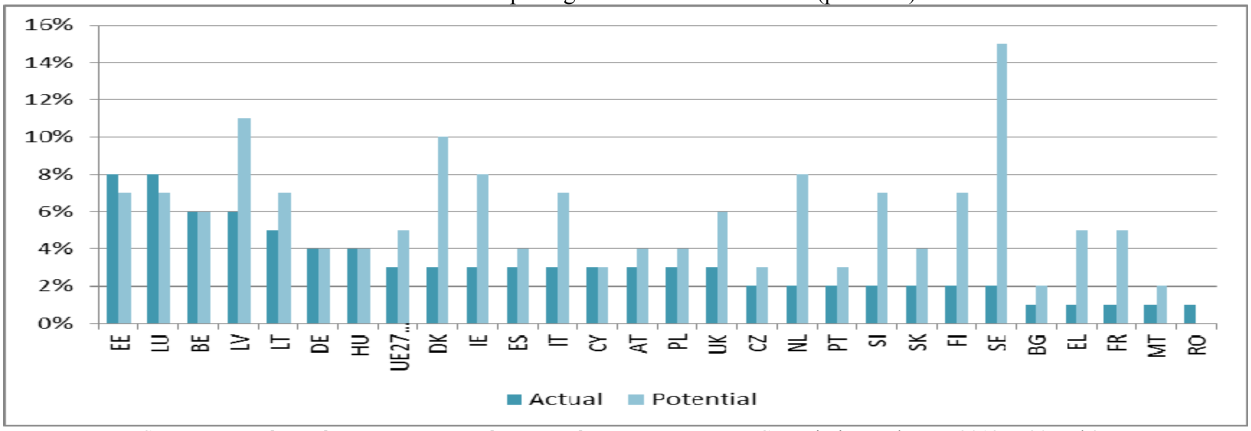
18 In most EU Member States, the size of national financial sectors oscillates between 2 and 4 times the domestic GDP; however, in some of them it exceeds by far the country's GDP, e.g. 22 times in Luxembourg and more than 6 times in Malta, Ireland and Cyprus.

2.3.3. *Cross-border activity*

In general terms, it is unusual for consumers to purchase retail financial services directly cross-border; 94% of consumers stated that they have never bought a financial product outside their home country[19] although e-commerce means that often consumers buy abroad without even realising it. Payment accounts are, however, the financial services product most likely to be purchased cross-border, with 3% of EU consumers stating that they have opened a payment account in another Member State.[20]

The number of consumers who have opened a payment account cross-border varies considerably from around 8% in Estonia and Luxembourg to 1% in Romania, Bulgaria, Greece, Malta and France.[21] Despite generally low levels of cross-border activity, the potential interest in opening a payment account cross-border is generally higher across the EU. (See Graph II).

Graph II: % of consumers that have opened a payment account cross-border (actual) and who would consider opening an account cross-border (potential)



Source: *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012, p.30 and 35

At present, direct cross-border provision of payment accounts is driven by the supply side rather than the demand side. Financial services providers can supply payment accounts cross-border in two ways: through local presence (e.g. branches, subsidiaries, mergers and acquisitions) or through direct distribution channels (e.g. via telephone or the internet).

2.4. Existing policy and legislative framework

2.4.1. *EU level*

In July 2011, the Commission adopted a Recommendation on access to a basic payment account[22] which set out principles to guarantee consumers access throughout the EU. The Recommendation also affirmed the right of any consumer, irrespective of his/her financial circumstances, to open and use a basic payment account even in a Member State where s/he does not permanently reside, provided that the consumer does not already hold a payment account in that country. A basic account should be offered free or at a reasonable charge. Member States were to ensure that at least one provider is in charge of offering basic payment accounts in their jurisdiction and to guarantee that providers use transparent, fair and reliable systems to verify whether consumers already hold an account. They must, when refusing an application, immediately inform the consumer of the grounds in writing and free of charge.

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19 *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012, P31, http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm

20 *Ibid.*

21 *Ibid.*

22 Commission Recommendation 2011/442/EU (see footnote 3).

The Commission invited Member States to ensure that basic payment accounts include a number of services. These comprise the provision of a debit card, the ability to make deposits and cash withdrawals, and the possibility of execution of payment transactions – including direct debits and credit transfers.

In addition, access to a basic payment account should not be made conditional on the purchase of additional services, and the provider should not offer, explicitly or otherwise, any overdraft facilities in conjunction with a basic payment account. Providers should make information available to consumers about the specific features of the basic payment accounts on offer, their associated charges and their conditions of use.

Member States were also to launch public campaigns to raise consumer awareness about the availability of basic payment accounts and ensure that payment service providers make information available about the specific features of the basic payment accounts on offer, their associated charges and their conditions of use. Finally, Member States were to designate competent authorities to monitor effective compliance with the principles set out in the Recommendation and to ensure that appropriate and effective complaints and redress procedures were established for the out-of-court settlement of disputes concerning the rights and obligations established under the principles set out in the Recommendation. The Commission set 21 January 2012 as a deadline for Member States to implement the Recommendation after which the Commission committed to conduct a review.[23] Based on the information provided by Member States, the Commission in August 2012 published a follow-up report presenting the state of implementation of the Recommendation in each Member State.[24] The data presented in the report proved that the implementation of the Recommendation was largely inadequate, as only three Member States broadly complied with it and more than half the Member States had no framework in place at all to promote the right of access.

The Payment Services Directive (2007/64/EC) introduced certain transparency obligations for EU payment service providers, which would complement the proposed initiative. Payment service providers have to provide certain information before a payment service is undertaken. This includes terms and conditions; information on the payment service provider itself; features of the payment service and its associated charges, and additional information once the payment has been completed. The Payment Services Directive does not, however, contain any obligations on the format of the disclosures nor does it address non-payment related information. The Payment Services Directive is currently subject to a formal evaluation by the Commission and a report will be published shortly in line with Article 87 of the Payment Services Directive.[25]

In August 2010, the Commission asked the European Banking Industry Committee (EBIC) to improve the clarity, comparability and transparency of account fees and to ensure that account fee information is easily available to consumers. Despite significant efforts until the end of 2011 to establish a principles-based industry self-regulatory code, the initiative failed miserably, producing no results whatsoever.

In 2007, following the sector inquiry into retail banking[26] and as announced in the Single Market Review,[27] the Commission asked EBIC to make it easier for consumers to move their

23 Commission Recommendation 2011/442/EU (see footnote 3).

24 Commission Staff Working Document: National measures and practices as regards access to basic payment accounts - Follow-up to the Recommendation of 18 July 2011 on access to a basic payment account, 22.08.2012 http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/followup_en.pdf

25 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:319:0001:0036:EN:PDF

26 COM(2007) 33, 31.1.2007 and SEC(2007) 106, 31.1.2007

27 SEC(2007)1520

accounts from one bank to another. An in-depth analysis of the problems and potential solutions, alongside a preliminary involvement of the Impact Assessment Board on this issue, underpinned the launch of a self-regulatory initiative and in 2008, EBIC developed the Common Principles for Bank Account Switching.[28] These apply to the switching of current accounts within a Member State. Implementation by national banking associations was to be completed by the end of 2009. EBIC has stated that they have been implemented by all Member States.[29] However, research has shown that self-regulation has not achieved the necessary results; implementation of the Common Principles is incomplete and inadequate[30] and customer mobility and competition remain impeded.[31]

2.4.2. Member State level

Access to basic account services has not improved since the adoption of the Recommendation. Only three Member States (Belgium, France and Italy) have a framework in place that is broadly in line with the Recommendation and in Belgium and France it already existed prior to the adoption of the Recommendation. While some countries have a general legal framework[32] or self-regulatory rules,[33] these frameworks hardly comply with the Recommendation, and in almost half of Member States,[34] there are no rules in place and few plans to introduce them.

Research on account information at national level[35] showed a range of initiatives directed at improving transparency and comparability of bank fees related to payment accounts (Table 1).

Table 1: Types of initiatives to improve transparency and comparability of bank fees

Tools for consumers	A) Glossaries B) Disclosure of information on fees C) Comparison tools D) Financial education and informative initiatives
Tools for public Authorities	E) Enforcement actions F) Market studies allow identifying the need to intervene in some circumstances;
	G) Combined initiatives

In the public consultation on bank accounts, several Member States referred to internal reports, studies and surveys aimed at analysing the persisting difficulties as regards presentation and comparability of bank account fees.[36] Despite the variety of initiatives, their

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28 *The Common Principles for Bank Account Switching*, http://www.eubic.org/Position%20papers/2008.12.01%20Common%20Principles.pdf

29 EBIC reports: 2009 and 2010 available at: http://www.ebf-fbe.eu

30 Notably the mystery shopping studies performed on behalf of the European Commission in *Consumer Market Study on the consumers' experiences with bank account switching with reference to the Common Principles on Bank Account Switching*, GfK, January 2012 (http://ec.europa.eu/consumers/rights/docs/switching_bank_accounts_report_en.pdf) and by BEUC and also demonstrated in studies performed at national level (UK, Ireland, Austria) cited below .

31 See Section 3.2.3 for more details.

32 Denmark, Estonia, Finland, Lithuania and Luxembourg, Portugal and Sweden.

33 Germany, Hungary, Ireland, the Netherlands and the UK.

34 Austria, Bulgaria, the Czech Republic, Cyprus, Greece, Spain, Latvia, Malta, Poland, Romania, Slovenia and Slovakia.

35 *Market study of the current state of play in Member States regarding initiatives in bank fee transparency and comparability in personal current bank accounts.* Van Dijk Management consultants, 2011, http://ec.europa.eu/consumers/rights/docs/1912012_market_study_en.pdf

36 In France: "*Rapport de Georges Pauget et Emmanuel Constans sur la tarification des services bancaires*", 07/2010 (http://www.ladocumentationfrancaise.fr/var/storage/rapports-publics/ 104000365/0000.pdf). In Hungary, the Hungarian Financial Supervision Authority: "*Financial consumer risk report*", 09/2011 (http://www.pszaf.hu/data/cms2325056/CP_riskreport_2011H1.pdf) and "*Consumer protection risk report*", 03/2011 (http://www.pszaf.hu/data/cms2309653 /cons_report_2010H2.pdf); the Central bank of Hungary: "*Study on the pricing of payment services, also focusing on pricing in different customer groups*" (recently conducted Publication of the survey results is forthcoming); the Hungarian Competition Authority, GVH: "*Survey on switching service*" (completed in 2006-2007, available only in HU language, at http://www.gvh.hu/gvh). In Ireland, the IE Central Bank: "*Review of the transparency of fee brochures and account statements of personal current accounts to improve the transparency of*

application (e.g. 58% of the initiatives on disclosure of information on fees were backed by legislation whilst 42% were through self-regulation) and relevance to payment accounts (e.g. none of the glossaries identified were specific to current accounts) differ widely. Please see Annex III for further information.

The Common Principles have been implemented by national banking communities through industry codes, recommendations, guidelines or interbank agreements. Legislative measures have only been taken in Ireland, where a statutory Switching Code replaced the Voluntary Switching Code on 1 October 2010.[37] Some national banking communities have applied the switching provisions to other products or services.[38] In order to assess how banks assist consumers with payment account switching – and to what extent banks offer the switching service as defined in the Common Principles – the Commission contracted a mystery shopping study[39] in 2011 which found that the large majority of consumers (80%) faced difficulties in switching.[40] In their response to the public consultation a number of industry representatives have questioned the validity of the conclusions reached by this mystery shopping exercise. The main criticisms related to the limited sample of mystery shoppers relative to the number of holders of a payment account and its seemingly divergent results when compared to the Eurobarometer[41] survey. The Commission has acknowledged these criticisms. However, while the technique of mystery shopping can provide for first hand insights into consumer experiences, it may not be feasible nor reasonable/(cost-effective) to carry out large scale mystery shopping exercises to achieve a statistically representative population sample.[42] This study comprised a sample of nearly 1400 enquiries across all 27 Member States and targeted mainly large market players so as to cover at least 80% of the current account market share of each Member State. It is therefore the single most recent assessment of the situation across Member States on a comparable basis. Moreover, all studies providing for an assessment of the functioning and effectiveness of the switching process performed at national level, broadly confirm the results of the EU-wide mystery shopping study.[43]

Regarding the seeming discrepancies of results of the mystery shopping study and the recent Eurobarometer, we would like to clarify that even though both studies provide for valid data based on representative EU-wide samples, the two studies assessed different issues. Whereas the mystery shopping study aimed at a detailed assessment of the functioning and

banking products", July 2009 (http://www.centralbank.ie/regulation/processes/consumer-protection-code/compliance-monitoring/Documents) as part of the work set out in its 2007-2009 Strategic Plan. In the UK, several analyses conducted by the Office of Fair Trading between 2008 and 2012.

37 *Code of Conduct on the Switching of Current Accounts with Credit Institutions*, Central Bank of Ireland, 2010, http://www.centralbank.ie/regulation/processes/consumer-protection-code/documents/

38 See Annex IV for more information.

39 *Consumer Market Study on the consumers' experiences with bank account switching with reference to the Common Principles on Bank Account Switching*, GfK, February 2012 (http://ec.europa.eu/consumers/rights/fin_serv_en.htm#fin).

40 See Annex IV for more information.

41 *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012, p.87 http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm

42 If, for example, we wished to have a statistically significant sample of 1% of account holders, we would need to have a more that 3.68 million enquiries, which would be unreasonable.

43 Examples:

- *Tarifs et mobilité bancaires: le désolant palmarès des Banques*, UFC Que Choisir, October 2010, http://image.quechoisir.org/var/ezflow_site/storage/original/application/961abc610b3b1f8bd82e9ad5ed117a5f.pdf
- *Central Bank Inspection and Mystery Shop Identifies Concerns about Information Provided on Current Account Switching*, Central Bank of Ireland, December 2011, http://www.centralbank.ie/press-area/press-releases/Pages/CentralBankInspectionandMysteryShopIdentifiesConcernsaboutInformationProvidedonCurrentAccountSwitching.aspx
- *Kontowechsel: Wie funktioniert er?*, VKI, March 2010, http://www.arbeiterkammer.at/bilder/d118/Studie_Kontowechsel2010.pdf

effectiveness of the switching process and of the Common Principles in practice, the Eurobarometer was geared at assessing the number of consumers that would be a priori interested in switching providers (without making any reference to the industry switching mechanism). Therefore, the results of the two exercises are not directly comparable.

2.5. Procedural aspects

2.5.1. The Impact Assessment Steering Group

An Inter-Service Impact Assessment Steering Group (IASG) was established in February 2012. It was jointly chaired by DG Health and Consumers and DG Internal Market and Services and included representatives from DG Competition, DG Economic and Financial Affairs, DG Employment, Social Affairs and Inclusion, DG Enterprise and Industry, Joint Research Centre, DG Justice, DG Taxation and Customs Union, the Secretariat General and the Legal Service. It met on 2 March, 27 April, 5 July and 16 July 2012. The minutes of the last IASG meeting were sent to the Impact Assessment Board.

2.5.2. The Impact Assessment Board

The report was submitted to the Impact Assessment Board (IAB) on 27 July 2012 and discussed at the meeting of 5 September 2012.

2.5.3. Opinion of the IAB

In its first opinion, the IAB asked for a revision of the document, taking into account its main recommendations for improvement. The following modifications were made:

- The problem definition is improved through: a reinforced presentation of the interlinks (Sections 3.3 and 3.4); a more detailed and precise description of the scope of evidence generally available in the Introduction Chapter and throughout the text; arguments demonstrating that the problem drivers omitted from the analysis are not critical for the envisaged outcome in Chapters 3 ("Problem definition") and 6 ("Policy options"); aspects related to the transnational dimension of the identified problems in Chapter 3, including a better description of the baseline scenario on 'access', and a more comprehensive analysis of the follow-up given to the Recommendation on access.
- Better explanation of the subsidiarity and proportionality questions is provided in the problem definition section and in Chapter 5 ("Need for EU action"). These now cover, specifically, the reasons why the envisaged actions must be taken at EU level in order to achieve the general objectives; the proportionality analysis has been strengthened in the description of policy options for each area in Chapter 6, their assessment against criteria related to costs and benefits in Chapter 7 ("Impact analysis and comparison of policy options") and, in particular, in Section 8.2 of Chapter 8 ("The preferred policy option and its impact"), which is now devoted to the proportionality of the preferred set of policy options.
- In terms of the improved presentation of options and expected impacts, a new Chapter 6 is fully devoted to the presentation of the policy options; a new Chapter 7 provides a comparative analysis of the policy options under each individual area, which determines the best approach for the three issues covered by this report; the content of the preferred package is now described in more detail in the introduction and the first paragraph of the new Chapter 8, including a comparison of different combinations of options; finally, Chapter 9 deals with the evaluation and monitoring aspects of the preferred option.

- References to views expressed by stakeholder groups have been moved from Annexes (II, III and IV) to the main report, notably in Chapter 6 and 7. New references from the public consultation have been added, where relevant, providing a more concrete account of the stakeholder views (e.g. magnitude of the problem).
- Finally, the revised Impact Assessment report includes a number of more technical comments, including a more careful and transparent presentation of the evidence base.

In its second opinion, the IAB raised the following main points for review: i) provision of more robust evidence of the problems in the three areas, a more in-depth analysis of their cross-border dimension and a clearer explanation of the interlinks between them; ii) better demonstration of subsidiarity and proportionality of the options involving binding measures on access, fee transparency and switching; iii) improved presentation of the elements retained in the preferred package of options and its assessment against the baseline scenario; iv) more explicit references to stakeholder critical views. A number of changes were made to the Impact Assessment in response to the IAB's comments. In particular, data and analysis of problems in the area of access (relating to table 3 in paragraph 3.2.1) was improved to better indicate the existing regulatory framework in this area. Cross border aspects in the problem definition for transparency and switching were strengthened with additional examples and references to data (paragraphs 3.2.2 and 3.2.3). A number of examples were added in the description of the links between the problems in the three different areas in Section 3.3. Complementary information was provided in the subsidiarity assessment in the areas of fee comparison and switching (Chapter 5). A new Section (8.1) was introduced to improve the presentation of the elements of the preferred package of options, including a comparison with alternative packages assessed against the 'no action' scenario. Where relevant the critical views expressed by stakeholders during the public consultation were set out more clearly throughout the text, notably with respect to the methodology used to gather evidence (mystery shopping exercises).

3. PROBLEM DEFINITION

This chapter identifies the problems and their drivers that create barriers to the creation of a well-functioning internal market for payment accounts, with effects upon both consumers and businesses.

3.1. Drivers

Market failures

Market failures occur when market forces fail to lead to an optimal outcome. The two main sources of market failure in relation to the issues covered in this report are information asymmetries and misaligned incentives (e.g. conflicts of interest).

With information asymmetries, market actors may fail to take decisions that are in their best interests because they lack information. An account provider is better informed than a consumer about the account features, whereas the consumer is better informed about his own personal and financial situation. The role of payment accounts as gateway products also creates information asymmetries between incumbent providers and potential new entrants.

As regards misaligned incentives, providers may seek to sell the most expensive payment account, whether or not its features or attached services respond to a consumer's needs. A consumer may wish to open an inexpensive account, but providers may consider them as risky or non-profitable, and refuse them that account. Furthermore, the role of accounts as gateway products may add to these issues: while consumers search for a product meeting their needs, providers aim to attract consumers whom they can sell additional products to. In some cases consumers may be prevented from participating in the market as a consequence. The European Consumer Organisation (BEUC) notes this problem, indicating that low income is a reason why banks refuse consumers an account.[44]

Varying regulatory framework and limitations of self-regulation

Regulation is designed to address market failures, but ill-designed, inconsistent, or ineffective regulation will not do so. In relation to switching and fee transparency, the current regulatory differences across Member States are exacerbated by the failure of self-regulatory initiatives; and with regard to access, by Member States' reluctance to implement the Recommendation.

Other factors

Other factors, described below, may impact upon payment account mobility and consumer choice, but these factors are beyond the scope of this initiative.

First, low levels of financial literacy may worsen the information asymmetries described above.[45] Even if enhanced financial education could help in improving financial knowledge and confidence of consumers, it nevertheless has certain limits and is not sufficient in increasing accessibility to financial services. It usually offers very basic knowledge which has limited use when a consumer is confronted with relatively complex aspects of financial products (e.g. compound interest rate) or when, as this often is the case, there is a significant time lag between the moment the person benefits from financial education and the time when s/he needs to apply the taught concept when buying a financial product, or opening a bank account. Therefore, financial education should not substitute but rather complement simple and objective information offered by providers. Also, these initiatives rarely reach general public focusing instead on a small group of consumers whereas a broad lack of awareness of payment account facilities and their conditions may in fact cause self-exclusion, particularly among vulnerable consumers. For instance, in Belgium despite there being a legal right to a basic account, 63% of those without an account surveyed in 2011 thought a bank would reject their application.[46] Therefore – as stressed by users' representatives – it is essential that consumers understand their right to access a basic payment account.[47]

It is thought that improved financial literacy is unlikely to significantly impact upon the payment account market and would not solve consumers' problems across the board. In any event, research[48] carried out for the Commission in 2010 concluded that it was doubtful that the lack of financial literacy – in particular lack of knowledge – could be effectively tackled by a policy intervention in the form of financial education, a view supported by the 2008 UK FSA study[49] on behavioural economics and financial capability, and a US study[50] on the provision of financial literacy courses in US high schools. The Commission has nevertheless sought to improve financial literacy amongst EU consumers. In 2007, the Commission adopted a Communication on improving financial education.[51] The content of this Communication remains valid today and Member States are encouraged at the European and

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44 BEUC response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 20.

45 *2012 Public consultation on bank accounts* (see footnote 11), p. 19.

46 *Rapport Inclusion Financière* 2011, Réseau Financement Alternatif, 2011, http://www.financite.be/financite/recherche,fr,152.html#_tude

47 *2012 Public consultation on bank accounts* (see footnote 11), p. 10.

48 Consumer Decision-Making in Retail Investment Services, November 2010, p. 40, http://ec.europa.eu/consumers/strategy/docs/final_report_en.pdf

49 Financial Capability: A Behavioural Economics Perspective, Financial Services Authority, p. 7-8

50 The Impact of Financial Literacy Education on Subsequent Financial Behavior, Lewis Mandell and Linda Schmid Klein, 2009, p. 17-18, http://www.afcpe.org/assets/pdf/lewis_mandell_linda_schmid_klein.pdf

51 COM(2007) 808 final.

international level (e.g. OECD) to make efforts to improve financial literacy. While the Commission study mentioned above stated that policy intervention could not improve literacy, it did conclude that simple, standardised product information could significantly improve financial decisions.[52] In addition and given the limits of financial education, it is considered that objective and independent financial advice could further help in opening of the market of retail financial services, including access to bank accounts, to consumers who are distrustful with financial institutions or do not use financial products commonly.

Second, the tying or bundling[53] of products or services to a current account may also influence consumers' decisions relating to the opening and switching of accounts. Payment accounts are "gateway" products through which consumers can access – and providers can sell – other financial products. As according to the World Bank report: "*for most people, having an account serves as an entry point into the formal financial sector. A formal account makes it easier to transfer wages, remittances, and government payments. It can also encourage saving and open access to credit*."[54] The most recent EU data available[55] found that there was extensive tying and bundling of current accounts with other products. Almost all banks in Hungary, Latvia, Lithuania and Slovakia tie current accounts to consumer and mortgage credits.[56] This is mainly caused by current account customers having regular contact with providers, and the providers holding high levels of customer-specific information.[57]

While cross-selling, in particular bundling, can offer consumers benefits in the form of a better price, tying significantly limits customer mobility.[58] These practices can forcibly secure consumers' 'loyalty' to a payment account since it may be costly or burdensome to cancel the contracts of insurance, investment or credit products linked to the account. Low fee transparency and other barriers to mobility[59] further enshrine these practices and consumers' reluctance to move. The most substantial impact on mobility in the context of cross-border demand concerned those contracts where a current account was a gateway product.[60]

Tying and cross-selling are currently being dealt with in a series of sectoral initiatives that are subject to negotiations in the European Parliament and Council.[61] The tying and bundling of payment accounts to mortgage credits is under discussion in the context of negotiations on the Directive on credit agreements relating to residential property.[62] Should tying be forbidden, but bundling be permitted (as proposed by the European Parliament and supported by the Commission), this initiative would increase in importance: clear and understandable bank fee

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52 Consumer Decision-Making in Retail Investment Services, November 2010, http://ec.europa.eu/consumers/strategy/docs/final_report_en.pdf

53 Tying occurs when two or more products are sold together in a package, and at least one of these products is not sold separately. Tying should not be confused with bundling where financial institutions sell two or more products together as a package at a discount despite each product being available separately. Source: SEC(2007) 106, European Commission, 31.1.2007, p. 77; *Interim report II: current accounts and related service*s, European Commission, 17.7.2006, p. 96.

54 *Measuring Financial Inclusion, The Global Findex Database*, World Bank, April 2012, p. 11

55 *Interim report II: current accounts and related services*, European Commission, 17.7.2006.

56 *Ibid.*

57 See for instance, OFT 1282 "*Review of barriers to entry, expansion and exit in retail banking*", Office of Fair Trading, November 2010 (http://www.oft.gov.uk/OFTwork/markets-work/othermarketswork/review-barriers/).

58 *Tying and other potentially unfair commercial practices in the retail financial service sector*, CEPS, November 2009, http://ec.europa.eu/internal_market/consultations/docs/2010/tying/report_en.pdf

59 See Section 3.2.2.

60 *Tying and other potentially unfair commercial practices in the retail financial service sector*, CEPS, November 2009, http://ec.europa.eu/internal_market/consultations/docs/2010/tying/report_en.pdf

61 See, for instance, COM(2011) 656 of 20 October 2011, COM(2012) 360/2 of 3 July 2012, and European Parliament Economic and Monetary Affairs Committee report on the Commission proposal for a Directive on credit agreements relating to residential property of June 2012.

62 See European Parliament Economic and Monetary Affairs Committee report on the Commission proposal for a Directive on credit agreements relating to residential property of June 2012.

information is vital for consumers to take an informed decision as to whether to enter into a bundled contract.

Third, alternatives to payment accounts may deter some consumers from opening and even switching accounts, thus limiting the size of the problem. Globally, e-payments and m-payments collectively accounted for an estimated 22.5 billion transactions in 2010.[63] E-payments (online payments for e-commerce activities) are expected to grow globally to 30.3 billion transactions from 17.9 (in 2010-13), while m-payments are expected to grow globally to 15.3 billion transactions from 4.6 billion in the same period.[64]

Analysis of the different potential substitutes available shows that in their current form these substitutes are imperfect and do not enable consumers to access the payment services required. For example:

The UK Paypoint system allows consumers to manage payments in cash to a wide range of service providers. However, some of the problems associated with the inability to access a payment account identified in Section 3.2.1, notably the reliance on cash (such as insecurity, extra time and hassle, difficulties in finding a job or renting a dwelling) would remain.

- It is increasingly common to purchase goods or services via mobile phone. In Finland, Luottokunta, BookIt Oy and Microsoft have developed a service called iSMS® that enables users to pay for purchases by mobile, domestically and abroad. As a result, 50% of Finns use their mobile phone for payments.[65] However, it is unclear whether such a system could work without a link to a payment account (or at least a credit card) and whether the information stored on a mobile phone could be recovered if the phone were lost. In some instances consumers cannot use mobile phones to make payments as a credit contract may be required. There are also data security concerns regarding mobile phone transactions and risks of abusive use of information about consumers' purchasing habits.[66] In light of these issues, it is perhaps unsurprising 100% of Finns maintain payment accounts, illustrating the complementary rather than substitutive nature of mobile phones as a means of payment.[67]

- Finally, pre-paid cards permit consumers to make certain types of electronic payments without a payment account. They do have major drawbacks, offering a limited range of services, and many traders do not accept them. The most common pre-paid cards do not allow their holder to transfer money or to pay bills via direct debit or standing order. Receiving money via a bank transfer may not always be possible. Such cards can be a costly solution because of the top-up and usage fees applied. The cost of loading the card can be a flat fee or a percentage of the loaded amount. It is more expensive if done with cash (e.g. £ 1 per top up or 3% of the loaded amount in average in the UK; EUR 3 per top up for some cards in Belgium or 1% of the loaded amount for some cards in Spain).[68] Application, maintenance and replacement fees vary; while the Belgium pre-paid cards are obtained for free, maintenance costs are EUR 12 per year.[69] A card in France costs EUR 49 when

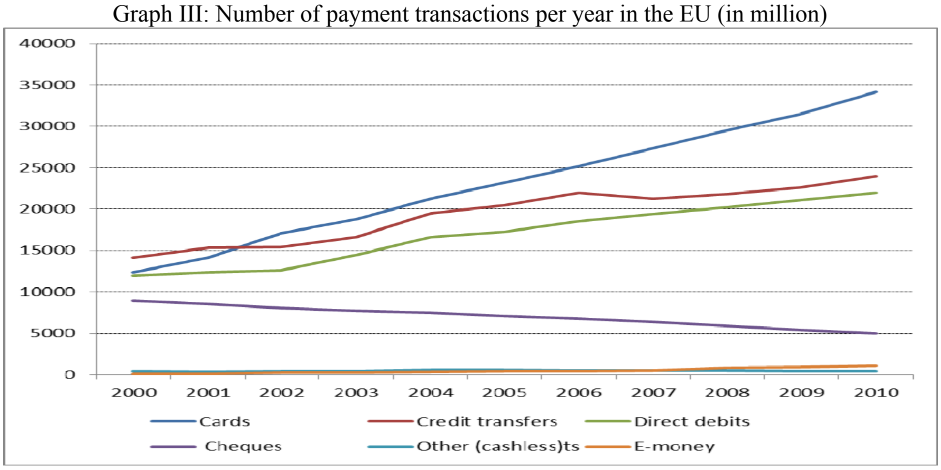
63 *World Payments Report 2011,* CapGemini.
64 *Ibid.*
65 http://www.businesswire.com/news/home/20101219005008/en/BookIT-Oy-50-Finns-Mobile-Phone-Bookings
66 http://www.nytimes.com/2012/04/29/sunday-review/the-post-cash-post-credit-card-economy.html
67 *Measuring Financial Inclusion, The Global Findex Database*, World Bank, April 2012.
68 http://www.moneysavingexpert.com/cards/prepaid-cards;
69 http://www.bpost.be/site/fr/residential/finance/bpaid/index.html;

applying for it and EUR 12 when replacing it but has no maintenance costs.[70] Transaction costs also exist. Some cards charge the user a percentage of the purchased amount (e.g. 2.95% for an Irish prepaid card).[71] Withdrawing money from an ATM machine will cost the user of a Belgian card EUR 1.5 per withdrawal and 2% of the withdrawn amount to the user of a French card. Even not using it may be expensive: Irish prepaid cards charge an inactivity fee of EUR 3.50 a month after 2 months of no usage.[72] Prepaid cards are both imperfect substitutes and an expensive means of payment.

- It may be argued that in societies reliant on cash transactions, e.g. Romania and Bulgaria, access to payments accounts is not as essential: consumers can use cash as a substitute.[73] This situation is changing quickly. In developed EU countries, the proportion of cash transactions has decreased: "*The evolvement of the cashless society has been increasing in Finland in retail purchases along with other Nordic countries and along plans by the banking industry*".[74] Similarly, in central European Member States, electronic payments have started to prevail: "*the variable costs of cash, paper-based and postal payment instruments are so high that their substitution with electronic transactions generally results in social savings and therefore Hungarian society can realise savings by the shift in the direction of cash-free, electronic payments which we have assumed.*"[75] Furthermore, in some Member States there are limits in terms of the cash volume that merchants can accept. In Slovenia, traders are unable to accept more than EUR 15 000 in cash.[76] Similar restrictions exist in Belgium, Italy, France and the Netherlands.[77] This shift towards electronic payments will have increasingly significant implications for those without access to electronic banking facilities.

As demonstrated in Graph III, there are clear trends in payment methods. From 2000-2010, one can observe a steady growth of the use of card payments, credit transfers and direct debits. Use of cheques is declining.

Graph III: Number of payment transactions per year in the EU (in million)



[70] http://www.corpedia.fr/index.html

[71] http://www.moneyguideireland.com/category/prepaid-debit-cards

[72] *Ibid.*

[73] *Basic banking services*, London Economics for European Parliament's Committee on the Internal Market and Consumer Protection, November 2011, p. 11.

[74] *Costs of retail payment instruments for Finnish banks*, Bank of Finland, 23.12.2011, p. 5.

[75] *Nothing is free: A survey of the social cost of the main payment instruments in Hungary*, National Bank of Hungary, p. 96.

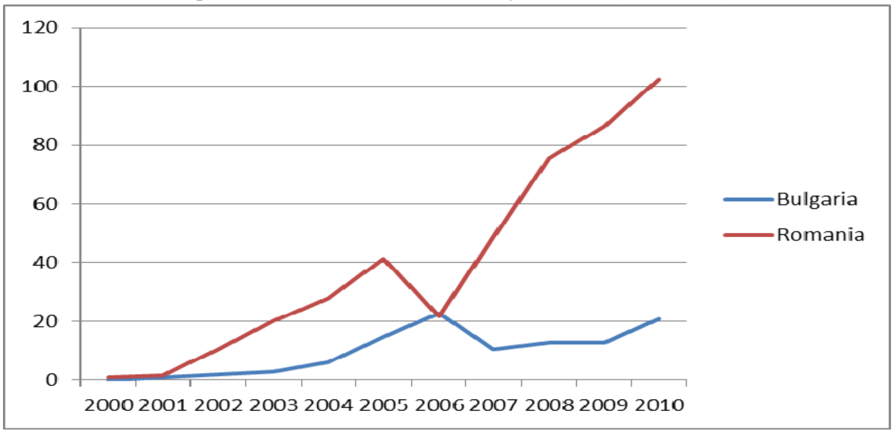
[76] *Ibid.*

[77] *Ibid.*

Source: ECB payments data.

Romania and Bulgaria will follow this trend shortly. Although there is no hard data demonstrating the decreasing role of cash in these countries, the increased use of electronic payment means, such as debit and credit cards (substitutes for cash) suggest this is the correct conclusion to reach.

Graph IV: Number of transactions by all cards (in millions)



Source: ECB payments data.

There are, moreover, ongoing and planned measures that risk further exacerbating some of the negative consequences of remaining unbanked. These include Member States' deficit reduction and public sector efficiency policies, anti-fraud measures, or a combination of these. Measures to forbid payment of salaries or social benefits in cash (e.g. Belgium[78]) and to reduce the minimum amount that can be paid in cash (e.g. Belgium[79], Spain[80], Italy[81]) have been announced recently. These will render unbanked citizens' lives more difficult in future. Consequently, the substitutes outlined are not an adequate alternative to a basic payment account, and do not counter the problem of economic exclusion.

Fourth, stakeholders (particularly the financial services industry) state that they may refuse to open an account for a consumer due to anti-money laundering rules.[82] However, the Commission concludes in its analysis of the EU anti-money laundering Directive, that the Directive in itself does not create any barriers to opening accounts. Member States' analyses of national money laundering rules have reached similar conclusions: anti-money laundering provisions do not require a person who wishes to open a bank account to produce an ID card or passport. Article 8 of Directive 2005/60/EC on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing states that: "*Customer due diligence measures shall comprise identifying the customer and verifying the customer's identity on the basis of documents, data or information obtained from a reliable and independent source.*"[83] Similarly, a report by the Financial Action Task Force (FATF) states that: "*countries' laws or regulations generally do not distinguish the types of customer information to be collected*".[84] However, "*although a passport or ID Card is one of the methods used to verify the identity of customers in a majority of countries, it should be noted that the FATF standards (on which the EU anti-money laundering rules are based) does*

78 http://www.lavenir.net/article/detail.aspx?articleid=DMF20120504_00154656
79 http://www.droitbelge.be/news_detail.asp?id=693
80 http://www.abc.es/20120413/economia/abci-fraude-fiscal-consejo-ministros-201204131356.html
81 http://www.businessweek.com/magazine/italys-cap-on-cash-payments-12082011.html
82 *2012 Public consultation on bank accounts* (see footnote 11), p. 18-19.
83 Directive 2005/60/EC of 26 October 2005, L 309/15, Article 8.
84 *Anti-money laundering and terrorist financing measures and financial inclusion,* Financial Action Task Force, 2011, p. 27.

allow countries to use other reliable, independent source documents, data or information".[85] The FATF report further emphasises that the pursuit of financial inclusion and effective money-laundering regimes are complementary and "*measures that ensure that more clients use formal financial services increase the reach and effectiveness of the anti-money laundering controls*."[86]

The FATF report acknowledges that "*a customer lacking a government issued form of identification, for example, may result in a financial institution using other more costly methods to verify identification, which could be a disincentive to serve certain customers.*"[87] This is supported by evidence from users' representatives who note that banks use anti-money laundering rules to reject applications from unattractive consumers.[88] In short, it is financial institutions' internal processes that create 'false barriers'.

Fifth, it has been argued[89] that these differing levels of payment account penetration can be linked to the level of development of banking infrastructure.[90] The underdevelopment of the banking sector in certain countries or regions, e.g. in Romania and Bulgaria, may restrict consumer mobility and choice. Elderly people, unfamiliar with online banking, may not open an account when there is no local branch.[91] Therefore it can be assumed that together with economic growth of these regions, banking infrastructure will also improve thus allowing for easier access of consumers to bank accounts. On the other hand, studies have been unable to demonstrate a link between account penetration and the availability of banking facilities.[92] Thus, despite having few bank branches per 10 000 people, Estonia, the Netherlands, Sweden and the United Kingdom have high levels of payment account penetration.[93] However, this is partly due to the widespread use of internet by consumers to manage their bank accounts in these countries, which limits the importance of branch networks since almost all banking transactions and operations can be made directly on-line or by means of a telephone operator. The development of internet banking can substantially facilitate and improve access to bank accounts, in particular for those consumers who have an easy access to internet and do not find it difficult to use on-line banking applications and software. While it can be assumed that generally such consumers do not face access problems and can open any bank account (regular or on-line) relatively easily, vulnerable consumers face a different reality. These are low-income groups, elderly people or people suffering from social exclusion who have no regular access to internet and simply would not be able to benefit from a bank account which is available only via internet.

Sixth, it can be assumed that increasing income levels of consumers in the EU in parallel with the economic growth will encourage even more common use of retail financial products and, as a result the number of unbanked consumers will 'naturally' decrease.

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85 *Ibid.*

86 *Ibid.*

87 *Ibid.*

88 Financial Services User Group (FSUG) response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 13.

89 See responses from consumer and civil society representatives in the *2012 Public consultation on bank accounts* (see footnote 11), p. 18.

90 Measuring Financial Inclusion, The Global Findex Database, World Bank, April 2012, p. 20

91 See responses from consumer and civil society representatives in the *2012 Public consultation on bank accounts* (see footnote 11), p. 18.

92 See for example, *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 14, http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

93 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, Ibid, p. 14-15

Finally, the trust (or lack thereof) of consumers vis-à-vis the banking sector may affect the bank-client relationship.[94] According to a survey, 50% of European respondents admit that their confidence toward the banking industry has decreased over the past 12 months.[95] Neither of the latter issues is within the scope of this impact assessment.

To conclude this section, it is of note that a right of access to basic banking services is already recognised in some OECD countries. In 2003 Canada introduced Basic Banking Services Regulations to ensure that basic banking services are available to all individuals, including foreigners who are legally resident in Canada.[96] In order to open a basic payment account, a consumer is required to present at least one identity document from a list provided by law. The bank can reject the consumer's request based on limited and clearly specified grounds and has to justify the reason in writing, and must inform the consumer as to how to contact the regulator. Apart from a basic payment account, under the Basic Banking Services Regulation, a consumer has access to basic payment means.

3.2. Problems

3.2.1. Access to basic account services

It is difficult to estimate the number of consumers without a payment account, since much of the data available is not comparable, though research estimates the number of EU citizens with no payment account at between 30 and 68 million.[97] Calculations based on World Bank data put the figure at 56 million.[98] [99] These figures probably underestimate how many citizens remain unbanked: the data is survey-based, and national data confirms that many unbanked consumers are unlikely to participate in such surveys.

Table 2: Size of the problem (EUR, millions, 2011 data)

	Consumers **with no payment account**	Consumers **who would like an account, __but__**				
		don't have one	have been refused	have been refused due to inadequate documentation	have been refused due to no regular income	have been refused for other reasons
EU	56	25	2.80	0.56	1.12	1.12
Of which mobile	4	2	0.18	0.04	0.07	0.07
Of which vulnerable	53	23	2.63	0.53	1.05	1.05

Sources: Commission calculations based on 2011 data from World Bank, Eurobarometer 2012 and Eurostat.

Based on Commission calculations, there are almost 3 million EU consumers who requested a bank account but were refused one either due to irregular income (40% of them), inadequate documentation (20%), or other reasons (40%) (See Table 2). There are also many unbanked consumers (22.2 million) who would like a bank account but have not attempted to open one. This very high figure results from the fact that many consumers, in particular less-educated

94 *2012 Public consultation on bank accounts* (see footnote 11), p. 19.

95 *Global consumer Banking Survey 2011*, Ernst&Young, available at: http://www.ey.com/Publication/vwLUAssets/A_new_era_of_customer_expectation:_global_consumer_banking_survey/$FILE/A%20new%20era%20of%20customer%20expectation_global%20consumer%20banking%20survey.pdf

96 Department of Justice, Canada, http://laws-lois.justice.gc.ca/PDF/SOR-2003-184.pdf

97 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 14, estimated that 30 million Europeans over the age of 18 do not have a payment account. Calculations based on the *Special Eurobarometer on Retail Financial Services* (European Commission, February 2012) put the number of Europeans over the age of 15 without a current account at more than 68 million. Differences between the 2010 and 2012 calculations can be attributed to the scope of the question asked by the surveys and divergences in the population sample.

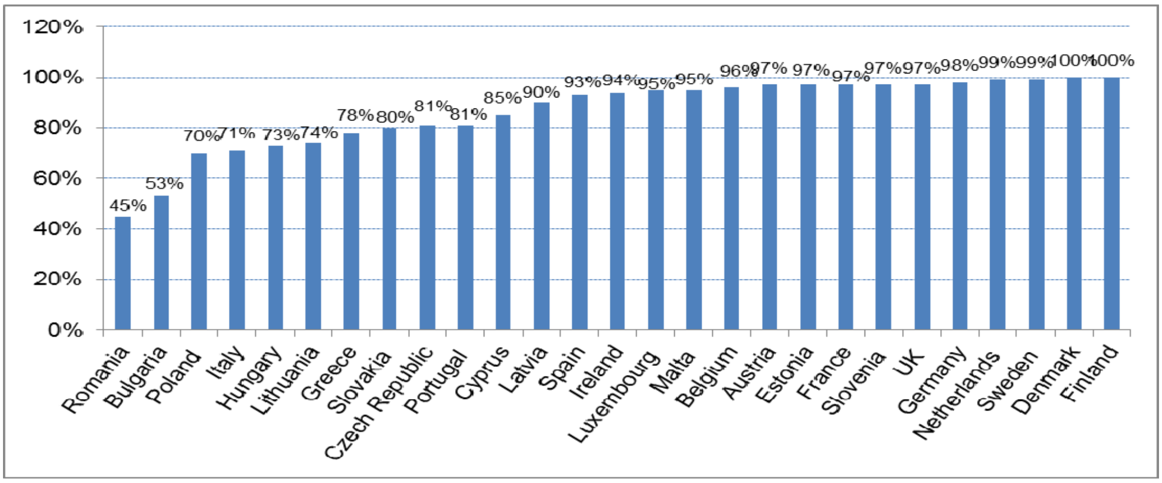
98 Commission calculations based on data on the number of unbanked consumers from *Measuring Financial Inclusion, The Global Findex Database*, World Bank, April 2012.

99 It should be noted that whereas there are few data on individuals' access to a payment account, there is even fewer research and data on households, which make it a less reliable basis on which to base a policy.

parts of society, believe a bank account is not accessible for consumers living on a low or irregular income. They consider it a costly and complex product and refrain from attempting to open a bank account, even when they would like one. Some unbanked consumers are unaware that they have the right to open a basic payment account at low cost (in some Member States) because they are not informed about it. In Belgium, despite the fact that there is a legal right to a basic account, 63% of those without an account surveyed in 2011 considered that the bank would reject their application. It is therefore essential to reach unbanked consumers with public campaigns, as stipulated by the Recommendation on access to a basic payment account, informing them about the availability of this product, which is strongly advocated by consumers' representatives. The above-presented figures, however, most likely underestimate the size of the problem as they are survey based and many excluded consumers are unlikely to participate in such surveys. Available national data confirms this. According to a recent UK Financial Inclusion Task Force research, 52% of the unbanked consumers in the UK would like to have an account. The size of the problem varies between Member States. In Romania and Bulgaria, 45% and 53% of consumers respectively have current accounts; in Scandinavia, the figure is close to 100% (see Graph V).[100] In terms of volume, Italy and Romania have more than 13 million citizens aged over 15 without payment accounts between them, while Denmark and Luxembourg have few unbanked citizens.

Although in the majority of Member States, representatives of the financial services industry argue that a very small percentage of consumers are unbanked, these figures can be higher in actual terms. In Germany, while just 2% of consumers are unbanked, this equates to almost 1.5 million people.[101]

Graph V: EU citizens with a payment account



Source: Measuring Financial Inclusion, The Global Findex Database, World Bank, April 2012.

The low levels of access in Romania and Bulgaria may be caused by the broader unavailability of basic banking services, or by consumers' preference for using cash.[102] However, as mentioned in the analysis of problem drivers above, the share of cash in payment transactions is decreasing steadily and this downward trend is likely to continue in the foreseeable future. In those EU countries with more developed banking systems, such as in Scandinavia[103] or Central Europe[104], the share of cash payment transactions is decreasing, not

[100] *Measuring Financial Inclusion, The Global Findex Database*, World Bank, April 2012.

[101] Commission calculations based on World Bank and Eurostat data.

[102] *Basic banking services*, London Economics for European Parliament's Committee on the Internal Market and Consumer Protection, November 2011, p. 11

[103] *Costs of retail payment instruments for Finnish banks*, Bank of Finland, 23.12.2011, p. 5.

just for consumers' convenience but also due to high cost of cash for providers. Some Member States also have limits in terms of the cash volume that merchants can accept; e.g. Slovenia, Belgium, Italy, France and the Netherlands.[105]

Many of those without a payment account say they do not need or want one.[106] These people are predominately older: 65% of unbanked people over 55 say this, as do 69% of retired people.[107] This response is also more common among those with less education, including 66% of people who left school aged 15 or under.[108] Many in these groups are unaware of the potential benefits payment accounts can bring, e.g. cheaper payments transactions, lower security risks, easier receipt of benefits and lower risk of tax fraud. In this respect, as underlined by the recent European Parliament Resolution, "*financial education pointing out the advantages of financial inclusion is important*"[109], as a complementary measure to tackle financial exclusion, the view which is shared by the financial industry.[110] Psychological factors may help explain the apparent reluctance of these groups to open an account, including perceptions about prices, bureaucratic complications, etc. This is confirmed by World Bank data which finds that "*a formal account is not costless in most parts of the world and may be viewed as unnecessary by a person whose income stream is small or irregular*".[111]

Sharing another's payment account is a further common reason why some consumers have no account, especially for those who use 'household' accounts, particularly women.[112] With the changing structure of families and family roles, this is less likely to be the case in the future; for example, in countries such as Sweden and the Netherlands, consumers did not report the use of shared accounts.

Finally, as many as one third of 15-24 olds believe that they are too young for an account.[113] These consumers, despite stating that they do not want an account, could still potentially benefit from improved access and cheaper accounts. Beyond this, managing a payment account has an important role in promoting independence and financial literacy.

Graph VI: Reasons for not having a payment account

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104 *Nothing is free: A survey of the social cost of the main payment instruments in Hungary*, National Bank of Hungary, p. 96.

105 *Ibid.*

106 56% of people without an account state that they do not need or want one. *Special Eurobarometer on Retail Financial Services, European Commission*, February 2012, p. 31, http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm.

107 *Special Eurobarometer on Retail Financial Services, European Commission*, February 2012, p. 29, http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm

108 *Ibid.*

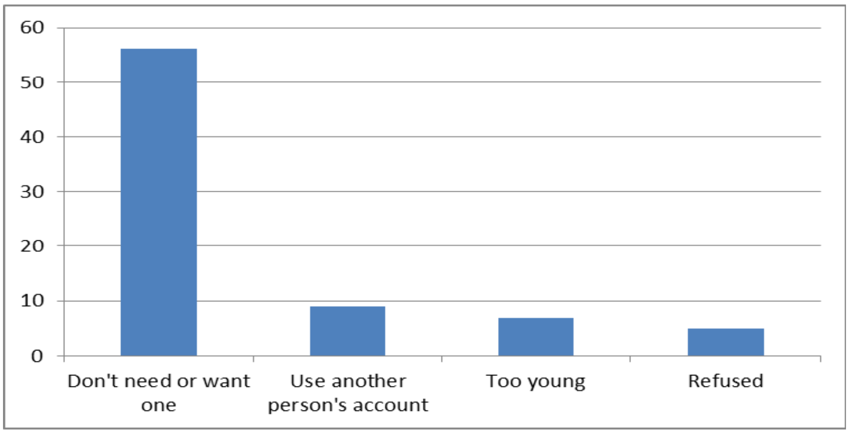
109 European Parliament Resolution 2012/2055(INI).

110 European Banking Federation response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 13.

111 Measuring Financial Inclusion, The Global Findex Database, World Bank, April 2012, p. 3.

112 *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012, p. 29

113 *Ibid*.



Source: Eurobarometer

Despite a number of consumers believing that they do not need an account, it is estimated that around half of those without an account would like one.[114] 33% (10 million consumers; of which almost 4 million are in Romania) of those without an account in EU12 and 55% (15 million consumers, of which more than 7 million are in Italy) of those without an account in the EU 15 would like one. As indicated above, 52% of the unbanked consumers in the UK would like to have an account.[115]Accessing an account is particularly difficult for two main population groups: 'vulnerable' consumers and 'mobile' consumers. This observation has been explicitly confirmed by the European Consumer Organisation BEUC in their feedback to the consultation on bank accounts.[116]

- Vulnerable consumers. Those with few economic resources (such as people on low incomes or the unemployed). This is a sizeable part of the EU population; in 2010, 23.4% of the EU population was at risk of poverty or social exclusion.[117] These consumers are more likely to be financially excluded than other groups.[118] Based on Commission calculations, there are almost 3 million EU consumers who have requested a bank account but have been refused due to irregular income (40%), inadequate documentation (20%), or other reasons (40%) (see Table 2) while according to the World Bank report "*Inclusive financial systems – allowing broad access to financial services, without price or non-price barriers to their use – are especially likely to benefit poor people and other disadvantaged groups*."[119]

- Mobile consumers. Consumers move cross-border for various reasons including for work, study or retirement. Migrant workers are probably the largest mobile group. In 2010, 12.3 million EU citizens resided in another Member State, up from 11.9

[114] Commission services calculations based on Eurostat, *Measuring Financial Inclusion, The Global Findex Database*, World Bank, April 2012, and *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012. The World Bank data on the percentage of consumers (> 15 years) without a payment account and Eurostat data on the size of the population (> 15 years), the number of consumers without payment accounts is calculated for each Member State. Eurobarometer data is then used to calculate the number of consumers in each Member State who would like an account.

[115] *Banking services and poorer households*, Financial Inclusion Task Force, December 2010, p.6. http://www.hm-treasury.gov.uk/d/fin_inclusion_taskforce_poorerhouseholds_dec2010.pdf

[116] BEUC response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 20.

[117] http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-08022012-AP/EN/3-08022012-AP-EN.PDF

[118] *Financial Services Provision and Prevention of Financial Exclusion,* European Commission, March 2008, http://ec.europa.eu/employment_social/spsi. Other 'vulnerable' factors are also indicated, such as being retired or unable to work, being a student as well as, to a lesser extent, age, gender and type of locality lived in.

[119] *Measuring Financial Inclusion, The Global Findex Database*, World Bank, April 2012, p. 1

million the previous year. [120] This includes more than half a million students (of which over 210 000 are Erasmus students)[121] who study in other Member States, (foreign students are not normally considered residents).[122] This population is rising, with the number of Erasmus students alone increasing annually by 7.4%.[123] This figure also excludes all other non-resident EU migrants such as seasonal or temporary workers. The number of non-resident migrants is estimated at between 1.9 and 3.8 million.[124] Combined, then, the total mobile EU population is approximately 15.8 million.[125] [126]This excludes 20.2 million migrants from outside the EU.[127]

- According to calculations by Commission services, the mobile population with access issues amounts to 3.5 million people, or approximately 6.25% of those without a payment account. It can be estimated that 0.18 million mobile consumers who face difficulties in accessing basic account services would like an account but have been refused (See Table 2), of which around 70 000 of have been refused for reasons other than inadequate documentation.

The reasons why consumers cannot access an account vary across the EU. The consequences of lack of access are significant for all stakeholders and for the efficient functioning of the single market as a whole. These consequences are described in Section 3.4 and in more detail in Annex II.

<u>Ineffective, inconsistent or non-existent regulatory framework</u>

The Commission asked Member States to comply with the provisions of the Recommendation by January 2012. The Recommendation also stated that "*the Commission will monitor and assess the Measures taken by 1 July 2012*."[128] To this end, in August 2012, the Commission published a report presenting an overview of Member States' compliance with the Recommendation.[129] The Recommendation stated: "*the Commission will propose any necessary action, including legislative measures if needed, in order to ensure that the objectives of this Recommendation are fully met*."[130]

Table 3: Size of the problem (millions)

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[120] Eurostat data on total population and resident non-national population by group of citizenship http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Migration_and_migrant_population_statistics

[121] Erasmus, facts, figures and trends, European Commission, 2011. (http://ec.europa.eu/education/pub/pdf/higher/erasmus0910_en.pdf)

[122] Eurostat data on tertiary education students studying in another EU country: there were 581 400 EU students enrolled at foreign universities in another EU Member State in 2010.

[123] *Erasmus, facts, figures and trends*, European Commission, 2011, p. 4. http://ec.europa.eu/education/pub/pdf/higher/erasmus1011_en.pdf.

[124] *Commission staff working document Demography Report 2010,* p. 86. http://epp.eurostat.ec.europa.eu/portal/page/portal/population/documents/Tab/report.pdf

[125] For the purposes for calculation, it is assumed that the number of non-resident migrants is 3 million people.

[126] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Total_population_and_resident_non-national_population_by_group_of_citizenship,_2010-de.png&filetimestamp=20120713140446 and *Commission staff working document Demography Report 2010,* p. 46. http://epp.eurostat.ec.europa.eu/portal/page/portal/population/documents/Tab/report.pdf

[127] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Total_population_and_resident_non-national_population_by_group_of_citizenship,_2010-de.png&filetimestamp=20120713140446

[128] Commission Recommendation 2011/442/EU (see footnote 3), recital (19).

[129] National measures and practices as regards access to basic payment accounts. Follow-up to the Recommendation of 18 July 2011 on access to a basic payment account. http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/followup_en.pdf

[130] Commission Recommendation 2011/442/EU (see footnote 3), recital (19).

	No of people with no account	No of people who would like an account (but don't have one)	Response by Member States to the Recommendation	
			No intention to take further action	Action taken/to be taken
Belgium	0.27	0.19	Law in line with Recommendation	
Bulgaria	3.04	0.7	No problem.	
Czech Republic	1.71	0.58	No problem.	
Denmark	0	0		Partial legal framework enough but review launched.
Germany	1.42	1.08	Partial legal framework enough at present.	
Estonia	0.03	0.02	Partial legal framework enough.	
Ireland	0.21	0.05	Partial self-regulatory framework enough.	
Greece	2.13	0.98		Partial self-regulation under consideration.
Spain	2.74	1.04	No action planned.	
France	1.59	1.46	Law in line with Recommendation	
Italy	15.12	7.71		Law in line with Recommendation adopted 2012.
Cyprus	0.1	0.03	No problem.	
Latvia	0.19	0.04	No problem.	
Lithuania	0.72	0.2	Partial legal framework enough.	
Luxembourg	0.02	0.02	Partial legal framework enough.	
Hungary	2.3	0.37		Partial self-regulation adopted April 2012.
Malta	0.02	0.01	No problem.	
Netherlands	0.14	0.08	Partial self-regulatory framework enough.	
Austria	0.22	0.18	No problem.	
Poland	9.73	3.31		Partial self-regulation under consideration.
Portugal	1.72	0.81		Guidelines exist but compliance is optional.
Romania	9.99	3.99		
Slovenia	0.05	0.02	No problem.	
Slovakia	0.92	0.23		Proposals for legislation forwarded to the Parliament.
Finland	0	0	Partial legal framework enough.	
Sweden	0.08	0.04	Partial self-regulatory framework enough.	
United Kingdom	1.55	0.97	Partial self-regulatory framework enough.	
EU	**56.03**	**24.65**		

Source: Commission calculations based on data from World Bank, 2012 Eurobarometer and Eurostat.

Although representatives of the financial services industry argue that measures have been adopted and are adequately enforced,[131] as illustrated by reports by the European Commission and Parliament[132] as well as feedback to a public consultation[133], the Recommendation's application is far from satisfactory. A legal framework exists to facilitate access to basic account services in Belgium, France and Italy, while partial regulatory or self-regulatory regimes are in place in Portugal, Denmark, Estonia, Finland, Lithuania, Luxembourg,

[131] *2012 Public consultation on bank accounts* (see footnote 11), p. 20.

[132] European Parliament Resolution 2012/2055(INI) p. 5, "*not all Member States have taken adequate action required by Commission Recommendation 2011/442/EU of 18 July 2011 on access to a basic payment account and too many Member States still have no legal or voluntary requirement for providers to offer basic payment services*".

[133] See consumer, civil society and some Member States' responses to the *2012 Public consultation on bank accounts* (see footnote 11), p. 20.

Sweden, Germany, Hungary, Ireland, Netherlands, and the UK. Of these countries, Estonia, Finland, Ireland, Lithuania, Luxembourg, Netherlands, Sweden and the UK, (who together account for about 2.8 million citizens without a payment account – equivalent to almost 5% of the EU total), do not intend to take any further action arguing that their partial frameworks suffice.[134] No framework exists at all in the remaining Member States: Austria, Bulgaria, Cyprus, the Czech Republic, Latvia, Malta, and Slovenia. These countries do not plan on taking any action in response to the Recommendation, arguing that there is no problem, even though they together account for about 5.3 million unbanked citizens which is equivalent to almost 10% of the total EU population without a bank account. Furthermore, in the Member States where only self-regulatory measures have been or are planned to be adopted, i.e. Ireland, the Netherlands, Finland, UK, Greece, Hungary and Poland, there are altogether as many as 16.14 million consumers without a bank account. On the other hand, the example of Belgium which has a legal framework on access to basic bank accounts in place since 2003 demonstrates that such an approach efficiently tackles financial exclusion. According to the "Rapport Inclusion Financière 2011",[135] following the adoption in 2003 of the law introducing the right to a basic bank account for every consumer who did not already hold an account, the number of unbanked consumers fell from 40 000 to only 10 000 in 2005. Furthermore, the number of persons who were refused basic bank accounts in the country decreased significantly between 2007 and 2009 as presented in the table below, demonstrating the efficiency of the measure.[136]

Table 4: Number of refusals to open a basic bank account - Belgium

	2007	2008	2009	2010
Number of refusals to open a basic bank account	290	164	82	Not available

Source: Réseau Financement Alternatif, Rapport Inclusion Financière 2011

Whilst the financial services industry argues, (based on very heterogeneous data), that "*there is no proven correlation between the existence of a legal obligation to provide access to a bank account and the number of bank account holders*"[137], a legal framework presents the definite advantage of being enforceable.

One nevertheless needs to acknowledge that even where a framework on access to bank accounts exists, it is not necessarily effective.[138] In particular, consumer and civil society representatives in the most recent public consultation, underlined that self-regulatory initiatives have had limited success.[139] Amongst those with a legal framework, only six countries comply even partially with the Recommendation (France, Belgium, Italy, Luxembourg, Portugal and Finland). Low effectiveness is caused by several factors including consumers lacking awareness of their rights (despite information obligations for providers and Member States under the Recommendation), inadequate, incomplete and divergent application of the Recommendation (e.g. in Belgium, France, Italy and Portugal the characteristics and conditions of the basic account are defined, in others, such as Denmark, Finland, Luxembourg or Sweden not, creating a regulatory patchwork for consumers and business alike) and recent developments in the legal framework, e.g. Italy has only recently implemented a legal framework in line with the Recommendation.

[134] Based on information provided to the Commission by Member States for the report on national measures and practices as regards access to basic payment accounts. Follow-up to the Recommendation of 18 July 2011 on access to a basic payment account. Figures calculated by Commission services based on World Bank and Eurostat data.

[135] Réseau Financement Alternatif, Rapport Inclusion Financière 2011, p. 16

[136] Ibid, p. 20.

[137] European Banking Federation response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 13.

[138] FSUG response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 25.

[139] Consumer/civil society responses, in *Summary of responses to the public consultation on bank accounts*, European Commission (http://ec.europa.eu/internal_market/finservices-retail/docs/policy/ba_summary-2012_07_25_en.pdf).

Limited bank profitability from certain groups of consumers

Misaligned incentives between the payment account provider and the consumer can lead to the rejection of a consumer's application for a payment account. This is true for vulnerable consumers who may be perceived by banks as unprofitable and for many mobile consumers on whom there may be little information available. Current accounts are generally offered at low cost because they are considered as a gateway product that would allow the bank to earn additional revenues.[140] The probable duration of vulnerable and mobile consumers' relationship with the payment services provider is difficult to estimate; hence it is uneconomic to make products available to them. In fact, some academics share this view.[141]

Limited and more costly access to basic financial products and services

Feedback from stakeholders, in particular consumer representatives, indicates that the cost of basic payment accounts themselves can be prohibitive.[142] BEUC reported that in Italy, five current accounts offered by banks as an instrument of financial inclusion were more expensive than standard online current accounts.[143] In the opinion of the World Bank, "*worldwide, reducing withdrawal charges and balance fees could make formal accounts more attractive to more than 500 million adults who are without one*."[144] Moreover, a consumer without a payment account will find it more difficult and more expensive to purchase other financial products. Since payment accounts are often gateway products, unbanked consumers seeking a product such as household insurance may be unable to obtain the best value product. The remaining services available may be easily available (e.g. SMS loans in some EU countries) but also more expensive (e.g. high interest rates)[145] and may not provide the same level of consumer protection. Some academics argue that access to "*basic banking services….would be a powerful protection against irresponsible lending practices and […] overindebtedness*."[146]

These problems were underlined in a recent European Parliament Resolution: "*access to basic payment services is one of the preconditions for consumers to benefit from the internal market, notably from freedom of movement, money transfer and the purchase of goods and services at reasonable transaction costs; whereas basic payment services are essential for consumers to reap the benefits of e-commerce; whereas the annual opportunity cost of not having access to a payment account is estimated at between EUR 185 to EUR 365 per consumer; whereas access to basic payment services is, in particular, increasingly becoming a prerequisite for social inclusion in terms of access to employment, healthcare and housing*."[147]

Low awareness of availability of basic payment accounts

In the Member States with a legal right to a basic payment account (see Section 3.2.1), the accounts are not actively marketed due to misaligned incentives between the payment account

140 See, for instance, *Tying and other potentially unfair commercial practices in the retail financial service sector*, Centre for European Policy Studies (CESP), 2009. *Understanding and Combating Financial Exclusion and Overindebtedness in Ireland: A European Perspective*, Georges Gloukoviezoff, p. 9.

141 *Understanding and Combating Financial Exclusion and Overindebtedness in Ireland: A European Perspective*, Georges Gloukoviezoff, p. 9.

142 *2012 Public consultation on bank accounts* (see footnote 11), p. 18.

143 BEUC response to the Commission Consultation on access to a basic payment account, 25.01.2011, p. 18, http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm

144 Measuring Financial Inclusion, The Global Findex Database, World Bank, April 2012, p. 4.

145 See for instance, *UK poverty rip-off: The poverty premium 2010 briefing*, p. 4; *Financial Inclusion for the Roma: Banking As a Key to Social Progress*, Open Society Foundations, March 2012, p. 3. http://www.soros.org/sites/default/files/roma-financial-inclusion-20120321.pdf

146 *Understanding and Combating Financial Exclusion and Overindebtedness in Ireland: A European Perspective*, Georges Gloukoviezoff, p. 4.

147 European Parliament Resolution 2010/2278(INI).

provider and the consumer. Providers have an incentive to first offer more expensive accounts to their clients.[148] In Belgium, 30% of unbanked consumers refer to the excessive price of a payment account as the reason for not having one, despite the basic payment account's price being legally capped at around EUR 14 per year.[149] One possible explanation could be that consumers are always offered the more expensive product first.[150] In other cases, the economic advantage of having access to an account and the means of payments associated with it may not be clear for the consumer, particularly if high fees and penalties are charged where, for example, overdraft facilities are used. This problem impacts primarily on vulnerable consumers,[151] which is why consumer organisations advocate for clear, concise and comprehensible information on basic payment account fees to be made available to consumers.[152]

<u>Discriminatory rules on accessing payment accounts</u>

Asymmetric information between the credit institution and the consumer can lead to an application being rejected because the consumer is considered riskier or because information on the client is not readily available. The lack of information on consumers is a particular problem if the account offers credit related services (e.g. an overdraft facility) as access to the credit history of a foreign customer can also be challenging and/or costly. Consumers associations state that one of the reasons for consumers to be rejected access to an account is the absence of any regular income.[153] As stated above, 40% of consumers who would like an account and were refused cited this as the reason.[154]

An absence of any regular income is a key reason why banks reject applicants for payment accounts. Feedback from all stakeholder groups, received during public consultations also identifies this as a common problem.[155] Examples include undischarged bankrupts who are refused access to an account by most UK banks, insufficient income, poor creditworthiness, overdrawn bank accounts or the failure to maintain loan payments with their main bank.[156] This problem affects both vulnerable and mobile consumers equally. In many cases, a payment account is required in order to be provided with an employment or rental contract. Without an account, employment or accommodation contracts may remain unsigned. Consequently, consumers may be caught in a vicious cycle in which they cannot enter legal employment without an account, but they cannot open an account without a regular income – for which they must be employed.

Another common ground for refusal of mobile consumers is non-residence. Despite increasing intra-EU migration, recent data shows that only 3% of the EU population has opened a payment account in another Member State[157] though this represents the number of EU nationals resident in another Member State.[158] In Estonia, France and Austria, one third of

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148 *Le point sur le service bancaire de base, cinq ans après son introduction*, Réseau Financement Alternatif, 2008, p. 4.

149 *Rapport Inclusion Financière 2011*, Réseau Financement Alternatif, 2011, p. 22.

150 *2012 Public consultation on bank accounts* (see footnote 11), p. 18.

151 *Ibid.*

152 *Ibid.*, p. 10.

153 BEUC response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 20.

154 Calculations by Commission services based on *Measuring Financial Inclusion, The Global Findex Database*, World Bank, April 2012, *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012 and Eurostat population data.

155 *Ibid.*, pp. 18/19.

156 *Ibid.*, p. 18.

157 *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012, http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm

158 Commission calculation based on Eurostat data: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Total_population_and_resident_non-national_population_by_group_of_citizenship,_2010-de.png&filetimestamp=20120713140446

refusals were due to the consumer being non-resident. This figure was just over one quarter in Belgium and one fifth in Slovakia.[159] Similarly, around 60% of Erasmus students who failed to open an account attributed this to "*not being a national resident*".[160] Feedback to the Commission during public consultations also indicate that in most cases, the legislative and self-regulatory initiatives undertaken in Member States are mostly aimed only at residents.[161] Consequently, the residence requirement for opening an account represents a significant barrier to the internal market by impeding or prohibiting cross-border activity, for example, through the free movement of persons or the free provision of goods and services by businesses.

In order to open an account in some Member States, it is necessary to present identification (e.g. ID card or passport).[162] Around half a million consumers across the EU have been refused access to an account due to the lack of appropriate documentation. In some cases, such refusals are attributed to anti-money laundering legislation.[163] In fact, users' representatives have reported that banks often use anti-money laundering rules abusively to reject applications from unattractive consumers.[164]

Low consumer confidence in the financial system

A general mistrust of banks may also explain self-exclusion. A 2010 study reported that unbanked people perceive "*banks to be intimidating and untrustworthy, interested only in making money out of people*."[165] This negative image of the financial industry further dissuades unbanked consumers. Some vulnerable consumers may refrain from opening an account because of the risk that, if in debt, their balance will be seized. According to a 2010 report, 10% of French poor households had had their balance seized.[166]

Restrictions on the use of basic payment services

The different characteristics of a basic payment account in different Member States create a barrier to the internal market. For example, in the Netherlands, a basic payment account can only conduct 'domestic' bank transfers and use 'domestic' ATMs and 'domestic' payment terminals.[167] The law in Belgium specifies that a basic payment account need only permit domestic cash withdrawals and the domestic use of a debit card (when a card is provided).[168] In Hungary, credit transfers from a basic payment account can only be made to a Hungarian forint denominated payment account at another Hungarian bank.[169] For mobile consumers, vulnerable consumers and those living in border areas, this represents a significant problem. For example, a poor person or a student living in Maastricht or Aachen would be forced to shop locally instead of being able to travel cross-border to purchase cheaper goods or

159 *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012, http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm.

160 Commission survey of Erasmus students, 2012.

161 See, for instance, Feedback from consumer representatives, See feedback statement to the consultation, p. 19.

162 *Rapport Inclusion Financière 2011*, Réseau Financement Alternatif.

163 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 44-45, http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

164 FSUG response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 13.

165 *Financial Inclusion Evidence Review: the costs of banking exclusion and the benefits of access to bank accounts*, Claire Whyley, 2010, p. 32.

166 *Les conditions d'accès aux services bancaires des ménages vivant sous le seuil de pauvreté*, CREDOC, Février 2010. http://www.banque-france.fr/ccsf/fr/telechar/publications/rapport_credoc_etude_conditions_acces_services_bancaires_pauvrete.pdf

167 Based on information provided to the Commission by Member States.

168 *Ibid.*

169 *Ibid.*

services. Moreover, around 22% of newly banked consumers had shopped by telephone or internet since opening their account, with an opportunity to make considerable savings.[170]

3.2.2. Presentation and ease of comparison of bank fees

Providing clear and comparable information on payment account offers is a prerequisite for the free operation of market forces. The problems discussed below show an inherent level of complexity in the features that define payment accounts as well as complex pricing structures, which lead to information asymmetries and hinder consumer choice and competition.

Responses to the public consultation indicate a general consensus among all stakeholder groups that bank fees are opaque and difficult to understand. While it is difficult to measure the level of detriment caused by non-transparent, incomparable fee information, it is reasonable to assume that all consumers are adversely impacted by these issues. In addition to the inherent complexity of fees, which is the root cause of this set of problems, the available evidence collected focusses on two main aspects; how clear and comparable is information provided to consumers and; how aware consumers are of the fees they are charged.

Action to remove barriers to competition within the internal market should aim towards a level regulatory playing field for credit institutions and an equal level of consumer protection for European citizens.

A wide range of services and fees

Payment accounts cover a wide range of services and therefore charging structures may be complex. Table 5 below divides fees into four main categories and provides examples of some of those fees. The frequency with which these fees are charged varies between one-off fees (e.g. exceptions handling) and regular, standard charges (e.g. account management), while other fees are charged per transaction or block of transactions (e.g. payments and cash utilisation).[171] This makes bank charges difficult to foresee and monitor over a given future period.

Understanding fees is vital for being able to compare different bank offers and key for making informed decisions as to which account is most appropriate for one's needs. The evidence indicates that this complexity impacts upon a consumer's ability to understand what fees represent. A study carried out by the UK Office of Fair Trading in 2008[172] concluded that consumers were unfamiliar with key prices associated with their current account. Even when aware of prices, consumers had difficulty understanding when and at what level they would incur fees. It also appeared that consumers were not able to modify their behaviour when their account offered lower than optimal value for money.

More recent research conducted for the Commission in 2012, aimed to assess how different approaches to enhance information provided to consumers on bank offers and switching impact consumer behaviour.[173] The study found that a quarter of respondents (25%) felt that they were not well-informed about the cost of their current account. Even though the majority of respondents felt they were well informed about prices, when questioned more closely, "*six out of ten (60%) never compare their current account charges with the charges of other institutions. More interestingly, 29% say they do not know the monthly fee on their current account fee. A third (32%) do not know how much it costs them to use other banks' ATMs. A third (33%) do not know how much they pay for statements sent by post. Seven out of ten*

170 *Nothing is free: A survey of the social cost of the main payment instruments in Hungary*, National Bank of Hungary, p. 27.

171 Fee structures and frequency of charge may differ as explained in the paragraph "Pricing models" below.

172 Personal Current Accounts in the UK – An OFT Market Study (2008), p.55.

173 Bank fees behavioural study, 2012, TNS Opinion Ltd.

(70%) do not know the interest rate on their authorised overdraft and 85% do not know the unauthorized overdraft rate."

Table 5: Core day-to-day banking needs and products/services[174]

Core day-to-day banking needs	Twenty-three products and services
Account management	Current account Online banking Call centre
Payments	Cheque Debit card Credit card Branch internal wire transfer internet internal wire transfer Branch external wire transfer internet external wire transfer Branch standing order internet standing order Direct debit internet direct debit
Cash utilisation	Cash deposit at desk Cash deposit at ATM Withdrawal at desk Withdrawal at bank's ATM Withdrawal at other banks' ATMs
Exceptions handling	Debit card stop payment Cheque stop payment

Source: World Retail Banking Report, 2009 – Cap Gemini

Pricing models

The 2007 edition of the World Retail Banking Report[175] defined four prevailing 'pure' pricing models for payment accounts. The characteristics of each model are summarised in Table 6 below. Some pricing models appear to have simpler charging structures, (e.g. package based, indirect revenue-based) than others (transaction based, account-based). However, these simpler pricing models – due either to a lower number of applicable fees or a unique fee charge – are generally tied to other fee or interest generating products as is indicated in Table 3.4, Annex III.

Price structures may cater for specific socio-demographic groups (e.g. for students). Therefore, it is not surprising that although national markets often exhibit a prevalence of one pricing model over others, more than one prevailing model is in use in Belgium, Spain, Latvia and the United Kingdom. While this diversity provides a broader choice of products – and is not a negative feature in competitive markets – it further illustrates how charging structures may add to the complexity of choosing an appropriate product.

Table 6: Description of 'pure' pricing models for payment accounts

Account-based
A range of fees is applied to account management: - Could be based on account balance to ensure relative stability or increase non-interest-bearing deposits. All other products and services are linked to the current account: - Must open a current account before getting day-to-day banking products and other financial products (savings, credit, mortgages) Product and service pricing is based on current account balance.
Transaction-based
Fees are applied to transactions, often including any form of: - Debit (cheque, money transfer, point-of-service purchase, ATM withdrawal) or credit (deposit at desk, deposit at an ATM, etc.) - Fees consist of a fixed amount per transaction, a percentage of the transaction amount, or both: A free-of-charge limit may exist; transactions across service channels are aggregated for each statement cycle, and when the transaction limit is exceeded, the customer is charged accordingly.
Package-based

174 The table comprises the basket of services included in World Retail Banking Report's analysis of account price trends in constructing price indices. The list of services is provided above for illustration purposes.

175 2012 World Retail Banking Report, Cap Gemini, available at: http://www.efma.com/wrbr

Similar to account-based model, except that the bank charges an annual fee for a suite of services, rather than just an account: - Fees/commissions are directly linked to the bank's ability to increase cross-selling rates
Indirect revenue-based
A majority of day-to-day banking is free of charge Income is generated by other types of products, such as credits and savings: - Interest spread on credits, as well as a commission to set up credit - Interest spread on savings, as well as fees to manage savings account

Source: World Retail Banking Report, 2007 – Cap Gemini

Simplicity and transparency of fees

The presentation of fees and terminology used to describe services contribute to the current complexity in the payment account market. The terminology used to describe services is part of a broader set of activities including branding and marketing and can differentiate a product from those of other market participants. The use of different terminology by banks, while referring to the same type of services, may make it difficult to compare bank offers.

A study by the European Commission published in 2008,[176] found that while two thirds of financial institutions in the study sample provided fee information on their websites, 69% of banks did not provide clear information and further contact was needed to obtain clarifications on the fees as disclosed. The difficulties in understanding fees related in part to weak presentation. Fee terminology was complex; a coherent use of terminology was lacking, even on a single bank's website, and information was difficult to read or ambiguous. The lack of accurate information – including omission of free-of-charge services, incomplete fee information, information that was insufficiently detailed and even different tariffs quoted for the same service – added to this difficulty.

A study published by the European Commission in 2009[177] looked into current account fee structures in banks representing 81% of the market for customer deposits across all Member States.[178] The study sought to analyse and compare current account prices and attempted to measure two dimensions that have an impact on the ability of a consumer to understand fees, i.e. simplicity and transparency. The analysis indicated that only 34% of banks in the study provided sufficiently clear public information. This confirmed the findings of the prior Commission study referred to above where the figure stood at 31%. At country level, 56% of Member States scored above average in terms of simplicity and transparency of tariffs. Thirteen countries reported above average scores.[179] Graph VII below illustrates the relationship between simplicity and transparency in Member States as measured in the study.

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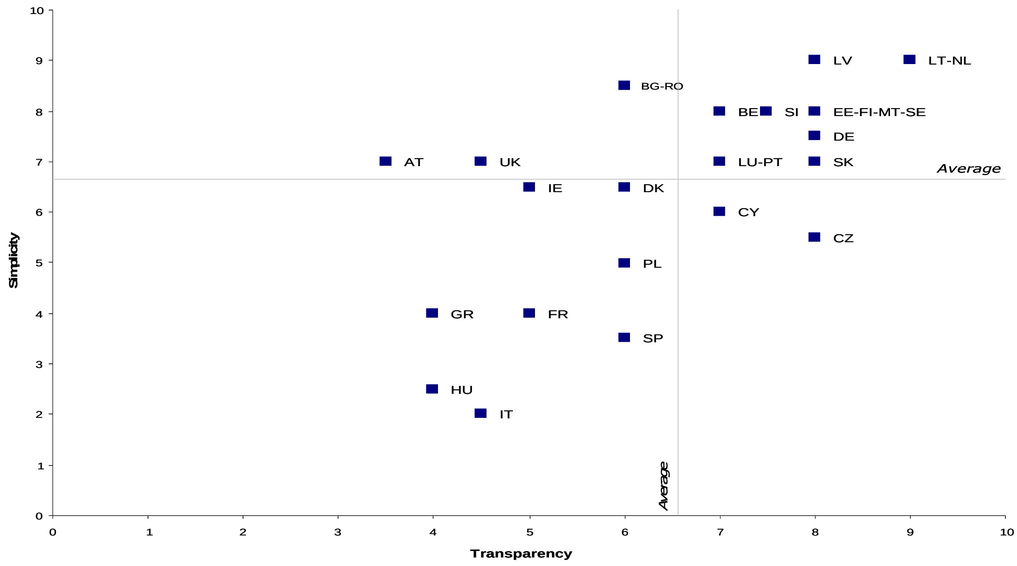
176 *Preparing the monitoring of the impact of the Single European Payments Area (SEPA) on consumers,* Van Dijk Management Consultants, 2008, p. 17.

177 *Data collection for prices of current accounts provided to consumers,* Van Dijk Management Consultants, 2009.

178 2007 data.

179 Belgium, Germany, Estonia, Finland, Lithuania, Luxembourg, Latvia, Malta, Netherlands, Portugal, Sweden, Slovenia and Slovakia.

Graph VII: Country positioning on simplicity and transparency of tariffs



Source: Data collection for prices of current accounts provided to consumers – Van Dijk Management Consultants (2009)

It seems that inherent difficulties in understanding payment account features and their price structures are compounded by a lack of clear and comparable information on the product.

Price dispersion in payment accounts within and across Member States

Wide price variations have been observed for payment accounts[180], calling into question the degree of price competition in the market. Apart from pure considerations about competition, price variations also feed the perception that payment accounts are not fairly priced, denting consumer confidence and trust in the sector. This is apparent in France where only 52% of bank clients consider that the fees charged by their bank are competitive and 68% of clients consider their fees to be unfair.[181] Furthermore, 73% of bank customers in France are dissatisfied with the level of transparency of bank fees, of which 22% are very dissatisfied.[182] Bank fees are also increasingly an important factor for consumers that are considering switching. A 2012 report found that fees ranked second in importance (2012: 50%, 2011: 50%) after quality of service (2012: 53%, 2011: 55%) as a factor that leads customers to leave a bank.[183] The 2009 Commission study[184] compared the prices for current accounts in the 27 Member States, finding very significant variations in prices in absolute terms within, as well as across, Member States.

Customer price discrimination

Price discrimination occurs between different customers so that their cost for a product with comparable features is different. An example of this is the free banking model[185] in the United Kingdom, which is partially financed through net interest income arising from deposits, but

180 The data sources supporting this statement are analysed in Annex III. The data collected is sourced mainly from a Commission study, *"Data collection for prices of current accounts provided to consumers, 2009, Van Dijk Management Consultants"*, which assessed the degree of transparency in bank fees and provided a comparative analysis of fee levels within EU Member States. Additional evidence is provided from studies carried out by Member States (France, Italy).

181 *"Rapport de Georges Pauget et Emmanuel Constans sur la tarification des services bancaires"*, 07/2010, p.32 (http://www.ladocumentationfrancaise.fr/var/storage/rapports-publics/ 104000365/0000.pdf)

182 *Ibid.*

183 World Retail Banking Report, Cap Gemini, 2012.

184 *Data collection for prices of current accounts provided to consumers,* Van Dijk Management Consultants, 2009.

185 This model falls under the "indirect revenue-based" model described in Table 6 above.

also from fees for authorised or unauthorised overdrafts.[186] Introductory pricing is another common form of price discrimination that weakens the relationship between the cost of providing a payment account and its price. It adds another barrier to clear and comparable bank offers and makes it more difficult for a consumer to understand longer-term costs associated with holding an account.[187]

Other forms of price discrimination arise from credit institutions seeking to modify modes of consumption, which favour some customers and may disadvantage others both in terms of price and convenience: "*Banks appear to be using day-to-day pricing strategies to influence consumer behaviour rather than to increase revenues; banks cut online and call centre fees, for instance, and raised desk operation fees, pointing customers towards automated channels for common operations*."[188]

For the purposes of this impact assessment price discrimination is a factor that contributes to the complexity of bank fees as it makes fees more difficult to understand or to compare. It also adds another variable to the elements that determine the price of a bank account and therefore further weakens the relationship between the cost of providing a service and the price charged to a consumer.

Ineffective, inconsistent or non-existent regulatory framework

The current regulatory framework covering presentation requirements and the ease of comparison of fees varies widely across Member States, in terms of their scope and depth. While Member States have generally adopted requirements for credit institutions to provide consumers with contractual terms and conditions when opening a payment account, many do not mandate specific presentation requirements. Specific presentation requirements, including standardisation of fee terms are foreseen in Belgium, Italy and Portugal and more recently in Spain. Other Member States have established requirements governing the provision of fee information in the form of lists through legislation or self-regulation. These include Austria, Denmark, Finland, Germany and Luxembourg. Ex-ante fee disclosure requirements in the United Kingdom focus on overdrafts. Even in more highly regulated Member States compliance seems to be problematic in some cases. A market study in France[189], reported that up to 42% of banks within a sample of over 1 746 branches did not make fee information readily available to consumers as required by French legislation.

The approach of Member States to the provision of ex-post information also differs widely in terms of the scope of regulatory provision, the frequency with which information is to be provided and the level of detail. For example in France, the banking industry has committed to providing monthly summary statements of fees. In Austria, monthly fees are required by legislation. Detailed annual statements are required in Belgium and Germany, while in Denmark the frequency of summary fees statements is agreed upon between the credit institutions and client. Meanwhile in Spain the requirement to provide bank statements detailing transactions (not fee summaries) has been adopted recently. In the Netherlands, there is a switching/redirection service, but consumer information on actual fees incurred is provided as part of the list of transactions in bank statements, rather than in summary form. No summary fee information is required in Italy. No requirements are found in Bulgaria, Latvia, Luxembourg or Portugal.

Uncoordinated action on the part of Member States results in a non-level playing field within the internal market and further market fragmentation in retail banking within the EU.

[186] *Independent Commission on Banking, Final report recommendations*, 2011
[187] *Ibid.*
[188] *World Retail Banking Report,* Cap Gemini, 2007.
[189] *Tarifs et mobilité bancaires: Le désolant palmarès des banques!* UFC- Que choisir, 2010.

European citizens experience different levels of consumer protection because of the lack of action in some Member States.

Impact of limitations to cross border mobility for both consumers and suppliers

Market fragmentation in payment accounts – and the retail banking market generally – is a barrier to the completion of the internal market. Fragmentation across the EU prevents consumers from obtaining the best deals and inhibits the efficiency of the retail banking market.

The degree of price variation of payment accounts across Member States is discussed above, particularly in terms of its impact on consumer confidence. Further details about price differentials across the EU are provided in Annex III, drawing from at least two sources indicating that consumers pay significantly different amounts for comparable services. A Commission study[190] also provides insight into the relationship between the cost of a payment account and the use of electronic or manual transactions in day-to-day banking, indicating that where over-the-counter transactions prevail, prices tend to be more expensive. This indicates differences in preferences in modes of banking, also points towards different degrees of development of banking infrastructures across the EU, and highlights potential for mobility on the supply side as well as on the demand side.

Switching is the manifestation of consumer choice. Accordingly, restrictions upon cross-border switching are closely related to the provision of comparable bank offer information in the EU. The problem section dedicated to switching describes mobile and non-mobile citizens' difficulties in exercising their freedoms within the internal market. Establishing a right to exercise these freedoms is important, and is dealt with in the dedicated section dealing with access to basic payment services. In particular section 3.2.1 above refers to difficulties non-residents encounter when seeking to open a bank account.

While responses to the public consultation from the banking industry did not point towards a direct link between opaque fee structures and the challenges banks may face when seeking to enter other EU domestic markets, a representative from the banking industry with a significant cross border market presence highlighted opening of account procedures as a major obstacle to the completion of the internal market for payment accounts. This respondent noted that opening of account procedures currently discriminate against non-residents in many cases. It considered that the need for action in the areas of fee comparison and switching were to be assessed once this major barrier to cross border bank account mobility was removed.

The issues restricting cross-border switching are further discussed in detail in Section 3.2.3 below. Given the close relationship between bank offer information and switching, the trans-national aspects of mobility cannot be differentiated. In a fully functioning internal market, comparable information on payment account prices across the EU would broaden consumer choice and facilitate domestic and cross-border switching.

3.2.3. Payment account switching

What is a payment account switching service?

Payment account switching is a process by which a payment account user changes/replaces his or her payment account. It involves several steps: opening a new payment account, transferring all recurrent transactions and the remaining account balance, and closing the old account. It is a complex process as it involves different parties: the user, the two banks, and third parties such as utility companies and employers.

The payment account switching service is not meant to simply enable the user to switch, but to facilitate the process of switching by providing the user with concrete assistance and adequate information on all steps of the switching process. This reduces the necessity for his/her involvement by allowing him to choose the 'new' provider as primary contact and helps him/her to provide the new account details to relevant third parties. Generally, the service aims to make the switching a smooth, easy and less time-consuming experience to the user. This is achieved by a clear definition of the roles of the two

[190] Data collection for prices of current accounts provided to consumers, 2009, Van Dijk Management Consultants.

banks involved, limitation of the maximum duration of the switching process and limitation of the costs of switching-related services.

Potential and actual customer mobility creates competition between providers encouraging them to offer better and cheaper products and services in order to maintain or increase market share. Even though switching rates are in themselves not an accurate measurement of customer mobility (as they only capture actual switching), if such rates remain low despite high price (or low product) differentiation, they can indicate restricted mobility.

In nearly all Member States, price dispersion within Member States is 'high' (i.e. standard deviation of average price of above 20%).[191] When comparing payment accounts across borders price dispersion is even greater, indicating the fragmentation of the EU payment account markets. Considering this high price dispersion within and across Member States, even satisfied consumers could benefit from switching.

When comparing payment account switching rates between providers to those in other network industries (e.g. phone, electricity, gas) all switching rates appear comparably high and show a slight upward trend.[192] However, when considering overall product switches (i.e. with the same provider and between providers), payment account switching rates are significantly lower than those in internet services and in the mobile phone sector.[193] This could be attributed to lower competitive pressure in the payment account markets. EU consumers typically hold their current account for approximately 10 years with the longest being in Finland, Denmark, Sweden and the Netherlands.[194] 7% of EU account holders have switched accounts with ease.[195] Consumers in Denmark, Sweden and Latvia found the switching process easiest with 14%, 11% and 11% respectively saying that it was straightforward to switch. In contrast, only 2% of Portuguese, 3% of the Irish, and 4% of Cypriots and Maltese found switching easy.[196] Considering the high price dispersion within and across the Member States, even where a consumer is 'satisfied' with their payment account provider, they could ultimately be more satisfied with another product. Therefore, it is important that the threat of a potential switch creates more competitive pressure which automatically leads to greater and better product offers for consumers.

It would be insufficient to prohibit the tying of payment accounts; rather, it is necessary to facilitate the switching process by reducing/eliminating the obstacles set out below. Many of these obstacles have been recognised by the banking industry and included within their self-regulatory "Common Principles on bank account switching". While representatives of the financial services industry indicate that they have complied with the Common Principles, consumer and civil society representatives argue that the service provided in practice remains ineffective.[197]

<u>Inadequate information</u>

The Common Principles require the provision of information on the switching process. In practice this information is not always provided. An extensive Europe-wide mystery shopping

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191 See footnote 174.

192 *"Monitoring consumer markets in the European Union"*, GfK, 2011, http://ec.europa.eu/consumers/strategy/docs/EC_Market_Monitoring_2011_en.pdf

193 *Ibid.*

194 COM(2007) 33, 31.1.2007 and SEC(2007) 106, 31.1.2007 quoted in *Tying and other potentially unfair commercial practices in the retail financial service sector*, CEPS, November 2009, http://ec.europa.eu/internal_market/consultations/docs/2010/tying/report_en.pdf

195 *Special Eurobarometer on Retail Financial Services*, European Commission, March 2012, p.85, http://ec.europa.eu/internal_market/finservices-retail/docs/policy/eb_special_373-report_en.pdf

196 *Ibid.*, p. 87.

197 http://ec.europa.eu/internal_market/finservices-retail/docs/policy/ba_summary-2012_07_25_en.pdf

exercise conducted in 2011[198] found that in 86% of cases, information on the existence or content of the switching service was provided either in a branch, online or by telephone,[199] but the level of information varied widely. In one third of enquiries, no information on switching was available on the bank's website. In 45% of cases, insufficiently detailed information on the process was provided online and no explanatory documentation was provided in 80% of cases. Even where information was available, it was incomplete in outlining the roles of the two banks, the fees to be paid, and the duration of the process. In a majority of cases, the new bank did not provide any explanation as to how recurrent payments would be transmitted to them (57%), how payments would be cancelled by the old bank (68%), and that the new bank would request the old bank to transfer the balance of the account (65%).

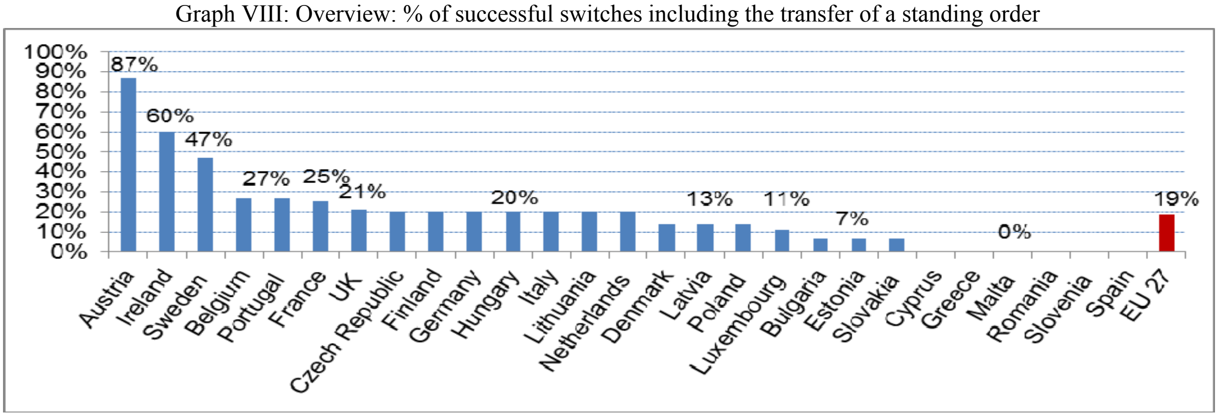
Results from studies conducted independently at national level confirm these findings. In France, a survey[200] found that only 14% of branches had information on switching freely available and information was provided without specific request in only 35% of cases where the client expressed a wish to change bank. Insufficient information was also a common problem identified by civil society and Member States in the recent public consultation on bank accounts.[201]

<u>Complexity of switching process</u>

- Fear of and errors resulting in delay or non-execution of recurrent payments, in particular direct debits.

Difficulties transferring standing orders and direct debits represent one of the major barriers to account mobility. The Common Principles aim to make the process of transfer of recurrent payments easier, yet research shows that processing errors remain a key problem. Surveys have found that fear of these problems are one of the main reasons why consumers do not switch. The 2011 Commission mystery shopping study mentioned above[202] found that in two thirds of cases, consumers were told that the bank could not assist them with the transfer of standing orders. Only 19% successfully switched their payment account including a standing order. While the data for Member States differs significantly the overall low success rate must be attributable to a widespread problem.

Graph VIII: Overview: % of successful switches including the transfer of a standing order



198 *Consumer Market Study on the consumers' experiences with bank account switching with reference to the Common Principles on Bank Account Switching*, GfK, January 2012, http://ec.europa.eu/consumers/rights/docs/switching_bank_accounts_report_en.pdf

199 Mystery shopping is a technique used widely for checking the performance of traders or service providers towards consumers. It is a very useful technique to assess compliance with detailed rules and procedures and is often the only effective means to truly test compliance by traders.

200 *Tarifs et mobilité bancaires: le désolant palmarès des Banques*, UFC Que Choisir, October 2010, p.14-15, http://image.quechoisir.org/var/ezflow_site/storage/original/application/961abc610b3b1f8bd82e9ad5ed117a5f.pdf

201 http://ec.europa.eu/internal_market/finservices-retail/docs/policy/ba_summary-2012_07_25_en.pdf

202 See footnote 192.

Source: EU-wide mystery shopping exercise on behalf of European Commission[203]

The problem of potential misdirection of payments has been identified as the most prominent inconvenience by all stakeholders.[204] This is also reflected in the results of national studies/surveys. In France, a 2010 survey[205] found that 61% of banks do not take charge of the entire process; 26% of banks stated that the consumer is responsible for transferring direct debits; and in 60% of cases, the new bank stated that it could not retrieve the list of recurrent payments from the old bank. In the UK, on average around 8.5% of direct debits that are switched go to the wrong bank. There is, therefore, a 46% chance that at least one direct debit will be misdirected.[206] Along with the high direct costs of switching, problematic direct debit transfers have been identified among the major obstacles for switching payment account providers in the United States.[207]

- Administrative burden of switching

  Although the Common Principles limit customer interaction with the old bank and allow the consumer to deal primarily with new bank, saving time and effort, their application is not uniform. For example, one French survey[208] found that customers wishing to switch were not informed about the switching process by the new bank at their first visit and in nearly two-thirds of cases, they had to make an appointment with a specialist agent of the new provider. Similarly, a recent mystery shopping exercise in Ireland[209] showed that one fifth of the mystery shoppers seeking to switch account were asked to make an appointment with a specific staff member. In responses to the Commission public consultation, inadequate training of bank staff was listed as an obstacle to switching by public authorities and civil society.[210] It is estimated that in 2009 around 21 million European citizens did not switch current account due to the cost and effort involved.[211]

- Uncertainty in the duration of the switching process

  Due to the involvement of several parties in the switching process, it is often unclear how long the process will take. The Common Principles set clear deadlines for the parties to complete their respective tasks: the whole process should not last longer than 14 banking days. However, research demonstrates that in practice these deadlines are often not respected. EU research[212] concluded that information on the duration of the switching process was not provided 79% of the time and, in many

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203 *Ibid.*

204 *2012 Public consultation on bank accounts* (see footnote 11), p.15.

205 *Tarifs et mobilité bancaires: le désolant palmarès des Banques*, UFC Que Choisir, October 2010, p.16, http://image.quechoisir.org/var/ezflow_site/storage/original/application/961abc610b3b1f8bd82e9ad5ed117a5f.pdf

206 *ICB Final report recommendations*, ICB, September 2011, p. 220, http://www.ecgi.org/documents/icb_final_report_12sep2011.pdf

207 *Trapped at the Bank: Removing Obstacles To Consumer Choice In Banking*, Consumers Union, May 2012, pp.6-8, http://defendyourdollars.org/wp-content/uploads/2012/05/TrappedAtTheBank-Complete.pdf

208 *Tarifs et mobilité bancaires: le désolant palmarès des Banques,* UFC Que Choisir, October 2010, p.15, http://image.quechoisir.org/var/ezflow_site/storage/original/application/961abc610b3b1f8bd82e9ad5ed117a5f.pdf

209 *Central Bank Inspection and Mystery Shop Identifies Concerns about Information Provided on Current Account Switching*, Central Bank of Ireland, December 2011, http://www.centralbank.ie/press-area/press-releases/Pages/CentralBankInspectionandMysteryShopIdentifiesConcernsaboutInformationProvidedonCurrentAccountSwitching.aspx

210 http://ec.europa.eu/internal_market/finservices-retail/docs/policy/ba_summary-2012_07_25_en.pdf

211 *Consumers' views on switching service providers*, Eurobarometer 243, European Commission, p. 18.

212 *Consumer Market Study on the consumers' experiences with bank account switching with reference to the Common Principles on Bank Account Switching*, GfK, January 2012, http://ec.europa.eu/consumers/rights/docs/switching_bank_accounts_report_en.pdf

cases, the information provided did not comply with the Common Principles. For nearly a quarter of those who switched, the process took longer than 14 days. The situation across Member States differed, but in nearly half of the Member States, there were cases where the deadlines were not respected. Findings of national surveys/studies confirm these results. In France,[213] the switching process took longer than two weeks in the large majority of cases and, in more than 40% of cases, the switching process lasted for more than one month. In Austria,[214] the time needed to transfer recurring payments ranged from 4 to 21 banking days. The length of switching processes, including protracted procedures for closing an account (for example on average 35 days in Italy), were criticised by consumer and civil society stakeholders in the Commission public consultation.[215]

Direct financial costs

Consumers switching current accounts also bear direct financial costs. Correspondence costs depend on the number of third parties the consumer has to inform (exceptions are the Netherlands and, as of September 2013, the UK, where parties will be informed via an automatic redirection service). Consumers also face the cost of maintaining two payment accounts for the duration of the switching process, including the payment of an account management fee, where applicable. This cost is directly proportional to the length of the switching process. A final direct cost that may be incurred is an account balance transfer fee. In France, a transfer of balance fee is charged by 40% of banks.[216] The costs can deter consumers from switching especially where consumers' view the potential benefits of switching to be relatively low. In 2009, 8% of the consumers who did not switch current account stated that they felt the amount that could be saved by switching was too small.[217]

Psychological factors

Consumer perceptions can deter switching. In the Netherlands, switching rates are low, despite there having been an account redirection system since 2004. One possible explanation is the perception that the process remains difficult, even though those who have used the service found it easy.[218] Moreover, many consumers believe that there is no significant advantage in switching. One UK survey found that only 10% of consumers have considered switching their personal payment account provider within the last year. This survey notes that the main reason for not considering switching was consumer satisfaction with their existing provider's product.[219] In this context, the widespread (75% of the UK personal payment account market) use of free-if-in-credit accounts contributed to the perception that all personal payment accounts were the same.

Restricted cross-border switching

The self-regulatory Common Principles did not introduce any cross-border switching services. There is therefore no common framework in place aiming to facilitate cross-border switching of payment accounts. Although there is a significant potential demand for cross-border switching, consumers may be deterred by the complexity of the process in practice.

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[213] *Tarifs et mobilité bancaires: le désolant palmarès des Banques*, UFC Que Choisir, October 2010, p.19, http://image.quechoisir.org/var/ezflow_site/storage/original/application/961abc610b3b1f8bd82e9ad5ed117a5f.pdf

[214] *Kontowechsel: Wie funktioniert er?*, VKI, March 2010.

[215] http://ec.europa.eu/internal_market/finservices-retail/docs/policy/ba_summary-2012_07_25_en.pdf

[216] *ACP rapport sur la mobilité bancaire*, ACP, September 2011

[217] *Consumers' views on switching service providers*, Eurobarometer 243, European Commission, p. 19.

[218] *ICB Final report recommendations*, ICB, September 2011, p. 220, http://www.ecgi.org/documents/icb_final_report_12sep2011.pdf

[219] *OFT 1282 Review of barriers to entry, expansion and exit in retail banking,* Office of Fair Trading, November 2010 , p. 127-130, http://www.oft.gov.uk/OFTwork/markets-work/othermarketswork/review-barriers/, The underlying OFT consumer survey was performed in July 2010, base: 932 PCA holders.

Cross-border demand for payment accounts arises when individuals use their mobility rights and move temporarily or permanently to another Member State. Currently, there are about 12.3 million EU citizens above the age of 15 that reside permanently in another Member State.[220]

However, since the establishment of the Single European Payment Area (SEPA), the mobile citizens are not the only driver for cross-border demand for payment accounts. The introduction of standardised payment instruments (transfers, direct debits) by SEPA marked a significant step towards integrated financial markets. The SEPA vision is that consumers should be able to operate in the European market as easily as in their domestic market. Therefore, the cross-border switching is also of high interest to the non-mobile citizens who could then easily accede to better products offered in another Member State.

Considering the high price dispersion of payment accounts in different Member States, consumers could significantly benefit from switching their payment account cross-border.

Table 7: Average prices for bank account services in the EU in 2007 (four consumer profiles, prices in euro/year)

Member State	**Payment service user profile (average prices in EUR/year)**			
	Average	**Basic**	**Passive**	**Active**
Austria	140.47	83.95	99.54	197.46
Belgium	58.15	16.28	29.05	82.07
Bulgaria	26.94	9.30	17.14	42.83
Cyprus	84.59	48.74	6.52	184.99
Czech Republic	95.37	54.81	39.65	156.52
Denmark	74.27	38.91	37.92	128.41
Estonia	50.51	46.98	25.57	93.08
Finland	104.42	94.04	44.65	206.56
France	154.11	91.21	91.35	232.15
Germany	89.13	78.92	62.85	114.71
Greece	53.98	45.06	14.81	111.67
Hungary	76.20	64.08	28.39	144.42
Ireland	81.85	37.17	56.40	118.39
Italy	253.14	143.19	134.99	401.72
Latvia	115.24	107.33	63.26	192.28
Lithuania	34.76	14.69	11.20	112.92
Luxembourg	56.64	25.64	40.37	95.99
Malta	71.85	45.38	53.21	99.47
Netherlands	45.95	28.85	30.13	55.60
Poland	73.21	50.55	45.97	114.01
Portugal	44.89	13.19	26.01	81.97
Romania	82.59	69.79	30.28	141.90
Slovakia	73.68	55.59	44.49	125.08
Slovenia	100.40	70.13	43.50	200.76
Spain	178.21	134.06	104.72	303.57
Sweden	61.84	53.35	25.16	128.21
United Kingdom	103.20	28.34	94.99	111.40

220 See footnote 120

EU27	111.62	61.47	74.41	159.18

Source: Van Dijk Management Consultants study for the European Commission, 2009

Since the SEPA provisions refer to payments in euros, this would mostly concern payment accounts within the Euro area, but would also apply to accounts in euros in any EU Member State. As can be inferred from the table above, Italian consumers, for example, paying on average EUR 250 yearly fee could save around EUR 100 a year when switching to a French account and more than EUR 200 by switching to a provider in the Netherlands.[221] For active account users these savings would be even more important. An active Italian account holder could save EUR 170 per annum by switching to a comparable account offered in France a EUR 346 per annum by switching to a provider in the Netherlands.

As consumers may prefer to have their account with a provider with local presence, the cross-border demand may be strongest in border regions, where citizens are prone to shop abroad.[222] However, given that the functionality is to be the same and the fact that consumers are increasingly using internet banking, it is reasonable to expect that facilitation of switching payment accounts cross-border would significantly increase the cross-border mobility in medium term.

Due to the fact that there is no cross-border switching service, the process continues to be characterised by separate "opening and closing" procedures rather than "switching" of payment accounts. Consumers may be deterred from switching account providers cross-border as the obstacles to switching, described in the previous sub-sections are even more important in such context. This is in particular true for the transaction costs arising from the switching process. In a purely domestic context, transaction costs in the absence of a well-functioning switching service are conservatively estimated at EUR 135 per switch.[223] They relate to administrative costs (time spent to contact the providers, money spent on correspondence to creditors and debtors to inform them on the new account details) and to costs linked to payment defaults (resulting from a lack of coordination between providers that may lead to errors linked to payment instruments, such as stopping a direct debit's payment, a payment refusal for lack of funds or an overdraft due to an unforeseen debit).

In the case of cross-border switching, due to the potential geographical distance of the two providers, the consumer may need much more time and potentially incur significant travel costs to open the new account, carry out the transfer of all necessary payment transactions and the account balance and close the old account. With regard to the information of third parties about the new account details for recurrent payment transactions, consumers are likely to incur higher correspondence costs and bear higher costs resulting for delayed/missed recurrent payments as the coordination of the two providers may be more burdensome in the cross-border context. Assuming that these additional costs would lead to an overall increase of 30% of the transaction costs, consumers would need to pay/forego on average around EUR 175 to switch payment account providers.

Not only do the Common Principles not provide for a cross-border switching service, there is also substantial divergence in the application of the Common Principles by Member States and national banking communities. The Common Principles have been implemented through industry codes, recommendations, guidelines or interbank agreements.[224] Legislative

221 *Data collection for prices of current accounts provided to consumers,* Van Dijk Management Consultants, 2009.

222 *Eurobarometer: Qualitative study on cross-border shopping in 28 European Countries*, European Commission, 2004, p.9, and p.15.

223 The estimates is based on a study carried out by the French consumers' association UFC-Que Choisir. *La mobilité bancaire,* UFC Que choisir, p.4, Juin 2006, http://www.industrie.gouv.fr/biblioth/docu/dossiers/sec/pdf/annexe12.pdf As the figures stem from 2004 a inflation rate of 2% p.a. used to update the figures to 2012 price level.

224 *Report on the implementation of the EBIC Common Principles on bank account switching,* EBIC, 2009, Table 1, p.5ff

measures have only been taken in Ireland.[225] The result is that not all account providers comply with the Common Principles. For example, adoption of the Common Principles is restricted to members of the national banking association in the Czech Republic.[226] In Belgium, the transfer of payment cards and memo orders was included[227] and the future UK redirection service is expected to cover direct credits, direct debits, standing orders and regular card payments. This creates an obstacle to efficient internal market for consumers and providers alike. For providers operating in more than one Member State, the differences across Member States often impose direct costs and costs in the form of foregone economies of scale, diminishing competitiveness. Due to the consolidation of the European banking industry in recent decades, providers operating in more than one Member State service a significant share of the market for payment accounts.[228]

An introduction of cross-border switching service would reduce the complexity and uncertainty of the switching process, make it less costly to the consumers and thereby facilitate their mobility. All consumers – mobile and non-mobile – would also have the opportunity to shop around and open a payment account in another Member State. The increased consumer mobility would increase competitive pressure in the retail banking markets. This would benefit consumers and providers who will be able to provide better/more suitable products and a better service, i.e. deliver value for the money to their clients. In this respect, it has been acknowledged by industry experts as well as academics, that "*in order to maximise the potential benefits of SEPA, it is necessary to address the barriers to the cross-border opening and switching of bank accounts*."[229]

3.3. Interlinks

Access to a payment account is essential in the modern economy. In a truly functioning internal market, access should be available across domestic borders, anywhere in the EU. If an EU citizen from Poland moves to the UK, but is unable to open an account, transparent information on fees and an effective switching process will be of no value to them. All EU citizens should be able to fully participate in economic life and benefit from shopping around for a payment account that best suits their needs. To shop around effectively and efficiently, it is necessary to be able to easily compare and switch products. Thus, efforts have to be made to facilitate customer mobility and consequently, competition.

The Commission inquiry into the retail banking sector[230] found that low levels of customer mobility was directly related to higher bank profitability and that the impact of customer mobility in the payment account market on market power, (measured on total retail banking profitability), was such that a 1% increase in market churn[231] gave rise to a corresponding similar decrease in banks' pre-tax profitability ratio. While the relationships found in the inquiry do not take account of a certain number of variables that influence both levels of

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http://www.ebf-fbe.eu/uploads/documents/publications/Reports/2%20march%202010%20-%20PUBLIC-%20EBIC%20Implemenation%20Report%20(final)%20-%20Common%20Principles%20on%20Bank%20Account%20Switching.pdf

225 A statutory Switching Code replaced the Voluntary Switching Code as of 1 October 2010.

226 *Easy switching? – A long way to go; BEUC Monitoring Report of the 'Common Principles for Bank Account Switching'*, BEUC, January 2011, p. 6-12.

227 *Switching evaluation Belgium*, Belgian Bankers' and stockbroking Firms' Association, 2010.

228 *EU Banking structures*, ECB 2010, p.20; http://www.ecb.int/pub/pdf/other/eubankingstructures201009en.pdf

229 *Expert Group on Customer Mobility in Relation to Bank Accounts*, *Report*, June 2007, p.12

230 *Report on the retail banking sector inquiry*, SEC(2007) 106, European Commission, 31.1.2007; http://ec.europa.eu/competition/sectors/financial_services/inquiries/sec_2007_106.pdf

231 Defined as the share of customers who change providers in a given year.

switching and bank performance,[232] they indicate that customer mobility impacts market performance and the structure of the market in ways which encourages competitive rivalry.

Opaque fee structures raise barriers to choice, affecting the extent to which consumers switch providers. This is true when comparing offers within domestic markets as well as across borders. The actual switching of accounts can only take place once the consumer has made a choice of product, based on transparent and easy to understand fee and service information. Barriers to switching resulting from difficulties in the switching process itself can therefore be the final straw for many consumers at the end of a long process. However, cross-border fee transparency and/or switching mechanisms cannot be truly effective unless barriers to accessing markets across borders are removed for consumers, meaning that consumers are no longer restricted to opening a payment account in another Member State, due for example, limitations imposed on non-residents. Combined, the problems identified in these three areas inhibit consumer mobility, potentially affecting competition and efficiency in the payment accounts market. In particular, where commercial practices or regulation hinder an EU citizen from acquiring an account cross border, any action to render bank offers more comparable by establishing common presentation requirements across the EU cannot be effective. Similarly action to improve the process of switching between providers within the EU cannot have a positive effect as long as access to providers situated in another Member State is restricted.

Further, serious problems arise in terms of time, effort and financial costs for consumers and industry alike when seeking to move across the EU, due to fragmented markets resulting among other things, from different customer information requirements and procedures. All consumers, both domestic (not just vulnerable) and mobile, who are unable to easily shop around may end up with products that are unsuitable for their needs and/or at a higher price. All consumers would be restricted to their domestic markets raising the risk of market capture. The financial services industry is equally restricted in its behaviour. Facing 27 different rules on fee transparency and domestic switching mechanisms, certain financial institutions may decide that cross-border activity is simply not worth the sunk costs, particularly given the limited customer mobility. The wider economy would also be affected. Enterprises offering their goods and services would be unable to sell their products to consumers with inadequate means of payment. This is true for vulnerable consumers in domestic markets but has a larger impact when considering the potential of the single market for e-commerce.

However, they also create very practical problems in terms of time, effort and financial costs for consumers and industry alike seeking to move across the EU, creating impediments to growth and undermining the flexibility of the economy.

3.4. Summary of consequences

The problems identified above and the way they interact impact on the way all relevant categories of stakeholder (including consumers, financial services providers, Member States and the economy in general) operate at both a national and EU level in the retail banking sector. These impacts are summarised below.

3.4.1. Consumers

<u>Inability to choose the best account for their needs</u>

Potential and actual customer mobility exerts a competitive pressure on existing and potential account providers to improve product quality and reduce prices. The lack of clear and comparable information on bank fees means that consumers do not understand how much

[232] E.g. the direct effect of switching costs on customer mobility; levels of customer satisfaction in explaining customer mobility; or the impact of differing levels of banking sector stability on market performance.

they are charged for their account and results in them being unable to compare offers and potentially switch providers for a better deal. The direct and indirect financial costs of actually switching create an opportunity cost, dissuading consumers from switching to a better product for their needs. These consequences may be even higher when viewed in a cross-border context, where the benefits of a larger market and more competition in terms of product diversity and potentially lower prices could be even greater for consumers.

Restricted choice of products and services

Online shopping offers a wider choice and potentially lower prices for products and services; it also opens the potential of shopping throughout the internal market for consumers that may remain geographically local. Consumers without a payment account have very limited opportunities to make use of e-commerce as the majority of transactions require a credit card or bank transfer. While other means of payment can also be used, these are usually more expensive and inconvenient.[233] For instance, pre-paid cards can be used over the internet but the fee structure behind them is not transparent and access channels are limited.[234] A report on access to retail banking services for the European Parliament referred to this as "*the 'poverty premium', i.e. the higher price poorer families have to pay for goods and services because they cannot access the online deals that are available to households with payment means accepted for e-commerce*."[235] Although it may appear unlikely that poor consumers, even if equipped with an account, would massively turn to online shopping, one UK study on the experiences of newly banked consumers found that 22% had shopped by telephone or internet since opening their account.[236] Problematically, even where a consumer is able to access a basic payment account, its payment features may be restricted to the domestic market. This is the case, for example, in the Netherlands, Belgium and Hungary.

Higher costs

Restricted customer mobility through barriers to switching has an adverse impact on consumers; 'locked-in' customers experience higher prices and a reduced level of services. Moreover, errors in the switching process have a short/medium term direct impact: bills may go unpaid during the switching process and the customer might have to bear extra costs and spend extra time trying to find out about missed payments. The potential long term indirect impact of such errors is equally important. Consumers may incur a black mark on their credit history, restricting their access to credit or certain services, e.g. rental accommodation.

In addition to the 'poverty premium' described above that leads to consumers paying more because of the smaller market that they can access, unbanked consumers also face several direct costs. First, having a payment account gives consumers access to potential discounts, e.g. those offered by utilities companies when payments are made by direct debit or those provided through a bundle of products or services with the same provider. A 2011 report in the UK concluded that unbanked families pay £253 per year extra in gas and electricity bills[237] compared to families that pay by direct debit while an average annual income per employee in the UK was about £24,000 in 2011.[238] Second, the use of cash rather than alternative means of payment can provide a direct cost. For example, in Germany, those in receipt of social security benefits without a payment account receive a cheque which can be

233 Financial Services Taskforce, Banking services and poorer households, December 2010.

234 *Ibid.*

235 *Basic banking services*, London Economics for European Parliament's Committee on the Internal Market and Consumer Protection, November 2011, p. 19.

236 *Ibid*.

237 The UK poverty rip-off, Save the children UK, January 2011. http://www.savethechildren.org.uk/sites/default/files/docs/UK_Poverty_Rip_Off_Brief_1.pdf

238 UK Office for National Statistics (http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/ashe-results-2011/ashe-statistical-bulletin-2011.html)

cashed at a post office.[239] In 2010, the average amount of benefit paid in Germany was EUR 380, and the recipient was charged EUR 7 for the processing of the payment; costing an average of EUR 85 per recipient per year.[240] Similarly, buying an airline ticket face to face in cash rather than over the internet entails additional costs. Finally, cash can create a significant risk in terms of theft.

Economic exclusion

Unbanked consumers may also face difficulties in relation to employment or renting property. For example, at some German universities students need a payment account since rent for student halls is paid by standing order.[241] Regarding employment, having a payment account may not be a legal requirement to take up a position. However, in some cases, "*paying out salaries in cash or by cheque may simply no longer be possible*."[242] A 2010 study reported that "*having an account was perceived to be a necessity for securing employment among the unbanked*."[243] It is a frequent difficulty for migrant workers travelling, for instance, from new Member States to Western EU countries. The difficulties in accessing a payment account may actually prevent many migrant workers from seeking employment abroad thus creating an important barrier to the free movement of persons.

Low consumer confidence

Insufficient information on bank fees together with insufficient information on switching reduces consumer confidence in seeking an account more suited to their needs. As a consequence, consumers cannot reap the benefits of an efficient and competitive market, which are even greater in the context of cross-border shopping around.

3.4.2. Effects on financial industry

Restricted market entry/expansion

Different regulatory frameworks and bank infrastructures established along national boundaries contribute to the fragmentation of the market and raise barriers to entry. Further, existing credit institutions face difficulties expanding their existing client base. In general, green-field market entry into another Member State's banking market tends to be more risky and less successful than entry through M&A.[244] Low customer mobility could be one explanation. Since retail banking customers are relatively immobile it is difficult for a green-field operation to win large numbers of customers through price competition and thus acquire significant scale in a commercially viable time-frame.[245] Effective switching regimes are an important factor in deciding whether to enter retail banking markets in other Member States.

Furthermore, the low levels of cross-border switching can also endanger efforts to improve cross-border payments; according to industry experts, removing the barriers to cross-border switching is essential to maximise the benefits of SEPA.[246]

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239 *Bericht der Bundesregierung zur Umsetzung der Empfehlungen des Zentralen Kreditausschusses zum Girokonto für jedermann*, Drucksache 17/8312, German Bundestag, 27.12.2011, p. 8

240 *Ibid.*

241 Anecdotal evidence provided to the Commission.

242 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 44-45, http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

243 *Financial Inclusion Evidence Review: the costs of banking exclusion and the benefits of access to bank accounts*, Claire Whyley, 2010, p. 22.

244 *Report on the retail banking sector inquiry*, SEC(2007) 106, European Commission, 31.1.2007.

245 *Ibid.*

246 *Report of the Expert Group on Customer Mobility In Relation To Bank Accounts*. http://ec.europa.eu/internal_market/finservices-retail/mobility/bank_switching_en.htm

The different regulatory frameworks for access to and switching of payment accounts also create a significant barrier to cross-border entry. Credit institutions who offer their services in more than one Member State will need to create and/or integrate their systems into different switching regimes for each market in which they operate. This is expensive and time consuming, raising sunk costs and preventing economies of scale, hindering cross-border business and the realisation of a single market. Alternatively, should the cross-border provider decide against investing in the creation of a switching service (for instance, where the switching service is subject to self-regulation or access is conditional on being a member of the national bank association), they would face the same problems described above in terms of attracting new customers. They would therefore be faced with competing against domestic providers on an uneven playing field, distorting competition.

3.4.3. Non-financial services/products providers

Higher administrative costs

Consumers lacking a payment account impose higher costs on enterprises, as they face the administrative and security cost of paying salaries in cash or by cheque. Enterprises have to insure the cash held and spend time depositing and collecting cash from a bank; they also face an increased risk of fraud through money laundering, fake notes and coins, etc. Accordingly, hiring employees without a payment account may be more expensive. To offset these costs, enterprises may increase their prices, but this restricts competitiveness and growth. Higher administrative costs lead to lower profits, less money to invest, and missed opportunities.

Bringing consumers into the financial system can also support efforts to fight corruption and the black economy. Broader access to means of electronic payments is a natural complement to anti-fraud measures. This was a reason why Italy introduced an obligation for all consumers to hold a bank account.[247]

Enterprises encounter costs when direct credits and direct debits are misdirected during a switch of their clients or employees.

Missed business opportunities

Restrictions on consumer access to payment accounts affect enterprises in other ways. There is a market for goods and services that they either cannot, or find it difficult to, sell their goods and services to. The European market as a whole may suffer from restrictions on account services that limit users of payment accounts to 'domestic' transactions, particularly in the context of online sales.

Small- and medium-sized online enterprises develop rapidly, contributing to economic growth. They could grow even faster if more consumers had access to basic banking services. With the internet easily available (and commonly used on mobile phones), online enterprises have huge growth potential. Many small- and medium-sized enterprises offer products or services online while acting as intermediaries for larger ones (e.g. websites offering clothes of different brands, or others selling travel arrangements). Increased access to online payment mechanisms could increase sales for all enterprises.

3.4.4. Public administrations

Higher administrative costs

Member States' administrations face higher costs due to the need to use cash to pay consumers who do not have a payment account, e.g. when paying benefits. Therefore, almost

247 Law 214 of 22 December 2011, Article 12(3) http://www.aitecweb.com/Portals/0/pubnoaut/varie/Legge%2022%20dicembre%202011,%20n.%20214.pdf

all of them recognise that it is crucial for consumers to be able to access a payment account.[248] In a number of countries, the payment of social benefits into a payment account has been made compulsory (e.g. Denmark, France) or payments made in cash are charged extra (e.g. Germany). Partly as a consequence of this, payment account penetration is close to 100% in these countries. However, in others, such as Ireland, only 40% of social benefits payments are made through a payment account, while 52% are made through a post office.[249] In Ireland, the cost of using non-electronic payments systems was estimated at EUR 1 billion in 2007.[250] In Hungary, approximately 50% of pension payments are made by money orders and not by credit transfer. If these payments could be made by transfer, approximately HUF 6.5 billion could be saved annually.[251] More widespread use of electronic means of payment, instead of cash, would be very beneficial for public finances in Member States, especially in the current economic climate, and could further contribute to economic growth in the EU.

3.4.5. Wider economy

A reliance on cash causes the unbanked population to impact upon the wider economy. Studies undertaken by the payment industry[252] suggest that the cost of cash in the EU for all currencies could be as high as EUR 84 billion per annum or EUR 130 per inhabitant. For the euro area alone this is estimated at EUR 40 to 45 billion, equivalent to around 0.4% of GDP. According to the World Payments Report[253], an increase in the use of electronic means of payment and reduction of the euro cash in circulation to the level comparable with the USA would bring about savings of around EUR 20 billion annually in the euro area economies. In Hungary, a recent study estimated that the complete phasing out of paper-based orders for welfare payments could produce savings of approximately HUF 85 billion annually.[254]

Encouraging electronic transactions would also support efforts to fight corruption and the black economy: transactions in cash are almost untraceable. This would help a number of Member States who are currently trying to improve their public accounts.[255] An increased use of electronic means of payments, including the exchange of information and traceability, would complement EU efforts to improve tax compliance, thus contributing to healthier public finances and economic growth.

Increased access to basic banking services may also help combat unemployment in the EU as it would facilitate and encourage mobile workers to travel to other Member States. Moreover, some employers would find it easier and cheaper to pay salaries by bank transfer instead of via cash or cheque.

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248 *2012 Public consultation on bank accounts* (see footnote 11), p. 10.

249 *Strategy for Financial Inclusion*, Final Report, 2011, p. 14. http://www.finance.gov.ie/documents/publications/reports/2011/Fininclusreport2011.pdf

250 *Strategy for Financial Inclusion*, Final Report, 2011, p. 11.

251 *Nothing is free: A survey of the social cost of the main payment instruments in Hungary*, National Bank of Hungary, p. 94.

252 *Study on the cost of cash*, European Payments Council, 2010; *World Payments Report 2011*, Capgemini, RBS,Efma, 2011.

253 *World Payments Report 2011*, Capgemini, RBS and Efma, 2011

254 *Nothing is free: A survey of the social cost of the main payment instruments in Hungary*, National Bank of Hungary

255 FSUG response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 28.

4. OBJECTIVES

The over-arching objective of this initiative is to create an efficient and competitive Single Market (Article 114.1 of the Treaty) with a high level of consumer protection (Article 114.3 of the Treaty) that promotes economic growth and financial inclusion. The general objectives of the three problem areas are to enhance consumer confidence; to improve consumer choice, both in terms of the quality and the price of products available; to facilitate customer mobility; to facilitate the cross-border activity of payment account providers; and to ensure a level playing field between market actors.

This will also contribute to achieving the objectives of the Banking Union by enhancing the functioning of the internal market and strengthening the banking conduct regime by removing the remaining barriers to the internal market. As national measures vary significantly in all areas, the proposal lays the foundation for a more integrated EU-level treatment of banks and consumers and thus seeks to create a more level playing field for all stakeholders in relation to transparency of bank fees, switching and access, while enhancing consumer confidence. The objectives of this IA are described in Table 8 below.

Table 8: Overview of objectives

General objectives	
To enhance consumer confidence To broaden consumer choice both in terms of the quality of the products available and in terms of price reductions To facilitate financial inclusion and thereafter customer mobility To facilitate the cross-border activity of payment account providers To ensure a level playing field between market actors	
Specific objectives	**Operational objectives**
Access to basic account services	
To facilitate access to basic account services (not oblige everyone to have a payment account)	▪ Reduce the number of unbanked Europeans by 6.4 million by 2020[256] ▪ Ensure access to all basic payment means for all consumers with basic payment accounts ▪ Facilitate cross-border access to basic banking services for 3.5 million consumers by 2020[257] ▪ Improve consumers' awareness on basic payment accounts
Ease of comparison of bank fees and requirements covering presentation	
To ensure that EU consumers receive clear, complete and comparable information on bank fees	▪ Consumers are able to understand bank offers and assess value for money ▪ Payment account offers are easily comparable ▪ Help consumers choosing the offer best matching their needs ▪ Increase consumers awareness of charges actually paid ▪ The burden of switching to consumers is reduced
Switching of payment accounts	
To ensure that EU consumers are able to switch payment accounts with ease and in a timely manner.	▪ Switching is a smooth and easy process ▪ Consumers are assisted and informed of the switching process in an adequate manner ▪ The number of misdirected/missed payments during switching process is reduced to less than 5% of recurrent transactions ▪ The direct financial costs of switching to consumers is reduced ▪ The duration of switching process is maximum 14 days ▪ The mobility of payment account users is increased

5. NEED FOR EU ACTION

Payment accounts represent the financial services product most likely to be purchased cross-border.[258] Yet persisting barriers to access, whereby mobile and vulnerable consumers cannot

256 EU 2020 strategy aims to reduce a number of poor and socially excluded by at least 20 million by 2020 through, among others, improved access to essential services and tackling financial exclusion. http://ec.europa.eu/social/main.jsp?catId=751&langId=en

257 *Ibid*.

258 *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012, p. 31, http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm.

open an account, problems with the transparency and comparability of payment account fees and charges, and difficulties with the switching process, deprive stakeholders of some opportunities offered by a fully-functioning internal market for payment accounts. The impact upon consumers, business and the wider economy is significant.

The fragmented market that flourishes in the absence of transparent and comparable information, effective switching mechanisms and the right of access, distorts competition within the internal market. Consumers experience higher prices, inferior products, and limited services – including accounts restricted to use in domestic markets – accordingly, they have low confidence in their banks. Moreover, a fragmented market of this nature makes it more difficult for citizens to move to other Member States. Solving these problems is, therefore, crucial for consumers, business and the European economy.

Since 2006, the Commission has repeatedly tried to improve the functioning of the payment account market, by promoting self-regulatory initiatives for account switching (the Common Principles[259]), account transparency and comparability, and by adopting a Recommendation to facilitate access to a basic payment account.[260] Since these initiatives have failed to address the problems, the Commission considers it necessary to act.[261] The Single Market Act (SMA) II adopted on 3 October 2012 identified a legislative initiative on bank accounts in the EU as one of the 12 priority actions to generate real effects on the ground and make citizens and businesses confident to use the single market to their advantage.

According to the principle of subsidiarity, Community action may only be taken if the envisaged aims cannot be achieved by Member States alone. Whilst it may be the case that EU intervention cannot easily address some of the more intangible features of cross-border take-up of banking services, such as language or distance, nevertheless, EU intervention can be justified to achieve the outlined objectives for several reasons:

5.1. To improve the proper functioning of the internal market and avoid the distortion of competition in the field of retail banking

Different regulatory frameworks, or the lack thereof, raise barriers to entry across borders. An EU initiative will better address factors that prevent the pursuit of business or raise the cost of doing business in another Member State relative to the costs faced by domestic providers. Credit institutions that seek to operate across borders not only need to meet differing requirements but are also prevented from making full use of economies of scale in developing processes and in operations in areas such as back office activities.

- Low customer mobility in general and inefficient switching mechanisms in particular, create obstacles to market entrants to gain new clients. Moreover, the low levels of cross-border switching can endanger the development of cross-border payments in general, as raised by industry experts. The non-level playing field between market actors results in reduced competitive rivalry and missed opportunities within the internal market.
- Inaction or action from Member States alone is likely to result in different sets of rules, leading to uncompetitive markets and unequal levels of consumer protection in the EU. Market fragmentation in retail banking would persist or become further entrenched threatening long-term market integration. This may take the form of

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[259] *Common Principles on Bank Account Switching*, European Banking Industry Committee, December 2008, http://www.eubic.org/Position%20papers/2008.12.01%20Common%20Principles.pdf

[260] Commission Recommendation 2011/442/EU (see footnote 3). It defines a 'payment account' as "*an account held in the name of one consumer which is used for the execution of payment transactions*".

[261] See for instance Recommendation on access to basic payment accounts (*see footnote above*).

significant investment in domestic redirection services that are technically difficult to connect with schemes in other Member States, or increasingly divergent national approaches to the development of payment account fees.

- Common criteria established at EU level for the functioning of the retail banking sector would provide consumers with the necessary information required to make informed choices. This will contribute to the strengthening of competition and to the efficient allocation of resources within the EU financial retail market to the benefit of businesses and consumers. Consequently, common criteria would reduce sunk costs on the part of the financial services industry. Easy-to-understand fees and switching possibilities combined with the right of access to basic account service will allow EU citizens to move and shop around more easily within the Union. It will also allow all consumers to fully benefit from the internal market (for example by participating in e-commerce and, therefore, in the digital market, including more competitive cross-border goods and services).
- Initiatives to establish common presentation requirements and encourage fee comparability across borders cannot be distinguished from those in domestic markets without creating fragmentation between domestic and cross-border markets. To be effective, minimum requirements aimed at lowering the barriers to cross border mobility are needed. However general requirements regarding the presentation of payment account fees that only target cross border offers would not eliminate difficulties in comparing information domestically due to different national requirements. In this sense, bank offers from providers in the consumers' country of residence may not be easily comparable with offers from providers set up in other Member States.

5.2. To empower consumers by enabling them to make informed choices and enable them to take advantage of the single market

- Around 56 million consumers in the EU do not have a bank account and cannot therefore fully enjoy the benefits of the single market.[262] Around 10% of those unbanked persons, i.e. about 6 million adults have tried to open an account and have been refused. These unbanked people are missing out on several benefits such as greater safety, cheaper electronic payments, and easier access to less expensive products and services online. It has also been estimated that thanks to the realisation of the Single Euro Payments Area (SEPA), from 2006-2012, that EU consumers using electronic payments will have saved on average EUR 129[263] on payment transactions. The single market will only be truly inclusive if it benefits every EU citizen.
- The lack of clear and comparable information on bank fees results in consumers not fully understanding charges incurred. In a competitive and efficiently-functioning single market with a high level of consumer protection, all EU citizens would be able to search for the best product offered for their needs, be it in their own country or in another Member State. Customer mobility, and the possibility of easy switching, exerts a competitive pressure on payment account providers to improve quality and reduce prices. Without EU action, the identified problems related to the lack of an EU-wide market will continue to lead to consumer detriment.

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262 Commission calculations based on data on the number of unbanked consumers from *Measuring Financial Inclusion, The Global Findex Database*, the World Bank, April 2012.

263 *SEPA: potential benefits at stake*, Capgemini Consulting, 2007.

5.3. Allow all European citizens access to essential services and the opportunity to benefit from the single market by promoting economic and financial inclusion

- Without EU action it will be difficult to bring the advantages of the single market to all EU citizens.
- The need to balance increased competition and the use of market mechanisms with the need to guarantee that every citizen continues to have access to essential services of high quality at prices that they can afford.
- A level playing field at EU level will help consumers reap the full benefits of the integration of the European financial sector by facilitating financial inclusion enabling all consumers to fully benefit from the internal market (for example by participating in e-commerce and, therefore, in the digital market, including more competitive cross-border goods and services).
- Access to essential services including basic account services[264] contribute to active inclusion strategies aimed at the reintegration of the people furthest from the labour market. Therefore, it forms part of the delivering actions identified by the European Platform against Poverty and Social Exclusion, one of the flagship initiatives of Europe 2020 aimed at achieving inclusive growth in the EU. Society at large (including public administration and non-financial services/product providers) would benefit from the improved conditions of the functioning of the internal market of retail financial services, thus contributing to the objectives of financial inclusion.
- An initiative on bank accounts has also long been cited by all EU institutions as an important element to improve the functioning of the single market. The 2012 March European Council welcomed the Commission's intention to propose a new round of measures to open up new growth areas in the Single Market. Similarly, a recent European Parliament report with recommendations to the Commission on Access to Basic Banking Services[265] asks the Commission to come forward with a legal proposal addressing access to basic banking services by January 2013. Most recently, the Commission underlined the importance of an initiative to improve the payment account market in the Single Market Act II,[266] and announced proposals in the area of transparency and comparability of bank fees and bank account switching as part of the Commission Work Programme for 2013.[267]

<u>What will happen if no EU action is taken?</u>

If no action is taken at EU level, market fragmentation will persist in payment account services. Since it is unlikely that member States will implement the Access Recommendation in full, basic payment accounts will be restricted to use in domestic markets, restricting access across borders. Moreover, significant future investment in domestic redirection services that are technically difficult to connect with schemes in other Member States, or increased diverging national approaches on the development of payment account fees will result in market fragmentation becoming further entrenched, threatening long-term market integration.

Against this background, and as described in previous chapters, action from Member States alone is likely to result in different sets of rules, which may undermine or create new obstacles to the proper functioning of the internal market and create unequal levels of

[264] Together with various enabling services, such as healthcare, childcare, social housing, or life-long-learning.
[265] European Parliament Resolution 2012/2055(INI).
[266] *"Single Market Act II - Together for new growth"*, COM(2012) 573 of 3 October 2012, page 16.
[267] *"Commission Work Programme 2013"*, COM(2012) 629 of 23 October 2012, Annex I, page 5.

consumer protection in the EU. For example, a law on basic account services currently being prepared in Slovakia will restrict the use of those services to Slovakia alone.[268] Common standards at EU level are therefore necessary to promote efficient and competitive conditions in the retail banking sector for the benefit of EU consumers and businesses. EU intervention will result in the smoother functioning of the internal market, with consumers and the banking industry benefiting from enhanced information on payment account fees, improved mobility and universal access to payment accounts.

Is there a legal basis?

The Treaty provides for action to ensure the establishment and functioning of an internal market with a high level of consumer protection and the free provision of services. Such a market for payment accounts is far from completion as several obstacles exist to the free provision of services and the creation of an internal market. These obstacles restrict the level of cross-border activity on the supply and demand sides, reducing competition. Payment account providers may be less efficient than they could be and consumers may suffer.

The legal basis for action is in Article 114 of the Treaty. Article 114 allows for the adoption of "*measures for the approximation of the provisions laid down by law, regulation or administrative action in Member States which have as their object the establishment and functioning of the internal market.*" In doing this, according to the Treaty, the Commission will take a high level of consumer protection as a basis for action. A payment accounts initiative based on Article 114 of the TFEU represents a step towards the establishment of a properly-functioning internal market and avoids distortion of competition in retail banking.

The measure will respect the principles of subsidiarity. For the reasons set out above the envisaged aims cannot be achieved by Member States alone. Moreover, and as explained in this section, the Commission has, without success, previously attempted a 'light touch' approach through self-regulatory initiatives and Recommendations. EU intervention in the areas of payment accounts is therefore justified on this basis.

6. POLICY OPTIONS

Although directly interlinked, this chapter describes the policy options for each of the three areas analysed in this impact assessment separately, in order to address the problems identified in Chapter 3. The policy options are not necessarily mutually exclusive and should not therefore automatically be viewed as alternatives. Their separate presentation allows analysis and comparison of the Options in greater detail.

Importantly, to meet the objectives identified in Chapter 4, a combination of Options across the three areas is needed. Chapter 8 concludes that a bank account package combining the preferred sets of Options in each of the three areas would better ensure a coherent approach to the problems.

6.1. Options for access to basic account services

Several policies can be considered to address the problems identified and achieve the set objectives.

6.1.1. Option 1: No action

No further action is taken at EU level. Member States would still be encouraged to implement the Recommendation and the Commission would continue to monitor implementation.

[268] http://www.nrsr.sk/web/Default.aspx?sid=zakony/zakon&MasterID=4018

6.1.2. *Option 2: Ensure application of the provisions of the Recommendation*

This would ensure that the provisions of the Recommendation are applied either through an enhancement of the regular monitoring of the implementation and application of the Recommendation in Member States by the European Commission (e.g. scoreboard) or by requesting Member States to adopt binding rules based on the Recommendation. Option 2 may be combined with the variants of Option 3 and 4.

6.1.3. *Option 3: Modify the provisions of the Recommendation relative to the beneficiaries*

This Option may be combined with Option 2 and 4.

- Variant A: Introduce a universal basic payment account

  This would introduce a universal right for every EU citizen to open a basic payment account in any EU bank. The basic payment account would have the features provided for in the Recommendation, other than the condition that the consumer must not already have a basic payment account in that Member State, which will not be retained.

- Variant B: Introduce a right to a basic payment account at least for national residents

  This Option is based on Option 2 but would, additionally, introduce a right to open a basic payment account for at least national residents. Providers (all or some depending on the approach chosen by Member States) would be obliged to offer a basic payment account even if the consumer already had another account in that Member State and regardless of his financial situation. The basic payment account would have the other features provided for in the Recommendation.

- Variant C: Introduce a right to a basic payment account at least to those non-residents with a link to the country where they wish to open an account

  This is based on Option 2 but would, additionally, introduce a right to open a basic payment account for non-residents. They would need to demonstrate a link with the country where they would like to open a basic payment account. This would require the definition of a list of criteria. Such a list could be developed through delegating powers to the European Banking Authority. The basic payment account would have the other features provided for in the Recommendation.

6.1.4. *6.1.4 Option 4: Improve the features of payment accounts*

These variants may be combined with one another and those of Option 2 and 3.

- Variant A: Enlarge the list of basic payment services to include internet banking and online purchasing

  This is based on Option 2 but would also expand the list of basic account services. This list of basic account services would include a possibility for the consumer to use internet banking and to make online purchases.

- Variant B: Enlarge the list of basic services to include a small overdraft or a 'buffer' facility

  This is based on Option 2 but would add to the features of a basic payment account, e.g. small overdraft or a 'buffer' facility (the consumer could withdraw a minimum allowed sum even if the balance on his account was insufficient).

- Variant C: indicate a minimum account balance that cannot be seized

Member States would be required to introduce an indication of a minimum balance which could not be seized by any creditor. This would provide indebted consumers with access to a very limited amount of money allowing them to pay for the most basic needs.

- Variant D: Ensure that the features of the payment account are not of a discriminatory nature

  This is based on Option 2 but would, additionally, ensure that the features of the basic payment account cannot be applied in a discriminatory manner, i.e. by limiting the use of a debit card to the country where the account was opened.

6.1.5. Other options not retained

Articles 20 and 21 of TFEU ensure the right of all European citizens to move between Member States, which Court of Justice interprets as meaning that everyone should be treated the same, irrespective of their nationality. In theory, it would be possible to introduce an infringement procedure against Member States which have implemented laws on access allowing providers to discriminate against consumers for non-residence and to offer discriminatory payment instruments.

Nevertheless, infringements can only be launched against Member States which have laws in place causing or permitting discrimination against non-residents, contrary to the Treaty, which are very few in the area of access to basic payment accounts. This approach would therefore penalise those Member States which had acted (albeit in a nationally-focused manner), whilst many others, which have not implemented any measures at all in this area, would be unchallenged. Consequently, this Option is ruled out at this stage.

6.2. Options for presentation and ease of comparison of bank fees

Several policies can be considered to address the problems identified and achieve the set objectives.

6.2.1. Option 1: No action

No EU action is taken to address presentation requirements and enhance comparability of bank fees.

6.2.2. Option 2: A standard price list to be provided as part of account opening procedures

Fees common to all Member States would be identified at EU level and supplemented nationally to cover the 20 most representative fees or at least 80% of key charges incurred. Common presentation requirements, which could include the introduction of a single form for ex-ante disclosure of payment account fees, and requirements regarding availability of fee information and selection criteria for the most common fees, would be established at EU level. Credit institutions would need to ensure that fee information was readily available to the public and specifically to prospective customers during the pre-contractual stage.

6.2.3. Option 3: Introduce the requirement to develop glossaries for bank fee terms

Member States would be required to develop glossaries for payment fee terms at national level. These would aim to provide consumers with the tools to overcome possible difficulties in understanding the terminology used in contractual texts relating to the provision of payment accounts by credit institutions.

- Variant A: Glossaries containing non-harmonised terminology

Member States would set up a glossary comprising payment account fee terminology in use by retail banks in their territory, maintained by a designated competent public authority. Credit institutions would be required to inform and update the competent authority of their own fee terminology.

- Variant B: Glossaries not based on fully harmonised terminology

  Member States would develop single definitions for services and related fees in a glossary. While credit institutions would not be required to make use of standard terminology as part of marketing and operations, they would be required to provide references between terminology used for commercial terms and the standard terminology contained in the glossary.

6.2.4. Option 4: Introduce the requirement to set up independent fee comparison websites at Member State level

This foresees the use of independent fee comparison tools as a means to promote comparability and enhance common presentation requirements for payment account offers.

- Variant A: a single official website within each Member State managed by a competent authority

  In each Member State one comparison site shall fulfil this requirement under the supervision of the EU. This website could be run and funded by a public body, who would define requirements on the frequency with which credit institutions would need to provide up-to-date fee information.

- Variant B: Comparison sites licensed under an accreditation scheme

  The development of accreditation schemes set up by Member States under the supervision of the EU. Accreditation schemes will set out standards for operators of comparison websites and will include a quality charter defining rules concerning the completeness and timeliness of fee information that credit institutions would have to provide. Member States will nominate competent public authorities to monitor the compliance of website operators and credit institutions.

6.2.5. Option 5: Introduce the requirement to provide representative examples of the cost of holding a payment account

Requirements would be established to provide representative examples when advertising payment accounts which would present major fees associated with an account and the main conditions that influence the cost of holding an account. They would be tailored to different usage patterns, which may be subject to differing degrees of standardisation as described in the variants below.

- Variant A: Banks set up own representative examples

  This variant would not prescribe specific usage profiles, although minimum requirements on the variables to include would be harmonised at EU level.

- Variant B: Member States prescribe representative examples

  Under this variant, a number of usage profiles for banks will be predetermined at Member State level. Member States will be able to add specificities that would render examples more representative of usage profiles in national contexts.

6.2.6. *Option 6: Set up customer usage profiles and provide a cost simulation to prospective personal current account holders*

This Option would provide an annual cost estimate to a customer seeking to open a payment account at the pre-contractual stage, though a simulator, based on the information provided by the customer on usage patterns. The aim of this Option is to provide a means of comparing bank offers in a single monetary value estimate understandable by the average customer. Common presentation and structural requirements would accompany this Option, together with the requirement to provide an itemised cost simulation, including estimated information on transaction/service level volumes in a paper or downloadable format.

- Variant A: Banks set up own customer profiles

  This variant does not prescribe specific usage profiles when setting up cost simulations.

- Variant B: Member State prescribe customer profiles

  Under this variant, a number of usage profiles for banks will be pre-determined.

6.2.7. *Option 7: Introduce EU standardised forms for the provision of ex-ante information on fees*

The introduction of a single form for ex-ante disclosure of all personal payment account fees, developed at EU level (similar to the Standard European Consumer Credit Information).

6.2.8. *Option 8: Introduce an obligation to provide ex-post information on fees incurred*

It would be mandatory for banks to provide consumers with ex-post information on fees incurred. The ex-post information would cover the same fee items as the ex-ante information. If this were combined with Option 2, it would allow consumers to verify and analyse the actual charges applied to their payment account and see where savings can be made. Ex-post information would be provided on a quarterly / bi-annual / annual basis. As with Option 2, common presentation requirements, which could include the introduction of a single form for ex-post disclosure of payment account fees, would be established at EU level.

6.2.9. *Option 9: Introduce EU standardised forms for the provision of ex-post information on fees*

Credit institutions would provide consumers with a monthly, bi-annual or annual summary of the cost of all personal payment account fees developed at an EU level, using a standardised form. The form would be designed to provide an easy to understand analysis of the charges and interest rates that have been applied to the consumer's personal current accounts. The charges incurred would be broken down into categories so consumers can see where savings could be made. The form would be developed by the European Commission on the basis of market testing and in consultation with industry and consumer organisations.

6.2.10. *Other options not retained*

The list of Options does not include policy initiatives aimed at enhancing financial literacy. The Commission has already sought[269] to assist stakeholders improve financial education by raising awareness of low financial literacy; by encouraging and promoting the provision of high-quality financial education within the EU, including the sharing of best practice; and by developing certain practical tools. As indicated in Section 3.1 above, improved financial literacy is unlikely to significantly impact upon the payment account market and would not

[269] COM(2007) 808.

solve consumers’ problems.

6.3. Options for payment account switching

Several policies can be considered to address the problems identified and achieve the set objectives.

6.3.1. Option 1: No action

No further action is taken at EU level. Credit institutions should still apply the EBIC Common Principles on bank account switching but would not need to take any further measures to improve their functioning and/or quality.

6.3.2. Option 2: Ensure that switching services follow the Common Principles

This would ensure that the Common Principles are applied by all payment account providers across the EU. This could serve as a basis for Option 3 and could be combined with Option 4.

6.3.3. Option 3: Improve the effectiveness of the Common Principles

These variants could be combined with Options 2 and 4.

- Variant A: Improve the existing Common Principles at domestic level

  The requirements of this Option would be based on the Common Principles, but the Common Principles would be improved by introducing provisions to improve information on the existence of switching services (e.g. obligatory display on bank websites and provisions to ensure that staff are adequately trained). This variant of Option 3 could be combined with Option 2 and Variant A of Option 4.

- Variant B: Broaden the scope of the Common Principles to EU-wide cross-border switching

  The process would be based on either the existing Common Principles or the 'improved' Common Principles as defined in Variant A of this Option. The Common Principles would additionally apply to cross-border switching, including the standardisation of the time-periods set for the 'new' and the 'old' bank to perform their respective tasks and inclusion of provisions to facilitate cross-border switching (for example, by applying the rules established in the home Member State of the 'new' bank to the whole switching process). This variant of Option 3 could theoretically be combined with Option 2 and Variant B of Option 4.

6.3.4. Option 4: Set up an automatic redirection service for all receipts and payments from an old to a new account

All receipts and payments routed to the old account would be redirected to the new account. The redirection service would be temporary, following the switch, but would need to operate for a sufficient period of time to capture annual payments. The redirection service would provide the parties whose payments have been redirected with the new bank information of the customer (where possible). This could be combined with Options 2 and 3.

- Variant A: Introduce a domestic automatic redirection service

  This service would apply when both the old and new account provider were in the same Member State.

- Variant B: Introduce an automatic EU-wide redirection service

This service would apply when both the old and new account provider were in the same or different Member States.

6.3.5. Option 5: Introduce payment account portability

This option could be combined with Options 2 and 4.

- Variant A: Domestic payment account portability

  Consumers could transfer their account to a new bank in the same Member State as their old account and retain the same account number.

- Variant B: EU payment account portability

  Consumers could transfer their account to the new bank, which may be established either in the same Member State as the old account or in another Member State, and retain the same account number.

6.4. Choosing the most appropriate policy instrument

Action at the EU level must respect the principle of proportionality. The proportionality of a proposed measure depends upon the following considerations:

- The choice of instrument. It is crucial to find an appropriate balance between EU-level action and national action. The proportionality of the measures will depend upon whether a Regulation, Directive, Recommendation or self-regulation is preferred.
- The combination of measures. If a legislative instrument (Directive or Regulation) is favoured, the right combination of principles-based measures and more specific requirements must be chosen.
- It is vital to ensure, to the largest extent possible, that consumer protection is not reduced.

For each policy option, a wide range of potential policy instruments were considered. These include self-regulation, non-binding measures (Communication and Recommendation) and binding measures (Directive or Regulation).

A Communication is a tool used to promote measures or behaviour to Member States. Legal instruments by contrast make it compulsory for Member States and market participants to comply. The idea of a Communication was discarded at an early stage for all policy options.

6.4.1. Self-regulation

As indicated in Section 2.4 above, attempts of EU level self-regulation to improve the clarity, comparability and transparency of account fees and to ensure that account fee information is easily available to consumers have failed. Moreover, the 2008 Common Principles for payment account switching, were implemented in the Member States to varying degrees. Generally, the application of the Common Principles was evidenced to be unsatisfactory, which may, to a large degree, be the result of a lack of monitoring and enforcement measures contained within a self-regulatory approach.

Given that transparency and switching have been the subject of unsuccessful self-regulatory measures in the past, further self-regulation would not be effective.

6.4.2. Non-binding measures

The Commission's Recommendation on access to a basic payment account was adopted in July 2011. Member States were asked to "*take the necessary measures to ensure the* *application of this Recommendation at the latest 6 months after its publication*." The Commission would "*assess the measures taken by 1 July 2012*" and on that basis, "*propose any necessary action, including legislative measures if needed, in order to ensure that the objectives of this Recommendation are fully met*". The Commission services assessment of the measures taken by Member States to comply with the Recommendation[270] confirms that many Member States took insufficient steps to ensure its implementation. Furthermore, it is clear that the short time frame permitted to comply with the Recommendation is not the reason why Member States have not yet acted: in reporting to the Commission, several Member States specifically stated that they do not intend to take any measures to comply at national level. In any event, the Recommendation fails to address all the problems outlined in this analysis.

Whilst the Recommendation could be broadened to address all identified problems, a non-binding instrument does not guarantee adequate implementation at national level. Member States may express the same reluctance as previously, or be prevented from taking action by the existence of contravening national provisions and a lack of domestic political will to amend and/or abolish them. EU level non-binding measures, such as a Recommendation, could be used also in the field of transparency and comparability of fees or to promote a smooth payment account switching process in the single market. This approach, however, would leave discretion to Member States and market operators as to whether and how to intervene, if at all.

6.4.3. Binding measures

The introduction of a binding measure is the most effective and efficient way of achieving the set objectives. Binding EU measures such as EU legislation in the form of a Regulation or Directive could be established to different degrees: harmonisation or setting of specific and directly applicable measures.

Only a binding legislative instrument can guarantee that the policy options are introduced in all 27 Member States and that the rules are enforceable. For example, an analysis of the data on average account penetration shows that in those Member States where there is no framework in place, weighted average account penetration is 70% (27% in Romania and Bulgaria; 80% in other Member States) compared with 88% in those Member States which have industry based charters and 96% in those Member States with a legal framework in place.[271]

7. IMPACT ANALYSIS AND COMPARISON OF POLICY OPTIONS

The preferred set of policy options for each of the three areas is indicated in bold. The tables illustrate how each of the policy options contributes to meeting the objectives and their cost-effectiveness in doing so when compared to the 'no action' option. The following scoring is used: ✓✓✓ (strong positive contribution), ✓✓ (moderate positive contribution), ✓ (weak positive contribution), ××× (strong negative contribution), ×× (moderate negative contribution), × (weak negative contribution) and ≈ (neutral contribution). The impact on stakeholders follows a similar approach.

[270] Commission Staff Working Document: National measures and practices as regards access to basic payment accounts - Follow-up to the Recommendation of 18 July 2011 on access to a basic payment account, 22.08.2012 http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/followup_en.pdf

[271] Calculations by Commission services on the basis of Member States' notifications, *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012, p. 31, http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm. For the purpose of calculations, Italy has been included under "industry charters" as while the law entered into force on 28 December 2012, the convention setting out the conditions for access only entered into force as of June 2012.

For the purposes of this assessment, the same methodology had been used to assess costs and benefits in relation to the ease of comparison and presentation requirements for fees and payment account switching. The analysis of the access to a basic payment account uses the methodology developed in an external cost-benefit analysis in 2010.[272]

After analysing different options per area in Sections 7.4 to 7.6 below, the preferred sets of options are analysed on a cumulative basis in Chapter 8. This chapter addresses the impacts of different combinations of options on a package basis in order to identify the best overall approach to addressing the objectives in this initiative.

7.1. Methodology

Quantitative data on retail financial services, particularly data that is comparable on a pan-EU basis, is often difficult to find. The report draws on a wealth of data sources including pan-EU studies conducted on behalf of the Commission (e.g. external reports,[273] Eurobarometers,[274] mystery shopping exercise[275]) as well as national sources (e.g. studies[276] and surveys[277]) when considering the costs and benefits. The data on costs and benefits provided in this impact assessment and the methodology used for calculating them are based on two external studies: the *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report* by the Centre for Strategy and Evaluation Services[278] and *Quantification of the economic impacts of EU action to improve fee transparency, comparability and mobility in the internal market for bank personal current accounts* by GHK Consulting Limited. Both studies used desk research and surveys of all relevant stakeholders, e.g. the financial service industry, to establish the regulatory and market baselines, qualitatively identify the relevant costs and benefits, and calculate where possible appropriate monetary estimates. The methodologies used to assess the efficiency of options consider both quantified and non-quantified costs and benefits to stakeholders. Annex VI provides a detailed summary of the calculation of costs and benefits, the assumptions used in calculations and a detailed cost and benefit table per option.

7.1.1. Access

The methodology used is based on that developed in the *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report*.[279] This report was produced for the Impact Assessment on the Recommendation on access to basic payment services.[280] This provides consistency and comparability with the aforementioned Impact Assessment.

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272 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

273 *Ibid.*

274 *Special Eurobarometer on Retail Financial Services, European Commission*, February 2012, p. 29, http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm

275 *Consumer Market Study on the consumers' experiences with bank account switching with reference to the Common Principles on Bank Account Switching*, GfK, January 2012, http://ec.europa.eu/consumers/rights/docs/switching_bank_accounts_report_en.pdf

276 *Rapport de Georges Pauget et Emmanuel Constans sur la tarification des services bancaires"*, 07/2010 (http://www.ladocumentationfrancaise.fr/var/storage/rapports-publics/ 104000365/0000.pdf)

277 *Tarifs et mobilité bancaires: le désolant palmarès des Banques*, UFC Que Choisir, October 2010

278 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

279 *Ibid.*

280 SEC(2011) 906: Impact Assessment on the Commission Recommendation on access to a basic payment account.

Where possible, new data has been incorporated into this document. First, the affected consumer population is established (i.e. how many consumers could potentially benefit from each policy option). This calculation is based on 3 potential baseline scenarios: an optimistic scenario (10 million consumers open an account), a realistic scenario (6.4 million consumers open an account) and a pessimistic scenario (2 million consumers open an account). Consequently, a range of costs and benefits are presented in this report; the lower range corresponds to the pessimistic scenario and the top of the range corresponds to the most optimistic scenario. For certain policy options, e.g. Options 3B and 4B, the baselines for the potential number of consumers affected are reduced according to the potentially affected population (e.g. the population of consumers impacted under Option 3B would be smaller, therefore the baselines are adjusted accordingly). Second, the costs and benefits for each stakeholder under each option are established. For example, the cost for consumers of the annual management fee is identified. Third, these costs and benefits are multiplied by the estimated costs/benefits to achieve a total. Finally, the results are discounted to take into account whether all Member States would be affected or whether some Member States already apply the policy option.

7.1.2. Transparency of fees and switching

The study *Quantification of the economic impacts of EU action to improve fee transparency, comparability and mobility in the internal market for bank personal current accounts* aimed to establish a baseline scenario that would comprise current regulatory and market conditions. This baseline scenario was to serve as a basis to assess the impact of the policy options considered in this Impact Assessment on stakeholders.

It was necessary for the study to reflect the gradual nature of impacts expected from policy action designed to create a coherent framework for the provision of information on bank account fees and for consumer mobility within the EU. For this purpose, the study builds the baseline scenario over a period of 10 years. Similarly, monetised costs and benefits are expressed over a 10 year timeframe.

Monetised costs and benefits are expressed as incremental amounts attributable to EU action under the assessed options. In order to isolate incremental costs the study applied a discount factor to the amounts computed, to reflect the distance between the aggregate of regulatory and market frameworks within Member States and the proposed action within each option.

The study fieldwork made use of desk research, stakeholder surveys and a standing expert panel. It covered 16 Member States.[281]

As the above mentioned study did not provide cost estimates for two switching options (introduction of a redirection service and payment account portability), these were estimated by Commission staff based on other available studies, as indicated in the methodological annex (Annex VI).

7.2. Costs

The costs considered are those incurred by payment services providers (mainly credit institutions), Member States and consumers.

<u>Payment services providers</u>

Since the options under consideration generate new information requirements and services, the main cost to account providers in the form of one-off costs adapting IT systems and internal processes to fulfil such requirements, in addition to changes to marketing and

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[281] Austria, Belgium, Bulgaria, Germany, Denmark, Spain, Finland, France, Italy, Lithuania, Luxembourg, Latvia, Netherlands, Poland, Portugal, United Kingdom.

promotional material, management time spent reviewing pricing strategies and internal communication, and staff training. These cost items are common to most options but generate varying cost estimates depending on the time and resources considered necessary to implement an option and on the nature of acquisition costs, e.g. in reconfiguring IT systems to collect or extract new information. For improved access to account services there would be the recurring costs of managing new accounts, a proportion of which may be recuperated through account management fees. Providers would also potentially face lost revenue from consumers switching to cheaper or more appropriate accounts, although this may be offset by consumers switching in their favour. Non-quantifiable costs for providers include the costs of staff managing accounts that run into overdraft accidentally and an increased risk of fraud.

Member States

Generally, overall costs to Member States are expected to be less significant than costs to credit institutions. Member States would face one-off costs for introducing the policy options and for monitoring compliance, the size of which would depend on the instrument chosen. Additionally, a number of options would result in specific costs to public authorities, such as operating a comparison website under transparency/comparability Option 4A. Other initial outlay for Member States could involve developing standard pre-defined bank usage profiles or standardised price lists. Where Member States must incur set-up and development costs, credit institutions (or their representative organisations) generally contribute to the development process and bear a significant proportion of the costs, as stated above.

Consumers

Possible costs to consumers have not generally been quantified for switching and fee transparency. For options relating to access, it is assumed that consumers will pay a 'reasonable' annual (recurring) account management fee.

In line with our individual assessment, 'no action' in each of the three areas is not considered to contribute towards achieving the objectives set out in this initiative. As a result, no financial costs associated with the 'no action' scenario were identified.

7.3. Benefits

Payment services providers

Financial services providers would benefit from improved access to payment services as a result of a reduced reliance on cash and a move towards cheaper payment services. Non-quantifiable benefits include the potential benefits of being able to market other goods and services to a broader customer base, the reduced costs of managing cash, an increase in their capital base, and wider reputational benefits.

Member States/society

For access, the benefits to Member States would arise from government and public authority savings in terms of improved efficiency in the management and distribution of social security payments, using bank transfers rather than sending cheques in the post. Non-quantifiable benefits include reduced benefit and tax fraud.

Enterprises would also be able to use cheaper means of payments, for example, utility companies would more easily be able to collect payments via direct debits rather than rely on cash or cheque payments. Enterprises would also face non-quantifiable benefits from being able to sell their goods and services to consumers with basic accounts in another Member State through electronic payments, and from any consequent growth in the market.

The benefits to society at large would result from increased awareness about bank fees alongside the potential to switch easily. This would increase competitive rivalry among credit institutions, leading to a gradual convergence in prices for payment accounts within the internal market. Although not quantified for the purposes of this impact assessment, this is a broad, long-term impact that should affect the majority of consumers who are less active in seeking information about the cost of their payment account.

<u>Consumers</u>

Consumers would benefit from savings made due to the reduction of errors in the switching process; from the reduced direct cost of switching; from the use of cheaper means of payment; from discounts by using electronic payments; and from online savings through purchases of other goods and services, where relevant.

Further benefits include changes to consumer switching behaviour and, where relevant, better account management. The impact of benefits accruing to consumers through better account management is calculated for the options covering ex-post bank fee information requirements. This benefit is assumed to accrue due to availability of better information for consumers about charges incurred; this could change consumption patterns and bring about cost savings.

The impact of a possible convergence in prices within the EU caused by increased transparency in payment account pricing – and thus increased competition – could not be included into the framework of quantified benefits without considering the possible impact of price changes to other financial services products. Such knock-on effects on prices could not be quantified. Other non-quantifiable benefits for consumers include more accessible funds, a reduced risk of theft, access to a broader range of products and services, more easily accessible accommodation and/or employment, and improved consumer confidence.

In line with our individual assessment, the impacts of the 'no action' option in all three areas are not considered to contribute towards achieving the objectives set out in this initiative. As a result no benefits associated to the 'no action' scenario were identified.

7.4. Comparison of options and assessment of their impact: access to basic account services

While Table 9 assesses the effectiveness and efficiency of the individual policy options, it is important to underline that the options are not necessarily mutually exclusive: some may be combined to create an effective and efficient set of measures that addresses the problems outlined and objectives set. It is equally important to assess which policy instrument would best achieve the objectives.

Table 9: effectiveness of the policy options for access to account services

	Specific objectives	Effectiveness in achieving the objectives below				Efficiency (cost effectiveness) in achieving all listed objectives
		Efficient and competitive Single Market with a high level of consumer protection				
	Facilitating access to payment accounts	Reduce the number of unbanked	Access to payment means	Cross-border activity	Improved awareness	
1. No action	0	0	0	0	0	0
2. Ensure application of the provisions of the Recommendation	✓	✓✓	✓	✓	✓	✓✓
3. Modify the provisions of the Recommendation relative to the beneficiaries						
3(A) Introduce a universal right to a basic payment account	✓✓✓	✓✓	✓	✓✓✓	✓✓	×××
3(B) Introduce a right to a basic payment account at least for national residents	✓	✓	×	××	×	✓
3(C) Introduce a right to a basic payment account at least to those non-residents with a link to the country where they wish to open an account	✓✓	✓	✓	✓✓	✓	✓
4. Improve the features of the basic payment account						
4(A) Enlarge the list of basic services to include internet banking and online purchasing	✓✓	✓✓	✓✓✓	✓✓	✓✓	✓✓
4(B) Enlarge the list of basic services to include a small overdraft or a 'buffer' facility	✓✓	✓✓	✓	✓	✓	×

4(C) Indicate a minimum account balance that cannot be seized	✓✓	✓✓	✓	✓	×	××
4(D) Ensure that the features of the account are not of a discriminatory nature.	✓✓	✓✓	✓✓	✓✓✓	✓✓	✓✓

Impact on effectiveness and efficiency compared to the situation today,
✓✓✓ (Strong) – ✓✓ (Moderate) – ✓ (Weak) positive contribution
××× (Strong) – ×× (Moderate) – × (Weak) negative contribution – ≈ neutral contribution

It is crucial to ensure the right of access to a basic payment account to all EU citizens. Option 1 assumes that, potentially, a few additional Member States may implement the Recommendation on access and the Commission would continue to monitor implementation. Since the adoption of the Recommendation by the Commission in July 2011, only one Member State (Italy) has taken measures to comply with the Recommendation, while two other Member States had already introduced measures (Belgium and France). Almost half of the Member States have failed to take any measures at all despite not having a framework in place (Austria, Bulgaria, Czech Republic, Cyprus, Greece, Latvia, Malta, Poland, Romania, Slovakia, Slovenia and Spain) and some have stated that it is unnecessary to take any action in the near future (Austria, Bulgaria, Czech Republic, Cyprus, Spain, Latvia and Malta) despite the fact that the Recommendation invited them to do so by the end of 2011. Consequently, it is unlikely that many Member States will implement the Recommendation. Furthermore, the potential alternative means of payment to a basic payment account, e.g. pre-paid cards, have proven to be insufficient since they lack features (such as access to certain payment services, like credit transfers) and are more expensive than a basic payment account (see Section 3.1). Option 1 would therefore be ineffective in ensuring better access to accounts for vulnerable and mobile consumers.

In terms of reducing the number of unbanked consumers across the EU, Options 2 and 3A would be equally effective: they would both ensure that residents and non-residents alike had the right to open a basic payment account. Public authorities are divided about the merits of this approach; on the one hand, some feel that any initiative to ensure access to a basic payment account should address both residents and non-residents, on the other hand, other public authorities argue that the initial emphasis should be ensuring the right of access to residents of that Member State, as cross-border access is not significant to those currently without an account.[282] This opinion is not shared by consumers' representatives who find it equally important to provide mobile consumers with a basic payment account.[283] However, as regards access, Options 3B and 3C would not be as effective since both would limit the availability of a basic payment account compared to Options 2 and 3A; further, Option 3B excludes non-residents, and Option 3C excludes migrants who do not have any link with the country where they apply for an account. According to the European Savings Banks Group migrant consumers should be required to demonstrate *"at least an objective economic link with the country in which they want to open an account"*.[284]

The effectiveness of these options would depend on the policy instrument chosen. Consumer representatives argue that soft law, including a Recommendation, would not help solve the problem of financial exclusion – a view supported by the inaction of the industry and Member States as illustrated in Section 3.2.1. The financial services industry considers that non-binding measures are sufficient and that the problem is better addressed at national level to take into account specificities of domestic markets. If an EU-measure is to be adopted, in the view of the European Association of Public Banks, it "*should be kept as general as*

282 *Summary of responses to the public consultation on financial inclusion: ensuring access to a basic bank account*, 14.09.2009. http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/consultation_summary_en.pdf

283 FSUG response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 14.

284 European Savings Banks Group response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 8

possible."[285] Therefore an alternative relevant solution would be a legally binding instrument, e.g. a Directive, which would provide Member States with a certain degree of flexibility, thus recognising differences at national level, while at the same time ensuring action. Member States could, for instance, set a limit for the price of a basic payment account; choose whether or not to designate selected or all providers to offer basic payment accounts; and decide on the content and target of campaigns informing the public about access rights (as foreseen by the Recommendation). This flexibility is particularly necessary given the unequal degree of development of the banking sector and varying price levels of banking services in Member States; due to different banking traditions (e.g. strong credit unions or regional banks in some Member States); and because of divergent levels of payment account penetration across the EU. For example, Option 3A obliges all the banks to provide basic payment accounts whereas under Option 2, Member States could decide who should provide the accounts. Similarly, under Option 3C, Member States would need more flexibility because they would need to decide on the criteria or documents necessary to recognise the non-residents' link with that country. Such criteria are likely to vary across the EU and it is not appropriate to standardise them.

It is assumed that Options 4A, 4B and 4C could attract a number of unbanked consumers because of useful additional features they would offer. Option 4D would attract many unbanked consumers, in particular mobile consumers, since it would allow for an account to be used identically across the EU. Potentially, Option 4A would allow consumers to save money through the purchase of cheaper products and services online. Option 4B would ensure access to a small overdraft or buffer facility while Option 4C would guarantee that a minimum balance on the consumer's account is protected against seizure. Option 4A would be most likely to attract additional consumers relative to Option 2, whereas Option 4C would only attract the few consumers that feared account seizure. Option 4B would only have a minimal impact and might even increase unbankedness relative to Option 2: some, if not all, providers may assess creditworthiness in line with responsible lending obligations, which could restrict access. Accordingly, in terms of ensuring access to all basic payment means, Option 4A would be most effective, enabling consumers to shop and conduct their banking transactions online.

Again, a flexible instrument implementing these options (for instance a Directive) would need to be proposed so that Member States can ensure that banks do not charge consumers excessively for these additional account features. Stakeholders, including the financial services industry, agreed that a basic payment account should be offered at reasonable cost.[286] A flexible instrument could also ensure that providers would have the possibility to offer different 'online purchase' facilities, envisaged under Option 4A, and it could help better define unlawful discriminatory practices at national level (under Option 4D). Neither Option 4B nor Option 4C would broaden the range of payment services that are available to consumers because none of them provides for any additional payment services with a basic payment account. Option 4A would additionally be in line with the European Parliament recommendations on access to a basic payment account, which states: "*[t]he legislation should enable the user of a basic payment account to make any essential payment transactions such as receiving income or benefits, paying bills or taxes and purchasing goods and services via both physical and remote channels using mainstream national systems*."[287]

[285] European Association of Public Banks response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 6

[286] Summary of responses to the public consultation on access to a basic payment account, 25.01.2011, p. 10, http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/consultation_summary-2010_en.pdf

[287] European Parliament Resolution 2012/2055(INI), Recommendation 3.

Options 2 and 3A would be most effective in ensuring access to cross-border banking services. Under both options residents and non-residents would have the right to open a basic payment account anywhere in the EU. Option 3C would also be somewhat effective, affording access to non-residents who have a link with the Member State in which they wish to open an account. Finally, Options 4A and 4D would contribute to increased cross-border activity, facilitating cross-border trade in goods and services by opening the online market to all EU citizens and preventing providers from restricting the use of the basic payment accounts to national markets. This would allow consumers to use the features of their basic payment account in another Member State. Option 4D would not be as effective alone: for the cross-border and domestic right of access to be equally useful to consumers, a pan-European framework providing general rules for all Member States is most appropriate. It would allow mobile consumers to understand what rights they have in terms of access to basic payment accounts both at home and abroad, while Member States would still have the flexibility to adapt legislation to local conditions. This is considered essential by the financial industry[288] and public authorities.[289]

All options would be equally effective in improving consumers' awareness of the right to a basic payment account: all assume better implementation of the Recommendation, which mandates that Member States launch public awareness campaigns about the availability of basic payment accounts. This is, in the opinion of consumers, crucial to promote access.[290]

In conclusion, a combination of binding measures that allow Member States flexibility in implementing Options 2 and/or 3A, alongside Options 4A and 4D, would be most effective in tackling the problems in the market and achieving the objectives set.

Table 10: Access to basic account services – costs and benefits of the policy options

[288] European Banking Federation response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 13.

[289] Summary of responses to the public consultation on access to a basic payment account, 25.01.2011, p. 3, http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/consultation_summary-2010_en.pdf

[290] BEUC response to the Commission Consultation on access to a basic payment account, 25.01.2011, p. 9, http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm

Total EU benefits (million EUR)	**Op. 2**	**Op. 3(A)**	**Op. 3(B)**	**Op. 3(C)**	**Op. 4(A)**	**Op. 4(B)**	**Op. 4(C)**	**Op. 4(D)**
Consumer benefits:	**542-2711**	**610-3050 (upper end)**	**510-2548 (mid- range)**	**526-2630 (mid- range)**	**236-1179 (upper end)**	**-14 to -68**	**45-226**	**68-339**
One-off benefits	Not quantified							
Recurring annual benefits	542-2711	610-3050 (upper end)	510-2548 (mid- range)	526-2630 (mid-range)	236-1179 (upper end)	-14 to -68	45-226	68-339
Payments services provider benefits:	**18-89**	**20-100 (upper end)**	**17-84 (mid- range)**	**17-86 (mid-range)**	**2-11 (upper end)**	**-0.4 to - 2**	**1-7**	**-1.8 to -9**
Recurring annual benefits	18-89	20-100	17-84	17-86	2-11	-0.4 to - 2	1-7	**-1.8 to -9**
Member State benefits:	**18-89**	**20-100**	**17-84**	**17-86**	**2-11 (upper end)**	-0.4 to - 2	**1.5-7**	**2-11**
One-off benefits	0	0	0	0	0	0	0	0
Recurring annual benefits	18-89	20-100	17-84	17-86	2-11	0	1.5-7	2-11
Enterprises	**32-160**	**36-180 (upper range)**	**31-150 (mid-range)**	**31-155 (mid-upper range)**	**16-80**	**-0,8 to -4**	**3-13**	**4-20**
Recurring annual benefits	32-160	36-180	31-150	31-155	16-80	**-0,8 to -4**	3-13	4-20
Total EU costs (million EUR)	Option 2	Option 3(A)	Option 3(B)	Option 3(C)	Option 4(A)	**Option 4(B)**	Option 4(C)	Option 4(D)
Consumer costs:	108-542	122-610 (upper range)	102-510 (middle range)	105-526	22-108	**-11 to -57**	9-45	22-108
One-off costs	0	0	0	0	0	**0**	0	0
Recurring annual costs	108-542	122-610 (upper range)	102-510 (middle range)	105-526	22-108	**-11 to -57**	9-45	22-108
Payments services provider costs:	71-356	80-400 (middle end)	67-334 (middle range)	69-345	15-74	**-2 to -9**	6-30	19-94
One-off costs	Not	0	0	0	0	**Not quantif.**	0	0
Recurring annual costs	71-356	80-400	67-334	69-345	15-74	**Not quantif.**	6-30	19-94
Enterprise costs:	0	0	0	0	0	**0**	0	0
Member State costs:	3.02	3.40	3.02	3.02	0	**0.25**	0.25	0.38
One-off costs	1.13	1.27	1.13	1.13	0	**0.09**	0.09	0.14
Recurring annual costs	1.89	2.12	1.89	1.89	0	**0.16**	0.16	0.24

In terms of efficiency, there would be no one-off costs or benefits for consumers brought about by implementing Options 2, 3A, 4A or 4D. Annual recurring costs for consumers under Option 2 are estimated at between EUR 108-542 million; annual benefits would total between EUR 542-2711 million, depending on the number of consumers who opened a payment account. Benefits (and costs) would be slightly higher under Option 3A. Benefits from online account facilities (Option 4A) are estimated at between EUR 236-1179 million and benefits from non-discriminatory means of payment (Option 4D) at between EUR 68-339 million, while costs are estimated at between EUR 22-108 million for each of Options 4A and 4D.

Overall, then, benefits for consumers considerably outweigh the costs. The costs for consumers would primarily consist of account operation fees and occasional charges for failed transactions, whereas benefits would arise from discounts from reduced use of expensive money transmission mechanisms and cheques, in addition to discounts from electronic payments and online purchases.

For providers, under Option 2, there would also be no quantifiable one-off costs or benefits. Recurring annual costs for providers are estimated at EUR 71-356 million, while benefits would total EUR 18-89 million, depending on the number of consumers who opened a payment account. Costs incurred by providers would be those for operating basic payment accounts. Benefits would result from fees imposed on consumers for the use of the accounts, as well as an increased client base. The costs for providers would increase significantly if Option 3A were introduced, since all banks would be obliged to offer a basic payment account to any consumer even if he/she already holds another regular account. Such costs would be disproportionate to the set objectives; even consumer representatives consider basic payment accounts should only be provided to those who do not yet have another payment account in the country where they apply for one.[291] Providers would also incur the costs of switching consumers who wanted to change their regular and usually more expensive payment account to a basic account. These additional costs for providers resulting from the introduction of Option 3A would be substantial, but are not quantifiable. The costs for providers would be between EUR 15-74 million for Option 4A and EUR 19-94 million for Option 4D. Costs for banks under Option 4D would be slightly higher; they would need to ensure that all the account features could be used identically by consumers domestically and cross-border. The benefits from Option 4A would only be EUR 2-11 million while the benefits from Option 4D would be negative. Consequently, it is likely that costs for providers would outweigh the benefits; the extent of this net loss would depend on the extent to which providers could recuperate any costs from fees charged to consumers and other non-quantifiable benefits. The potential losses would be substantially greater under Option 3A than Option 2; accordingly, Option 2 is the more efficient option, since it would be equally effective and proportionate in addressing the problem identified.

With the introduction of Option 2, Member States would incur one-off costs of EUR 1.13 million and recurring annual costs of EUR 1.89 million. This includes the cost of implementing, monitoring and enforcing new legislation. These costs would slightly increase if Option 2 were combined with Options 4A and 4D. The costs could, however, be lower than indicated because the necessary enforcement mechanisms already exist at national level in some Member States and would not need to be established from scratch.[292] Member States would incur recurring non-cumulative benefits of between EUR 18-89 million per annum if the three options were combined, since they could make more payments of social benefits by cost-effective electronic transfer. It is assumed that Member State benefits would also be slightly higher with a greater number of consumers opening a basic payment account because there would be less fraud than associated with paper systems and tax collection would be cheaper. These benefits are non-quantifiable.

Option 2 would bring recurring benefits to utility firms of between EUR 32-160 million, depending on the number of consumers who opened a payment account (pessimistic, realistic or optimistic scenarios). Energy and water providers would benefit from reductions in transaction costs since newly banked consumers would switch to direct debit payments, which is a cheap payment collection method for utility companies. If Option 2 were combined with Options 4A and 4D, these benefits would increase – particularly Option 4A in particular when combined with Option 4A. Greater benefits may be unlocked if Option 3A replaced Option 2, since more consumers would open a basic payment account, but these benefits are unlikely to outweigh its high cost for providers.

In conclusion, the preferred package is Options 2, 4A and 4D. This package would ensure the right of access to a basic payment account for both residents and non-residents and to all basic means of payment by providing the possibility to purchase online and use internet banking. Further, a better implementation of the Recommendation under Option 2 would facilitate cross-border access to basic banking services and would raise consumer awareness of the availability of basic payment accounts. Finally, Option 4D prevents providers from restricting the use of a basic payment account to domestic transactions. Option 3A, allowing for universal access of consumers to a basic payment account, must be excluded since it would generate excessive and disproportionate costs for providers and Member States.

It is highly unlikely that a non-binding instrument could be effective in ensuring consumers' right of access to basic payment account with all the features of the account envisaged under

[291] FSUG response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 14.

[292] *2012 Public consultation on bank accounts* (see footnote 11), p. 11.

Options 2, 4A and 4D, though the financial industry favours such a solution.[293] It has been clearly demonstrated, following the adoption of the Recommendation on access in 2011, that non-binding measures cannot deliver results in this area. The Recommendation was implemented by just three Member States while several other EU countries introduced legislations or self-regulation only partly complying with the Recommendation, causing substantial divergences between Member States to develop. Some Member States also limited the use of the account exclusively to their national market. Such varying rules make it more difficult for mobile consumers to open a basic payment account abroad and, as a consequence, may prevent many of them from attempting to open one cross-border. On the other hand, it has been demonstrated (and is broadly supported by stakeholders[294]) that measures on basic payment accounts should allow Member States some flexibility allowing for the specificities of national markets.

The costs to Member States imposed by EU-level measures on access would not depend on the number of unbanked consumers in a given country: administrative costs are likely to be similar regardless of account penetration. They will rather depend on whether rules on access have been implemented domestically. Benefits may differ depending on account penetration; the more banked consumers, the more social benefits can be paid through cheaper bank transfer. Therefore, Member States with currently more unbanked consumers are likely to benefit more from measures on access. Romania and Bulgaria, with the highest unbanked populations in the EU, would benefit most, but Poland, Hungary, Lithuania have almost 30% of their citizens above the age of 15 without a payment account.[295]

The preferred package of options on access would be most costly for Member States which have not yet introduced any legislation in this area.[296] They would need to implement measures from scratch and thereafter, monitor compliance and enforce it where necessary. It is assumed that monitoring and enforcement could be carried out by existing authorities which would substantially limit the costs.

Belgium, France and Italy, which adopted legal measures in line with the Recommendation, would incur lower costs because they would only need to introduce the additional provisions provided by Options 4A and 4D, i.e. the possibility for consumers to purchase online and to use internet banking as well as provisions on non-discrimination. Also, monitoring of compliance and enforcement would not be very costly for them because it can be assumed that provisions exist under their current legislation and that there are national authorities designated to this end.

Member States which have introduced legislation or self-regulation not complying (fully) with the Recommendation would need to align these measures accordingly.[297] In general terms, it can be expected that amending the existing legislation will be less costly than introducing a new law. It will be more expensive if self-regulation is to be replaced by a legal instrument. Member States which already have a law or self-regulation, even if not complying with the Recommendation, would obtain fewer benefits because some previously unbanked consumers will have already opened a basic payment account in these countries. Nevertheless more consumers may be attracted by the new features of the account which were not available earlier (e.g. online purchase facility or non-discriminatory provisions), and even more in the

[293] European Banking Federation response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 12.

[294] *2012 Public consultation on bank accounts* (see footnote 11), p. 4.

[295] Measuring Financial Inclusion, The Global Findex Database, World Bank, April 2012, p.50-52, http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2012/04/19/000158349_20120419083611/Rendered/PDF/WPS6025.pdf

[296] Austria, Bulgaria, Czech Republic, Cyprus, Greece, Latvia, Malta, Poland, Romania, Slovakia, Slovenia and Spain

[297] Portugal, Denmark, Estonia, Finland, Lithuania, Luxembourg, Sweden, Germany, Hungary, Ireland, Netherlands, and the UK.

Member States where some of the payment account features were limited to domestic markets (e.g. the Netherland and Hungary).

Table 11: Options for access to basic account services – Impact on main stakeholders

	Consumers and society	**Financial services industry**	**Member States**	**Non-financial service product providers**
1. No action	0	0	0	0
2. Ensure application of provisions of Recommend.	✓	×	✓	✓
3. Modify provisions of Recommend. (beneficiaries)				
3 (A) Universal right to a BP account	✓✓✓	×××	✓	✓✓
3 (B) Right to a BP account at least for national residents	✓	≈	✓	✓
3 (C) Introduce a right to a basic payment account at least to those non-residents with a link to the country where they wish to open an account	✓✓	×	✓	✓
4. Improve the features of the basic payment account				
4 (A) Enlarge the list of basic services to include internet banking and online purchasing	✓✓	××	✓	✓✓✓
4 (B) Enlarge the list of basic services to include a small overdraft or a 'buffer' facility	✓✓	×××	✓	✓✓
4 (C) Oblige MS to have in their legislation an indication of a minimum account balance that cannot be seized	✓✓	××	×××	✓
4 (D): Features are not of a discriminatory nature.	✓✓✓	×	✓	✓✓

Impact on effectiveness and efficiency compared to the situation today,
✓✓✓ (Strong) – ✓✓ (Moderate) – ✓ (Weak) positive contribution
××× (Strong) – ×× (Moderate) – × (Weak) negative contribution – ≈ neutral contribution

7.5. Comparison of options and assessment of their impact: presentation and ease of comparison of bank fees

Effectiveness of policy options

This analysis assesses the efficacy of the policy options under consideration in light of the detailed operational objectives identified. The problems discussed above highlight the complexity of this area, which raises barriers to consumers when they seek to understand and compare bank fees. Divergent approaches have been taken by Member States to address these issues; moreover, price differences across Member States indicate substantial market fragmentation.

Table 12 below assesses the effectiveness and efficiency of the individual policy options, which are not necessarily mutually exclusive and may be combined to better address the problems outlined and achieve the set objectives, even though they aim to address the same set of weaknesses.

The 'information provision' policy options can be broken down into two groups: the first focuses on the ex-ante provision of information (mainly during the advertising and pre-contractual stages); the second focuses on the ex-post provision of information. The group of options dealing with ex-ante information can be further broken down into two broad groups. The first group focuses on fee information presentation while the second group analyses tools that would support comparison and clarity of information.

Certain criteria must be taken into account when assessing the use of information as a means to support consumer choice. Proposals must be capable of reaching a large range of consumers and must be effective across the board. It is also vital to maintain a balance between complete and comprehensive information and providing too much. The OECD's Consumer Policy Toolkit states that: "*Long and overly complex information risks being of little value to consumers. Moreover excessive information can lead consumers to feel overwhelmed.*"[298] A Commission study that aimed to measure behavioural responses to different ways of presenting bank fee information to consumers indicated that highly detailed, mainly numerical information may lead to uncertainty in consumers who then choose to

[298] "*Consumer Policy Toolkit*" – OECD, Paris 2010, p.86.

ignore that information as a consequence.[299] The proposals should additionally provide common EU standards, in order to counter further market fragmentation as a result of isolated regulatory action in domestic markets. At the same time, it is also important that EU action takes account of domestic market specificities.

Table 12: Effectiveness of the policy options for ease of comparison of bank fees and presentation requirements

	Effectiveness in achieving the objectives below						
	Operational objectives						
	Consumers receive clear, complete and comparable information	Consumers enabled to understand bank offers and assess value for money	Payment account offers are easy to compare	Help consumer choice towards offer best matching needs	Increase consumers awareness of charges actually paid	Reduce direct financial costs of switching to consumers	Efficiency (cost effectiveness) in achieving all listed objectives
1. No action	0	0	0	0	0	0	0
2. Standard price list	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓	✓✓✓
3. National glossaries for bank fee terms							
3(A) non-harmonised terminology	✓✓	✓✓✓	✓	≈	≈	≈	✓
3(B) fully harmonised terminology	✓✓	✓✓	✓	≈	≈	≈	✓
4. Comparison websites							
4(A) Single national website	✓✓	✓✓	✓✓	✓✓	✓	✓✓	✓✓
4(B) Accreditation scheme	✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓	✓✓	✓✓✓
5. Representative examples							
5(A) set-up by banks	×	✓/≈	✓/≈	✓	✓/≈	✓	≈
5(B) prescribed by M. States	✓/≈	✓/≈	✓	✓	✓✓	✓	✓/≈
6. Cost simulation							
6(A) set-up by banks	×	✓	✓/≈	✓	✓/≈	✓✓	≈
6(B) prescribed by Member States	✓	✓	✓/≈	✓	✓	✓	✓/≈
7. EU standardised forms for ex-ante information	✓	✓✓	✓✓✓	✓✓	✓	✓✓	✓
8. Banks obliged to provide ex-post information	✓✓	✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓	✓✓✓
9. EU standardised forms for ex-post information on fees	✓	✓	✓✓	✓	✓✓	✓✓	✓

Impact on effectiveness and efficiency compared to the situation today,
✓✓✓ (Strong) – ✓✓ (Moderate) – ✓ (Weak) positive contribution
××× (Strong) – ×× (Moderate) – × (Weak) negative contribution – ≈ neutral contribution

Without action (Option 1), the comparability and presentation of payment account fees would not be improved, remaining unclear to consumers. The current levels of market fragmentation would increase as Member States continued to take uncoordinated action to address the issues identified in the problem section. From a policy and regulatory point of view this option hinders regulatory convergence between Member States. It also prevents further integration, since the harmonising impact of options presented below and in Annex III – albeit with a longer-term view – would not take effect.

In the 2012 public consultation on bank accounts, all consumers supported the need for EU action on transparency and comparability of bank account fees in order to allow an EU-wide level playing field. More mixed views emerged from the Member States participating to the

299 Bank fees behaviour study (2012, TNS Opinion Ltd), results of the multivariate analysis.

consultation.[300] Some favoured EU level initiatives and cross-border coordination (e.g. Estonia, Austria and relevant public authorities in other Member States, such as the Hungarian Financial Supervisory Authority, and the Central Banks of Ireland and Lithuania). A number of other Member States stressed the usefulness of EU level initiatives, while recognising the inherent difficulties of such an approach (Belgium, Spain and France). Others acknowledged the need for an intervention to tackle this issue, but advocated national action first (Hungary and Poland). The UK did not recognise the need for EU action in this field. Most financial services industry respondents indicated that, if EU action were to be pursued, it should be flexible and take account of efforts made at national level. It was also stressed that EU action in these areas will be required when an EU retail financial market is truly achieved, thus tackling the existing differences among national rules governing these areas.

If no action is taken then the payment account market would not benefit from the advances at EU level in the payments market achieved through SEPA. Citizens would not be able to clearly distinguish between price advantages brought about by SEPA for direct debits and credit transfers if the price of the underlying payment account remains opaque, continues to exhibit significant differences in prices for equivalent payment account offers, and remains a complex product. Meanwhile credit institutions wishing to establish business across borders will have to continue to comply with different sets of rules and incur costs in adapting their processes and operations to different national requirements. Consumers living in Member States where bank infrastructure is less developed and the provision of daily banking services is more costly would not benefit from the arrival of new market entrants who operate lean processes and provide good services at competitive prices.

Options 2 and 7 focus on ex-ante fee presentation requirements, through standard form price lists. They foresee the definition and use of standard terminology for fee items. As discussed in the problems section, the use of differing terminology by credit institutions affects the ability of consumers to compare offers. Both Options 2 and 7 can address this issue as they will provide fee information in a clear and comparable way. These Options have similar characteristics to other forms of EU standard pre-contractual information in retail financial services such as SECCI[301] and ESIS.[302] The use of an EU standard price list is essential both in domestic and cross-border contexts as it establishes the same requirements for the presentation of fees within Member States and across the EU.

However Options 2 and 7 differ in two respects: The first concerns the extent of fee standardisation; the second concerns whether standardisation occurs at EU or national level.

Under Option 2, the price list would involve the ex-ante disclosure of payment account fees. Fees common to all Member States would be identified at EU level and supplemented nationally to cover the 20 most representative fees or at least 80% of key charges incurred. Common presentation requirements, which could include the introduction of a single form for ex-ante disclosure of payment account fees, and requirements regarding availability of fee information and selection criteria for common fees across the EU, would be established at EU level. Option 2 allows for the harmonisation of the most commonly used fees at EU level, while permitting Member States flexibility to add fee items more relevant to domestic markets. This approach was supported by the majority of responses to the public consultation.[303] Some Member States recognised that even with the aid of national initiatives, whether through legislation or self-regulation, bank fees often remain complex. Some of them

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[300] As indicated in Section 2.2, public authorities from 14 EU Member States replied to the 2012 Public Consultation on Bank Accounts.

[301] Standard European Consumer Credit Information.

[302] European Standard Information Sheet.

[303] *2012 Public consultation on bank accounts* (see footnote 11).

supported EU level action on standardised terminology (EE and AT) and others agreed on the usefulness of EU actions, while recognising the technical difficulties entailed by such an approach (BE and ES). Consumers, the financial services industry and public authorities indicated that the full standardisation of fee terminology could bring about the unintended consequence of standardising products. They also mentioned the risk of information overload to consumers.

Option 7 approximates SECCI and ESIS more closely since it foresees full EU standardisation of fee terminology and corresponding disclosure requirements in an EU standard form price list. However the types of fees that comprise the cost of a payment account cannot be combined into a single measure, as with the Annual Percentage Rate of charge for loans, which forms the basis for cost information in both SECCI and ESIS.

Given the wide range of fees for payment accounts and their differing relevance to domestic markets, Option 7 would not achieve the stated objectives. Standardising all fee terminology at EU level would be complex; not all payment instruments are commonly used throughout the EU: cheques are common in France but not used at all in Belgium. The result could be that EU standard fees would not only be overly cumbersome to be effective, but they may also lead to confusion by requiring disclosure of fee items that may not be relevant to a large number of EU citizens.

Option 3 (Glossaries) should not be considered as a stand-alone option since it does not address information about bank offers as such, neither in terms of prices nor of the services offered. Therefore glossaries are not able to fulfill operational objectives without being combined with other options. As with Options 2 and 7, glossaries are closely linked to the use of standardised terminology. They need to be sufficiently comprehensive to be useful. This Impact Assessment assessed two alternative approaches to the development of glossaries as information tools. The first (Option 3A), foresees the development of a single, reference glossary within each Member State providing standard term definitions, while the second (Option 3B), is a single glossary that would collect different definitions for fees in use within credit institutions. Both alternatives analysed are likely to result in an overly-cumbersome document to be useful. This is particularly true for 3B that would contain a larger number of items and a significant degree of duplication of terms. The public consultation showed that Member States have diverging views on the role of glossaries. Most of them stressed the usefulness of these tools when developed at the national level. Some respondents supported EU level intervention in this area, while noting the difficulty to accomplish it; others, considered any intervention to improve glossaries unnecessary. However, a definition of terms is essential to all other options under consideration where terminology is used. Yet it is inherent to Option 2, which foresees the use of standard terminology.

Within the subset of options comprising tools to facilitate comparison and clarity of fees, Option 4 (comparison websites) provides the means for consumers to review several payment accounts in a single place, online. This lowers search costs when compared to all other options under assessment that require consumers to collect separate information from different credit institutions as a first step. Online comparison tools have other positive attributes such as their ability to present large amounts of information in a structured way and to balance the level of detail provided to the viewer according to their needs, through drill down or pop-up menus. They also lend themselves well to other forms of information, such as service quality or convenience indicators for different service providers. The use of comparison sites is generally assessed positively in other industries.[304] For example, in July

[304] Commission Staff Working Paper: "*The functioning of the retail electricity markets for consumers in the European Union*", SEC(2010) 1409.

2012 the European Energy Regulators developed guidelines of good practice for price comparison tools in the field of energy supply.[305] The recommendations highlight the key requirements of price comparison tools (such as independence, transparency, exhaustiveness, clarity, user-friendliness and accessibility), which can ensure neutral and objective information to consumers.

In the 2012 public consultation on bank accounts this was the preferred tool for enhancing transparency and comparability of bank fees. The financial services industry generally supported the development of comparison websites, but stated that they should remain voluntary, in particular if existing initiatives function well. A few respondents, however, pointed out the importance of public intervention on these websites, in the form of a supervisory or management role (e.g. Banking Associations in the Czech Republic, Italy and the Netherlands). Member States generally acknowledged the importance of developing tools to enhance transparency and comparability, while stressing the need to carefully assess their costs and effectiveness. Some replies pointed to the possibility of binding requirements to set up such tools, should self-regulatory regimes not lead to satisfactory results, as well as the need for public supervision.

In order to be truly effective, comparison sites should provide unbiased, timely and accurate information. This impact assessment identified two approaches to address the issue of independence. The first approach (Option 4A), would entail a single comparison website per Member State managed by the responsible public authority. As an alternative (Option 4B), a website accreditation scheme could be established, defining quality criteria for website operators to obtain accreditation. These criteria could include requirements to disclose potential conflicts of interest, ensure minimum market coverage and to ensure timeliness and accuracy of fee information. Participation on the part of credit institutions would be voluntary.

In our view, Option 4B is superior. This preference recognises the fact that an increasing number of comparison websites operate across the Union. EU action would aim to establish common minimum standards for accreditation, which Member States will be able to adopt without modifying the structures which have emerged naturally and without limiting access to private operators, whose adherence would be voluntary. The merits of accreditation schemes, though in other industry sectors are also supported by BEUC.[306]

Options 5 and 6 are aimed at helping consumers make product choices that best match their needs. Both options take account of the variable nature of some categories of fees and could provide a better understanding of the costs of an account over a given period of time than other options that provide unit fee information alone, such as Options 2 and 7.

Both representative examples (Option 5) and personalised cost simulations (Option 6) would need to establish a set of consumer consumption profiles that are sufficiently representative and that apply to a broad range of consumers. We explored two approaches with varying degrees of standardisation; the first approach would allow credit institutions to tailor usage profiles to the individual, while the second approach foresees a mandatory set of standard usage profiles established at Member State level. Stakeholder responses to the public consultation highlighted weaknesses in both approaches. While according to consumers the

[305] CEER (Council of European Energy Regulators): "*Guidelines of Good Practices on Price Comparison Tools*", 10 July 2012, available at: http://www.energy-regulators.eu

[306] BEUC's response to the CEER consultation "*Energy: Price Comparison Tools*" refers to successful accreditation scheme Confidence Code in the United Kingdom that is run by Consumer Focus.

first approach could lend itself to methodological bias and hamper comparison between different bank offers, the financial services industry did not favour the second approach that would generalise the use of representative examples and risks standardising products. In addition, both approaches raise concerns as to whether consumers would be able to locate their own usage patterns within available profiles.

Both representative examples and personalised cost simulations are better adapted to provide information on specific elements of cost. Their effectiveness varies depending on the way an account is priced. Representative examples are effective in providing concise information on a number of limited variables, such as overdraft cost information. Cost simulations are mostly adapted to variable elements of fees but are less relevant to one-off costs. If representative examples are adapted to different usage profiles, their use as advertising tools may become cumbersome, unless they are tailored to specific target groups of customers. Finally cost simulations are not widely in use and only provided on a voluntary basis. All of these issues point against a generalised use of these tools as a means to ensure comparable information is provided in a structured form.

Options 8 and 9 concern the provision of ex-post information on fees to payment account holders. The ex-post information options complement the options for ex-ante fee information assessed above and allow consumers to monitor their actual expenditure. Further, they facilitate the comparison of continuing fees and could encourage switching of payment accounts. Option 8 would provide the ex-post information on the same standardised fee terms as Option 2 does on an ex-ante basis. Option 9 complements Option 7 as it provides ex-post information on all fee items. While credit institutions are expected to incur costs in updating their information systems to adapt to this approach, most of them have already adopted the practice of providing consumers with fee summary statements as a result of national regulation. In the public consultation, the industry also stressed the importance of striking a balance between transparency with customers about charges and the risk of providing excessive and complex information. If this option is combined with Option 2, the greatest benefit would be achieved by providing a summary of information in standardised price lists that cover major fees.

Options 8 and 2 combined would provide Member States with a degree of flexibility, allowing them to tailor the fees to national specificities. As Options 9 and 7 are based on all fees, they do not retain this flexibility. Most respondents to the public consultation from the financial services industry recalled the current practices that have been already developed and used in terms of providing consumers with statements on a regular basis. Consequently, Options 8 and 2 are considered to be more effective in providing clear and concise information to consumers that is truly relevant to their needs.

The analysis in this section and in Annex III indicate that Options 2, 4B and 8 are the optimal package of options for transparency/comparability when combined. Options 3, 5, 6, 7 and 9, demonstrate a number of weaknesses which risk the objectives not being met. Combined, this package would provide consumers with relevant ex-ante and ex-post fee information, presented in a clear and comparable format. Consumers would understand how much they would be, and actually were charged for key services. This provides an excellent basis for fee comparison across providers on a comparison website and could facilitate switching.

Efficiency of policy options and impact on stakeholders

This section describes the impact on stakeholders and focuses on Options 2, 4B and 8, as the package of options that were considered most effective above. Table 13 below provides a summary of quantified costs and benefits for all relevant stakeholders. Annex III and Annex VI provide a more detailed description of costs and benefits for all options for presentation and ease of comparison of bank fees.

All options impose costs on stakeholders. These mostly fall on credit institutions. All options give rise to relatively similar types of costs. In the main, they relate to: adapting IT systems; marketing and advertising materials; internal compliance; the cost of training; and disseminating material to consumers. The extent of costs depends on the time and effort required to implement the proposals within each option. The combined costs of Options 2, 4B and 8, amount to between EUR 737 million and EUR 1247.76 million. However some major items, such as the cost of updating IT systems, internal compliance and training costs, will generate cost synergies for the combined set of preferred options. The impact on an aggregate basis of other major items of expenditure is expected to approximate the cost estimates derived on an individual option basis. These comprise mainly recurring costs of disseminating standard form price lists and fees summary statements amounting to EUR 144.32 – 432.96 million from 2013 to 2022. Other relevant non-cumulative costs are one-off costs in adapting marketing as a result of the introduction of standard fee lists (EUR 83.21-138.69 million); adapting account statements to provide ex-post information (EUR 13.62 - 27.25 million); and total one-off costs attributed to website operators to comply with accreditation requirements (EUR 5.09 -10.18 million).

As indicated in Table 13, long-term costs to Member States are not expected to be significant. Synergies are expected in the recurring costs of monitoring and enforcement, although there will be partial cumulative costs arising from different monitoring requirements for each of the three options.

Table 13: Presentation requirements and ease of comparison of bank fees – costs and benefits of the policy options

Total EU Benefits (million EUR)	Option 1	Option 2	Option 3.A	Option 3.B	Option 4.A	Option 4.B
Consumer benefits:						
Change to switching behaviour	-	584.87	Not quantifiable	Not quantifiable	731.08	731.08
Better account management	-					
Credit institution benefits:						
Cross-border cost savings	-	Not quantifiable	Not quantifiable	Not quantifiable	Not quantifiable	Not quantifiable
Business opportunities	-					
Total EU costs (million EUR)						
Credit institution costs:						
one-off	-	95.95-163.03	11.66-23.58	40.35-72.76	13.75 – 21.81	-
recurring	-	183.17-255.79	149.67-192.32	334.11-442.78	49.36 – 98.72	-
Comparison website operators						
One-off	-	-	-	-	-	0.32-0.65
recurring	-	-	-	-	-	4.77-9.53
Member State costs:						
one-off	-	0.05–0.08	0.02–0.05	0.08-0.11	0.76-2.86	0.36-0.66
recurring	-	0.60-1.17	0.82-1.56	0.99-1.95	14.04-20.95	3.48-6.74

Total EU benefits (million EUR)	Option 5.A	Option 5.B	Option 6.A	Option 6.B	Option 7	Option 8	Option 9
Consumer benefits:							
Change switching behaviour	146.22	146.22	219.32	219.32	438.65	1462.16	292.43
Better account management						2702.57	954.48
Credit institution benefits:							
Cross-border cost savings	Not quantifiable	Not quantifiable	Not quantifiable	Not quantifiable	Not quantifiable	Not quantifiable	Not quantifiable
Business opportunities							
Total EU costs (million EUR)							
Credit institution costs:							
one-off	265.44-463.30	299.71-522.34	420.77-691.71	461.21-757.51	148.89-252.07	192.42-326.31	345.71-681.55
recurring	323.68-347.76	362.97-390.94	2 572.48- 3 682.59	2 821.51-4 036.32	224.89-297.51	260.37-492.45	587.74-1100.48
Member State costs:							
one-off	0.02-0.03	0.08-0.12	0.02-0.03	0.08-0.12	0.01-0.02	0.07-0.11	0.03-0.05
recurring	0.71-1.40	0.94-1.85	0.71-1.40	0.99-1.95	0.33-0.64	0.81-1.59	0.71-1.40

Consumers are expected to derive the greatest benefit from this package of options. The package will provide a regulatory basis to facilitate comparison of bank offers and ensure clear information is provided both before and after acquiring a payment account. This package also takes into account differing levels of regulation currently in Member States and is expected to provide comparable consumer protection to all EU citizens in the payment account market. Although benefits for the three options are not cumulative, the impact on consumer switching behaviour is expected to hover around the higher-level estimate calculated for Option 8, amounting to EUR 1462.16 million from 2013 to 2022. Similarly, potential benefits as a result of improved account management (as per Option 8) are expected to be EUR 2702.57 million from 2013 to 2022.

Benefits would accrue to credit institutions, though these are not quantifiable. They would be better able to operate cross-border, within the internal market, as a result of more transparent pricing information and the same information requirements across the EU. Better comparison and clarity will also favour more efficient credit institutions and are expected to encourage competition not only on price but also in terms of service, to the benefit of consumers.

This section focuses on the preferred package, comprising Options 2, 4B and 8. A policy instrument can be analysed by its effectiveness in implementing and ensuring compliance with the proposed measures. This assessment of policy options is primarily based on these criteria.

As described above, previous attempts by the industry to provide clarity, comparability and transparency of fee information through EU-wide self-regulation has been unsuccessful and raises concerns as to the appropriateness of future self-regulation in this area.

Table 14: Impact on main stakeholders for options on ease of comparison of bank fees and presentation requirements

	Consumers and society	Financial services industry	Member States
1. No action	0	0	0
2. Standard price list	✓✓✓	✓	✓
3. Glossaries for bank fee terms in Member States			
3(A) non-harmonised terminology	✓	×	×
3(B) fully harmonised terminology	✓	××	××
4. Comparison websites			
4(A) Single national website	✓✓	×	××
4(B) Accreditation scheme	✓✓✓	✓	×/≈
5. Representative examples			
5(A) set-up by banks	✓/≈	××	×
5(B) prescribed by M. States	✓/≈	×××	××
6. cost simulation			
6(A) set-up by banks	✓/≈	×××	×
6(B) prescribed by M. States	✓/≈	×××	××
7. EU standardised forms for ex-ante information (price list)	✓✓	××	×
8. Banks obliged to provide ex-post information	✓✓✓	✓✓	✓
9. EU standardised forms for ex-post information on fees	✓✓	✓	×

Impact on effectiveness and efficiency compared to the situation today,
✓✓✓ (Strong) – ✓✓ (Moderate) – ✓ (Weak) positive contribution
××× (Strong) – ×× (Moderate) – × (Weak) negative contribution – ≈ neutral contribution

The package foresees the partial standardisation of EU fee terminology and cross-border comparability of payment accounts. The effectiveness of this package is contingent upon consistent application across Member States and therefore is more appropriately implemented through binding measures. In addition, higher levels of compliance can be achieved through binding measures due to monitoring and enforcement provisions. A certain level of flexibility would be beneficial for Member States in implementing the package to allow for national specificities. This accords with the wishes of stakeholders, who in response to the 2012 public consultation, stated that there is a need for a balance between ease of comparison and excessive standardisation affecting differentiation, qualitative aspects and particularities of national markets.

7.6. Comparison of options and assessment of their impact: payment account switching

Table 15 assesses the effectiveness and efficiency of the individual policy options for switching. These are not necessarily mutually exclusive and may be combined to better address the problems outlined and achieve the set objectives.

Table 15: effectiveness of the policy options for payment account switching

	Effectiveness in achieving the objectives					Efficiency (cost effectiveness) in achieving all listed objectives
	Operational objectives					
	Smooth and easy switching process with max duration of 14 days	Number of misdirected/missed payments during switching process is reduced to less than 5% of recurrent transactions	Consumers are assisted and informed of the switching process in an adequate manner	Reduced direct financial costs of switching to consumers	Increase the mobility of payment account users	
1. No action	0	0	0	0	0	0
2. Ensure that the switching services follow the Common Principles (CP)	✓	≈	✓	✓	✓	✓
3. Improve effectiveness of the CP						
3 (A) Improve existing CP	✓	≈	✓✓	✓	✓	✓✓
3 (B) Broaden the scope of CP to EU-wide cross-border switching	✓✓	≈	✓✓	✓	✓✓	✓✓✓
4. Set up an automatic redirection service for all receipts and payments from an old to a new account						
4 (A) Domestic automatic redirection service	✓✓	✓✓✓	✓✓	✓✓	✓✓	×××
4 (B) EU-wide redirection service	✓✓✓	✓✓✓	✓✓	✓✓	✓✓✓	×××
5. Payment account portability						
5 (A) Domestic payment account portability	✓✓	✓✓	✓✓✓	✓✓✓	✓✓✓	×××
5 (B) EU payment account portability	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓	×××

The 'no action' option (Option 1) would not address the problems identified in Section 3.2.3; nor would it achieve the objectives outlined in Section 4. If 'no action' were taken, the different level of consumer protection across the EU – arising from differing application of the Common Principles across the EU – is likely to be amplified. Even though the financial services industry argues that there is no need for new measures, consumer and civil society representatives have voiced clear discontent with the status quo and consider the voluntary character of the Common Principles to be a major reason why switching services remain inadequate.[307] If no action is taken, switching will likely remain burdensome, unpredictable and costly to consumers, ultimately restricting their mobility. Option 1 is therefore rejected.

Option 2 would ensure that switching services follow the Common Principles. This would have a positive effect on the ease of switching payment accounts and ensure that the switching process does not last for more than 14 days. The direct cost of the process to consumers would also fall due to a slight increase in competitive pressure. Even though the financial services industry argues that new measures ensuring the application of the Common Principles are unnecessary, consumer representatives strongly oppose this view. They argue that while the Common Principles have been in place for three years, they are insufficient, as

[307] *2012 Public consultation on bank accounts* (see footnote 11), p.10-11.

demonstrated by the results of national surveys and mystery shopping exercises.[308] In comparison to 'no action', this option would better meet the stated objectives, but it would not address all obstacles to switching. Accordingly, while this option amounts to a good first step, additional measures are explored and analysed below.

Section 3.2.3 stated that the Common Principles briefly address some of the shortcomings of the switching process encountered during mystery shopping exercises, but do not explicitly provide for solutions. Adding explicit provisions to address these deficiencies, as proposed in Option 3A, would help define providers' obligations clearly, ensuring a minimum level of quality in switching services across Member States. A provision that all account providers should have information on switching services on their websites (displayed in an easy to find and easy to understand manner) would go beyond the current requirement of the Common Principles that only foresees information be made available "*on a durable medium and supplied by banks and national banking associations*". At present, there are no explicit bank staff training requirements regarding the switching process. Such provisions would provide for a more streamlined approach by providers, improving assistance to consumers. As such, Option 3A (incorporating the application of the Common Principles as set out in Option 2) is considered more effective than Option 2 on its own.

Option 3A would be flexible enough to take into account national specificities and thus ensure nationally effective switching. The new provision for staff training could specify that staff are to be adequately trained on the functioning of the switching service, leaving the possibility for Member States to decide how this is to be applied in practice.

Disadvantages would remain: Option 3 would not eliminate a risk of an uneven playing field between providers wishing to enter new markets. Such an approach would be contrary to the internal market. Moreover, this option would not help develop a cross-border switching service.

In response to the 2012 Commission consultation on bank accounts[309], representatives of the financial services industry argued that there is low demand for cross-border switching and therefore no need for cross-border switching provisions. It can be argued that demand is low because there are difficulties in opening payment accounts cross-border, in comparing products from different Member States, and as there is no dedicated cross-border switching service in place. Consumer representatives are strongly in favour of the development of cross-border switching services; some noted that this option will become particularly relevant once the Single European Payment Area is fully implemented. Following implementation, consumers should be able to conduct payment transactions from anywhere. Considering the potential benefits from cross-border switching to consumers in particular due to SEPA implementation, there is reason to expect that the potential cross-border demand for payment account services will increase and has the potential to grow in future.[310]

By standardising certain provisions (e.g. establishing a common duration for the switching procedure), Option 3B would complement Options 2 and 3A and help create a cross-border switching service within the EU. It is therefore more effective than Option 3A. Yet even though Options 2 and 3 facilitate switching, they do not fully address the problem of potential errors occurring when in/out payments by third countries are credited/debited to the wrong account, resulting in delayed/missed (recurrent) payments.

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308 *Consumer Market Study on the consumers' experiences with bank account switching with reference to the Common Principles on Bank Account Switching*, GfK, January 2012, http://ec.europa.eu/consumers/rights/docs/switching_bank_accounts_report_en.pdf. For further detail please refer also to Section 3.2.3 of this report.

309 *2012 Public consultation on bank accounts* (see footnote 11), p. 14.

310 Please refer to the *"Restricted cross-border switching"* analysis of Section 3.2.3, p.38.

This issue is only addressed by Options 4 and 5. Option 4 proposes redirection of payments. Option 5 envisages the introduction of account number portability, so that an account number is kept when switching accounts. Consequently, payments credited/debited to an account will, by default, be sent to the correct/active account. Both options can be implemented at a domestic (Variant A) or European level (Variant B). The introduction of either of these options at a national level would not facilitate cross-border mobility of consumers and would have fewer positive impacts for payment account providers than if implemented at a European level. Furthermore, the implementation of these options only domestically could be counterproductive to any future steps at the European level to further standardise switching services. Significant resources would be deployed nationally to create infrastructure that might then be costly to adapt to make it compatible with a pan-European system. Thus, the more effective options – as well as those with potentially the greatest benefit to stakeholders – would be European level implementation of these options.

Even though both options would to a great extent reduce or even eliminate misdirection of payments, account number portability would completely eliminate consumer inconvenience arising from the need to communicate the new account details to third parties, rendering switching more straightforward for consumers. Therefore, when comparing Options 4B and 5B, the introduction of account number portability (Option 5B) would be more effective.

In terms of meeting the objectives, Option 5B would be the most effective long-term option. Due to its technical nature, this option could be implemented through either a self-regulatory initiative or a legally binding approach with a number of regulatory technical standards. At present there are no laws in Member States that could prevail over any self-regulatory agreement, leaving the door open for a self-regulatory approach. However, due to the high one-off costs of this option and the fact that the significantly less costly and burdensome Common Principles were not sufficiently applied on a voluntary basis, a legal obligation might be necessary to achieve effective results. Table 16 assesses the impact of the individual policy options.

Table 16: Options for payment account switching – Impact on main stakeholders

	Consumers and society	Financial services industry	Member States	Non-financial service product providers
1. No action	0	0	0	0
2. Ensure that the switching services follow the Common Principles	✓	×	×	≈
3. Improve the effectiveness of the Common Principles				
3 (A) Improve the existing Common Principles	✓✓	×	×	≈
3 (B) Broaden the scope of the Common Principles to EU-wide cross-border switching	✓✓✓	×	×	✓
4. Set up an automatic redirection service for all receipts and payments from an old to a new account				
4 (A) Introduce a domestic automatic redirection service	✓✓✓	×××	×××	✓
4 (B) Introduce an EU-wide redirection service	✓✓✓	××	××	✓✓
5. Introduce payment account portability				
5 (A) Domestic payment account portability	✓✓✓	×××	×××	✓
5 (B) EU payment account portability	✓✓✓	××	××	✓✓

Table 17 provides an overview of the estimated the costs and benefits of the assessed policy options where the Commission was able to provide an estimate (even if a broad one). Some types of costs/benefits have not been quantified or are not quantifiable. A more detailed description of the methodology used and assumptions made is provided in the methodological annex (Annex VI).

Table 17: Options for payment account switching - Comparison of costs and benefits

Total EU benefits (million EUR)	Option 1	Option 2	Option 3A	**Option 3B**	Option 4A	Option 4B	Option 5A	Option 5B
Consumer benefits:								
Changes in switching behaviour	0	1 462	1 680	**3 655**	5 849	6 580	8 773	9 504
Reduction direct/indirect costs	0	Marginal	Marginal	**Marginal**	1 284	1 427	1 284	1 427
Credit institution benefits:								
Cross-border cost savings	0	Not quantifiable	Not quantifiable	**Not quantifiable**	Not quantifiable	Not quantifiable	Not quantifiable	Not quantifiable
Business opportunities	0							
Total EU costs (million EUR)	Option 1	Option 2	Option 3A	**Option 3B**	Option 4A	Option 4B	Option 5A	Option 5B
Credit institution costs:								
one-off	0	17-33	37 - 73	**67 - 129**	500-22 734	500-22 734	14 700	14 700
recurring	0	229-396	853 -1 214	**2 041-2 649**	Not quantified	Not quantified	Not quantified	Not quantified
Member State costs:								
one-off	0	3	3	**3**	3	3	3	3
recurring	0	19	19	**19**	19	19	19	19

Option 5B (EU-wide payment account portability) is the most effective, and if implemented via a legal instrument, is likely to produce greatest benefit to consumers and wider society in terms of cost efficiency. It would, however, also impose significant initial costs on stakeholders, as it would necessitate either a renumbering of all account numbers or the introduction of a comprehensive database linking each account number to a virtual portable number. Consequently, one-off changes would need to be made not only to payment account provider infrastructure, but potentially also to other payment infrastructures linked to it. However, once the initial renumbering was completed, consumer switching would no longer be an issue and long-term consumer mobility within the retail financial sector would be facilitated. Moreover, any subsequent switches would not cause third parties to incur costs in as their customer records would not need to be updated. Given that the use of direct debits/credits is growing all over Europe, Option 5B is the best long-term option. Its benefits would need to be weighed up carefully against the technical issues behind modifications to payment infrastructures. For the time being, however, an immediate implementation of this option seems disproportionate to the identified problems.

Option 4B introducing the EU-wide redirection service, which would be the next most effective option, would be potentially less efficient and proportionate that Option 5B. Not only are its estimated benefits lower – mainly due to the fact that it does not achieve the same level of consumer mobility, it may lead to even higher overall costs to industry. For both options, in order to correctly assess all potential implications of these complex measures, further research should be undertaken, analysing the opportunities and risks related to them. A mandate could be given to the EBA to engage in further analysis with a view to it elaborating a technically feasible and efficient way to introduce this policy within the next three years. This would nevertheless meet consumer demands for the Commission to conduct a deeper analysis before reaching any decision.[311]

As for the domestic variants of portability and redirection services, an analogous analysis applies. It leads to the conclusion that the next most effective option is Option 3B, as it aims to ensure the cross-border application of the Common Principles, by specifying explicit provisions making their application more consistent and consumer-friendly. If implemented,

[311] *2012 Public consultation on bank accounts* (see footnote 11), BEUC response, p.18.

consumers would be better informed and better assisted by staff with regard to the switching process, in time gaining the confidence to ask a 'new' bank to provide them with a switching service. This increased confidence could encourage consumers to shop around for a better product to meet their needs. Consumers would also find it easier to switch provider cross-border.

Payment account providers will incur one-off costs in adapting their IT systems and business processes to comply with Common Principles, in complying with the new cross-border dimension of the switching service, and in monitoring internal compliance. They will incur costs in acquiring an understanding of the new provisions, in training staff on switching process, and in updating website/branch information to include information on switching. Overall these one-off costs are estimated at between EUR 67-129 million. Providers would incur recurrent costs relating to running the switching service and to monitoring and reporting on compliance. Calculated on a 10-year basis, these recurrent costs would be EUR 2 041-2 649 million.

Even though the overall costs of this option are substantial and are likely passed on to consumers, they are outweighed by the benefits. The benefits are estimated at EUR 3 655 million and are calculated as the potential cumulative cost savings by those consumers who actually decided to switch. These benefits do not include the potential benefits to wider society. These benefits will take the form of savings for consumers who do not switch, since they will also benefit from a more competitive environment. Furthermore, payment account providers will benefit from potential economies of scale realised within their cross-border operations. They would also benefit from increased consumer mobility and a more level-playing field if they wish to expand their client base and/or enter new markets.

Option 3B is likely to benefit consumers more than it will negatively impact upon other stakeholders. By significantly improving the functioning of the Common Principles, improving these in areas that have been identified as problematic[312] and broadening their scope to cross-border switching, customer and provider mobility would increase, and competitive within retail financial markets would be significant enhanced. Its implementation would represent an efficient step towards better-functioning switching services across the EU and would lead to a better integrated, functioning internal retail banking market that would allow for more growth in the European economy.[313]

The effectiveness, impact, costs and benefits of this option will depend on the policy instrument via which it is implemented. If a self-regulatory approach is chosen, all effects and impacts are likely to be significantly lower: there is a risk that the measures will not be implemented or, once implemented, not sufficiently applied in practice due to a lack of enforcement. As with the self-regulatory Common Principles (in place for three years),[314] a self-regulatory approach would not guarantee satisfactory application; therefore a legally binding approach is preferable in meeting the defined objectives. This conclusion was also drawn in Australia, where a voluntary switching code was recently made obligatory within broader banking reform.[315]

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[312] For detailed problem analysis please refer to Section 3.2.3 of this report.

[313] The detailed description of methodology of the calculation of the potential costs and benefits including related assumptions are presented in Annex VI.

[314] See Section 3.2.3 for further details.

[315] *Account Switching*, Australian Government, July 2012, http://www.bankingreforms.gov.au/content/Content.aspx?doc=switching.htm; *12-139MR ASIC implements new bank account switching rules*, June 2012, http://www.asic.gov.au/asic/asic.nsf/byHeadline/12-139MR%20ASIC%20implements%20new%20bank%20account%20switching%20rules?opendocument

Due to the generally principle-based wording of the Common Principles, on which this option is based upon, even a binding instrument could leave Member States with considerable flexibility in implementing this option. Member States could define for example the extent of necessary staff training, the layout of information on the switching service, the exact content of the information that needs to be submitted from the 'old' bank to the 'new' one, and its format. A more standardised approach across the Member States would be necessary for certain provisions (such as maximum length of the switching procedure) relevant in particular, to the functioning of the cross-border switching service.

As this option would introduce provisions facilitating cross-border switching, many stakeholders in all Member States would be affected.

The extent of the impact would be dependent on how far the Common Principles are already applied in practice. Furthermore, the cost of implementing this option is directly linked to the number of credit institutions which need to apply its provisions. Consequently, other things being equal, Member States with a higher number of credit institutions would be likely impacted more in total terms than those with fewer ones.[316] On this basis, it has been assessed[317] that the Member States affected most would be Bulgaria, Germany, Finland, Luxemburg, Poland, Portugal, and the United Kingdom. Denmark, Estonia, Malta and the Netherlands would be affected to a relatively small extent whereas the remaining Member States would be affected to a medium extent.

8. THE PREFERRED POLICY OPTION AND ITS IMPACT

The previous chapter presented the analysis of the policy options' likely impact for the three areas this report covers. It considered the policy options for access, transparency/ comparability and switching separately, determining the sets of preferred options in each of the areas. In this chapter we analyse different combinations of options for all the three areas together as a 'package'.

As illustrated in Chapter 3, the rationale for selecting a 'package' is strictly and fundamentally linked to the general objectives. Only a combination of actions in these areas can establish the right to a basic payment account to EU citizens, provide common standards to ensure transparent and comparable bank account fees and make (cross-border) switching of bank accounts easier. This package would enhance the functioning of the internal market, ensure a high degree of equivalent consumer protection to all EU citizens and foster economic growth alongside greater financial inclusion.

As presented in Section 3.3, the stated objectives (see Chapter 4) are strongly interlinked. Improved access would contribute to the development of a single market for every EU citizen. Transparency and comparability of fees are necessary to support improved access, but they also facilitate demand for account switching. A properly functioning switching service will enable citizens to reap the benefits of broader access and better fee information. Combined,

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316 For further detail please refer to Table 22, in Section 8.2.2

317 Data for AT, BE, BG, DE, DK, ES, FI, FR, IT, LT, LU, LV, NL, PL, PT, UK is derived from the study; Quantification of the economic impacts of EU action to improve fee transparency, comparability and mobility in the Internal Market for personal current accounts", ICF GHK, 2012; for the other MS the category of impact was assessed by Commission staff.

these objectives can enhance competition and lower the barriers to cross-border demand. Yet no single policy option is able to meet them all.

A package that omits even one of these elements may risk creating a single market that is not accessible to all EU citizens, entrenching market fragmentation, endangering competition, and restricting efficiency gains. Action at EU level to facilitate cross-border switching of payment accounts without accompanying measures to enhance transparency/comparability or establish the right to access in the Member States would be inefficient. Accordingly, there is a need for a combined approach to the problems identified in this Impact Assessment.

The preferred approach, combining the optimal solutions that emerged from the analysis of three areas covered, will constitute one of the key actions to re-launch the Single Market. It will strengthen cohesion and consumer confidence, ensuring inclusive growth and offering opportunities based on fair, robust and equitable rules for citizens and businesses.[318]

8.1. Comparison of different sets ("packages") of policy options

The table below presents distinct packages of policy options, which do not comprise all possible combinations of individual options. In particular none of the packages is composed exclusively of options that were discarded in the individual analysis. The set of packages presented below was determined by grouping options that reflect different degrees of EU intervention. The first represents the 'no action' scenario; Package 2 focuses on action solely targeting regulation in Member States' domestic markets; Package 3 brings together the combination of preferred options identified in each of the three areas when analysed on an individual basis; and Package 4 combines options that would result in the greatest degree of EU harmonisation.

Table 18: Packages of policy options addressing access, fee transparency and switching

1. No action options *(No further action is taken at EU level.)*	=> Encourage Member States to implement the Recommendation; Commission would continue to monitor implementation; => No EU intervention on presentation requirements and enhanced comparability of bank fees; => EBIC Common Principles will continue to apply; (possible) voluntary initiatives to improve functioning and/or quality.
Package 2	=> Binding measure ensuring the right of access to a basic payment account for national residents only *(Option 3B)*; => Binding measure ensuring common quality requirements for transparency and comparability of bank account fees and comparison web-tools *(Options 2, 4B and 8)*; and => Binding measure ensuring that switching services follow the Common Principles *(Option 2)*.
Package 3	=> Binding measure ensuring the right of access to a basic payment account for both residents and non-residents *(Options 2, 4A and 4D)*; => Binding measure ensuring common quality requirements for transparency and comparability of bank account fees and comparison web-tools *(Options 2, 4B and 8)*; and => Binding measure ensuring quality principles for payment account switching, including cross-border *(Option 3B)*.
Package 4	=> Binding measure ensuring the right of access to a basic payment account for both residents and non-residents *(Options 2, 4A and 4D)*; => Binding measure introducing EU standardised forms for the provision of ex ante and ex post information on fees *(Options 7 and 9)*; and => Binding measure setting up an automatic redirection service or EU

[318] "Single Market Act II, Together for new growth", COM(2012) 573, key action 12.

	payment account portability *(Options 4B and 5B)*.

The **'no action' scenario** was discarded in the analysis of each area (see chapter 7). As a result no further assessment is made in this section.

Package 2 would foresee a combination of options including the establishment of a right of access to a basic payment account limited to national residents (3B on "Access") and the proposal to render the Common Principles legally binding, retaining their current focus on domestic markets (2 on "Switching"). While this package may result in improved compliance with the recommendation on access and the provisions of the Common Principles, it omits cross border provisions in the areas of access and switching. This would not tackle the problems identified in this report and would be contrary to the stated objectives of this initiative. The full potential of the single market would not be unlocked. In addition, the combination of options would not be consistent with each other, given that the options for bank fee comparison and presentation requirements do have a cross border element. **Package 3** contains the policy options identified in each area as the most effective and efficient approach in addressing the problems analysed in this report (see Sections 7.4, 7.5 and 7.6). On a cumulative basis the three sets of options are complementary and do not result in diverging impacts. This package does not suffer from the weaknesses of Package 2, since it enhances the internal market, while allowing specificities in domestic EU markets.

Compared with Package 3, **Package 4** proposes a higher level of EU harmonisation in the areas of bank fee comparison and switching, proposing full EU harmonisation of bank fee terminology and an EU-wide bank account portability or an EU-wide redirection service. In this case, the EU approach would be disproportionate to the problems identified and difficult to implement in practice.

As a result **Package 3** represents the sets of preferred policy options, as outlined in the table below, to tackle the problems identified in this report. These options do not overlap, but would be complementary, creating the synergies described below. The binding nature of the proposed instruments would nevertheless permit flexibility to take account of the differences in retail financial markets and would allow for monitoring across the Member States. The replies to the public consultation have favoured a balanced approach to addressing the problems identified. Most notably, all categories of stakeholders have underlined that a gradual approach would be more effective to achieving European harmonisation.

Table 19: The preferred package of policy options

(1)	**Access** - Ensure application of the provisions of the Recommendation; - Improve the features of payment accounts, by enlarging the list of basic payment services to include internet banking and online purchasing and by ensuring that the features of the payment account are not of a discriminatory nature; and
(2)	**Presentation and ease of comparison of bank fees** - A standard price list to be provided as part of account opening procedures, by identifying at EU level and supplementing nationally fees common to all Member States in order to cover the 20 most representative fees or at least 80% of key charges incurred; - Introduce the requirement to set up independent fee comparison websites at Member State level, which should fulfil specific quality requirements; - Introduce an obligation to provide consumers with ex-post information on fees incurred. The ex-post information would cover the same fee items as the ex-ante information; and

(3)	**Switching**
	- Improve the effectiveness of the Common Principles and Broaden the scope of the Common Principles to EU-wide cross-border switching.

8.2. Cumulative impacts and impacts on stakeholders

Different methodologies were used for the analysis of the different areas. The use of different methodologies enabled the analysis to focus more closely on the relevant issues in each of the three areas and permitted the interpretation of the data in a rigorous manner. The consequence of this approach is that it is more difficult to aggregate the impacts of the individual options and thus calculate the costs and benefits for the package. Yet a fully integrated assessment of costs and benefits would have deprived the analysis of necessary detail, particularly with regard to how the options impact on stakeholders.

Although it is not possible to fully integrate the analysis of costs and benefits, some degree of integration was possible. For example, a large number of cost items are common to more than one option. Synergies in terms of time or resources for stakeholders may result where all three options are introduced simultaneously, particularly with transparency/comparability and switching taken together. Several types of cost generated by the preferred package for credit institutions and Member States are expected to be less onerous on a cumulative basis than the aggregate amounts estimated for each option, (e.g. updating of IT systems and cumulative recurring costs of additional compliance staff).

Benefits are more clearly interlinked. There is limited benefit to better fee information (e.g. in terms of enhanced competition), unless it leads to switching, which requires efficient switching mechanisms. Switching cross-border can only be effective if EU citizens' rights of access to a basic payment accounts are guaranteed.

The methodology used to assess the efficiency of the options considers both quantified and non-quantified costs and benefits to stakeholders, as described in the ensuing section. Moreover, as regards access, a prudent estimation of costs and benefits has been maintained. While the size of the problem of access to a basic payment account is larger than was estimated in the previous Impact Assessment,[319] the assumed scenarios (pessimistic, realistic, optimistic) remain at the levels of the previous assessment.

The tables below provide a disaggregated overview of costs and benefits for the preferred approaches in the three areas.

Table 20: Access to a basic payment account

Total EU benefits (million EUR/year)	Option 2	Option 4A	Option 4D
Consumer:	**542-2711**	**236-1179**	**68-339**
One off benefits	Non quantifiable		
Recurring annual benefits	542-2711	236-1179	68-339
Payments services provider:	**18-89**	**2-11**	**-1.8 to -9**
Recurring annual benefits	18-89	2-11	**-1.8 to -9**
Member State:	**18-89**	**2-11**	**2-11**
One off benefits	Non quantifiable		
Recurring annual benefits	18-89	2-11	2-11
Enterprises	**32-160**	**16-80**	**4-20**
Recurring annual benefits	32-160	16-80	4-20

Total EU costs (million EUR/year)	Option 2	Option 4A	Option 4D
Consumer:	**108-542**	**22-108**	**22-108**
One off costs	0	0	0
Recurring annual costs	108-542	22-108	22-108
Payments services provider:	**71-356**	**15-74**	**19-94**
One off costs	Not	0	0
Recurring annual costs	71-356	15-74	19-94
Member State:	**3.02**	**0**	**0.38**
One off costs	1.13	0	0.14
Recurring annual costs	1.89	0	0.24
Enterprise:	0	0	0

319 SEC(2011)906.

Table 21: Ease of comparison of bank fees and requirements covering presentation and payment account switching

Total EU benefits (million EUR 2013-2022)	Option 2	Option 4B	Option 8
Consumer benefits:			
Change switching behaviour	584.87	731.08	1 462.16
Better account management			2 702.57
Credit institution:			
Cross-border cost savings Business opportunities	Not quantifiable	Not quantifiable	Not quantifiable
Total EU costs (million EUR 2013-2022)			
Credit institution:			
one-off	95.95-163.03	0.32-0.65	192.42-326.31
recurring	183.17-245.40	4.77-9.53	260.37-492.45
Member State:			
one-off	0.05-0.08	0.36-0.66	0.07-0.11
recurring	0.06-1.17	3.48-6.74	0.81-1.59

Total EU benefits (million EUR 2013 -2022)	Option 3B
Consumer:	
Change switching behaviour	3 655.4
Reduction direct/indirect costs	Marginal
Credit institution:	
Cross-border cost savings Business opportunities	Not quantifiable
Total EU costs (million EUR 2013-2022)	
Credit institution:	
one-off	67 – 129
recurring	2 041 – 2 649
Member State:	
one-off	3
recurring	19

8.2.1. *Impacts on stakeholders*

The preferred package should improve consumer welfare in the EU.

The measures on access (ensuring access to a basic payment account and to all basic payment means for both resident and non-resident consumers) would reduce the number of unbanked citizens. Consumers would benefit from improved access to different methods of payment that reduce transaction costs and open the internal market (providing the possibility of making purchases online and using internet banking services). They would be able to access their funds more quickly, regardless of their geographic location; experience an increased level of security through lower levels of cash transactions; an increased choice of goods and services where electronic payments are obligatory; the possibility to access employment and accommodation more easily, and a reduced sense of financial, economic and social exclusion.

Those willing to identify the most appropriate product would be able to obtain clear and comprehensible information from any EU payment account provider, helping them compare and evaluate offers. If they chose to move accounts, domestically or cross-border, they would have a switching service their disposal. The framework to ensure clear and comparable fee information, together with a pan-European switching service, would create an efficient and competitive internal market for payment accounts. This would lead to a general reduction in prices, meaning that consumers could access the best product for them at the best price.

A strong positive effect on consumer confidence would underpin demand for payment accounts and encourage consumer mobility both at national and cross-border level. These lasting effects cannot be quantified due to the difficulty of modelling consumer behaviour.

At present, recurring costs for consumers usually consist of account management fees and charges for misuse of account facilities. In light of this initiative, which would introduce enhanced transparency and comparability and a facilitated switching process, consumers should understand the charges that exist for different services and choose products that better fit their needs.

The expected effects of competition would include cost efficiencies for credit institutions (since they could implement the same IT systems, processes, staff training procedures etc. in all Member States within which they operate, resulting in economies of scale), easier market entry for foreign providers, and greater potential for market expansion of competitive providers. Non-quantifiable benefits for credit institutions would include: an increased customer base to which to market other products (e.g. home insurance); the reduced cost of and risks from cash based payments; and the benefits from a contribution to capital and funding.

The preferred package would, however, impose costs upon credit institutions. Unique one-off cost items, where no change is expected when options are assessed on a cumulative basis, include costs incurred in filtering fee information and aggregating summary fee information for the purposes of developing ex-post summaries of bank charges, and the cost of developing standard fee lists. One-off costs may also arise due to lost revenue where consumers switch to another provider. However, a large number of cost items are common to more than one option: these include costs of updating IT applications, internal communication and training costs, and compliance costs for legal departments.

Providers are projected to incur more costs – or at least quantifiable costs – than benefits, in the short term. These costs would be limited by several factors. First, some of the preferred options have already been implemented in several Member States. For many banks, efforts to adapt to the new framework would be limited; moreover, France, Belgium and Italy already comply with the basic provisions of the Recommendation on access to basic payment accounts. Second, substantial synergies are expected between the different options. Each option's estimated costs include training expenditure, but in practice this training can be combined into one session. Third, banks would be able to cover their costs by adjusting prices of payment accounts. Competition, promoted by transparency and switching, could keep this adjustment to a minimum; it would also open market perspectives to credit institutions throughout the Internal Market. Fourth, the more accounts opened over time, the lower the incremental costs of access, switching and transparency.

Member States and society as a whole would benefit from lower costs for social security payments or less fraud related to benefit and tax (potentially implying lower taxes, e.g. less costly local tax collection). More generally, promoting competitive banking markets would improve the efficiency of the single market, which, at a time of economic crisis, would be particularly valuable. These benefits would reinforce each other improving and stimulating consumer and business confidence thus stimulating growth.

Member States would incur costs of (potentially) legislating or implementing the elements of the new framework (e.g. managing the accreditation process for comparison websites would cost from EUR 3.8 - 7.4 million from 2013 to 2022). These only need to be accounted for once (for the one-off costs). The recurring costs of supervising and monitoring would, however, be cumulative: more people would be required to supervise various different aspects of the package. That being said, some synergies are likely.

<u>EU budget</u>

This proposal has no implication for the budget of the EU or those of EU agencies..

<u>EU businesses</u>

This package would benefit EU businesses significantly. They are unlikely to incur any costs but could benefit substantially from improved access to payment accounts. The preferred options would create the conditions for a bigger market for their goods and services. Moreover, non-discriminatory instruments and online facilities in relation to payment account services would trigger a potential increase in cross-border trade.

8.2.2. *Geographical impacts*

The impacts of the preferred package would be spread across the territory of the EU. The extent of these impacts would depend on the actions required. Table 22 provides a summary of the expected impact of each preferred option on Member States.

Concerning fee transparency and switching, this assessment is based on a comparison of the current regulatory and market conditions in Member States. Each preferred option is assessed by itself: the impact on Member States does not consider the relative weight of any option relative to another. For example, while the impact of introducing an accreditation system for comparison websites represents the lowest value within the package of preferred options in terms of quantified costs to Member States, its impact is expected to be high in Luxembourg where no comparison websites are currently in operation.

In terms of access to basic payment accounts, the assessment of the geographical impact of option 2 depends on whether Member States have already introduced a framework on access and to what extent it complies with the Recommendation on access. It can be assumed that three Member States which already comply with the Recommendation (FR, BE, IT) will not be impacted upon by the measures introduced under Option 2. The greatest impact will be observed in the Member States which have not adopted any measures on access at all (AT, BG, CZ CY, GR, LV, MT, PL, RO, SK, SL, and ES), and a slightly smaller impact in those countries where an industry charter or self-regulatory rules exist (DE, HU, IE, PT, NL, UK). The Member States which have already introduced legislation on access – although it does not fully comply with the Recommendation (DK, FI, LU, EE, LT, SE) – will experience a smaller impact, since they will only need to adapt existing rules to the provisions of the Recommendation.

Since the account features provided under Options 4A and 4D do not exist in any Member State access framework, it is assumed that all the Member States will be impacted upon by these features to the same, substantial, extent.

Table 22: Assessment of the impact of the preferred package on Member States

Policy options	**Impact on Member States**			
	Large	**Medium**	**Small**	**No Impact**
Access				
Option 2: Ensure application of the provisions of the Recommendation	AT, BG, CZ CY, GR, LV, MT, PL, RO, SK, SL, ES	DE, HU, IE, PT, NL, UK	DK, FI, LU, EE, LT, SE	FR, BE, IT
Option 4A: Enlarge the list of basic services to include internet banking and online purchasing	AT, BG, CZ CY, GR, LV, MT, PL, RO, SK, SL, ES, DE, HU, IE, PT, NL, UK, DK, FI, LU, EE, LT, SE, FR, BE, IT			
Option 4D: Ensure that the features of the payment account are not of a discriminatory nature.	AT, BG, CZ CY, GR, LV, MT, PL, RO, SK, SL, ES, DE, HU, IE, PT, NL, UK, DK, FI, LU, EE, LT, SE, FR, BE, IT			
Ease of comparison of fees and requirements covering presentation[320]				
Option 2: Standard price list for 20 or most representative fees	EE, UK	AT, BG, CZ, FI, IE, LU, LV, MT, NL, PL, RO, SE, SI, SK,	BE, CY, DE, DK, EL, ES, FR, HU, IT, LT, PT	
Option: 4B: Comparison web-site with accreditation scheme	LU	EE, FI, FR, HU, PT, SI	AT, BE, BG, CY, CZ, DE, DK, EL, ES, HU, IE, IT, LV, MT, NL, PL, RO, SE, SK, UK	
Option: 8: Ex-post information		BG, CY, CZ, EE, HU,	AT, BE, DE, DK,	

[320] Data for AT, BE, BG, DE, DK, ES, FI, FR, IT, LT, LU, LV, NL, PL, PT, UK is derived from the study "*'Quantification of the economic impacts of EU action to improve fee transparency, comparability and mobility in the internal market for bank personal current accounts'* by ICF GHK, 2012; for the other MS the category of impact was assessed by Commission staff.

provided by banks		IE, IT, LT, LU, LV, MT, NL, PL, PT, RO, SE, SI, SK	EL,ES, FI, FR, UK	
Switching[3200]				
Option 3B: Broaden the scope of the Common Principles to EU-wide cross-border switching	BG, DE , EL, FI, LU, PL, PT,RO, UK	AT, BE, CY, ES, FR, IT, LT, LV, MT, SK, SL	CZ, DK, HU, IE, EE, NL, SE	

8.2.3. Social impacts

Society as a whole should benefit from economic development and growth since "*people with access to savings accounts or simple informal savings technologies are more likely to increase productivity and income*."[321] Facilitating access to and use of banking services in a universal and habitual manner in the near future would also ensure further economic growth, particularly in less developed EU countries where the retail banking sector must advance. Discounts from reduced use of cash and cheques together with an increase in electronic payments and online purchases would benefit public administrations, the private sector and consumers.[322] Other positive impacts may include less fraud and tax avoidance since payment transactions would increasingly take place through electronic (and traceable) channels.

Access and efficient use of basic payment accounts is a key enabling service contributing to the overall success of the EU active inclusion strategy. In this context, access to basic payment accounts would enable the most disadvantaged to better use services that are provided through the banking system (such as receipt of social assistance, purchase of certain goods, etc.), as indicated in the European platform against poverty and social exclusion, the Europe 2020 flagship initiative for inclusive growth.

8.2.4. Administrative burden

Administrative costs are the costs incurred by enterprises, public authorities and citizens in meeting legal obligations to provide information on their activities either to public authorities or to private parties. They are different from costs stemming from the substantive requirements of the legislation, i.e. those setting, for instance, social and environmental standards requiring changes in products or processes.

No obligations are imposed upon citizens in terms of reporting or providing information to other parties. The preferred access options do not include any provisions relating to the provision of information; rather, by ensuring that consumers have a right to a payment account as set out in the Recommendation, it should actually reduce the administrative burden placed on consumers who would no longer need to provide as much documentation and evidence to open an account.

For credit institutions, the main administrative burden would arise from an obligation to provide information to both consumers (particularly potential customers) and authorities (particularly supervisory authorities in the context of legal compliance). An impact assessment accompanying the Recommendation on access to basic payment accounts previously estimated the administrative burden for providers at between EUR 0.34-0.66 million in one-off costs (including the preparation of information materials) and recurring costs of EUR 6.4-12.8 million (including providing consumers with information and providing authorities with information on practices).

[321] *Measuring Financial Inclusion*, The Global Findex Database, World Bank, April 2012, p. 5.
[322] *Strategy for Financial Inclusion*, Final Report, 2011, p. 14 http://www.finance.gov.ie/documents/publications/reports/2011/Fininclusreport2011.pdf

The administrative burden on the financial services industry may be reduced in some respects, since it would not need to collect and analyse information from consumers before deciding whether or not to provide an account.

The administrative burden faced by Member States is considered to be limited and is therefore assessed together with the general costs of monitoring and supervising enforcement by the relevant national authorities.

The preferred options for transparency and comparability of fees focus on establishing standards and setting requirements regarding the provision of information, which would inevitably generate administrative costs.

The main administrative burden would arise from the internal processes of credit institutions being adapted to cater for information requirements for both consumers and authorities. This comprises mainly the cost of adapting information systems and materials. There would also be a cost for Member States of organising and running public information campaigns concerning consumer awareness of the right to access. Administrative costs would not be incurred by credit institutions or Member States in the absence of legislation; consequently, all administrative costs identified are treated as part of the administrative burden.

When expressed as a percentage of total compliance costs, the administrative burden represents 24% - 29%.[323] Credit institutions would incur between 95% and 96% of this. While the nature of the proposals inevitably gives rise to an administrative burden, all possible means and available tools have been employed within the analysis in order to remain consistent with the Commission's proactive approach to reducing the administrative burden upon citizens, businesses and public bodies.

A description of the methodology used to determine the administrative burden is provided in Annex VI to this impact assessment, together with a detailed breakdown of relevant activities and corresponding costs. Table 23 below provides a summary of the amount of administrative burden per stakeholder group.

Table 23: Summary Administrative burden expressed in terms of total compliance costs

Total EU costs (million EUR)	Min			Max		
	Total compliance	Administrative Burden	%	Total compliance	Administrative Burden	%
Credit institution costs:						
One-off:	355.59	253.55	71	618.78	428.69	69
Recurring:	2,251.01	354.61	16	3,163.54	651.28	21
Total credit institution costs:	**2,606.60**	**608.16**	**23**	**3,782.32**	1,079.97	29
Website operators costs:						
One-off:	0.32	0.32	100	0.65	0.65	100
Recurring:	4.77	4.77	100	9.53	9.53	100
Total credit institution costs:	**5.09**	**5.09**	100	**10.18**	**10.18**	100
Member State costs:						
One-off:	3.63	2.32	64	**4.00**	2.65	66
Recurring:	23.65	22.77	96	**28.26**	26.52	94
Total Member State costs:	**27.28**	**25.08**	**92**	**32.26**	29.17	90
Grand total	**2,638.97**	**638.33**	**24**	**3,824.76**	**1,119.32**	**29**
Share of total:	**Credit institutions:**		**95**	**Credit institutions:**		**96**
	Comparison website operators:		**1**	**Comparison website operators:**		**1**
	Member States:		**4**	**Member States:**		**3**

323 Total compliance costs in this case exclude costs of compliance related to access given that the analysis did not identify any significant administrative costs in this area. As a result the table compares relevant administrative burden in the areas of presentation requirements for bank fees and switching with total compliance costs in these two areas.

8.2.5. *Impact on small and medium-sized enterprises*

As noted in Chapter 1, this Impact Assessment focuses on payment accounts held by consumers. It does not cover payment accounts held by small and medium sized enterprises (SMEs), though it is likely that SMEs would benefit substantially from this package while facing minimal, if any, costs. Some SMEs, in particular sole traders or one person companies, may not hold business accounts but rather run their businesses from their personal payment accounts. No statistical data on the number of such companies exists. Such enterprises would fall under the scope of this proposal and would accordingly reap the related benefits. As reported by the World Bank: "*without inclusive financial systems, poor people must rely on their own limited savings to invest in their education or become entrepreneurs—and small enterprises must rely on their limited earnings to pursue promising growth opportunities. This can contribute to persistent income inequality and slower economic growth*."[324] The costs faced by such consumers/enterprises would most likely be limited to an account management fee; however, given the increased competitive pressures in the market resulting from this package, this is likely to fall long-term. Further, as described in Section 7.1, businesses could potentially benefit significantly from improved consumer access to electronic payments, in particular from consumers being able to shop throughout the EU. Moreover, non-discriminatory instruments and online facilities in relation to payment account services would trigger a potential increase in both domestic and cross-border trade. Small and medium-sized internet businesses are likely to benefit considerably from a higher number of banked consumers: there is a huge growth potential if more people are able to pay online.

The further development of this sector could also help tackle unemployment problems in Member States, especially where many young people are unemployed (e.g. Spain). Growing internet use will also mean greater profits for larger companies who have already established online sales channels. Finally, for businesses of all sizes, it would be cheaper to employ people, since more salaries could be paid by electronic bank transfer, thus avoiding costs of expensive cash or cheque transactions.

8.2.6. *Other impacts*

With regard to the impact on third countries, the introduction of rules in these three areas would not lead to discrimination against credit institutions from third countries willing to offer their services in the EU, as they would need to comply with the same rules. If the proposed options were extended to the three European Economic Area countries which are not members of the EU, the same impacts as described above would affect stakeholders in Iceland, Liechtenstein and Norway. No direct impact on the environment can be expected from the policy proposals. Indirectly, a reduction in the level of cash in circulation resulting from increased use of electronic means of payment via payment accounts could bring environmental benefits: an ECB study found that the environmental impact of euro banknotes during their complete lifecycle was the equivalent of each European citizen driving a car for one hour or leaving a 60 watt light bulb on for half a day.[325] Similarly, there would be reduction in the use of those chemicals used to print euro banknotes.

8.3. Proportionality of the preferred options

The actions entailed by the EU level intervention are limited to those necessary to achieve the stated objectives. The elements of the package are complementary and provide the right balance between effectiveness in ensuring a fully functioning internal market for retail financial services with a high level of consumer protection and due regard to efficiency.

[324] *Measuring Financial Inclusion, The Global Findex Database*, World Bank, April 2012, p. 1.

[325] http://www.ecb.int/euro/html/environment.en.html

Only binding legislation would ensure a level playing field throughout the EU, minimising costs and maximising the scope for economies of scale for account providers seeking to operate cross-border.

Adopting binding legislation imposes an implementation burden for stakeholders in terms of time and money. Member States' administrations would incur costs for designing, implementing, transposing (in case of a Directive) and enforcing legislation. However, while providers would face one-off and recurring implementation costs, these would be similar to those incurred under a Recommendation or self-regulation, if properly applied. The burden on Member States resulting from the preferred package is most proportionate since the objectives would be met without duplication of expenses or unnecessary administrative encumbrances (see paragraphs 8.2.1, 8.2.2 and 8.2.4).

A Directive permits flexibility in implementation at national level and thus risks market fragmentation. However, it enables tailor-made solutions to be designed to address national market specificities. Moreover, Commission guidance or implementing measures may be used to limit variations in implementation. A Directive could also allow for maximum harmonisation in some areas and minimum harmonisation in others providing further flexibility.

A Regulation allows for quick implementation of fully harmonised measures. This would ensure a level playing field for both consumers and businesses throughout the EU. It also offers a greater potential for private enforcement as Regulations can be directly invoked by businesses and citizens before national administrations and courts, whereas this can only be done in very limited circumstances with Directives.

While a non-binding approach would probably be less expensive for industry and Member States, its value could be limited considering the current weaknesses in self-regulatory and non-binding approaches attempted within the three areas, as described above in Section 3.2.

9. MONITORING AND EVALUATION

The proposed legislative package would include a provision stating that a review of its appropriateness and effectiveness in meeting the stated objectives should be carried out. This review should take place a few years after implementation.

For transparency of fees and switching, Member States may be asked to provide information on the number of switches on an annual basis as well as details on possible customer complaints.

Specifically for access, the Commission will invite Member States to provide, on an annual basis: the number of basic payment accounts opened; the number of applications for basic payment accounts refused, including the grounds for refusal; the number of terminations of such accounts; and the associated charges. The Commission will monitor the features of basic payment accounts and verify that Member States have undertaken adequate consumer information campaigns. Finally, the Commission will evaluate whether cross-border access to basic payment accounts is easily available to consumers without any unnecessary barriers at national level.

In order to assess the implementation and effectiveness of the measures, it will be necessary to improve the quantity of data available in the three areas. This could be achieved, for example, through a public consultation, research, mystery shopping exercises, questionnaires to stakeholders, and the monitoring of consumer complaints. These would be conducted ahead of the scheduled review.

ANNEX I
POLICY BACKGROUND

1. EUROPEAN COMMISSION STUDIES AND RESEARCH

1.1. Quantification of economic impacts of EU action to improve fee transparency, comparability and mobility in the internal market for bank personal current accounts.

This study was carried out in 2012 on the Commission's behalf by GHK. The study quantifies the economic impacts in terms of costs and benefits of different policy options and presents them as net changes to the baseline scenario. The tasks for analysis are broken down into different sections according to the policy options being assessed. Fee transparency and comparability is broken into options for ex-ante disclosure (pre-contractual) and fee disclosures and ex-post fee disclosures. Switching options cover actions to facilitate the process of switching in sections and actions to render switching an error free process with respect to the execution of payments and receipts.

Unless otherwise stated, all references in this impact assessment to quantified costs and benefits in the areas of bank fees and switching are sourced from this study.

1.2. Behavioural study on bank fees transparency and comparability and bank mobility

This study was carried out in 2012 by TNS, on behalf of the European Commission. The study focuses on issues related to bank fees transparency, comparability and bank mobility. In an experimental setting, the study investigated the impact of different policy options to improve information provision on bank account offers and encourage switching. The study was conducted through an online survey covering 10 Member States (France, Germany, Italy, Ireland, Latvia, Netherlands, Romania, Spain, Sweden, and the United Kingdom) and approximately 10,000 respondents. The study used survey questions to collect information about personal finances, general perceptions and understanding of information provision. The experimental part of the study tested the degree to which people react rationally in response to a range of information stimuli. While none of the approaches related to information provision generated a significant impact on consumer behaviour, the study provided important insights into consumer perceptions and awareness of costs.

Due care was taken in making use of the results of the study for the purposes of this impact assessment, in particular by taking into account a number of relevant intervening factors. Firstly, the study was carried out online, which implies that the sample included consumers with above average levels of financial literacy, even though the sample is statistically representative at national level. Secondly, an experimental environment poses a number of constraints when recreating real-life consumer choices. These include the absence of elements influencing decision-making in the real life and which are specific to credence goods, such as relationship-building and advice. Other elements that could not be reproduced faithfully within an experiment setting relate to the impact of branding or to the use of alternative distribution channels in online purchases.

1.3. Consumer Market Study on the consumers' experiences with bank account switching with reference to the Common Principles on Bank Account Switching

This study, carried out on the Commission's behalf by GfK was published in January 2012. The objective was to monitor and evaluate the effectiveness for consumers of the implementation of the Common Principles on Bank Account Switching (CP), in addition to understanding the consumer experience when attempting to switch a payment account. More specifically, the study was designed to evaluate compliance with the CP in relation to the detailed elements of information and staff facilitation of switching which can be physically examined in banks, examined visually on websites and through oral and written communication with bank staff. The conclusions of this report were that there is no consistency across banks in the EU in terms of the timescales taken to switch a bank account.

Mystery shopping is a technique used widely for checking the performance of traders or service providers towards consumers. Though not representative, it illustrates the experience of real consumers by replicating situations they encounter while purchasing goods or services. Mystery shoppers are carefully selected so that they match relevant consumer profiles. Their tasks can range from simple observation to more complex interaction involving role play to assess compliance, weaknesses in procedures or quality of service Mystery shopping is mostly conducted face-to-face, by telephone or online.

Results of a mystery shopping survey can be a rich source of information not only for business operators, but also for policy makers, because they complement the picture of consumer conditions. They are often also the single most effective means to monitor compliance with detailed rules and regulations.

1.4. Data collection for prices of current accounts provided to consumers

This study was carried out by Van Dijk Management Consultants with the Centre for European Policy Studies (CEPS) and was published in 2009. The purpose of the study was to determine the transparency of fees charged in the context of having and using a payment account; to compare prices for the services linked to a current account and finally analysing the underlying factors behind price differences within and across Member States. Overall, the study improved the knowledge of the market of retail payment services in the 27 EU countries. First, it provided a detailed collection of the prices of accounts, packages and operations for 224 banks covering on average 81% of the EU market and representing the diversity of institution categories. Second, for each country and for the EU27 as a whole, it developed four categories of user profiles, i.e. average, active, passive and basic. Third, it matched prices and user profiles to produce 'priced profiles' to analyse dispersion of offers within countries and draw comparisons between countries. Fourth, it provided an assessment of the transparency and comparability of prices for consumers. Moreover, the study highlighted a major hindrance to carrying out monitoring: to create the profiles, there was a lack of consistent data covering all the services targeted. Finally, this study played a very important role in the context of the improvements introduced by the Single Euro Payments Area (SEPA) to the market of payments.

1.5. Sector Inquiry into Retail Banking

In June 2005, on the basis of a number of indications of market fragmentation, entry barriers and lack of effective choice on the demand side in retail banking, the Commission launched a sector inquiry into retail banking, which covered the issue of customer mobility. In January 2007, the Commission published its final report, referred to as the 'sector inquiry' throughout this impact assessment.[326] The sector inquiry identified four sources of switching costs that are likely to reduce the ability of consumers to switch payment accounts: administrative burden, information asymmetry and low price transparency, bundling and tying

[326] Relevant documents available at: http://ec.europa.eu/competition/sectors/financial_services/inquiries/retail.html

and closing charges. The conclusion of the inquiry on the issue of customer mobility was that "proportionate steps to reduce switching costs will enhance competition in retail banking."[327]

2. EXPERT GROUPS

2.1. Expert Group on Customer Mobility

The Expert Group on Customer Mobility In Relation To Bank Accounts was established in May 2006 and was tasked with identifying existing obstacles to customer mobility in relation to payment accounts and providing recommendations on how the obstacles identified should be addressed – the Group however was not asked to measure the impact of its recommendations. The Group included 19 experts selected in a personal capacity,[328] coming from the banking sector, consumer organisations and academics but without necessarily representing the views of their respective organisations. The Expert Group met 9 times during 2006-2007. The Report of the Expert Group was published in June 2007. The Group's members' views diverged on most issues, e.g. the very fact that customer mobility is an issue to be addressed or the relevant context for analysing this issue, such as the impact of the Union single payments market, consumer behaviour and bank strategies.

Concerning account switching, the Report proposed 9 recommendations (with varying levels of support from the Group) to reduce information asymmetry and improve price transparency, 10 recommendations (some unanimous, some not) to reduce administrative burden that consumers may face when wishing to switch accounts, 3 recommendations (with varying levels of support from the Group) to address the issue of closing charges, while no consensus was found on tying and bundling.

With respect to cross-border opening of accounts, the Report recommended that the Commission look into existing legal and regulatory barriers and contained 6 recommendations (with varying levels of support from the Group) to address information barriers and uncertainty as well as 3 recommendations (with varying levels of support from the Group) to improve access to accounts for non-residents.

The report was opened for consultation in June 2007. All responses to the consultation authorised for publication were published on the internet.[329] A report summarising the feedback received in the consultation was also published on 20 November 2007.[330]

2.2. Government Expert Group on Retail Financial Services

The Government Expert Group on Retail Financial Services (GEGRFS) was established in 2007 and comprises Member State government experts. Its role is to assist the Commission in the development of its policy on retail financial services, including cross-sectoral issues. GEGRFS has discussed issues relating to payment accounts on several occasions since its establishment. Access to basic payment accounts has been discussed 7 times (June and September 2007, June 2008, June 2009, November 2010, and March and September 2012). Switching of payment accounts has been discussed 7 times (June and September 2007, June 2008, June 2009, November 2010, and March and September 2012). Bank fee transparency has been discussed five times (June 2007, November 2009, November 2010 and March and September 2012).

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327 SEC (2007)16 accompanying COM(2007)33, p. 77.

328 http://ec.europa.eu/internal_market/finservices-retail/docs/baeg/composition-en.pdf

329 http://ec.europa.eu/internal_market/finservices-retail/baeg_comments_en.htm

330 http://ec.europa.eu/internal_market/finservices-retail/docs/baeg/summary_consultation_en.pdf

3. PREVIOUS PUBLIC CONSULTATIONS

3.1. Public consultation on access to a basic payment account (2010)

On 6 October 2010, the European Commission published a consultation document[331] on access to a basic payment account and invited stakeholders to respond. The objective of the consultation was to collect stakeholders' views on the envisaged measures on access to a basic payment account in order to strengthen and deepen the Commission services' understanding of the appropriate policy options in this field. Stakeholders were invited to express their opinions and positions on the principle of a European harmonised framework aiming at guaranteeing the right for consumers to access a basic payment account. In total, contributions were received from stakeholders in 19 Member States as well as from representative bodies at EU and international level.

The consultation allowed the identification of some key messages from stakeholders. First, the financial industry was generally against a binding EU instrument in this field, arguing that such an initiative would not add value compared to what has already been developed and what could be realised at national level in a dialogue with the industry. Second, consumer representatives were supportive of an initiative that will ensure effective access for all consumers to an account with a sufficient range of functionalities likely to enable them to live a normal life. They favour an EU level proposal which would introduce only minimum standards, leaving Member States free to adapt them in line with local conditions and consumers' needs. Third, both national public authorities and financial industry tend to consider that the compliance with customer due diligence requirement is a matter of the utmost importance. The issues for which there was the most consistent cross-stakeholder approach vis-à-vis possible EU action was the acknowledgment that access to a payment account is highly desirable for the widest possible part of society is important and the need to ensure that any EU initiative would allow sufficient flexibility at national level.

3.2. Consultation on financial inclusion (2009)

On 6 February 2009, the European Commission published a consultation document on financial inclusion: ensuring access to a basic payment account and invited the stakeholders to respond by 6 April. The objective of this consultation was to collect views from all stakeholders on how financial inclusion can be improved and, more specifically, on how best to ensure that by a certain date, every EU citizen or resident had access to a basic payment account. The Commission services in particular welcomed input on how the responsibilities and competences between the public authorities and the private sector and more broadly between the national and the European level, should best be shared to address financial exclusion, and on what instruments could be used. The scope of the consultation was limited to access to basic payment accounts, which include services such as payments and withdrawals but excludes overdraft facilities. The European Commission received 97 responses to the public consultation. The respondents can be classified into seven main categories: public authorities, consumers/users, financial services industry, trade unions, civil society organisations, academics/think tanks, and individuals/others. In total, contributions were received from stakeholders in 20 EU Member States as well as from representative bodies at EU and international level.

In general, most respondents thought that access to a basic payment account was considered necessary for fully participating in society. It was recognised that financial exclusion contributes to social exclusion and that denying access of some persons to basic financial services opens a gateway to denying them a host of other fundamental, social and economic

[331] http://ec.europa.eu/internal_market/consultations/2010/payment_account_en.htm

rights. It was also accepted that financial exclusion is increasingly a problem in the EU, and considering the important societal role of financial services, the level of financial exclusion in Europe is alarming. Many respondents agreed that increasing numbers of people are likely to be affected as a result of the financial crisis, and welcomed the priority that the Commission gives to this public policy challenge that the EU is currently facing. Access to a basic payment account was viewed by many as the most urgent issue to be tackled, while other financial services, e.g. savings, insurance or credit, could be looked at in the future.

3.3. Consultation on the report of the Expert Group on Customer Mobility (2007)

A public consultation on the above-mentioned Expert Group's report was held from 5 June until 1 September 2007. Part of the banking industry, mostly from Member States where some measures to facilitate customer mobility are in place, together with consumer representatives and some other respondents, agreed with the Commission that customer mobility is one of the factors determining the intensity of competition and therefore is an important pre-requisite for well-functioning retail banking markets. The latter group of stakeholders was generally supportive of facilitating customer mobility across the EU, but stressed the importance of focusing on the easiest and most cost-effective ways to do so. In terms of measures to facilitate the process of payment account switching, the introduction of switching services was considered acceptable to most of the stakeholders.

4. COMMISSION POLICY STATEMENTS

4.1. Single Market Act

The Bank Account initiative is one of the priority actions of the Single Market Act II (SMA II), adopted by the Commission on 3 October 2012 in order to deliver inclusive growth without discrimination, allow for economic and social participation and spur territorial cohesion. In particular, key action 12 of the SMA II announces Commission legislative proposals to "*give all EU citizens access to a basic payment account, ensure bank account fees are transparent and comparable, and make switching bank accounts easier*".[332]

The SMA I, adopted by the Commission in April 2011, already called for enhanced protection of consumers of retail financial services "*with particular regard to the transparency of bank fees and better protection of borrowers in the mortgage market"*. The Commission had also announced *"an initiative concerning access to a basic payment account for all citizens at a reasonable cost, wherever they live in the EU"* in order to enable all citizens to participate actively in the single market.[333]

4.2. Monti Report

The new strategy for the Single Market (2010 Monti report) underlined the importance of improving *"the transparency of bank fees, ensure the availability of standardised and comparable information for retail financial products and facilitate bank customer mobility"*. The report also recognised the importance of access to basic banking services. The lack of basic banking services prevents a relevant number of European citizens from effectively accessing the Single Market. The report called for a Commission legislative proposal ensuring that all citizens are entitled to a number of basic banking services. In this way, the EU framework for financial inclusion would complement the ongoing comprehensive reforms of

[332] "Single Market Act II - Together for new growth", COM(2012) 573 of 3 October 2012, page 16.
[333] COM(2011)206.

financial services regulation at EU level, thus allowing an important part of the population, in particular in the new Member States to reap more fully the benefits of the Single Market.[334]

4.3. Single Market Review

In November 2007, on the basis of the feedback received, the Commission published its Communication on a single market for 21st century Europe.[335] This was accompanied by a Commission staff working document on initiatives in the area of retail financial services,[336] where the Commission announced its intention to invite the banking industry to develop, before mid-2008, a set of common rules on payment account switching (switching service), to be applied by banks in each Member State when customers switch at national level. Such switching service should facilitate the operation of switching by, for example, ensuring that direct debits and standing orders are transferred within a certain deadline to the new bank, that proper information is given to the customer and that there is adequate cooperation between both banks involved. The Commission also made it clear that the rules should be designed on the basis of the best practices already existing in Member States. It also indicated that, should the banking industry fail to set up adequate arrangements, legislation would be considered.

4.4. Green Paper on Retail Financial Services

In April 2007, the Commission published a Green Paper on Retail Financial Services in the Single Market, in which stakeholders were invited to reflect on how customer mobility could be enhanced. While consumer representatives argued that a number of barriers needed to be addressed, the banking industry was less convinced, but argued that, were measures to facilitate customer mobility to be taken, switching services would be the most appropriate way to do so. Member States generally acknowledged that there were barriers to customer mobility that needed to be addressed.

5. Feedback from EU Institutions

5.1. European Parliament

5.1.1. Resolution on Access to Basic Payment Accounts

On 4 July 2012, the European Parliament adopted an own initiative report, drafted by MP Jurgen Klute, with recommendations to the Commission on Access to Basic Banking Services.[337] The report underlines that access to basic payment services is a precondition for consumers to benefit from the internal market and to reap the opportunities of e-commerce. It also ensures better inclusion in terms of access to employment, healthcare and housing. The report points out that it should be the right of consumers and not an obligation to open a basic bank account.

The report highlights particular difficulties of migrant workers to access a basic payment account in another Member State, which obstructs the proper functioning of the internal market. It also suggests that anti-money laundering legislation should be applied in a justified manner and should never be used as an excuse by providers to reject a consumer's application. The Parliament insists on a basic payment account to be provided free of charge or at low cost to any consumer who does not already have an account in that Member State. In addition, fees and charges imposed by providers must be proportionate and reasonable.

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334 *A New Strategy for the Single Market (Monti Report)*, 2010, http://ec.europa.eu/bepa/pdf/monti_report_final_10_05_2010_en.pdf

335 http://eur-lex.europa.eu/LexUriServ/site/en/com/2007/com2007_0724en01.pdf

336 http://ec.europa.eu/citizens_agenda/docs/sec_2007_1520_en.pdf

337 European Parliament Resolution 2012/2055(INI).

Furthermore, providers should check the consumer's regularity of income, credit history, level of indebtedness or expected turnover in order to grant access to a basic payment account. The report also provides for management services and standard payment services which should be made available together with the basic account. It also invites Member States as well as payment services providers to inform consumers about the availability of a basic payment account. Moreover, Member States should designate competent authorities, with powers of sanction, to ensure appropriate monitoring and enforcement of rules on access to a basic payment account.

The report proposes complementing legislation on access to a basic payment account with a legal initiative on transparency and comparability of bank fees, and facilitating switching of payment accounts. The Commission proposal should also improve seller's acceptance of different payment methods in order to allow for easier internet shopping, further clarify anti-money laundering rules and enhance financial education which, as argued by financial industry, can help tackle financial exclusion.[338] The report invites the European Commission to submit a relevant proposal of legislation by January 2013.

5.1.2. Resolution on vulnerable consumers

On 22 May 2012, the European Parliament adopted an own initiative report, drafted by MEP Maria Irigoyen Perez, on a strategy for strengthening the rights of vulnerable consumers. This report assumes that all consumers are susceptible to becoming vulnerable consumers over the course of their lives, since vulnerability can result from endogenous as well as exogenous causes. The report asks that EU legislation address the problem of vulnerability among consumers. It also underlines the importance of improving consumer education and information but notes that information alone does not fulfil its consumer protection function, especially in certain sectors and clearly in cases of vulnerability. The report asks that appropriate and effective measures be taken in sectors not covered by Directive 2011/83/EU, where a particular vulnerability may exist, such as the financial sector. The report notes that in international fora the need to protect consumers through information and regulation of the financial markets has been recognised. The report also highlights that the complexity of these markets may lead consumers into excessive debt and stresses that more needs to be done by the financial services industry to provide clear and simple explanations about the nature of the products and services they provide, and calls on all stakeholders to develop effective financial literacy programmes.

5.1.3. Resolution on the contribution to the Annual Growth Survey 2012

The European Parliament Resolution on the contribution to the Annual Growth Survey 2012, adopted in plenary in February 2012,[339] stressed that access to basic banking services remains a key factor for social inclusion and therefore encourages the Commission to take bolder action to guarantee this access.

5.1.4. Resolution on a single market for Europeans

In its Resolution on a single market for Europeans,[340] the European Parliament called *on the Commission to submit by June 2011 a legislative proposal on guaranteeing access to certain basic banking services and to improve the transparency and comparability of bank charges by the end of 2011.*

338 European Banking Federation response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 13.
339 European Parliament Resolution 2011/2319(INI).
340 European Parliament resolution 2010/2278(INI), p. 4.

5.1.5. *Report on the Green Paper on Retail Financial Services and the Sector Inquiry into Retail Banking*

On 5 June 2008, the European Parliament adopted a Report on the Green Paper on Retail Financial Services and a Report on the Sector Inquiry into Retail Banking. According to the European Parliament, consumers who wish to change financial service provider must be free to do so at any time, with minimum legal barriers and costs involved. The Parliament encouraged the Commission to facilitate customer mobility without, however, leading to a reduction in the level of consumer protection in the Member States. The Parliament also encouraged the banking industry to develop best practices for swift and efficient account switching, taking into account the duration of the procedure and the costs associated with it.

5.2. Council

In December 2011, the Competitiveness Council adopted its conclusions on the results of the Single Market Forum. On the 20 main concerns of the Single Market (par.25), the COMPET Council calls on concrete follow-up, in particular through in-depth examining and appropriate steps to be taken to ensure progress on these problematic areas. Two of the main concerns related to access to basic payment account and transparency and comparability as well as switching of payment accounts.

5.3. European Council

The conclusions of the 2012 March European Council welcomed the Commission's intention to propose in the second half of this year a new round of measures designed to open up new growth areas in the Single Market. In this connection, the European Council stresses the importance of completing the Single Market and removing remaining barriers.

It is essential that EU actions aim to promote growth and solidarity in line with Europe 2020. Restoring sustainable growth and job creation requires positive action at EU and national levels to support competitiveness and social inclusion.

5.4. European Economic and Social Committee (EESC)

The EESC has issued several reports mentioning issues related to payment accounts.[341] In general, they agree that retail financial services represent one of the areas where the greatest shortcomings in the operation of the single market have been observed.[342]

5.4.1. *Access to a basic payment account*

In the past, the EESC agreed with the Commission on the importance of having access to a payment account in modern economies.[343] More recently, in the context of efforts to improve the single market for retail financial services, the EESC welcomed the Commission's initiative to improve access to basic banking services.[344] On financial inclusion, the Committee also

[341] *Opinion on the White Paper on Financial Services Policy 2005-2010*, OJ C309, 16 December 2006; *Opinion on the Green Paper on Retail Financial Services in the Single Market*, OJ C151, 17 June 2008; *Opinion on Socially responsible financial products*, C21, p. 33, 21 January 2011; *Opinion on the Communication Towards a Single Market Act – For a highly competitive social market economy – 50 proposals for improving our work, business and exchanges with one another*, OJ C132, p. 47, 3 May 2011; *Opinion on Financial education and responsible consumption of financial products*, C318, p. 24, 29 October 2011.

[342] *Opinion on the Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee or the Regions: Towards a Single Market Act – For a highly competitive social market economy – 50 proposals for improving our work, business and exchanges with one another*, OJ C132, p. 47, 3 May 2011, point 2.2.1.

[343] *Opinion on the White Paper on Financial Services Policy 2005-2010*, OJ C309, 16 December 2006, points 4.3.3.2 and 4.3.3.3.

[344] *Opinion on the 'Communication Towards a Single Market Act – For a highly competitive social market economy – 50 proposals for improving our work, business and exchanges with one another'*, OJ C132, 3 May 2011, point 2.2.1.

highlighted that financial institutions should take on the role of facilitating access to banking services for the poor, to prevent financial exclusion. It added that it is important to promote initiatives that foster the financial inclusion of sections of society that are at high risk of exclusion (women, the unemployed, people with disabilities, the elderly, the poor, etc.) by ensuring universal accessibility and developing financial products and services that are tailored to these groups.[345]

5.4.2. Ease of comparison of bank fees and requirements covering presentation

The EESC feels that transparency is crucial when interacting with consumers and that it is key in the process of winning back consumer confidence in the financial services industry post-financial crisis.[346] The EESC shares the Commission's concerns regarding transparency of banking conditions. They have mentioned that differences in prices and price formulas often result in information asymmetry and make it difficult to compare prices. According to the EESC however, consumer information must take into account cultural diversity, i.e. information requirements must be geared to the different national situations.[347] The EESC welcomed the Commission's initiative to improve the transparency and comparability of bank charges.[348]

5.4.3. Payment account switching

The EESC considered that the Commission's aim to remove obstacles to the mobility of cross-border accounts was commendable and could contribute to lowering bank charges.[349] The EESC has also stated that the adoption of a single European account number would carry enormous costs that would be totally unjustified and that would end up being paid for by consumers. According to the EESC, transferability should refer to all the transactions linked to the account, such as standing orders, direct debits or securities accounts, but certainly not to the account number.[350]

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[345] *Opinion on Financial education and responsible consumption of financial products*, C318, 29 October 2011, points 5.2, 7.5 and 7.8.

[346] *Ibid.*

[347] *Opinion on the Green Paper on Retail Financial Services in the Single Market*, OJ C151, 17.6.2008, points 1.11, 1.13, 1.16, 1.19, 3.2.2.1, 3.3.3, 4.4, 6.10, 7.2.1, 7.3.

[348] *Opinion on the Communication Towards a Single Market Act – For a highly competitive social market economy – 50 proposals for improving our work, business and exchanges with one another*, OJ C132, 3.5.2011, point 2.2.1.

[349] *Opinion on the White Paper on Financial Services Policy 2005-2010*, OJ C309, 16 December 2006, points 4.3.3.2 and 4.3.3.3.

[350] *Opinion on the Green Paper on Retail Financial Services in the Single Market*, OJ C151, 17 June 2008, points 1.11, 1.13, 1.16, 1.19, 3.2.2.1, 3.3.3, 4.4, 6.10, 7.2.1, 7.3.

Annex II
Access to basic account services

1. Problems

1.1. General problem: restricted access to account services

1.1.1. Large number of unbanked Europeans

The number of consumers with no payment account is difficult to estimate. Much of the data available is not comparable. However, research estimates the number of EU citizens with no payment account at between 30 and 68 million according to two Eurobarometer surveys from 2009 and 2011 respectively.[351] At the same time, calculations based on World Bank data put the figure at 56 million in 2012.[352]

A 2009 Eurobarometer survey found that there were around 30 million unbanked Europeans over the age of 18.[353] Calculations based on a 2011 Eurobarometer survey,[354] however, put the number of Europeans over the age of 15 without a payment account at more than 68 million. Differences between the 2010 and 2012 calculations can be attributed to the different questions asked. In 2009, the question referred to having a 'bank account' and, in 2011, to a 'current bank account'. Moreover, both these calculations likely underestimate the number of persons without an account: they are based on representative surveys of the general population and volunteers; vulnerable groups of society are typically unlikely to participate in surveys. Conversely, it should be noted that this figure may include a very slight over-estimation since it does not factor in people having joint accounts.

National data also exists, but is fraught with similar problems. For instance, according to recent reports, 1.54 million adults do not have access to a 'transactional' payment account in the United Kingdom[355] and 96% of 'financially weaker' French households do not have access to a 'deposit' account.[356]

1.1.2. Levels of exclusion from basic account services vary between Member States

Account penetration is diverse. The percentage of the population having a current account per country as of 2011 is displayed in Graph III in the main impact assessment report. The different levels of payment account penetration across the EU mean that the extent of the problem and the probable impact of the presented policy options vary considerably.

The number of consumers with no payment account varies from 45% and 53% of the population in Romania and Bulgaria respectively to close to 100% in Scandinavia (see Graph

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351 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 14, (http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study) estimated that 30 million Europeans over the age of 18 do not have a bank account. Calculations based on the *Special Eurobarometer on Retail Financial Services* (European Commission, February 2012) put the number of Europeans over the age of 15 without a current account at more than 68 million. Differences between the 2010 and 2012 calculations can be attributed to the scope of the question and divergences in the population sample.

352 Commission calculations based on data on the number of unbanked consumers from *Measuring Financial Inclusion, The Global Findex Database*, the World Bank, April 2012.

353 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 18, http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study

354 *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012, http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm

355 *Banking services and poorer households*, Financial Inclusion Task Force, December 2010, p.6. Available at http://www.hm-treasury.gov.uk/d/fin_inclusion_taskforce_poorerhouseholds_dec2010.pdf

356 Les conditions d'accès aux services bancaires des ménages vivant sous le seuil de pauvreté, CREDOC, 2010, p.19 http://www.banque-france.fr/ccsf/fr/telechar/publications/rapport_credoc_etude_conditions_acces_services_bancaires_pauvrete.pdf.

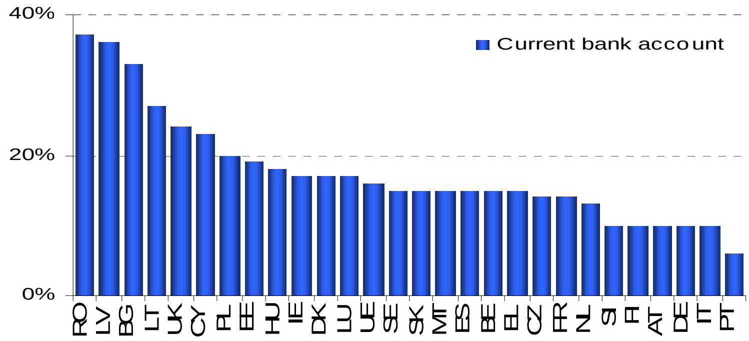
2A). In terms of volume, the most consumers without accounts are in Italy and Romania with more than 13 million citizens over the age of 15 without payment accounts, while Denmark and Luxembourg have the fewest number of consumers without accounts (See Table 2.A).

1.1.3. Evolution of the number of unbanked Europeans

No robust statistical data is available to analyse the number of unbanked Europeans over time. The only time-series data available is from Eurobarometer for which a survey question on whether the consumer held an account was included in both the 2005 and 2011 surveys. Nevertheless, differences in the question asked are so large that any comparison is meaningless. Whereas the 2011 survey asked about consumer holding of current accounts, the 2005 survey asked two questions, one on the number of accounts with a cheque book and/or debit card attached and one on the holding of deposit accounts.[357]

Nevertheless, some data on the number of Europeans who have opened an account in the last 5 years is available from the Eurobarometer survey: "*over a quarter of those who own any financial products have opened a current bank account in the last five years in just four Member States: Romania (37%), Latvia (36%), Bulgaria (33%) and Lithuania (27%) which demonstrates that bank accounts market has been steadily growing in new Member States*".[358] Moreover, according to data provided by Romania and Bulgaria there has been an increase in the number of basic payment accounts opened in 2011; 652 107 accounts were opened in Bulgaria and 3 767 356 in Romania.[359] It is not possible to draw firm conclusions from the Eurobarometer data; first, it does not account for multi-banking, and second, it does not account for population growth, changes in demographic structure, and other relevant factors. With respect to the numerical data from Romania and Bulgaria, similar concerns apply.

Graph II.A: Payment accounts opened in the last 5 years (%)



1.1.4. Are there alternatives to payment accounts?

In the current increasingly online world, the role of payment accounts is changing. It is therefore important to ask whether access remains important or whether alternative means of payment could be used.

With the advent of the internet, a range of products which act as substitutes to payment accounts is emerging. In the developing world, online/mobile services, such as M-Pesa in Kenya, act like a parallel banking system allowing phone users to send and receive money through agents.[360] Similarly, in the EU, mobile payment systems are increasing in popularity. For example, *Paypal* has for several years operated an online payment mechanism. However,

[357] *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012, p. 10-11 http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm.

[358] *Ibid.*, p.17.

[359] Statistical data provided by Member States.

[360] New York Times. 28 April, 2012. See: http://www.nytimes.com/2012/04/29/sunday-review/the-post-cash-post-credit-card-economy.html?_r=1

there are also an increasing number of competitors such as the *Google Wallet,* which is integrated to a consumer's mobile phone, linked to a consumer's credit card and can act as a payment instrument via the phone. [361] Globally, e-payments and m-payments collectively accounted for an estimated 22.5 billion transactions in 2010.[362] Furthermore, e-payments (online payments for e-commerce activities) are expected to grow globally to 30.3 billion transactions from 17.9 (in 2010-13), while m-payments are expected to grow globally to 15.3 billion transactions from 4.6 billion in the same period.[363]

However, these alternatives are insufficient substitutes to payment accounts. Prepaid payments or online payment mechanisms are set up in such a way that the consumer needs, in the majority of cases, to have a payment account to make transfers from in order to pay/charge such cards or even a credit line (many telephone accounts are defined as consumer credit as the transactions involve a deferred credit unless prepaid cards are used). Consequently, many of the most vulnerable consumers may have difficulties in accessing or obtaining such payment instruments. Furthermore, despite the increasing popularity of e-payments or m-payments, such payment mechanisms still count for an extremely limited stare of the market (See Graph I in the Impact Assessment Report).

1.1.5. Why do many consumers not have a payment account?

A 2011 Eurobarometer survey[364] found that the main reason (56%) not to have an account was that the person did not need or want to have one. This percentage was higher in the New Member States (67%) and lower in the EU15 (45%). The survey also showed that "*older respondents are more likely to say they do not need or want a bank account*", as well as those people who "*spent less time in education*". Against this background, it is estimated that 25 million[365] consumers do not have an account but would like one. 33% (10 million consumers; of which almost 4 million are in Romania) of those without an account in EU 12 and 55% (15 million consumers, of which more than 7 million are in Italy) of those without an account in EU 15 would like one.

Graph II.B: Reasons why consumers do not have payment accounts

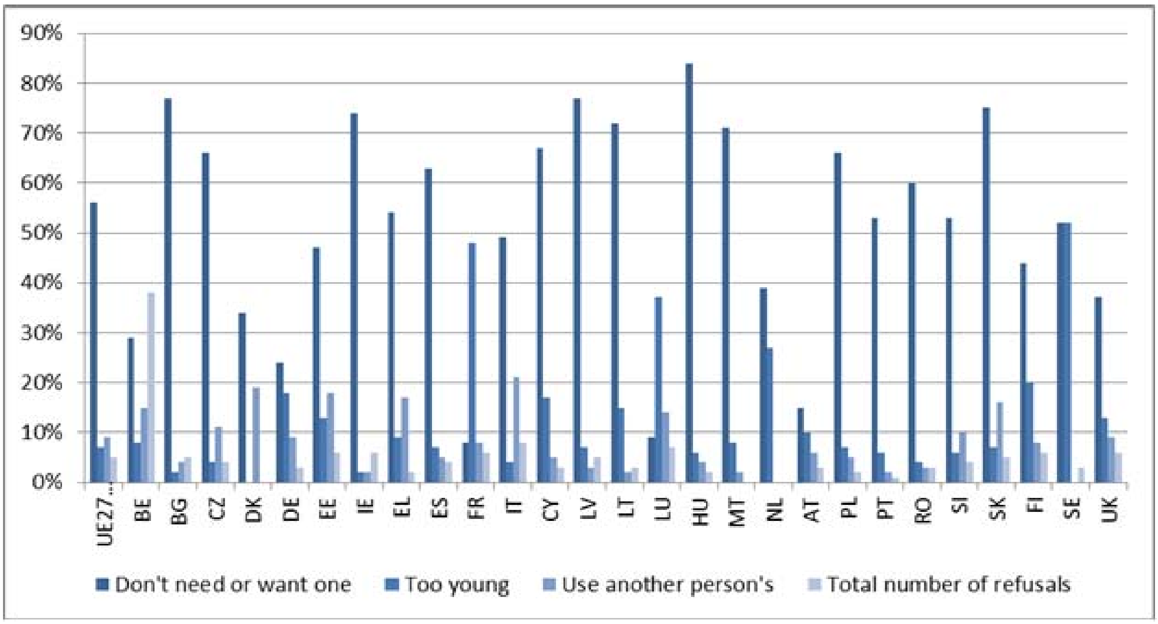
[361] *Ibid.*

[362] *World Payments Report 2011,* CapGemini, p.4.

[363] *Ibid.*

[364] *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012, p.8 http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm

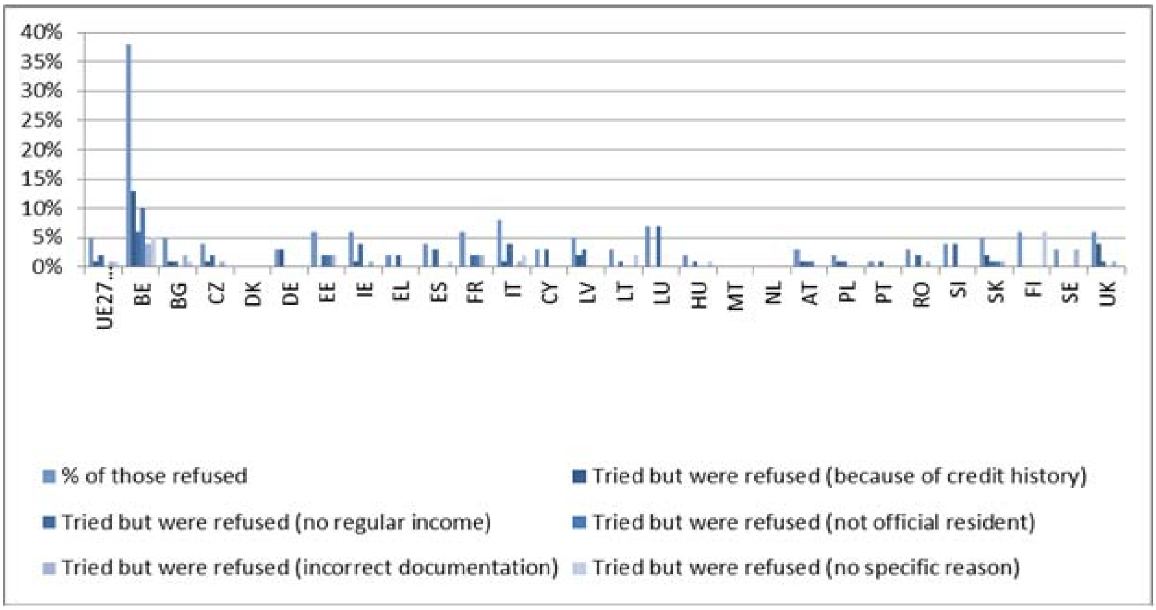
[365] Commission services calculations based on Eurostat population data and *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012, p. 31, http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm



Source: 2012 Eurobarometer

Other reasons for not having a payment account include consumers being too young or their use of another person's payment account, but there was also a significant number of applicants who were refused access. It is estimated that almost 3 million consumers who would like an account have been refused access to one.[366] These figures range from 0 in Denmark to over 1 million in Italy.[367] The reasons for refusal are: no regular income, incorrect documentation, no credit history and non-residence.

Graph II.C: Number of refusals to open a payment account and reasons why



Source Eurobarometer 2012

366 Calculations by Commission services based on *Measuring Financial Inclusion, The Global Findex Database*, World Bank, April 2012, *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012 and Eurostat population data.

367 Calculations by Commission services based on *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012 and Eurostat population data.

1.1.6. *Main categories of consumers with difficulties in accessing a basic payment account*

Accessing a payment account is particularly difficult for two main population groups: 'vulnerable' consumers and 'mobile' consumers who are active cross-border. This observation has been explicitly confirmed by the European Consumer Organisation BEUC in their feedback to the consultation on bank accounts.[368]

- Vulnerable consumers are discussed in recent legislation but have not been defined.[369] They are described as consumers who are particularly vulnerable because of their mental, physical or psychological infirmity, age or credulity. This impact assessment considers consumers living on low incomes to be vulnerable: they are often excluded financially.[370] This is a significant part of the EU population.
- Mobile consumers. Consumers move cross-border for various reasons including for work, study or retirement. Amongst those, migrant workers are probably the largest group.
- Based on the feedback collected by the Commission, it is assumed that those who become resident in a Member State face fewer problems in accessing an account.[371] Consequently, according to calculations by Commission services, the mobile population that faces difficulties in accessing basic account services is estimated at 3.5 million or approximately 6.25% of those without a payment account.[372] It should be noted that some providers recognise that migrant consumers represent a business opportunity and prepare special offers, such as for foreign students.[373]

Box I: Data on mobile consumers: Erasmus and other cross-border students

It has become increasingly easy to travel and study in another EU country.[374] In 2010, there were 581 400 students (including 231 410 Erasmus students[375]) enrolled at universities in another Member State.

A payment account in the country where they are studying is indispensable. Students who are not residents often receive financial support from their families at home. A payment account is the easiest and the cheapest channel for these resources to be transferred without paying excessive fees to cash the money. In addition, it can be difficult to rent an accommodation without a payment account as, e.g. in some German universities, rent in a student dormitory can only be paid for by means of a standing order.[376] It is also no surprise that foreign students need to travel home from time to time and the easiest and the cheapest way of doing so by flying with a low cost air carrier. However, to buy a ticket without excessive intermediary costs, a student will need a payment account to be able to pay over the internet by bank transfer or credit card.

In March 2012, the Commission launched a survey of Erasmus and exchange students from EU Member States to check whether they encountered any difficulties in opening a bank account while studying abroad.

Out of the total number of ca. 600 000 EU students enrolled at foreign universities in another EU country[377] 4 864 of them responded to the survey, of which there were 4 352 Erasmus students, 253 students of other exchange programmes and 259 national students conducting their studies in their country of origin. The latter group is excluded from all subsequent data as

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368 BEUC response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 20.

369 Directive 2011/83/EU of the European Parliament and of the European Council of 25 October 2011 on consumer rights.

370 *Financial Services Provision and Prevention of Financial Exclusion*, European Commission, March 2008, http://ec.europa.eu/employment_social/spsi

371 See Section 1.2.5. in Annex II.

372 Calculations by Commission services based on data from Eurostat, *Measuring Financial Inclusion, The Global Findex Database*, World Bank, April 2012, and *Commission staff working document Demography Report 2010,* p. 46.

373 http://www.natwest.com/personal/current-accounts/g1/students-graduates/international-students.ashx

374 http://ec.europa.eu/education/higher-education/doc1290_en.htm

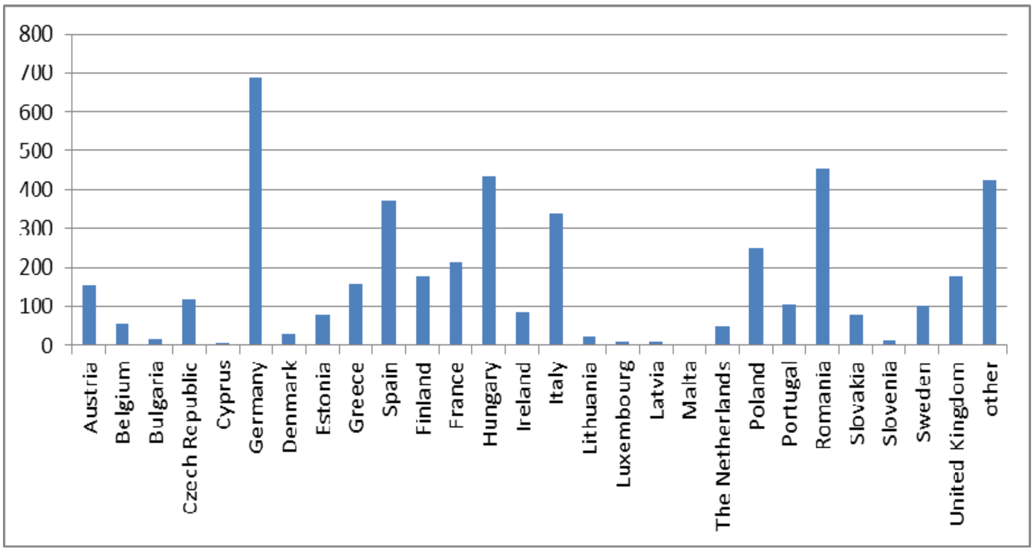
375 *Erasmus, facts, figures and trends*, European Commission, 2011, p. 4, http://ec.europa.eu/education/pub/pdf/higher/erasmus1011_en.pdf

376 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p.45 (http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study) and Commission survey of Erasmus students, 2012.

377 European Commission estimation based on the Eurostat data on tertiary education students studying in another EU country in 2010: there were 581 400 EU students enrolled at foreign universities in another EU Member State.

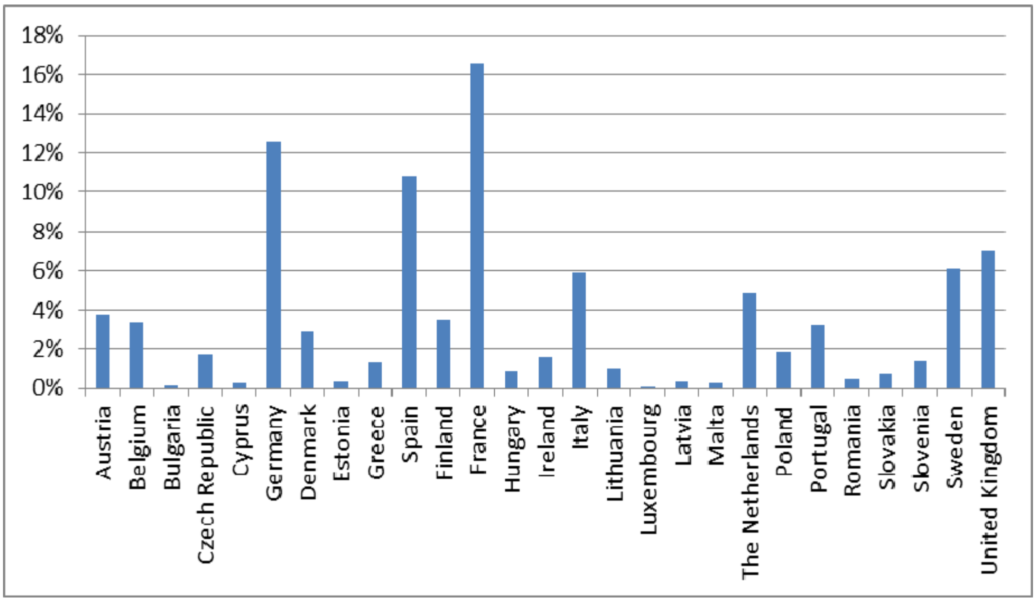
they were unable to complete the questions. The total number of mobile students who responded is therefore 4 605. Students from all Member States with the exception of Malta took part in the survey.

Graph II.D: Responses by country of origin



Each of the 27 Member States was mentioned at least once as a destination where respondents carried out the Erasmus or another exchange programme.

Graph II.E: Member States where respondents carried out Erasmus or other exchange programmes.



2507 (54%) students tried to open a bank account while 2 098 (46%) students did not attempt to do so.[378] Although the majority of students found it relatively easy to open a payment account, a number of students faced difficulties. From those who tried, 1646 (66%) students found it easy, 694 (28%) considered it burdensome and 167 (7%) failed to open a bank account.[379]

373 students who found the process burdensome responded that it took a long time; for 294 it meant too much paper-work, while another 375 respondents indicated that too many documents were required.[380] Finally, of the 167 students who were refused an account, 95 (57%) were rejected due to "*not being a national resident*", while the remaining 72 (43%) indicated other reasons for refusal (not specified).[381]

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[378] Commission survey of Erasmus students, 2012, see previous paragraph.
[379] *Ibid*.
[380] *Ibid*.
[381] *Ibid*.

The reasons for not opening an account were that it took too long (54.9% of those who did not open an account) and/or too many documents (54.6% of those who did not open an account) and/or too much paperwork was required (42.8% of those who did not open an account).

1.2. Specific problems

The reasons why consumers face difficulties in accessing a payment account vary.

1.2.1. Ineffective, inconsistent or non-existent regulatory framework

Despite Member States being asked to comply with the Recommendation by January 2012 and a Commission review being announced for mid-2012, as illustrated by the report on the application of the Recommendation,[382] regulatory failures have made the Recommendation's application sub-optimal.

Table 2.A: Recommendation on access to a basic payment account

	National frameworks implementing the Recommendation				**No framework in place**
	Legislation		**Self-regulation**		
Member States	**Yes**	**Partially**	**Yes**	**Partially**	
Austria					X
Belgium	X				
Bulgaria					X
Cyprus					X
Czech Republic					X
Germany				X	
Denmark		X			
Estonia		X			
Greece					X
Spain					X
Finland		X			
France	X				
Hungary				X	
Ireland				X	
Italy	X				
Lithuania		X			
Luxembourg		X			
Latvia					X
Malta					X
The Netherlands				X	
Poland					X
Portugal		X			
Romania					X
Sweden		X			
Slovenia					X
Slovakia					X
UK				X	

Source: European Commission analysis of Member States' reports

In general, countries with a legal framework in place have lower levels of exclusion than those that have a self-regulatory framework or have no data at all (See Graph II.B) though the financial services industry argues that *"there is no proven correlation between the existence of a legal obligation to provide access to a bank account and the number of bank account holders"*.[383] Analysis of the data on average account penetration shows that in those Member States where there is no framework in place, weighted average account penetration is 70% (27% in Romania and Bulgaria; 80% in other Member States) compared to 88% in those Member States which have industry based charters and 96% in those Member States with a

[382] National measures and practices as regards access to basic payment accounts. Follow-up to the Recommendation of 18 July 2011 on access to a basic payment account, 22.8.2012, http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/followup_en.pdf

[383] European Banking Federation response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 13

legal framework in place.[384] Consequently, it can reasonably be assumed that a legal framework is the most effective way of improving the accessibility of payments accounts.

That being said, the mere existence of a framework does not in itself ensure its effectiveness. Among those Member States which have industry charters or other self-regulatory initiatives in place, some consider that their implementation has been unsatisfactory (e.g. Germany). For those with a legal framework, only six countries comply (or will soon comply) at least partially with the Recommendation. These are France, Belgium, Italy, Luxembourg, Portugal and Finland. Despite this, even in those countries, there remains a portion of the population financially excluded. This therefore raises the question of the effectiveness of some of the measures in place. For instance, in France, even if 3% of poor households have already been refused access to an account, only 5% of them have made use of the procedure foreseen in the law following a bank refusal.[385] In Belgium, 5% of the respondents not having an account mentioned that they had tried to have one but their application was rejected by the bank without any specific reason.[386] Consumer awareness of their rights and effective enforcement of the framework are, therefore, vital.

Moreover, in those countries where a framework exists (or is in the process of being introduced), the framework takes on a range of different forms ranging from specific legislation to industry charters. Furthermore, those requirements diverge considerably. In some countries (e.g. Belgium, France, Italy and Portugal), the characteristics and conditions of the basic account are defined. In others (e.g. in Denmark, Finland, Luxembourg or Sweden), the law introduces a right to a payment account without any further specification.

Diverging legal and self-regulatory frameworks create burdens when trying to operate cross-border due to divergent rules and practices. In many cases, credit institutions who offer their services in more than one Member State will need to create different products or create new standard operating procedures for providing a payment account according to the approach of each Member State. This is expensive and time consuming and prevents economies of scale, hindering cross-border business and the realisation of a single market. In particular these fragmented national rules prevent providers from offering online payment accounts across borders posing a barrier to new market entrants and thus to a greater competition.

1.2.2. Limited bank profitability from certain groups of consumers

Vulnerable and mobile consumers may be perceived by banks as not profitable. In fact, the European Consumer Organisation BEUC reported that insufficient consumer income was a reason for banks refusing an account.[387] Current accounts are generally offered at low cost because they are considered as a gateway product that would allow the bank to earn additional revenues.[388] This opinion is shared by academics: "*The basic banking service should be the first step in the banking system, so it would be interesting if banks were encouraged to offer wider access to their services in order to make the relationship more profitable (but still*

384 Calculations by Commission services on the basis of Member States' notifications, *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012, p.31, http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm. For the purpose of calculations, Italy has been included under "industry charters" as the law entered into force on 28 December 2012, the convention setting out the conditions for access only entered into force as of June 2012.

385 This implies that the citizen would request a written confirmation of the reasons for the refusal and provide it to the Banque de France, which will then designate a bank that will be required to open an account.

386 *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012, http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm

387 BEUC response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 20.

388 See, for instance, *Tying and other potentially unfair commercial practices in the retail financial service sector*, Centre for European Policy Studies (CESP), 2009. *Understanding and Combating Financial Exclusion and Overindebtedness in Ireland: A European Perspective*, Georges Gloukoviezoff, p. 9.

appropriate to the needs of the customers…If the services provided are free and if the charges are capped, there is a real threat that basic banking services become an unbearable cost for the providers."[389]

It might not be obvious for the bank that vulnerable or mobile consumers (who tend to change place of residence) would remain long-term clients ready to be offered additional services. Not having a regular income or permanent residence in the country were one of the most frequent reasons given by the 2012 Eurobarometer respondents that had tried to open an account but had been rejected by the bank.[390] The contrary is argued by providers who state that by providing access to accounts, they can market and sell more products to consumers.

1.2.3. Limited and more costly access to basic financial products and services

Consumers without a payment account find it more difficult and more expensive to purchase other financial products. As illustrated in paragraph 1.2.7, payment accounts act as a gateway to other financial products and services, e.g. home insurance. In addition, these products would most likely be linked to the payment account, making it easier for the consumer to have a control over his liabilities, expenses and available funds.

The consumer who does not have a payment account and is not in the habit of using basic banking services, when in need of a financial product (e.g. consumer credit, fire insurance), will most likely first check the offers of non-banks or financial brokers whose marketing campaigns are targeted, in particular, at vulnerable consumers. Services which they offer are usually easily available (e.g. SMS loans in some EU countries) but also more expensive (e.g. high interest rate) and without as many safeguards for consumers as those offered by regular banks. "*This* […] *raises the issue of a need for basic banking services to be available for all consumers, which enables consumers to avoid higher-risk sources of credit. Arguments have been made that the provision of basic banking services to high-risk consumer groups as part of a financial inclusion programme would be a powerful protection against irresponsible lending practices and so would be of great assistance in preventing over-indebtedness*".[391]

It has been demonstrated that poor families without a payment account have to pay more to obtain credit often from informal lenders.[392] For instance, "*a loan from a pawnbroker of £100 over six months will cost between 5% and 12% per month (equivalent to an APR of 70% to 100%), making the total cost of the loan between £170 and £200. Households without a bank account who need to cash a £200 cheque from a third party quickly will be charged a fixed fee and interest: for example, a £200 cheque would cost £12 to cash at Cash Converters.*"[393]

Again, this problem mostly concerns poorer and less educated consumers who in addition face a psychological barrier to approach a bank to enquire about a loan or another financial product. Even without trying, they will consider themselves not meeting the banks' criteria to be offered a service e.g. in terms of required documents. Therefore, they are likely to turn to non-bank providers which can offer credit with a simple telephone call but under worse conditions than any credit institution. As a result, many vulnerable consumers end up in debt. This risk could be partly avoided if they had easy access to a payment account. Once they establish a link with a bank and the psychological barrier disappears, it would be natural for

[389] *Understanding and Combating Financial Exclusion and Overindebtedness in Ireland: A European Perspective*, Georges Gloukoviezoff, p. 9.

[390] *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012, p.26 http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm.

[391] *Understanding and Combating Financial Exclusion and Overindebtedness in Ireland: A European Perspective*, Georges Gloukoviezoff, p. 4.

[392] *Financial Inclusion for the Roma: Banking as a Key to Social Progress, Open Society Foundations*, March 2012, p. 3, http://www.soros.org/sites/default/files/roma-financial-inclusion-20120321.pdf.

[393] *UK poverty rip-off: The poverty premium 2010 briefing*, p. 4.

many vulnerable consumers to check the offer of their bank first, before turning to informal lenders.

1.2.4. *Low awareness of availability of basic payment accounts*

In the Member States where a right to a basic payment account has been introduced by law, these accounts are not actively marketed by banks since they prefer to offer more expensive variants of accounts to their clients.[394] In Belgium, where every bank is obliged to provide a basic payment account upon the consumer's request, many unbanked consumers are unaware of the legal right to have one.

In other cases, the economic advantage of having access to an account and the means of payments associated to it may not be so clear for the consumer, particularly if high fees and penalties are charged in the case of certain events, such as bounced cheques or the use of overdraft facilities. These charges are often unclear at the moment of opening to consumers with low level of financial literacy and result as a huge burden when they later have to be paid. The UK Financial Inclusion Taskforce calculated that, even if having an account would lead to savings of £125 to £215 on utility payments, part of those savings would be offset by an average loss of £140 per annum in penalty charges.[395]

1.2.5. *Discriminatory rules on accessing payment accounts*

Asymmetric information between the credit institution and the consumer can lead to an application being rejected because the consumer is considered riskier or because the information on the client is not readily available.

Consumers associations note that consumers may be rejected for an account due to their lack of any regular income.[396] In fact, 40% of consumers who would like an account but were refused cited this as the reason. This was the most common reason for refusal.[397] This problem certainly affects vulnerable consumers, without any regular employment. Equally, if not more so, it can affect mobile consumers as with no account, it will be difficult for them to find employment or accommodation in a new Member State.

Another common reason why mobile consumers are refused an account is non-residence. It represents a significant barrier to the internal market, as stressed by the European Parliament Resolution,[398] by impeding or prohibiting cross-border activity, for example, through the free movement of persons or the free provision of goods and services by businesses.

The procedure for accessing payment accounts can differ tremendously. In order to open an account in some Member States, it is necessary to present an ID card (e.g. Belgium) while in other countries there is no such tradition (e.g. Sweden, UK).[399] This can mean that a consumer seeking to open a payment account cross-border may be able to do so in some instances but not in others. This would impede or prohibit cross-border activity, for example, through the free movement of persons or the free provision of goods and services by businesses. Around half a million consumers across the EU have been refused access to an account due to the lack of appropriate documentation. In many cases, such refusals are attributed to anti-money

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[394] *Le point sur le service bancaire de base, cinq ans après son introduction*, Réseau Financement Alternatif, 2008, p. 4.

[395] *Banking services and poorer households*, Financial Inclusion Taskforce, December 2010.

[396] BEUC response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 20.

[397] Calculation by Commission services based on data from *Measuring Financial Inclusion, The Global Findex Database*, World Bank, April 2012, Eurostat and Eurobarometer.

[398] *European Parliament resolution of 4 July 2012 with recommendations to the Commission on Access to Basic Banking Services,* 2010/2278(INI), 4 July 2012, p. 4.

[399] *Rapport Inclusion Financière 2011*, Réseau Financement Alternatif, 2011, p.17.

laundering legislation;[400] this is supported by evidence from users' representatives who have pointed out that banks often use anti-money laundering rules abusively to reject applications from unattractive consumers.[401] However, an analysis of EU and national anti-money laundering rules has established that the rules themselves do not create any such barrier.[402]

1.2.6. Low consumer confidence in the financial system

A general mistrust of banks may be another reason for self-exclusion. A 2010 study reported that unbanked people perceive "*banks to be intimidating and untrustworthy, interested only in making money out of people*."[403] This negative image of the financial industry does not help in attracting unbanked consumers who could benefit substantially from a basic payment account provided at low cost. It is also a missed business opportunity for credit institutions that could increase the number of customers interested in other banking services and products. Some vulnerable consumers may fear opening an account. For example, even if having an account may reduce the cost associated to the payment of certain services (e.g. utilities bills, online shopping), some consumers may refrain from opening because of the risk that, if in debt, their balance will be seized. On the other hand, there are examples of measures taken by Member States which protect a minimum account balance from being seized by creditors. For instance, Germany introduced a so-called P-Konto for over-indebted consumers which protect a minimum income of around EUR 950.[404] However, it has been demonstrated by consumer organisations that this account is actually three times more expensive than a regular payment account and often does not offer a debit card.[405]

Access to banking services may however also have positive psychological effects. According to a 2010 study, "*almost one in three (31%) of the unbanked who aspire to becoming banked feel it would give them more independence, a quarter think being banked would make them feel 'more like everyone else' and 16% think they would feel more confident if they had a bank account.*"[406]

1.2.7. Discriminatory rules on basic payment services

The different characteristics of a basic payment account in different Member States restricting the use of basic payment accounts to national level (e.g. in the Netherlands, Hungary, Belgium) create a barrier to the internal market. Consequently, consumers with basic accounts can only engage in domestic transactions. For mobile consumers and vulnerable consumers living in border areas, this represents a significant problem.

Domestic enterprises providing goods and services in those Member States that have implemented the Recommendation benefit from a larger market size and reduced costs, as consumers have easy access to and more often use electronic payments. However, the European market as a whole may be unable to benefit due to restrictions on the account services that limit users of the basic payment account to 'domestic' transactions.

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400 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 44-45, http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study

401 FSUG response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 13.

402 See Section 3.1 for further information.

403 *Financial Inclusion Evidence Review: the costs of banking exclusion and the benefits of access to bank accounts*, Claire Whyley, 2010, p. 32.

404 *Strategy for Financial Inclusion*, Steering Group on Financial Inclusion, Irish Department of Finance, June 2011, p. 56, http://www.finance.gov.ie/documents/publications/reports/2011/Fininclusreport2011.pdf

405 *Ibid*.

406 *Realising banking inclusion: the achievements and challenges*, Financial Inclusion Taskforce, August 2010, p. 54 (http://www.hm-treasury.gov.uk/d/realising_banking_inclusion_report.pdf).

Vulnerable consumers, who have no financial history or 'track record' due to their state of financial exclusion (e.g. the homeless), may face similar problems albeit on the lesser scale, although no less important in terms of the consequences. In social terms, therefore, even those excluded consumers who are making an effort to reintegrate themselves in society may face difficulties in doing so in financial terms.

In order to mitigate the risks, more burdensome procedures need to be in place in the credit institution so that identity/creditworthiness is verified and additional transaction costs may be incurred, such as accessing a credit register in another Member State. The resulting costs may render the potential foreign client less profitable and thus lead to rejection.

2. CONSEQUENCES

2.1. Consequences for consumers

2.1.1. Limited product choice and economic exclusion

Online shopping offers an extensive choice and usually lower prices. However, consumers without a payment account have limited opportunities to make use of e-commerce. "*This is sometimes referred to as the "poverty premium", i.e. the higher price poorer families have to pay for goods and services because they cannot access the online deals that are available to households with payment means accepted for e-commerce*."[407] There are also some services which are almost exclusively available over the internet. Consequently, an unbanked consumer would struggle to access them. For instance, it is difficult to buy airline tickets from low cost air carriers without a credit card or without the ability to make a bank transfer. Even if these tickets can be purchased at a travel agency, they are more expensive due to additional charges imposed. This follows the trends of non-European developed economies, such as US: "*as of June 2009, certain American airlines (e.g. American Airlines) only accept payment card payments for domestic flights*."[408]

Furthermore, there is scope for further growth of e-commerce, also in the cross-border dimension, which is considered crucial for the development of the Single Market. This can be achieved by opening up access to banking services as "[...] *the availability of payment cards and electronic money transfer channels are crucial factors underpinning e-commerce, particularly as they offer to the consumer protection and credibility*."[409] Although it may appear unlikely that poor consumers, even if equipped with a payment account, would massively turn to online shopping, one study which examined the experience of newly banked consumers in the UK found that 22% had shopped by telephone or online since opening their account.[410] "*Moreover, paying for goods and services on the internet using international credit cards may entail certain additional benefits for consumers, e.g. insurance services*."[411]

Although credit cards or bank transfers are frequently used over the internet, there are other ways to pay for a product. However, these are usually more expensive and inconvenient.[412] For instance, pre-paid cards can be used for non-cash payments over the internet but the fee structure behind them is not very transparent and in addition, access channels for payments

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407 *Basic banking services*, by London Economics for European Parliament's Committee on the Internal Market and Consumer Protection, November 2011, p. 19.

408 *Nothing is free: A survey of the social cost of the main payment instruments in Hungary*, National Bank of Hungary, p. 117.

409 *Ibid.*, p. 27.

410 *Ibid.*, p. 27.

411 *Cost of payments in Denmark, Denmark's National Bank*, November 2011, p. 76.

412 *Banking services and poorer households*, UK Financial Services Taskforce, December 2010, p.8-9 http://www.hm-treasury.gov.uk/d/fin_inclusion_taskforce_poorerhouseholds_dec2010.pdf.

into and out of the card account are limited.[413] What is even more important is that they are not as safe as a payment account – once a pre-paid card is lost, the consumer will not be able to recover the balance.

However, a precondition for e-commerce growth is the improved access of citizens to online shopping, the levels of which differ substantially across the EU Member States. Only once widespread internet access, especially in new Member States, e.g. Bulgaria and Romania, is ensured, will consumers in these countries find it useful to use electronic means of payment.

In conclusion, restrictions in accessing payment accounts can restrict consumer choice and cross-border activity.

2.1.2. Higher costs

Access to basic financial services is a pre-condition to benefiting from the internal market and fully participating in the modern economy. The security and convenience associated to electronic payments is also generally higher than for cash transactions. It also enables access to discounts, e.g. those offered by utilities companies when payments are done by direct debit or those provided through having a bundle of products or services with the same provider. For consumers, cash/cheque payments of social benefits imply wasted time (e.g. queuing at the post office), hassle and charges (e.g. when cashing the cheque). In Germany, the Federal Employment Agency pays the majority of unemployment benefits to the recipients' payment accounts. Nevertheless, beneficiaries without a payment account receive them by cheque (so called ZzV transaction).[414] An average amount of the ZzV benefit in 2010 was EUR 380 which means that the recipient was charged EUR 7 (EUR 2 basic charge plus EUR 5 additional fee) for the processing of the payment which gives an average of EUR 85 per recipient per year.[415] It has been calculated that in 2010 almost EUR 13 million was spent by recipients of unemployment benefits on fees charged upon the receipt of the ZzV payments. In the UK, a report also concluded that in total unbanked families pay some £253 per year more in gas and electricity bills compared to families that pay by direct debit.[416] There is also an important issue of security for those who have to cash their benefits upon receipt, without a possibility of keeping them in a payment account. Many benefit recipients are vulnerable in some regard and experience an elevated risk of theft.

An additional burden for unbanked consumers may be the amount limit for cash transactions introduced for instance in Spain or France (up to EUR 3000),[417] or in Italy, an obligation to pay social benefits solely via a payment account. Even though these measures were taken by the governments with the aim to prevent fraud and money laundering, in reality they make it impossible for unbanked consumers to access certain products and services.

2.1.3. Difficulties in accessing accommodation and/or employment

Consumers may face difficulties in relation to employment or renting property without a payment account. At some German universities rent for student halls is paid by standing order.[418] Regarding employment, having a payment account may not be a legal requirement to

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413 *Ibid.*

414 *Bericht der Bundesregierung zur Umsetzung der Empfehlungen des Zentralen Kreditausschusses zum Girokonto für jedermann*, Drucksache 17/8312, German Bundestag, 27.12.2011, p. 8.

415 *Ibid*.

416 *The UK poverty rip-off*, Save the children UK, January 2011. P.6 http://www.savethechildren.org.uk/sites/default/files/docs/UK_Poverty_Rip_Off_Brief_1.pdf

417 *Strategy for Financial Inclusion*, Steering Group on Financial Inclusion, Irish Department of Finance, June 2011, p. 47, http://www.finance.gov.ie/documents/publications/reports/2011/Fininclusreport2011.pdf

418 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 44-45, http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

take up a position. However, in some cases, *"paying out salaries in cash or by cheque may simply no longer be possible"*.[419] A 2010 study reported that "*having an account was perceived to be a necessity for securing employment among the unbanked*."[420] Limited access to payment accounts is a serious burden for migrant workers and students coming from other EU Member States and poses a barrier to free movement of persons in the Union. Workers will find it more difficult to find a job if the employer cannot pay their salary into a payment account and instead has to issue a cheque or provide cash. This is not a common practice anymore and therefore may create administrative costs for the employer and he may simply refuse to hire a person without a payment account. It is no surprise that some migrant workers refrain from travelling and looking for a job abroad once they are aware of these potential obstacles.

2.2. Financial services industry

Restrictions on consumers' ability to access a payment account also impacts on the financial services industry. First, the use of cash is expensive. Financial services providers therefore strongly encourage their clients to use electronic means of payment. With a higher number of banked consumers, providers could substantially reduce costs. According to a Finnish report, *"cash was uniformly unprofitable payment instrument for banks. Banks are of course aware of this and they have favoured electronic means of payment instead of cash [...] The usage of cash has been reducing in domestic payments […]"*.[421] Similarly, in Demark, banks' costs related to payment services totalled almost kr. 4.4 billion in 2009, with about half the costs attributable to cash.[422] "*Cash handling is more labour-intensive than other payment services, which is the reason for the banks' considerable costs related to cash*".[423] *"A comparison of the banks' costs per transaction shows that payment services which require a lot of working time entail the greatest costs. This applies first and foremost to deposits and withdrawals of cash at branch counters and deposits via night safes. Conversely, the costs of cash withdrawals at ATMs, card payments, online banking transfers and Betalingsservice transactions are relatively low. This is because these services involve a high degree of automation and the fixed costs are distributed on a large number of transactions*."[424] The financial services industry would therefore clearly benefit from greater access of users to payment accounts and more broadly to basic payment services, which would lead to a greater number of cash transactions being replaced by electronic payments. Nevertheless, cash should not be phased out completely since there are many vulnerable consumers, for instance, the elderly who find it very difficult to use electronic means of payment. This is also the reason why providers charge consumers much higher fees for cash transactions.

Second, new market entrants, in particular those from another Member State, are restricted in their ability to enter new markets. Different regulatory frameworks established along national boundaries contribute to the fragmentation of the market and raise barriers to entry.

The different regulatory frameworks for access and switching to payment accounts also create a significant barrier to cross-border entry.

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419 *Ibid*., p. 44.

420 *Financial Inclusion Evidence Review: the costs of banking exclusion and the benefits of access to bank accounts,* Claire Whyley, 2010, p. 22.

421 *Costs of retail payment instruments for Finnish banks*, Bank of Finland, 23 December 2011, p. 5.

422 *Cost of payments in Denmark*, Denmark's National Bank, November 2011, p. 9.

423 *Ibid.*, pp. 9-10.

424 *Ibid*., p. 29.

2.3. Enterprises

Restrictions on consumers' ability to access a payment account also impacts on enterprises. First, consumers who are unable to access and those who have only limited payment functions face barriers in being able to purchase goods and services, particularly online. For enterprises, a potential market for goods and services is lost. For online sales, this means a substantially reduced market size. For direct distribution channels which accept cash, enterprises may increase their prices but this also restricts their competitiveness and growth prospects. Moreover, some consumers who may wish to purchase goods or services may be unable to do so because they do not have sufficient cash available at that moment. Second, restrictions in accessing payment accounts can increase the cost of payment transactions for both businesses. Not only do they have to insure the cash held in their company and spend time depositing and collecting cash from a bank as a result of cash transactions, but they also face an increased risk of fraud through money laundering, fake notes and coins, etc. High cost of cash is particularly burdensome for retailers, for instance in Denmark, retailers cost of cash payments at point of sale totalled just under kr. 2.4 billion and approximately kr. 1.6 billion for the payments by cards in 2009.[425] Further, "*more than half of the costs of cash payments related to the time spent on internal procedures. This covers e.g. cashing up and counting and packaging of cash. Another significant cost of cash payments was the payroll costs for cashiers for the time spent on executing a payment.*"[426] Therefore, retailers tend to prefer electronic means of payment, which are cheaper than cash, even if surcharges for each transaction are imposed by providers. Finally, it can also be a significant administrative and security cost for enterprises that have to pay salaries in cash or by cheque.

2.4. Public administrations and society as a whole

The lack of a payment account also implies higher costs for public administrations, e.g. when paying wages or benefits. In a number of countries, the payment of social benefits into a payment account has been made compulsory (e.g. in Denmark and France) or payment in cash are charged extra (e.g. in Germany). In those countries, account penetration is closer to 100%. However, in others, such as Ireland, only 40% of social benefits payments are made through a payment account, while another 52% by a post office.[427] The Strategy for Financial Inclusion prepared for the Irish government in 2011 quotes a 2007 survey of the members of the Irish Payment Services Organisation which estimated "*that the use of non-electronic payments systems costs the economy approximately €1 billion each year.*"[428] Therefore, "*a shift to electronic payments should therefore yield significant benefits in GNP terms, given that electronic payments cost a mere fraction of the cost of cash payments.*"[429] For the economy at large, the cost can likewise be non-negligible, considering that social protection expenditure of Member States represents around 30% of the EU GDP.[430] A report on financial inclusion prepared by the German Bundestag confirmed high administrative costs incurred as result of payments of benefits made through non-electronic means by the governmental agencies.[431] Even though, in a great majority of cases it is for the beneficiary to cover the transaction cost, nevertheless, the costs of child benefits paid by the Federal Employment Agency are actually

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[425] *Cost of payments in Denmark*, Denmark's National Bank, November 2011, p. 11.

[426] *Ibid*.

[427] *Strategy for Financial Inclusion*, Steering Group on Financial Inclusion, Irish Department of Finance, June 2011, p. 14, http://www.finance.gov.ie/documents/publications/reports/2011/Fininclusreport2011.pdf

[428] *Ibid.*, p. 18.

[429] *Ibid.*, p. 11.

[430] Data for 2009 on the basis of the latest available Eurostat statistics.

[431] *Bericht der Bundesregierung zur Umsetzung der Empfehlungen des Zentralen Kreditausschusses zum Girokonto für jedermann*, Drucksache 17/8312, German Bundestag, 27.12.2011, p. 7.

incurred by the taxpayers. In Hungary, approximately 50% of pensions are paid by money orders and not by credit transfer. If this could be done by transfers, society could save approximately HUF 6.5 billion annually.[432] The complete phasing out of paper-based orders could produce savings of approximately HUF 85 billion annually for Hungarian society.[433] The report concludes by stating: "*Electronic payments result in social benefits through security, ease of use, convenience and time savings and improve social welfare. Electronic payments also allow banks to consume less resources*."[434] The cuts which can be achieved by a more widespread use of electronic means of payment, instead of cash, would be very beneficial for public finances in Member States, especially in the current economic climate, and could further contribute to economic growth in the EU. Data from outside the EU shows that important savings could be achieved. For example, mailing Federal benefits cheques in 2010 cost the US taxpayer more than $117 million that would not have been incurred had those payments been made by electronically.[435] Disbursing grants and funds electronically through newly established payment accounts helped reduce the administrative costs of Brazil's conditional cash transfer program *Bolsa Familia* from 14.7% to 2.6% of the disbursed grant value.[436]

Finally, encouraging electronic transactions will support efforts to fight corruption and the black economy since transactions in cash are practically untraceable. Access of a larger number of citizens to the means of electronic payments is a natural complement to the measures against fraud which a number of Member States are currently trying to improve, e.g. Italy which recently introduced a legal obligation for consumers to hold a bank account.[437] Further, improved access will allow Member States to better tackle the problem of tax evasion (e.g. Greece and Italy) thus contributing to healthier public finances and economic growth.

2.5. Summary of problems and consequences

Table 2.B: Problems and consequences

Problems	Consequences
Ineffective, inconsistent or non-existent regulatory framework **Limited bank profitability from certain groups of consumers** **Limited and more costly access to basic financial products and services** **Low awareness of availability of basic payment accounts** **Discriminatory rules on accessing payment accounts** **Low consumer confidence in the financial system** **Discriminatory rules on basic payment services**	**Restricted cross-border activity** => characteristics and process of basic payment accounts restrict consumer cross-border activity => increase costs for credit institutions => Limits market size for enterprises **Restricted product choice** => reduced product choice for financial and non-financial products and services => higher prices for financial and non-financial products and services **High administrative burden for public authorities** **Low consumer confidence** => Economic exclusion (e.g. unable to take advantage of competition domestically or in the single market) => Social exclusion (e.g. problems in accessing accommodation)

3. OBJECTIVES

In general, and in line with the Treaty, the objective is to create an efficient and competitive Single Market (Article 114.1 of the Treaty) with a high level of consumer protection (Article

432 *Nothing is free: A survey of the social cost of the main payment instruments in Hungary*, National Bank of Hungary, p. 94.
433 *Ibid.*, p. 94.
434 *Ibid.*, p. 108.
435 http://www.fms.treas.gov/eft/regulations/31cfr208_text.html
436 *We Must Do Better Than Cash. USAID Impact Blog, 2012*. http://blog.usaid.gov/2012/02/we-must-do-better-than-cash/
437 FSUG response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 28

114.3 of the Treaty) that fosters balanced economic growth with greater social inclusion by: enhancing consumer confidence; broadening consumer choice both in terms of the quality of the products available and in terms of price reductions; facilitating customer mobility; facilitating the cross-border activity of payment account providers; and ensuring a level playing field between market actors.

In relation to access to basic account services, the specific objective is to facilitate access to basic account services. The operational objectives are to: reduce the number of unbanked Europeans by 6.4 million by 2020;[438] ensure access to all basic payment means for all consumers with basic payment accounts; facilitate cross-border access to basic banking services for 3.5 million consumers by 2020;[439] and improve consumers' awareness on basic payment accounts.

4. DESCRIPTION OF THE OPTIONS FOR POLICY INSTRUMENTS

Each of the above options could be given effect through a variety of different policy instruments. These include an industry self-regulation (Code of Conduct), Community level non-binding measures such as a Recommendation or Communication, or through binding Community measures such as Community legislation in the form of a Regulation or Directive. In the case of the latter, delegated acts or regulatory technical standards could also theoretically be envisaged for certain aspects. Table 2.C explores the feasibility of giving effect to each of our policy options through each of the available policy instruments.

Table 2.C: Policy options versus instruments

	Self-regulation	Recommendation	Communication	Directive	Regulation
1. No action					
2. Ensure application of the provisions of the Recommendation		X		X	X
3. Modify the provisions of the Recommendation relative to the beneficiaries					
3(A) Introduce a universal right to a basic payment account	X	X		X	X
3(B) Introduce a right to a basic payment account at least for national residents		X		X	X
3(C) Introduce a right to a basic payment account at least to those non-residents with a link to the country where they wish to open an account		X		X	X
4. Improve the features of the basic payment account					
4(A) Enlarge the list of basic services to include internet banking and online purchasing	X	X		X	X
4(B) Enlarge the list of basic services to include a small overdraft or a 'buffer' facility	X	X		X	X
4(C) Oblige Member States to have in their legislation an indication of a minimum account balance that cannot be seized		X		X	X
4(D): Ensure that the features of the payment account are not of a discriminatory nature.	X	X		X	X

A Commission Communication would be unable to achieve any of the objectives as it is a tool to communicate information to the Member States rather than effect a particular change in the way things are done. The following sections will assess the impact of the policy options and will describe which policy instrument is the most appropriate to use, as well as the underlying reasons for the choice.

438 EU 2020 strategy aims to reduce a number of poor and socially excluded by at least 20 million by 2020 through, among others, improved access to essential services and tackling financial exclusion. http://ec.europa.eu/social/main.jsp?catId=751&langId=en

439 *Ibid.*

5. ANALYSIS OF THE OPTIONS FOR ACCESS TO BASIC ACCOUNT SERVICES

5.1. Option 1: No action

<u>Effectiveness of policy option</u>

Certain trends should be considered when appraising 'no action' as an option. Some mitigate, and others exacerbate the consequences of having many unbanked citizens.

First, there are plans in a number of Member States to introduce legislation or self-regulation to encourage the implementation of the Commission Recommendation. The current state of implementation of the Recommendation is presented in Table 2.A. Regarding self-regulation, users' representatives argue against soft law because, contrary to the view of the financial services industry, they considered it ineffective to combat financial exclusion.[440] Even if this partial implementation continues, it would not lead to a greater convergence of the rules across the EU and would be unlikely to increase the number of consumers opening payment accounts.[441] It is also unlikely that diverse national solutions will ensure greater access to basic payment means, i.e. allowing online purchases. Even if Member States have legal or self-regulatory rules on access, they actually exclude the possibility for consumers to buy over the internet since it is costly for banks Further, varied national rules on access do not help consumers to make use of basic payment accounts cross-border because consumers have difficulties to understand what legal regime in terms of access to a basic payment account they can expect in another Member State. Likewise, providers will be discouraged from offering cross-border services: they will face high costs in adapting to different national legal systems and accordingly find it difficult to compete in national markets.

Second, the development of alternative means of payment which may have some features of payment accounts are relevant, since they could act as substitutes to basic payment accounts though only to some extent, thus limiting both the problems and the consequences described. These new trends are costly but may solve some of the problems of unbanked consumers such as access to online shopping or could very much reduce consumers' reliance on cash.

The most common pre-paid cards would not allow their holder to transfer money or to pay bills via direct debit or a permanent order. Receiving money via a bank transfer may not always be possible. The maximum amount that pre-paid cards can hold is usually limited to ca. EUR 500 - 1000. Such cards can be a more costly solution because of the top-up and usage fees applied.

<u>Impacts of policy option on stakeholders and efficiency</u>

In the absence of EU action, the consequences for consumers in Section 2.1 will persist. Some, such as the difficulties encountered when trying to rent a property or finding a job, are difficult to quantify. Others, such as the impact on consumers' self-esteem of being financially excluded, are impossible to calculate. Likewise, too many assumptions are required to be able to calculate the costs associated with the extra time, hassle and insecurity associated with payments in cash to render any calculation meaningful.

It is possibly to quantify some costs. Consumers who have no access to a basic payment account cannot utilise cheaper means of electronic payment or make good-value internet purchases. They also find it more expensive to travel to other Member States where, without the right of access to a basic payment account, they use non-bank transfers of funds. Further, if they rely on cash, they face the cost and hassle of currency exchange and may put their personal security at risk. The costs extend further. In 2010, being paid by means other than

[440] FSUG response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 15.
[441] BEUC response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 22.

bank transfer, cost benefit recipients a bit more than €11 million in Germany.[442] On the basis of UK Treasury data, it has been calculated that unbanked households could pay as much as £587 million per year only to cash benefit cheques.[443]

Limited access has quantifiable disadvantages for wider society. The cost of cash payments is estimated to be between EUR 50bn and EUR 75bn per year.[444] The costs of cash for society would amount to half a GDP point for countries such as Austria, the Netherlands or Belgium. The cost is higher in more cash-oriented Member States (e.g. Bulgaria, Romania, Greece, Italy or Spain) and lower in Member States, such as Sweden or Finland, where card usage is higher.[445] Although those estimated costs refer to the use of cash in general (not only as a result of those who do not hold an account), it shows that important savings can be reaped if a higher portion of consumers can access electronic payments for goods and services.

Reduced use of cash would benefit providers, since cash operations are expensive for them. Conversely, providers would find it costly to provide basic payment accounts cross-border. Divergent national rules and requirements as well as a non-level playing field would require considerable investment to adjust to new markets. This would be disproportionate to any potential profit.

Public administrations (and therefore taxpayers) are also incurring in costs that could be avoided if social benefits were automatically paid into a payment account and therefore many national public authorities consider it essential to grant the right of access to basic payment accounts to all consumers.[446] The administrative and financial costs of issuing a cheque and of distributing it are not negligible. In the fiscal year 2010, the US Treasury spent $117 million only in mailing Federal benefit cheque to benefit recipients (some 11 million people).[447] This data cannot be extrapolated to the EU case but in certain Member States the cost can also be significant. In Belgium, paying pensions by cheque is the default option. In Ireland, only 40% of the social welfare payments are made through an account (compared to 52% of them through the Post Office and 8% by cheque).[448] In the UK, the Government has recently decided to phase out the payment of benefits by cheque. It has also been reported of giving "*the £20 million-a year contract for payment to Citibank, which runs the PayPoint system, instead of the Post Office*".[449] Thus, although currently less than 1% of the UK total population receive their state pension or benefits by cheque in the UK, it has been considered worthwhile to pay £20 million annually for an alternative system instead of continuing paying benefits by cheque.

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442 *Bericht der Bundesregierung zur Umsetzung der Empfehlungen des Zentralen Kreditausschusses zum Girokonto für jedermann*, Drucksache 17/8312, German Bundestag, 27.12.2011

443 According to a December 2010 HM Treasury statistical release (http://www.hm-treasury.gov.uk/d/stats_briefing_101210.pdf) 1 020 000 unbanked households received at least one benefit. The cost of cashing a cheque of £200 has been reported to be £12 at Cash Converters (http://www.savethechildren.org.uk/sites/default/files/docs/UK_Poverty_Rip_Off_Brief_1.pdf) If a household receives 4 cheques a month (weekly benefits), cost= £12*1 020 000*12*4= £587,520,000/year. Assumptions: 1) all unbanked households receive their benefits by cheque and cash it at Cash Converters; 2) The cost of cashing a cheque of a different value (i.e. more or less than £200) is still £12.

444 *European Payments Council Newsletter*, October 2010, http://www.europeanpaymentscouncil.eu/pdf/EPC_Article_45.pdf

445 *Ibid.*

446 Summary of responses to the public consultation on access to a basic payment account, 25.01.2011, p. 3, http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/consultation_summary-2010_en.pdf

447 http://www.fms.treas.gov/eft/regulations/31cfr208_text.htm

448 *Strategy for Financial Inclusion*, Steering Group on Financial Inclusion, Irish Department of Finance, June 2011, p. 19 (http://www.finance.gov.ie/documents/publications/reports/2011/Fininclusreport2011.pdf)

449 http://www.dailymail.co.uk/news/article-2136439/Now-elderly-told-collect-pension-local-shops-Giro-cheques-set-scrapped.html

The administrative cost of enterprises could also be reduced. For instance, in Belgium, a telecom company recently offered a 20% reduction on the monthly mobile phone subscription and another a monthly EUR 1 rebate for cable TV services paid by direct debit.[450] According to a UK report, poor families are paying some £253 per year extra in gas and electricity bills compared to families that pay by direct debit.[451] This implies overall annual cost of £288 million for the society (on the basis of the above mentioned UK Treasury data).[452]

5.2. Option 2: Ensure application of the provisions of the Recommendation

Effectiveness of policy option

Implementation and application of the Recommendation by Member States so far has been unsatisfactory (See paragraph 1.2.1).[453] Many Member States took insufficient measures to ensure the right of access to basic payment accounts for consumers despite the deadline imposed by the Recommendation, and consumers associations do not expect that this situation can improve.[454]

This option should result in easier access to basic payment accounts for consumers, especially in the countries (e.g. Austria, Bulgaria, Czech Republic, Greece, Latvia, Malta, Poland, Romania, Slovenia, Sweden, Slovakia, and Spain) where barriers to accessing a basic payment account at reasonable cost exist. This option would permit consumers to open a basic payment account with all the features foreseen in the Recommendation regardless of whether the consumer is a resident in the country of application or not. In addition, Member States' launch public campaigns on access, as required under the Recommendation and supported by the European Parliament, would improve public awareness on access.[455] This would attract unbanked and cross-border consumers. In Romania and Bulgaria, where no framework for access to basic payment accounts exists and more than half of the population does not have a payment account, the positive effects should be large.

This option would have a positive impact on customers' mobility and confidence, particularly for citizens travelling abroad for work or study. Consumers would find it easier to open a payment account in another Member State because similar principles would apply when opening an account in every Member State.

The limits of basic payment accounts, as defined by the Recommendation, and the consequent shortcomings, would remain. Unless Member States went further than the Recommendation, consumers would enjoy a right to a basic payment account only if they were otherwise unbanked in that country. The limited features of the account would not facilitate internet banking or online shopping, for example.

These limits would continue to prevent the consumer from making use of online shopping with more choice and lower prices, which is considered essential by the European Parliament for consumers to be able to reap the benefits of e-commerce.[456] Thus, the problem of vulnerable consumers who without the possibility to use internet shopping spend more on products and services would persist. Also, in this way, a more common access to payment accounts would not necessarily contribute to further development of e-commerce and thus to economic growth. At the same time, this option would help decrease the costs incurred by

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450 http://www.numericable.be/news/60/Numericable_tarifs_2012_be.pdf

451 http://www.savethechildrefen.org.uk/sites/default/files/docs/UK_Poverty_Rip_Off_Brief_1.pdf

452 Total number of unbanked households is 1 140 000. Cost= £253*1 1400 000= £288 420 000/year.

453 *European Resolution with recommendations to the Commission on access to basic banking services*, 2012/2055(INI), 4 July 2012, p. 5.

454 BEUC response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 22.

455 *European Resolution with recommendations to the Commission on access to basic banking services*, 2012/2055(INI), 4 July 2012, p. 10.

456 *Ibid.*, p. 4.

administrations or companies when making payments, such as transferring benefits or paying wages.

Since the Recommendation provides minimum standards, Member States that implemented the Recommendation did so in a non-homogenous way. Depending on the policy instrument chosen, the Commission's enhanced efforts to ensure application of the Recommendation would encourage more Member States to implement it, aligning general rules on the right of access in the EU while leaving some flexibility to Member States, in recognition of market differences at national level. Member States could, for instance, set limits for the price of a basic payment account, choose whether to designate selected (versus all) providers to offer accounts, and decide on the content of public campaigns on access.

Consequently, consumers travelling abroad would experience slightly different conditions and criteria of access – in addition to different features - to a payment account. Cross-border activity could be restricted through limitations on payment facilities attached to the account, i.e. only domestic transactions. Likewise, payment services providers may find it difficult to provide basic account services cross-border since they would have to comply with potentially different legal or self-regulatory regimes in order to enter the market. Accordingly, although this option could reduce the number of unbanked citizens it would not remove the practical obstacles the development of an efficient Internal Market.

This option would have a positive impact on customers' mobility and confidence, particularly for more mobile ones such as those travelling abroad for work or to study as well as for unbanked citizens who were refused a payment account so far. Consumers would find it easier to open a payment account in another Member State because the principles for the right of access, based on the Recommendation, would be the same and thus criteria to open a payment account similar across the EU. What is also very important is that the account would be available free of charge or at reasonable cost, also in terms of fees for services linked to the account in line with the European Parliament recommendations[457]. This option is however more likely to impact on the vulnerable group of consumers than mobile consumers. The main reason for this is that this option would foresee only an enforcement of the existing Recommendation and not any improvements in the content, in particular in relation to non-discriminatory features, which are of a greater importance to mobile consumers (see Sub-section 1.1.6).

In conclusion, even though this option could reduce the number of unbanked citizens across EU Member States through increased implementation of the Recommendation, it will not remove the practical obstacles that impede the creation of efficient Internal Market, and thus impede economic growth. However, the effectiveness of this option would largely depend on the implementing measure chosen to ensure application of the Recommendation (e.g. improved enforcement of the Recommendation or new regulatory obligation based on the Recommendation's provisions). The choice of instrument would thus be critical.

Impacts of policy option on stakeholders and efficiency

In general, under this option, all consumers will be able to open a basic payment account anywhere in the EU. The figures presented by the World Bank's report demonstrate that there are many more unbanked consumers in the EU12 than EU15, and therefore it may be assumed that the impact of any initiative targeting basic payment accounts will be greater in new Member States, especially in those which do comply with the Recommendation.[458]

[457] European Resolution with recommendations to the Commission on access to basic banking services, 2012/2055(INI), 4 July 2012, p. 9.

[458] Measuring Financial Inclusion, The Global Findex Database, World Bank, April 2012, p. 50-52.

Consumer benefits arise in three ways: more efficient payment instruments, i.e. reduced use of money transmission mechanisms and fewer cheques; discounts from using electronic payments, e.g. by establishing a direct debit to pay an electricity bill; and the reduced risk of theft or fraud associated with cash payments (see Section 2.4). Consumers may also be able to purchase additional financial products, such as home or fire insurance, further minimising risks and costs. Such costs are however not tangible, as they only exist when the event occurs. However, while newly banked consumers may be able to access additional financial and other products by using electronic payments, since the features of the basic payment account under the Recommendation do not cover facilities necessary for internet shopping, these consumers would not be able to pay for them and thus avail of the cheaper goods and services. Access to online shopping is considered to be an essential feature of a basic payment account by consumer representatives and some public authorities.[459] Consumers should also get a clear view of the features of a basic payment account because they will all be based on the same broad principles of the Recommendation and this will allow them to be more confident to ask for a payment account abroad.

Consumers will face costs in terms of opening and maintaining an account. These should not be excessive: the account should be provided free or at reasonable cost. Some vulnerable consumers will bear occasional and recurring costs for the inappropriate use of the basic account, e.g. unpaid overdrafts. In France and the UK, these charges are estimated at between EUR 17 and 22 for each failed transaction.[460] As a result of these charges and due to the fear of seizure, as a minimum balance is not protected against seizure by creditors under this option, some consumers, especially those who tend to fall in financial difficulties, may still be discouraged from opening an account.

Financial services providers would also incur costs. They would incur both one-off and recurring costs for opening and running payment accounts. There might also be an administrative cost for providers, since they may face substantial inflow of new clients, many of whom will not be very profitable. Providers in countries with fewer unbanked citizens are less likely to incur these costs though providers in more developed Member States may notice a growing number of immigrants from EU12 asking for a basic payment account. For instance, in the UK, there are numerous workers from other EU Member States and many do not have a payment account.

Under this option, mobile consumers will have the right of access to a basic payment account but there might be a language issue between them and the bank, which may result in additional cost for the provider. These costs could, however, be recovered by banks partly or fully, depending on the level of charges imposed on consumers for the use of a basic payment account. In practice, the real level of costs is likely to be lower. Second, one-off costs would be incurred by providers from paying consumers switching to a basic payment account. The introduction of a basic payment account, which can be offered free of charge or at low cost, will result in some consumers switching from their regular account to a cheaper option. Finally, banks interested in providing account services cross-border would continue to face unnecessary barriers and costs as the rules introduced in Member States, although based on the Recommendation's provisions would differ from country to country. Financial services providers, entering new markets, would have to meet these specific national requirements and therefore their IT systems, operating procedures, and the features of already existing products

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459 Summary of responses to the public consultation on access to a basic payment account, 25.01.2011, p. 10, http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/consultation_summary-2010_en.pdf

460 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study

would have to be adapted accordingly. These costs are likely to exceed potential benefits at least in the short to medium term and banks may refrain from operating across borders.

Payment account providers will also encounter benefits. With a legal right of access to a payment account and public campaigns attracting citizens to open one, many more payments will be made through bank transfers. This may result in substantial savings from reduced costs of transporting and insuring cash. Providers are also likely to enjoy a larger customer base to which they can market other products, e.g. fire insurance; they will be able to reduce costs of and risks from cash based payments and will benefit from a contribution to capital and funding. These benefits are non-quantifiable.

Companies, in particular utility companies such as energy and water providers, would benefit from reductions in transaction costs as many banked consumers would switch to cheaper direct debit payments which are a cheaper way of collecting payments. Companies providing goods and services online would, however, not benefit to the same extent as there is no guarantee of online purchasing facilities. Moreover, international companies may suffer if the features of the account are limited to domestic transactions. Companies would be able to benefit by paying salaries through accounts rather than through more expensive payment instruments such as cheques.

Member States would experience costs and benefits. The extent of these would depend on the instrument chosen. Member States which already implemented the Recommendation (Belgium, France and Italy) would enjoy fewer benefits.

Benefits would come in the form of savings on payments of social security which could be made through a bank transfer. A 2010 study estimated these savings at EUR 7-12 per recipient per annum.[461] States with more unbanked consumers at present are likely to enjoy more savings.

Member States would incur the cost of organising a public information campaigns to inform consumers of the existence of basic payment accounts and their rights to open one. However, those with fewer unbanked citizens (e.g. Denmark, Finland, Germany, Sweden, the Netherlands and the UK) may be able to limit costs by focusing on targeted groups of consumers.

Member States' costs incurred as a result of new European measures on the right of access to basic payment account will not depend on the number of unbanked consumers in a given country because administrative costs of introducing a new legislation or aligning the existing one are likely to be roughly the same regardless of the level of account penetration in a Member State: administrative costs should not change significantly. They will rather depend on whether the Recommendation has been implemented or not. It can be assumed that the lowest costs will be incurred by the three Member States which fully implemented the Recommendation (Belgium, France and Italy) because they will need to make only minor amendments in the existing legislation. Member States which introduced legislative or self-regulatory measures, however not fully complying with the Recommendation (Portugal, Denmark, Estonia, Finland, Lithuania, Luxembourg, Sweden, Germany, Hungary, Ireland, Netherlands, and the UK), will have to incur costs to align the existing measures with the new EU law. However, the highest cost will have to be borne by the Member States which do not have any rules on access in place: Austria, Bulgaria, Czech Republic, Cyprus, Greece, Latvia, Malta, Poland, Romania, Slovakia, Slovenia and Spain. Likewise, the additional costs of monitoring and enforcement will be lower for the Member States where legislation on access

[461] *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 51, http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study

already exists (Belgium, France, Italy, Denmark, Finland, Luxembourg, Estonia, Lithuania, Sweden), be it fully or partly compliant with the Recommendation, because it can be assumed that these Member States are already involved in the monitoring and enforcement of the existing rules. These costs will be higher for Member States with self-regulation or industry charters (Germany, Hungary, Ireland, Portugal, the Netherlands and UK) where monitoring and enforcement will have to be enhanced, and even higher in Member States where there are no rules on access at all (Austria, Bulgaria, Czech Republic, Cyprus, Greece, Latvia, Malta, Poland, Romania, Slovakia, Slovenia and Spain) because these Member States will have to designate responsible authorities to monitor and enforce the new law on the right of access.

The benefits may differ though because the more banked consumers, the more social benefits can be paid by public authorities through a bank transfer which is cheaper than other means of payment. Therefore, those Member States with currently more unbanked consumers are likely to be impacted by more benefits following the introduction of measures on the right of access to basic payment accounts. These would be Romania and Bulgaria with the highest unbanked populations in the EU, but also Poland, Hungary, Lithuania where almost 30% of citizens above the age of 15 do not have a payment account. On the other hand, Member States with a very high bank account penetration on the market (e.g. Denmark, Finland, Germany, Sweden, the Netherlands, and the UK) will not be impacted by the benefits to a great extent because it can be assumed that many consumers have already their social benefits paid to bank accounts in these countries.

Finally, broader society should benefit through economic development and growth since "*people with access to savings accounts or simple informal savings technologies are more likely to increase productivity and income*."[462] First, the development of the retail banking in less advanced countries is unavoidable in the near future in any case. Even if cash is still the only payment means for a significant part of the society in Romania and Bulgaria, with the rapid development of electronic means of payment which are generally cheaper and safer, citizens of these and other EU countries lagging behind will catch up and use banking services in a universal and habitual manner in the near future. This will also ensure further economic growth in the region since, as demonstrated in Chapter 2, the use of electronic payments facilitates savings for public administrations, the private sector, and for consumers.[463] Second, there is likely to be less fraud and tax avoidance since payment transactions would increasingly take place through electronic (and traceable) payments channels.

Quantification of costs and benefits

Consumers

Consumers will face costs of between EUR 108 - 542 million in the first year (see Table 2.D). These costs will be incurred in those Member States where the Recommendation has not yet been implemented: Sweden, Germany, Hungary, Ireland, Austria, Czech Republic, Estonia, Greece, Lithuania, Luxembourg, Latvia, Poland, Slovakia, Slovenia, Spain, UK, Cyprus, Malta, Romania, Bulgaria, the Netherlands, Finland, Denmark and Portugal.

Table 2.D: Cost and benefits for consumers (EUR millions)

	2 million consumers	**6.4 million consumers**	**10 million consumers**
Costs			
Account operation costs	91	290	453
Failed transaction costs	18	57	89
Other costs (e.g. risk of account fraud, risk of seizure of funds)	Not quantifiable	Not quantifiable	Not quantifiable
Total costs	108	347	542

462 *Measuring Financial Inclusion*, The Global Findex Database, World Bank, April 2012, p. 5.

463 *Strategy for Financial Inclusion*, Steering Group on Financial Inclusion, Irish Department of Finance, 2011, p. 14 http://www.finance.gov.ie/documents/publications/reports/2011/Fininclusreport2011.pdf

Benefits			
Benefits from reduced use of money transmission and cheques	320	1 024	1 600
Benefits through discounts for electronic payments	222	711	1 111
Benefits through discounts for online purchases	0	0	0
Other benefits (increased accessibility of funds, reduced risk of theft, increased choice of goods and services, accessibility of accommodation/employment/improved confidence)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	542	1 735	2 711

In terms of costs, no one-off costs have been identified since the cost of opening a payment account is included in the annual maintenance charge. All costs incurred by consumers are recurring costs and can be broken down as follows:

- Annual maintenance charge estimated by the CSES study at EUR 51[464];
- Costs of inappropriate use of the account. Consumers would bear occasional and recurring costs of inappropriate use of the basic account, e.g. due to unpaid overdrafts;
- Non-quantifiable costs. These include potential losses from fraud in the event that the account details are lost or stolen as well as the risk of possible seizure of funds in the event of any court judgment.
- Regarding benefits (See Table 2.D), the annual recurring benefits can be broken down as follows:
- Benefits from discounts from reduced use of money transmission and cheques;
- Benefits from cheaper electronic payments and online purchases;
- Non-quantifiable benefits including being able to access funds more quickly, regardless of their geographic location; an increased sense of security; n increased choice of goods and services (e.g. online shopping); enabling access to employment and accommodation more easily; and a reduced sense of financial, economic and social exclusion.

Payment services providers

Payment account providers will face total costs of between EUR 71 - 356 million in the first year. These costs will be incurred in those Member States where the Recommendation has not yet been implemented.

Table 2.E: Cost and benefits for providers (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
Annual account operation costs	71	228	356
Other costs (modifying IT systems, internal procedures, staff training).	Not quantifiable	Not quantifiable	Not quantifiable
Total costs	71	227	356
Benefits			
Recurring annual benefits	18	57	89
Other benefits (increased customer base, reduced cost of cash, increased capital base, improved reputation)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	18	57	89

These costs comprise annual recurring costs and one-off costs:

- Annual recurring costs of opening and operating a payment account;

[464] *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 40. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study

- One off costs for modifying IT systems, staff training and adapting internal procedures. Costs of these modifications will be incorporated into the annual fees charged to consumers; over time, the more basic payment accounts that there are, the lower the incremental costs[465];
- The introduction of a basic payment account, which can be offered free of charge or at low cost, will result in a number of consumers willing to switch from their regular account to a cheaper option. The one-off cost of this is estimated at EUR 3 per consumer.[466] It is not possible to quantify how many consumers would make this switch. Therefore, the revenue of payment services providers may fall. It is however impossible to quantify their numbers as while concrete cost savings would be available for these consumers, a number may decide against switching as the basic account may not have all the services of a "normal" account. Consequently, the numbers depend largely on consumer preferences which vary considerably.

Providers will enjoy benefits of between EUR 18 million and EUR 89 million in the first year. These comprise recurring annual benefits and non-quantifiable benefits, such as: an increased customer base to which to market other products, e.g. fire insurance; the reduced cost of and risks from cash based payments; or the benefits from a contribution to capital and funding. Since these are however non-quantifiable, the only quantifiable benefits are those indicated in the above table.

Governments

The costs and benefits will be incurred in those Member States where the Recommendation has not yet been implemented. (Sweden, Germany, Hungary, Ireland, Austria, Czech Republic, Estonia, Greece, Lithuania, Luxembourg, Latvia, Poland, Slovakia, Slovenia, Spain, UK, Cyprus, Malta, Romania, Bulgaria, the Netherlands, Finland, Denmark, Portugal).

Member States will face total costs of approximately EUR 3 million in the first year, depending on the instrument chosen. Member States will face total benefits of between EUR 18 million and EUR 89 million in the first year. The size of these costs will depend on the instrument chosen.

Table 2.F: Cost and benefits for Member States (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
One off costs of introducing legislation	1.13	1.13	1.13
Recurring costs of monitoring and supervising application	1.89	1.89	1.89
Total costs	3.02	3.02	3.02
Benefits			
Recurring annual benefits	18	57	89
Other benefits (less benefit and tax fraud)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	18	57	89

Annual recurring benefits for Member States comprise:

- Savings on payments of social security. These could be made through a bank transfer instead of more costly means (e.g. cheques).
- Non-quantifiable benefits, including less fraud associated with paper systems and less costly local tax collection.

465 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 52. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study

466 Impact assessment accompanying the document Commission Recommendation on access to a basic payment account, SEC(2011) 906, p. 41.

Enterprises

Utilities providers will face total benefits of between EUR 32 million and EUR 160 million in the first year. Energy and water providers would benefit from reductions in transaction costs. Many banked consumers would switch to cheap direct debit payments which for utility firms is one of the cheapest ways of collection of payments. Utility firms may lose small amounts of revenue, although most likely not material,[467] through offering discounts to consumers who pay electronically. Those retailers that only accept cash would also face potentially lost business although this is unlikely to be material.[468] However retailers that were electronically based, not necessarily even in the consumer's home country, would be able to benefit.

Table 2.G: Total benefits for utility firms from lower transaction costs (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
EUR 1.5/transaction	32	102	160

5.3. Option 3: Modify the provisions of the Recommendation relative to the beneficiaries

5.3.1. Variant A: Introduce a universal right to a basic payment account (i.e. Basic Payment Account to be offered by all banks and not subject to conditions such as not having another account)

Effectiveness of policy option

The effectiveness of this policy option would largely be dependent on the degree of application of the provisions of the Recommendation (Option 2).

This option would result in many requests for a basic payment account, not only from unbanked consumers but also from those who already have an account; in particular, if such an account is free of charge or at reasonable cost. Since all account providers would have to provide this service, then consumers' awareness of the availability of a basic payment account would increase. Universal access would not only attract unbanked consumers who often cannot afford a regular payment account but would also attract those who do not need a basic account but would find it attractive since it would be free or at low cost. Therefore, this option would be disproportionate to the objectives and would be contrary to the Commission Recommendation and to the European Parliament report, as well as to the users view,[469] which suggest ensuring the right of access to a basic payment account only to those consumers who do not already hold another account in that Member State. Universal access would, however, increase the number of basic payment accounts and thus reduce the number of unbanked consumers.

Consumers would have the right of access to a basic payment account based on the Recommendation's principles in both national and cross-border contexts. Consumers travelling to another Member State would be able to ask for such an account wherever they went which without a universal right would not be possible. Consequently, this option would facilitate both consumer mobility (in geographic terms) and thus confidence in the internal market, while at the same time increasing the confidence of financially excluded citizens. However, consumers with a basic payment account would still have no access to all potential payment means (e.g. those allowing online purchasing) due to limited features of a basic payment account under the Recommendation which do not change under this option.

467 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study

468 *Ibid.*

469 FSUG response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 15.

By introducing common general rules on the right of access across the EU for providing a basic payment account, national legal fragmentation would also be mitigated. It would therefore be easier for the banks to offer cross-border services and enter new markets without the need for massive changes in their internal structures and procedures (although some modifications may be necessary, for example in terms of product features). Depending on the policy instrument chosen and assuming that this option would introduce common general rules on the right of access across the EU (based on the implementation of the Recommendation), Member States would still be given the flexibility necessary to recognise different conditions at national level (e.g. unequal degree of development of the banking sector, varying price levels of banking services in Member States, different banking traditions and divergent levels of payment accounts' penetration). Therefore they could, for instance, set the limits for the price of a basic payment account or decide on the content and target of public campaigns informing about the availability of this product (as foreseen by the Recommendation).

<u>Impacts of policy option on stakeholders and efficiency</u>

The impacts of this policy option would largely be dependent on the degree of application of the provisions of the Recommendation (Option 2). In general, the same effects as described under Option 2 would apply.

Additionally, obliging all account providers to offer a basic payment account to any consumers, regardless of whether or not they already hold and can afford a regular account, would lead to a massive and disproportionate administrative and financial burden for financial services providers. First, based on the Recommendation's provisions, the basic accounts would have to be provided free of charge or at a reasonable cost. The example of countries where basic payment accounts are offered at reasonable cost has shown that the annual fee for an account is much lower than the costs for the bank in maintaining this account. If basic accounts are available at low cost to everybody, then many consumers, not only unbanked ones, might be interested in having one, which would greatly increase the costs for banks, while reducing their revenue from other accounts. This will result in more consumers switching from their regular account to a cheaper option. The cost would not only be incurred in terms of the accounts' subsidies, but also in terms of administrative burden and the number of staff necessary to handle the expected high demand for basic payment accounts. Second, financial services providers would incur one-off costs of opening and recurring costs for running payment accounts. These costs would be greater as the potential number of clients is likely to be higher as there would be both unbanked and banked consumers who would open accounts.

However, while account providers would welcome vulnerable, mostly poorer consumers, who have been unbanked so far, and who would not be able to buy additional financial products that potentially could offset the provision of low-priced basic payment accounts in the short term, they offer a potential growth market in the future. Moreover, the universality of this option could lead to an increase in multi-banking by the non-excluded consumers as thus a growth in the market for other financial services products. Account providers will also face benefits through the use of more efficient payments instruments, e.g. bank transfers. There would also be additional benefits for providers such as the reduced cost of and risks from cash based payments or the benefits from a contribution to capital and funding. Finally, providers entering new markets would still have to meet these specific national requirements in terms of account features but would be aware of the common framework for opening an account and therefore while they would face some costs of adaptation in terms of IT systems, operating procedures and the features of existing products, these costs would be minimised as some elements relating to opening procedures would remain unchanged.

A basic payment account available for everybody would bring substantial benefits to many unbanked consumers. In addition to the effects described under Option 2, this option would also bring cost savings for consumers with payments accounts as some of those who can afford a current account would switch to a 'cheaper' basic payment account. However, the number of consumers switching would depend on the features of a basic payment account. Consumers – both vulnerable and mobile – could benefit from the universal access to a payment account within their country of residence and cross-border. This would boost consumers' confidence and encourage geographic mobility. However, they would still bear additional costs if shopping online because the necessary facilities (e.g. a payment card) would not be a guaranteed feature of a basic payment account. Also, since the current features of the basic payment account do not protect a consumer's balance against seizure, consumers who fall into debt may have their balance seized by creditors, which may be a costly consequence of access.

Member States would also face costs and benefits although the ultimate size of these impacts would depend on the instrument chosen. In principle, these would be similar to those described under Option 2 and dependent on the degree of application of the provisions of the Recommendation. The key difference would be that those Member States that have not currently foreseen universal access would have to do so. This means that those Member States which select only one or two institutions to provide such accounts (e.g. France) as well as those who already comply with the Recommendation (Belgium, France and Italy), as currently foreseen as an option under the Recommendation, would no longer be able to do so and would have to change their system. Moreover, all Member States would have to engage in public information campaigns to raise awareness. Consequently, the universal access would make the overall costs for public authorities across the EU higher, also in terms of monitoring compliance and enforcement.

Companies would also face costs and benefits although the ultimate size of these impacts would depend on the instrument chosen. In principle, these would be similar to those described under Option 2 and dependent on the degree of application of the provisions of the Recommendation. Companies providing goods and services online would however not benefit to the same extent from this option as there is no guarantee of online purchasing facilitates, which are considered indispensable by users[470] and several public authorities[471]. Moreover, international companies, particularly those online, may suffer if the features of the account are limited to domestic transactions.

<u>Quantification of costs and benefits</u>

The impacts of this policy option would largely be dependent on the degree of application of the provisions of the Recommendation (Option 2). In general, the same impacts as those described under Option 2 would be felt albeit with some, largely qualitative, differences which are described. As such, the figures provided illustrate the estimated cumulative benefit of Option 2 when combined with this policy option.

Consumers

Consumers will face total costs of between EUR 122 million and EUR 610 million in the first year, provided that there is improved application of the provisions of the Recommendation as foreseen under Option 2. Under this Option, the costs would however be closer to the upper end of the scale as the reduction in the number of unbanked (at least relative to Option 2) would be expected to be slightly higher. Moreover, given that all Member States would have to introduce universality, no discount would be applied as it is assumed that the number of

[470] FSUG response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 16.

[471] *2012 Public consultation on bank accounts* (see footnote 11), p. 10.

unbanked would decline somewhat – although not necessarily by much in those Member States that have to make broader access more feasible.

Table 2.H: Cost and benefits for consumers (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
Account operation costs	102	326	510
Failed transaction costs	20	64	100
Other costs (e.g. risk of account fraud, risk of seizure of funds)	Not quantifiable	Not quantifiable	Not quantifiable
Total costs	122	390	610
Benefits			
Benefits from reduced use of money transmission and cheques	360	1 152	1 800
Benefits through discounts for electronic payments	250	800	1 250
Benefits through discounts for online purchases	0	0	0
Other benefits (increased accessibility of funds, reduced risk of theft, increased choice of goods and services, accessibility of accommodation/employment/improved confidence, benefits from switching to a cheaper account)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	610	1 952	3 050

These figures include both one-off costs and recurring costs. However, in practice, one-off costs for unbanked consumers have not been identified since the cost of opening of a payment account is included in the first annual fee which the consumer has to pay. All costs incurred by consumers are therefore recurring costs. The recurring costs borne by consumers can be broken as follows:

- Annual maintenance charge (which includes start-up charges in the first year);
- Costs of inappropriate use of account;
- Non-quantifiable costs in the form of potential losses from fraud in the event that the account details are lost or stolen as well as the risk of possible seizure of funds in the event of any court judgment.

Recurring annual benefits for consumers are estimated at between EUR 610 million and EUR 3050 million provided that there is improved application of the provisions of the Recommendation as foreseen under Option 2. Under this Option, the benefits would however be closer to the upper end of the scale as the number of unbanked (at least relative to Option 2) would be expected to be slightly higher because of the universality of the access.

The one-off benefits would be for consumers who opt to switch from a 'normal' to a 'basic' payment account. These are non-quantifiable. While concrete cost savings would be available for these consumers, a number may decide against switching as the basic account may not have all the services of a 'normal' account. Consequently, the numbers depend largely on highly variable consumer preferences.

The annual recurring benefits can be broken down as follows:

- Benefits from discounts from reduced use of money transmission and cheques;
- Benefits from discounts from electronic payments and online purchases;
- Other non-quantifiable benefits. Consumers would be able to access their funds more quickly, regardless of their geographic location. They would also benefit from an increased sense of security through lower levels of cash transactions, an increase in choice of goods and services where electronic payments are obligatory which would become available, the ability to access employment and accommodation more easily and a reduced sense of financial, economic and social exclusion.

Payment services providers

Payment account providers will face total costs of between EUR 80 million and EUR 400 million in the first year provided Option 2 applies. Since all Member States would have to introduce universal access, no discount factor will be applied: the number of unbanked citizens will fall even in those Member States that have implemented the Recommendation.

Table 2.I: Cost and benefits for providers (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
Annual account operation costs	80	256	400
Other costs (modifying IT systems, internal procedures, staff training).	Not quantifiable	Not quantifiable	Not quantifiable
Total costs	80	256	400
Benefits			
Recurring annual benefits	20	64	100
Other benefits (increased customer base, reduced cost of cash, increased capital base, improved reputation)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	20	64	100

These costs consist of:

- Annual recurring costs are account operation costs.
- One-off costs arise from consumers switching to a basic payment account. The introduction of a basic payment account, which can be offered free of charge or at low cost, will result in some consumers switching from their regular account to a cheaper option. The revenue of providers may fall. It is impossible to quantify these numbers as while concrete cost savings would be available for these consumers, a number of consumers may decide against switching as the basic account may not have all the services of a 'normal' account. Consequently, the numbers depend largely on consumer preferences, which vary considerably. As such, it is assumed that these costs, even though potentially substantial, are not quantifiable. Given that all Member States would have a new system introduced and that the switching rate is likely to be higher due to the universality of the option (i.e. it would be available to everyone not just the unbanked), these costs are likely to be substantially higher.

Payment services providers would face recurring annual benefits of between EUR 20 million and EUR 100 million. There would be the same further, non-quantifiable, benefits as in Option 2 above. Since universal access should reduce the number of unbanked citizens compared to Option 2, these benefits would be slightly higher.

Governments

Member States will face total costs of up to EUR 3.40 million in the first year depending on the instrument chosen. Member States will face total benefits of between EUR 20 million and EUR 100 million in the first year. There would also be non-quantifiable benefits in terms of less fraud associated with paper systems and less costly local tax collection.

Table 2.J: Cost and benefits for Member States (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
One off costs of introducing legislation	1.27	1.27	1.27
Recurring costs of monitoring and supervising application	2.12	2.12	2.12
Total costs	3.4	3.4	3.4
Benefits			
Recurring annual benefits	20	64	100

Other benefits (less benefit and tax fraud)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	20	64	100

Other stakeholders – utility firms

Utilities providers will face total benefits of between EUR 36 million and EUR 180 million annually, provided Option 2 applied. However, under this option, benefits would be closer to the upper end of the scale (EUR 180 million) since the number of unbanked citizens (at least relative to Option 2) would be lower due to the universal right of access. Since all Member States would have to introduce universal access, no discount factor will be applied: the number of unbanked citizens will fall even in those Member States that have implemented the Recommendation.

Table 2.K: Total benefits for utility firms from lower transaction costs (EUR million)

	2 million consumers	6.4 million consumers	10 million consumers
EUR 1.5/transaction	36	115	180

5.3.2. Variant B: Introduce a right to a basic payment account at least for national residents

Effectiveness of policy option

The effectiveness of this policy option would largely be dependent on the degree of application of the provisions of the Recommendation (Option 2).

This option would only solve the problem of financial exclusion at the national level and would erect barriers to the internal market. Unbanked consumers would be able to open a basic payment account free of charge or at low cost exclusively in their country of residence which is regarded as sufficient by the financial industry.[472] This solution would be entirely ineffective in facilitating cross-border access to basic payment services and contrary to the European Parliament recommendation which states that "*access to basic payment services is a precondition for consumers to benefit from the internal market.*"[473] In addition, consumers would not be encouraged to travel for work or to study in another Member State as they would not have a right to deposit their savings, wages or scholarships in a local payment account. This could create a major restriction to the free movement of persons guaranteed by the Treaty and could be considered discriminatory *vis-à-vis* non-residents from other EU Member States. This would also be an important barrier to potential economic growth in the EU which is mitigated by millions of foreign workers who are ready to travel to EU regions where deficiencies in the availability of labour exist.

Despite the cross-border shortcomings, this option would however largely address the larger problem of unbanked consumers, reducing financial, economic and social exclusion by enabling newly banked consumers to participate in modern national societies with a greater confidence. However, a non-universal right of access to payment accounts, in line with the Recommendation's provisions, would allow Member States to designate only selected institutions to provide basic payment accounts. It can be assumed that such a solution would not result in attracting as many unbanked consumers as the measure on universal access when all providers would be obliged to offer this service cross-border.

This option would also allow for a higher number of payments to be made by administrations (e.g. social benefits) and employers (wages) through bank transfers thus ensuring savings and perhaps additional resources for investments that could bring further economic growth. Nevertheless, under the features of a basic payment account, consumers would not have

472 Summary of responses to the public consultation on access to a basic payment account, 25.01.2011, p. 7, http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/consultation_summary-2010_en.pdf

473 European Resolution with recommendations to the Commission on access to basic banking services, 2012/2055(INI), 4 July 2012, p. 4.

access to all payment means, such as those allowing for online shopping. Cross-border internet shopping would not be available for holders of a basic payment account and a major chance for this sector's development and greater market competition would be missed.

Depending on the policy instrument chosen and assuming that this option would introduce common general rules on the right of access across the EU (based on the implementation of the Recommendation), Member States would still be given the flexibility necessary to recognise different conditions at national level (e.g. unequal degree of development of the banking sector, varying price levels of banking services in Member States, different banking traditions and divergent levels of payment account penetration). Therefore they could, for instance, set the limits for the price of a basic payment account, choose whether or not to designate selected or all providers to offer basic payment accounts, or decide on the content and target of public campaigns informing about the availability of this product (as foreseen by the Recommendation).

Impacts of policy option on stakeholders and efficiency

The impacts of this policy option would largely be dependent on the degree of application of the provisions of the Recommendation (Option 2).

Unbanked consumers in their country of residence would have access to basic payment accounts free of charge or at minimal cost but with limited features. In general, the same effects as described under Option 3A could be expected albeit with some differences. There would be cost savings for domestic unbanked consumers who would have an easy access to basic payment account free of charge or at low cost. In particular, mobile consumers could still face difficulties in opening a basic payment account. This could be particularly problematic for less wealthy mobile consumers, such as migrant workers who work in agriculture or in construction. Moreover, domestic consumers would continue to face additional costs, often excessive for vulnerable consumers, should they wish to make use of online shopping or internet banking. This would inhibit their ability to avail of savings which can be achieved from lower prices online.

Financial services providers (all or some depending on the approach chosen by Member States or self-regulatory initiatives) would incur costs (e.g. accounts' subsidies, internal administrative procedures and staff resources) related to the provision of basic payment accounts to domestic consumers. The majority of these costs would fall on financial services providers in Member States with a high number of unbanked consumers (e.g. EU12 and especially Romania and Bulgaria). However, these costs would be lower than in Option 3A because there would not be an obligation to provide an account to non-residents, even for those Member States which have a large number of migrant workers. The benefits would however also be correspondingly lower.

Member States would face costs and benefits although the ultimate size of these impacts would depend on the instrument chosen. In principle, these would be similar to those described under Option 2 (i.e. less than under Option 3A) and dependent on the degree of application of the provisions of the Recommendation.

Companies would also face benefits from efficiency gains although the ultimate size of these impacts would depend on the instrument chosen. In principle, these would be similar to those described under Option 3A and dependent on the degree of application of the provisions of the Recommendation. However, it is likely that they would be slightly lower due to the domestic focus of this option. Companies providing goods and services online would however not benefit to the same extent from this option as there is no guarantee of online purchasing facilities. Moreover, international companies, particularly those online, would continue to suffer if the features of the account are limited to domestic transactions

Quantification of costs and benefits

The impacts of this policy option would largely be dependent on the degree of application of the provisions of the Recommendation (Option 2). In general, the same impacts as those described under Option 2 would be felt albeit with some, largely qualitative, differences and which stem from the fact that under this policy option only national residents would have the right of access to a basic payment account. As such, the figures provided illustrate the estimated cumulative benefit of Option 2 when combined with this policy option. For the calculation of the potential costs and benefits of this policy option, a discount is applied to take into account the fact that three Member States (Belgium France and Italy) have already fully implemented the Recommendation and all national residents have a right to a basic payment account.

Consumers

Consumers will face total costs of between EUR 102 million and EUR 510 million in the first year. These costs will be incurred in those Member States where the Recommendation has not yet been implemented.

Table 2.L: Costs and benefits for consumers (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
Account operation costs	85	273	426
Failed transaction costs	17	53	84
Other costs (e.g. risk of account fraud, risk of seizure of funds)	Not quantifiable	Not quantifiable	Not quantifiable
Total costs	102	326	510
Benefits			
Benefits from reduced use of money transmission and cheques	301	963	1504
Benefits through discounts for electronic payments	209	668	1044
Benefits through discounts for online purchases	0	0	0
Other benefits (increased accessibility of funds, reduced risk of theft, increased choice of goods and services, accessibility of accommodation/employment/improved confidence)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	510	1 631	2 548

These figures include both one-off costs and recurring costs. However, in practice, one-off costs for unbanked consumers have not been identified since the cost of opening of a payment account is included in the first annual fee which the consumer has to pay for the account maintenance. All costs incurred by consumers are recurring costs. The recurring costs borne by consumers can be broken as follows:

- Annual maintenance charge (which includes start-up charges in the first year);
- Costs of inappropriate use of account;
- There would also be non-quantifiable costs for consumers in the form of potential losses from fraud in the event that the account details are lost or stolen as well as the risk of possible seizure of funds in the event of any court judgement.

Consumers will also face recurring annual benefits of between EUR 510 million and EUR 2548 million provided that there is improved application of the provisions of the Recommendation as foreseen under Option 2. Under this option, the benefits would however be closer to the lower end of the scale as the number of unbanked (at least relative to Option 2) would not decrease very substantially due to the fact that non-residents would not have a right to a payment account. The annual recurring benefits can be broken down as follows:

- Benefits from discounts from reduced use of money transmission and cheques;
- Benefits from discounts from electronic payments and online purchases.

Consumers would also face non-quantifiable benefits in the form of being able to access their funds more quickly, regardless of their geographic location; they would benefit from an increased sense of security through lower levels of cash transactions, an increased choice of goods and services where electronic payments are obligatory, the ability to access employment and accommodation more easily and a reduced sense of financial, economic and social exclusion.

Payment services providers

Payment account providers will face total costs of between EUR 67 million and EUR 334 million in the first year provided that there is improved application of the provisions of the Recommendation as foreseen under Option 2. These costs consist of annual recurring costs and one-off costs. The annual recurring costs are account operation costs.

Table 2.M: Cost and benefits for providers (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
Annual account operation costs	67	214	334
Other costs (modifying IT systems, internal procedures, staff training).	Not quantifiable	Not quantifiable	Not quantifiable
Total costs	67	214	334
Benefits			
Recurring annual benefits	17	53	84
Other benefits (increased customer base, reduced cost of cash, increased capital base, improved reputation)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	17	53	84

Payment services providers would face recurring annual benefits of EUR 17 – 84 million. There would be the same further, non-quantifiable, benefits as in Option 2 above.

Governments

Member States will face total costs of up to EUR 3.02 million in the first year, depending on the instrument chosen. Member States will face total benefits of EUR 17 – 84 million in the first year. There would also be non-quantifiable benefits in terms of less fraud associated with paper systems and less costly local tax collection.

Table 2.N: Cost and benefits for Member States (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
One off costs of introducing legislation	1.13	1.13	1.13
Recurring costs of monitoring and supervising application	1.89	1.89	1.89
Total costs	3.02	3.02	3.02
Benefits			
Recurring annual benefits	17	53	84
Other benefits (less benefit and tax fraud)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	17	53	84

Other stakeholders – utility firms

Utility providers will face total benefits of between EUR 36 million and EUR 180 million in the first year (likely to be closer to the lower end of the scale), provided Option 2 applied, since non-residents would not have a right of access..

Table 2.O: Total benefits for utility firms from lower transaction costs (EUR million)

	2 million consumers	6.4 million consumers	10 million consumers
EUR 1,5/transaction	31	96	150

5.3.3. *Variant C: Introduce a right to a basic payment account at least to those non-residents with a link to the country where they wish to open an account (i.e. targeting specifically mobile consumers)*

Effectiveness of policy option

The impacts of this policy option would be closely related to the degree of application of the provisions of the Recommendation (Option 2) and the instrument chosen.

This option would reduce the number of excluded national and mobile consumers with a link to the country, although only to the extent that the Recommendation is applied. In general, similar effects could be envisaged as those in Option 2, albeit on a far lesser scale since the benefits would only be accrued by mobile consumers with a link to the country where they apply for an account, which represents a comparatively small number of people. The effectiveness in terms of reducing the number of unbanked (both in terms of vulnerable and mobile consumers) would also depend on the opportunity cost (in terms of time and effort) associated with proving the link to that member state. Such an additional requirement in order to open a payment account, demonstration of which may be even more difficult due to a language barrier, would decrease the confidence of foreign consumers.

The shortcomings of the Recommendation identified in Section 1.2, e.g. limited availability of some payment means (e.g. online payment facility), would persist and would have negative effects on consumption – particularly in a cross-border context – and growth.

Providers of basic payment accounts would find it more demanding to enter new markets, as they would be required to verify the link of non-residents with the country. This could be even more burdensome and costly for them if the criteria for this link were established at national level, even if only to a limited extent. Unless the criteria were defined at EU level, this would not create a level playing field, since local providers would better understand the specificity of national documents needed to prove this link. Cross-border providers would need to incur the cost necessary to adapt to national legal environments.

Depending on the policy instrument chosen and assuming that this option would introduce common general rules on the right of access across the EU (based on the implementation of the Recommendation), Member States would still be given the flexibility necessary to recognise different conditions at national level. Therefore they could, for instance, set the limits for the price of a basic payment account, choose whether or not to designate selected or all providers to offer basic payment accounts, define which documents can prove a consumer's link with the country, or decide on the content and target of public campaigns informing consumers about the availability of the product (as foreseen by the Recommendation).

Impacts of policy option on stakeholders and efficiency

Consumers would face costs and benefits. The additional administrative burden of the procedure to confirm a 'link' with the country where the consumer intends to open a bank account could discourage many mobile consumers, particularly vulnerable ones who may find it difficult to collect and provide the necessary documentation. Consequently, it is assumed that this option would have little real impact on the level of unbanked citizens. For example, consumers could be required to present a document demonstrating that they legally work or study in the new Member State which however can be difficult to obtain shortly after the arrival. This could delay their access to a payment account forcing them for instance to keep their money in a less secure place or having limited access to them. They might also need to use more costly channels to receive or transfer funds before they will be able to open a payment account. Moreover, legal residents and citizens would have the right of access to a basic payment account guaranteed but without some important features, e.g. internet banking or online shopping, for which they would need to pay extra due to the limited scope of the Recommendation. Without the possibility of making use of e-commerce they would continue paying higher prices for products and services and would still have limited choice.

Account providers would incur high costs and a large administrative burden. However, there would be the additional – and potentially substantial – administrative burden of the procedure to confirm a 'link'. Appropriate enforcement efforts would also need to be put in place in order to avoid unjustified rejection of non-residents' applications by banks. Nevertheless, since this option would only be applied for 'mobile' consumers, then providers would face such an increased administrative burden albeit on a far lesser scale. In terms of distribution of impacts, account providers in countries where there are higher numbers of migrant workers (e.g. UK) would face a higher administrative burden compared to those countries that have more emigration. In the cross-border context, providers might furthermore be subject to additional national rules defining, for instance, which national documents are necessary in order for the link to be adequately proven. This can be an additional cost for them which may outweigh potential benefits from entering new markets and thus discourage them from expanding.

Companies would also face benefits from efficiency gains, although the ultimate size of these impacts would depend on the instrument chosen. In principle, these would be similar to those described under Option 2 and dependent on the degree of application of the provisions of the Recommendation. However, it is likely that they would be slightly lower than those in Option 2 as the administrative procedure for verifying access could deter consumers from opening a payment account. Companies providing goods and services online would not benefit to the same extent from this option as there is no guarantee of online purchasing facilitates. Moreover, international companies, particularly those online, would continue to suffer if the features of the account are limited to domestic transactions.

Member States would face costs and benefits although the ultimate size of these impacts would depend on the instrument chosen. In principle, the type of impacts would be similar to those described under Option 2 and dependent on the degree of application of the provisions of the Recommendation. Member States may incur additional costs since they might be required to define legal criteria for the 'link with the country' for non-residents wishing to open a bank account, and then ensure banks' compliance with these criteria.

Quantification of costs and benefits

The impact of this policy option would largely be dependent on the degree of application of the provisions of the Recommendation. In general, the same impacts as those described under Option 2 would be felt albeit with some, largely qualitative, differences which are described below. They stem from the fact that under this policy option (aside from all national residents) only those non-residents who can prove a link to the country where they wish to open an account would have the right of access to a basic payment account. As such, the figures provided illustrate the estimated cumulative benefit of Option 2 when combined with this policy option. For the calculation of the potential costs and benefits of this policy option, a discount is applied to take into account the fact that three Member States (Belgium France and Italy) have already fully implemented the Recommendation. Thus, they should not be impacted by this option since both national residents and non-residents already have the right of access to a basic payment account in these countries.

Consumers

Consumers will face total costs of between EUR 105 million and EUR 526 million in the first year, provided that there is improved application of the provisions of the Recommendation, as foreseen, under Option 2. These costs will be incurred in those Member States where the Recommendation has not yet been implemented.

Under this option, costs would be at the mid- to upper-end of the scale, as the reduction in the number of unbanked (at least relative to Option 2) would be substantial, but would still exclude those non-residents who do not have a link with the country where they wish to open an account (e.g. migrant workers who just arrived). In addition, the calculation discounts the three Member States (Belgium France and Italy) where the Recommendation has been fully implemented and where both national residents and non-residents have a right to a basic payment account.

Table 2.P: Cost and benefits for consumers (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
Account operation costs	88	281	440
Failed transaction costs	17	55	86
Other costs (e.g. risk of account fraud, risk of seizure of funds)	Not quantifiable	Not quantifiable	Not quantifiable
Total costs	105	337	526
Benefits			
Benefits from reduced use of money transmission and cheques	310	993	1552
Benefits through discounts for electronic payments	216	690	1078
Benefits through discounts for online purchases	0	0	0
Other benefits (increased accessibility of funds, reduced risk of theft, increased choice of goods and services, accessibility of accommodation/employment/improved confidence, benefits from switching to a cheaper account)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	526	1 683	2 630

These figures include both one-off costs and recurring costs. However, in practice, one-off costs for unbanked consumers have not been identified since the cost of opening of a payment account is included in the first annual fee which the consumer has to pay for account maintenance. All costs incurred by consumers are therefore recurring costs. The recurring costs borne by consumers can be broken as follows:

- Annual maintenance charge (which includes start-up charges in the first year);
- Costs of inappropriate use of the account;
- There would also be non-quantifiable costs for consumers in the form of potential losses from fraud in the event that the account details are lost or stolen and the risk of possible seizure of funds in the event of any court judgment.

Consumers will also face recurring annual benefits of between EUR 526 million and EUR 2630 million, provided that there is improved application of the provisions of the Recommendation as foreseen under Option 2. Under this option, benefits would be at the mid- to upper-end of the scale as the reduction in the number of unbanked (at least relative to Option 2) would be substantial but would still exclude those non-residents who do not have a link with the country where they wish to open an account (e.g. migrant workers who just arrived). The annual recurring benefits can be broken down as follows:

- Benefits from discounts from reduced use of money transmission and cheques;

- Benefits from discounts from electronic payments and online purchases.

Consumers would also face non-quantifiable benefits in the form of being able to access their funds more quickly, regardless of their geographic location; they would benefit from an increased sense of security through lower levels of cash transactions; an increased choice of goods and services where electronic payments are obligatory; the ability to access employment and accommodation more easily; and a reduced sense of financial, economic and social exclusion.

Payment services providers

Payment account providers will face total costs of EUR 69 – 345 million in the first if Option 2 were applied. These costs consist of annual recurring costs and one-off costs. The annual recurring costs are account operation costs.

Table 2.Q: Cost and benefits for providers (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
Annual account operation costs	69	221	345
Other costs (modifying IT systems, internal procedures, staff training).	Not quantifiable	Not quantifiable	Not quantifiable
Total costs	69	221	345
Benefits			
Recurring annual benefits	17	55	86
Other benefits (increased customer base, reduced cost of cash, increased capital base, improved reputation)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	17	55	86

Payment services providers would face recurring annual benefits of between EUR 17 million and EUR 86 million. There would be the same further, non-quantifiable, benefits as in Option 2 above.

Governments

Member States will face total costs of up to EUR 3.02 million in the first year depending on the instrument chosen. These costs are calculated in the same way as described in Section 6.2 (Option 2) taking into account the discounts for the three Member States where the Recommendation has already been implemented. Member States may incur additional costs to define legal criteria for the 'link with the country' for non-residents willing to open a bank account, however these are non-quantifiable. Member States will face total benefits of between EUR 17 million and EUR 86 million in the first year. There would also be non-quantifiable benefits in terms of less fraud associated with paper systems and less costly local tax collection.

Table 2.R: Cost and benefits for Member States (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
One off costs of introducing legislation	1.13	1.13	1.13
Recurring costs of monitoring and supervising application	1.89	1.89	1.89
Total costs	3.02	3.02	3.02
Benefits			
Recurring annual benefits	17	55	86
Other benefits (less benefit and tax fraud)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	17	55	86

Other stakeholders – utility firms

Utilities providers would face total annual benefits of between EUR 31 million and EUR 150 million (expected to be at the upper end of the scale) provided Option 2 applies. The reduction in the number of unbanked would be substantial, including non-residents with a link to the country.

Table 2.S: Total benefits for utility firms from lower transaction costs

	2 million consumers	6.4 million consumers	10 million consumers
EUR 1,5/transaction	31	99	155

5.4. Option 4: Improve the features of the basic payment account

5.4.1. Variant A: enlarge the list of basic services to include internet banking and online purchasing

Effectiveness of policy option

This option itself would not contribute to a significant reduction in the number of unbanked consumers unless introduced together with Option 2. It should, however, improve consumers' access to certain basic payment services.

In particular, this option would substantially improve consumers' access to modern means of payment, such as those allowing consumers to make payments over the internet and/or to manage their account through an online banking facility in line with the European Parliament recommendations to the Commission on Access to Basic Banking Services.[474] The opportunity to make use of e-commerce would be a major advantage for consumers since it would give them access to a greater choice of products (including some which are difficult to obtain offline) and lower prices. This would boost their confidence by letting them make full use of innovative and modern channels of purchase and communication. At the same time, internet banking would ensure convenience in control of the account balance and in execution of many banking operations online, e.g. direct debits. Such features may even encourage unbanked consumers to open accounts and facilitate cross-border activity by consumers, as they would find it easier to have a payment account in another Member State, because they could do so online and residence would not be essential.

This option could also facilitate cross-border activity by providers as they would not necessarily need to open a branch or establish a subsidiary in order to provide basic account services, because newly banked consumers would be able to carry out many operations online. This would potentially have a positive impact on competition and prices. Providers across the EU would also need to follow similar requirements on a basic payment account based on the provisions of the present Recommendation, which would allow for a level playing field in this market.

Depending on the policy instrument chosen and assuming that this option would introduce common general rules on the right of access across the EU (based on the implementation of the Recommendation), Member States would still be given the flexibility necessary to recognise different conditions at national level.

Impacts of policy option on stakeholders and efficiency

This option will enable consumers to save both money and time. Consumer benefits would come through several channels. First, consumers should benefit from using more efficient payment instruments, i.e. reduced use of money transmission mechanisms and fewer cheques. Consumers would therefore be able to use cheaper payment instruments, such a bank transfers rather than, more expensive payment methods, such cash or cheques. Second, consumers will be able to access and pay less for products and services available over the internet. As argued by the European Consumer Organisation BEUC "*people without access to various means of*

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[474] *European Resolution with recommendations to the Commission on access to basic banking services*, 2012/2055(INI), 4 July 2012, p. 13.

payment are unable to take advantage of the lower prices of goods and services that internet sales can offer."[475] Third, internet banking, also considered necessary by consumer organisations[476], would also allow consumers for better control of their account balance and of the payments to be made. Fourth, consumers should be able to benefit from discounts from using electronic payments, for example, by establishing a direct debit to pay their electricity bill. Finally, consumers could benefit from the reduced risk of theft or fraud associated with cash payments (see Section 2.4). Nevertheless, consumers' resources would not be protected against seizure by creditors under this option. This may be a factor discouraging some unbanked citizens, who tend to fall into debts, from opening a basic payment account. However, the right of access in itself may still be limited at both national and cross-border level since there would be no guarantee that the provisions of Recommendation were applied.

Consumers may face some additional costs associated with the new account's features (online purchase facility). These costs should not be excessive as they should be provided either free of charge (e.g. included in the annual account fee) or at reasonable cost. Some of the most vulnerable consumers will bear occasional and recurring costs for the inappropriate use of the basic account, e.g. unpaid overdrafts. In France and the UK these charges are estimated at somewhere between EUR 17 and 22 for each failed transaction.[477] As a result of these charges and as a minimum balance is not protected against seizure by creditors under this option, some consumers, especially those who tend to fall in financial difficulties, may still be discouraged from opening a payment account.

Financial services providers would be able to make some efficiency gains by moving to more efficient means of payment and enabling account management to take place online. Moreover, they would face a reduced demand for cash, so would not face additional costs in terms of insurance or transportation of cash. However, these benefits would be limited, as the right of access in itself would not alter under this option. Providers would incur costs, as they would need to ensure additional account features such as internet banking and instruments allowing for internet purchases. However, such features already exist on many current accounts so it is unlikely that the incremental costs of making such facilitates available to basic accounts would be substantial. If these account features were to be provided together with a basic payment account to all unbanked consumers, then their cost could be substantial, especially for the providers in Member States where there are still many consumers without a payment account (e.g. Romania or Bulgaria). It would be less expensive in countries where a great majority of citizens already holds a payment account, although in these Member States, many mobile consumers, e.g. migrant workers, who have been unbanked so far, may request an access to a basic payment account. With internet banking and instruments allowing for internet purchases, it would probably need to be assessed whether a basic payment account can still be offered free of charge or at low cost as currently envisaged by the provisions of the Recommendation. Finally, providers interested in offering payment account services cross-border would continue to face unnecessary barriers and costs as the rules introduced in Member States, although based on the Recommendation's provisions would differ from country to country. Providers, entering new markets, would have to meet these specific national requirements and therefore their IT systems, operating procedures, and the features of already existing products would have to be adapted accordingly. These costs are likely to

475 BEUC response to the Commission Consultation on access to a basic payment account, 25.01.2011, p. 4, http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm

476 *Ibid*., p. 6.

477 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p.41 http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study

exceed potential benefits, at least in the short to medium term, and providers may refrain from start operating across borders.

Member States could make savings by moving to more efficient means of payments, i.e. switching from cash or cheques to electronic transfers. For this reason some public authorities stressed the importance of online banking as a feature of basic payment accounts.[478] Benefits would come in the form of savings on payments of social security which could be made through a bank transfer instead of more costly means (e.g. cheques). A 2010 study estimated these savings at EUR 7-12 per recipient per annum.[479] Such savings may be substantial (see Section 2.1).

Enterprises – in particular utility companies such as energy and water providers – would benefit from reductions in transaction costs since many banked consumers would switch to cheaper online payments. More importantly, this option would present a huge opportunity for e-commerce. If coupled with Option 2, this option would allow consumers to take advantage of lower prices and a greater choice of products, giving an important boost to online businesses. Improvements are only expected over the longer-term as more consumers become aware of the potential benefits of online shopping. A UK study found that 22% of newly banked consumers had shopped by telephone or internet since opening their account.[480]

Finally, society as a whole should benefit through economic development and growth, albeit to a limited extent, scale due to the fact that this option does not actually reduce the number of unbanked. First, the development of the retail banking in less advanced countries is unavoidable in the near future. Even if cash is still the only payment means for a significant part of the society in Romania and Bulgaria, with the rapid development of electronic means of payment which are generally cheaper and safer, citizens of these and other EU countries lagging behind will quickly catch up and will be using banking services in a universal and habitual manner in near future. This will also ensure further economic growth in the region since, as demonstrated in Sub-section 1.1.4, the use of electronic payments allows for savings in public administration, private sector and for consumers.[481] Second, there is likely to be a reduced incidence of fraud and tax avoidance since payment transactions would increasingly take place through electronic (and traceable) payments channels.

Quantification of costs and benefits

The impact of this policy option would be dependent on the application of the Recommendation (Option 2). In general, the same impacts as those described under Option 2 would be felt albeit with some differences which are described below. They stem from the fact that under this policy option a basic payment account would include the possibility for the consumer to make online purchases and to use internet banking. As such, the figures provided illustrate the estimated incremental costs and benefits of this option compared with Option 2. As Member States would have to introduce these additional features of a basic payment account, no discount factor will be applied: the number of unbanked citizens would decline substantially even in the Member States which have already implemented the Recommendation.

Consumers

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[478] Summary of responses to the public consultation on access to a basic payment account, 25.01.2011, p. 5, http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/consultation_summary-2010_en.pdf

[479] *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 51, http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study

[480] *Nothing is free: A survey of the social cost of the main payment instruments in Hungary*, National Bank of Hungary, p. 27.

[481] *Strategy for Financial Inclusion*, Steering Group on Financial Inclusion, Irish Department of Finance, June 2011, p. 14, http://www.finance.gov.ie/documents/publications/reports/2011/Fininclusreport2011.pdf

Consumers would face total costs of between EUR 22 million and EUR 108 million in the first year. Table 2.T shows the incremental costs and benefits of this Option compared to Option 2. Under this Option, costs would be close to the upper end of the scale as the reduction in the number of unbanked (at least relative to Option 2) is likely to be larger.

Table 2.T: Incremental costs and benefits for consumers (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
Account operation costs	19	62	97
Failed transaction costs	2	7	11
Other costs (e.g. risk of account fraud, risk of seizure of funds)	Not quantifiable	Not quantifiable	Not quantifiable
Total costs	22	69	108
Benefits			
Benefits from reduced use of money transmission and cheques	88	282	440
Benefits through discounts for electronic payments	28	89	139
Benefits through discounts for online purchases	120	384	600
Other benefits (increased accessibility of funds, reduced risk of theft, increased choice of goods and services, accessibility of accommodation/employment/improved confidence, benefits from switching to a cheaper account)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	236	754	1179

These figures include both one-off costs and recurring costs. However, in practice, no one-off costs for unbanked consumers have been identified since the cost of opening of a payment account is included in the first annual fee which consumer has to pay for account maintenance. All costs incurred by consumers are therefore recurring costs. The recurring costs borne by consumers can be broken down as follows.

- Annual maintenance charge (which includes start-up charges in the first year);
- Costs of inappropriate use of account;
- It is assumed that even though new features of a basic payment account would be introduced, these would only insignificantly increase the account operation costs for consumers and mostly due to the necessary payment instruments by which a consumer could purchase online. These additional potential costs are not quantifiable since the cost of an annual maintenance of a payment account estimated at EUR 51 would probably be sufficient to already cover the internet banking facility and the possibility for consumers to buy online;
- There would also be other non-quantifiable costs for consumers in the form of potential losses from fraud in the event that the account details are lost or stolen as well as the risk of possible seizure of funds in the event of any court judgment.

Consumers will also face incremental recurring annual benefits of between EUR 236 million and more than EUR 1179 billion as a result of the right of access to a basic payment account. Under this Option, the benefits would however be close to the upper end of the scale as the reduction in the number of unbanked (at least relative to Option 2) would be greater following the introduction of the new features of a basic payment account. The annual recurring benefits can be broken down as follows.

- Benefits from discounts from reduced use of money transmission and cheques.

- Benefits from discounts from electronic payments and online purchases.
- Consumers would also face non-quantifiable benefits in the form of lower prices in internet and less expensive transfer of funds via internet banking. Other non-quantifiable benefits would include: quicker access to funds regardless of consumer's geographic location, an increased sense of security through lower levels of cash transactions, an increased choice of goods and services where electronic payments are obligatory which would become available, the ability to access employment and accommodation more easily and a reduced sense of financial, economic and social exclusion.

Payment services providers

Payment account providers will face total costs of between EUR 15 million and EUR 74 million in the first year as a result the right of access to a basic payment account. Table 2.U shows the incremental costs and benefits compared to Option 2. The annual recurring costs are as account operation costs.

Table 2.U: Incremental costs and benefits for providers (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
Annual account operation costs	15	48	74
Other costs (modifying IT systems, internal procedures, staff training).	Not quantifiable	Not quantifiable	Not quantifiable
Total costs	15	48	74
Benefits			
Recurring annual benefits	2	7	11
Other benefits (increased customer base, reduced cost of cash, increased capital base, improved reputation)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	2	7	11

It is assumed that even though new features of a basic payment account would introduced, these would only increase the account operation costs for providers by a small amount and mostly due to the introducing payment instruments by which a consumer could purchase online. These additional potential costs are not quantifiable: the estimated EUR 51 annual maintenance cost of a payment account often covers internet banking and online purchasing facilities.

Payment services providers would face recurring annual benefits of between EUR 2 million and EUR 11 million. There would be the same further, non-quantifiable, benefits as in Option 2 above.

Governments

It is assumed that this Option can only be implemented in conjunction with Option 2. If this is the case, then Member States will not face any incremental costs under this option in the first year. Member States will face total benefits of between EUR 2 million and EUR 11 million in the first year. There would also be non-quantifiable benefits in terms of less fraud associated with paper systems and less costly local tax collection.

Table 2.V: Incremental cost and benefits for Member States (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
One off costs of introducing legislation	0	0	0
Recurring costs of monitoring and supervising application	0	0	0
Total costs	0	0	0
Benefits			

Recurring annual benefits	2	7	11
Other benefits (less benefit and tax fraud)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	2	7	11

Other stakeholders

E-commerce businesses would benefit from more consumers buying online. It is difficult to quantify the possible scale of benefits that it could bring to internet shops since it is difficult to estimate how many consumers would make use of online shopping and how much they would be able to spend there.

Utilities providers would face incremental benefits of between EUR 16 – 80 million in the first year.

Table 2.W: Total incremental benefits for utility firms from lower transaction costs

	2 million consumers	6.4 million consumers	10 million consumers
EUR 1.5/transaction	16	51	80

5.4.2. Variant B: enlarge the list of basic services to include a small overdraft or a 'buffer' facility

Effectiveness of policy option

This Option could slightly contribute to a reduction in the number of unbanked consumers. Depending on the effectiveness of Option 2, it would also improve the quality of consumers' access to certain basic account services.

This option would, in theory, be effective in increasing the confidence of vulnerable consumers who would have access to additional financial resources in the form of an overdraft or a small 'buffer', even if very limited, in case they find themselves in financial difficulties. This additional feature could attract especially vulnerable consumers who often have to struggle to make ends meet before their benefits are paid. However, it would need to be ensured that banks would not charge consumers excessive fees for making use of the overdraft or 'buffer' facility. This option would not ensure that consumers could have access to all basic payment means since it does provide for internet banking and online purchases tools.

Moreover, the fact that an overdraft is provided would mean that the opening of the account (with the overdraft facility) would be subject to the Consumer Credit Directive, unless it was for less than EUR 200. In practice, several Member States have applied the Directive to credits lower than EUR 200. Conversely, the addition of an overdraft to a basic payment account could reduce access since providers would be likely to hold the consumer to an equivalent standard of creditworthiness. As a result, not many vulnerable consumers would be admitted to open a bank account with an overdraft, while the banks' costs to introduce this facility and to cover related risks are likely to be very high. Therefore, this option may actually be disproportionate to the set objectives.

Even though a level playing field for providers would be guaranteed across Europe based on the principles of the Recommendation, providers would not necessarily be encouraged to offer basic payment accounts in other Member States under this option. If a consumer does not arrange an overdraft on his account, it would be less burdensome and costly for the bank to recover the debt from a domestic than foreign user. Because of this, and due to risks related to unpaid overdrafts, credit institutions could refrain from providing cross-border payment accounts thus preventing consumers from greater access to cross-border basic banking services.

Under this option, due higher risks of fraud and default for providers related to the overdraft and 'buffer' facility, more stringent rules of verification of information on applicants could be required, as with providers offering consumer credit. These rules could make the right of access to a basic payment account more difficult for consumers with negative credit histories. Similarly, to provide access to credit, even on a limit scale, would be contrary to the principles of responsible lending and borrowing, which have been advocated by the Commission in the field of credit.[482]

Depending on the policy instrument chosen and assuming that this option would introduce common general rules on the right of access across the EU (based on the implementation of the Recommendation), Member States would still be given the flexibility necessary to recognise different conditions at national level.

Impacts of policy option on stakeholders and efficiency

This option would give clear short term benefits to users of basic payment accounts since it would allow them to go beyond available account balance when necessary. These benefits would be lower if banks were to impose fees for using the overdraft or buffer facility. However, in the longer term, there is a risk that consumers would fall into indebtedness and, even though the amounts are small, could risk their future credit rating and future access to other products and services.

An overdraft or 'buffer' facility would substantially increase the costs of a basic payment account for providers and therefore it is no surprise that financial industry is not in favour of it.[483] Even if only a very limited overdraft or buffer were offered with a basic payment account, it would still be a major risk for banks. The related costs would rise to a great extent in the Member States with many unbanked citizens, such as Romania and Bulgaria, but could be also substantial in those where many migrant workers were likely to open a basic payment accounts (e.g. UK). It could also be more expensive for banks to verify information on applicants; the necessary procedures would need to be more stringent since the risk of fraud when an account is equipped with an overdraft or buffer facility is much higher. Due to the higher costs of a basic payment account when an overdraft or 'buffer' facility are included, and if the accounts are still to be provided free of charge or at low cost, as it is currently stipulated in the Recommendation, the losses of banks would be significant and could deter provision of such accounts.

E-commerce businesses would not necessarily benefit from this option, since it does not introduce instruments to facilitate online shopping. Consumers would need to pay extra for this. Due to the insignificant impact on the number of unbanked, enterprises would be unable to make major cuts on the cost of paying of wages to employees.

Member States would need to bear the cost of implementing the new legislation on the right of access to a basic payment account (depending on the instrument to be chosen). They would not be able to make particular savings in using cheap electronic means to transfer benefits to consumers' payment accounts.

Finally, society as a whole would be unlikely to benefit greatly through economic development and growth because this option would have little impact on the number of unbanked and could even increase this figure.

Quantification of costs and benefits

The impact of this policy option would largely be dependent on the degree of application of the provisions of the Recommendation (Option 2). In general, under this option consumers

482 In particular, Directive 2008/48/EC and the Commission proposal for a Directive on credit agreements relating to residential property, COM (2011) 142.

483 European Banking Federation (EBF) response to the public consultation on access to a basic payment account, 25.01.2011, p. 6, http://ec.europa.eu/internal_market/finservices-retail/docs/inclusion/consultation_summary-2010_en.pdf

would have access to a small overdraft or a buffer facility as an additional feature of a basic payment account, and this could lead to greater rather than less exclusion. As such, the figures provided illustrate the estimated incremental costs and benefits of this option compared with Option 2. For the calculation of the potential costs and benefits of this policy option, a discount is applied to take into account the fact that in one Member States which has already implemented the Recommendation (France) a small overdraft or a buffer facility is already available together with a basic payment account. Thus, France should not be impacted by this option since both national residents and non-residents can have access to a basic payment account with this additional feature.

Consumers

Consumers will face total costs of between EUR -11 million and EUR -57 million in the first year. However, given that these costs are negative, these are in fact benefits. These costs will be incurred in those Member States where a small overdraft or a buffer facility in not provided as an additional feature of a basic payment account: Belgium, Sweden, Germany, Hungary, Austria, Czech Republic, Estonia, Greece, Italy, Lithuania, Luxembourg, Latvia, Poland, Slovakia, Slovenia, Spain, Cyprus, Malta, Romania, Bulgaria, the Netherlands, Finland, Denmark, Ireland, the UK and Portugal.

Under this Option, the costs would be towards the lower end of the scale as the reduction in the number of unbanked (at least relative to Option 2) would be lower or even negative. This is due to the availability of overdraft or buffer facility within a basic payment account. In addition, the calculation discounts the one Member States (France) which has already implemented the Recommendation and where a small overdraft or a buffer facility is already available.

Table 2.X: Incremental cost and benefits for consumers (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
Account operation costs	-2	-7	-11
Failed transaction costs	-9	-29	-46
Other costs (e.g. risk of account fraud, risk of seizure of funds)	Not quantifiable	Not quantifiable	Not quantifiable
Total costs	-11	-36	-57
Benefits			
Benefits from reduced use of money transmission and cheques	-8	-26	-40
Benefits through discounts for electronic payments	-6	-18	-28
Benefits through discounts for online purchases	0	0	0
Other benefits (increased accessibility of funds, reduced risk of theft, increased choice of goods and services, accessibility of accommodation/employment/improved confidence, benefits from switching to a cheaper account)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	-14	-44	-68

These figures include both one-off costs and recurring costs. However, in practice, no one-off costs for unbanked consumers have been identified since the cost of opening of a payment account is included in the first annual fee which consumer has to pay for the account maintenance. All costs incurred by consumers are therefore recurring costs. The recurring costs borne by consumers are negative for this Option because, relative to Option 2, fewer unbanked consumers will be able to access an account. These costs are those in Variant A above, and also:

- It is possible that a small overdraft or a buffer facility provided by banks together with a basic payment account could substantially increase the cost of a basic payment account for consumers since banks would need to calculate the risk of not recovering overdrafts. This cost is however not quantifiable; further, the estimated EUR 51 annual maintenance cost may sometimes already cover a small overdraft or buffer facility.

- Consumers may face additional non-quantifiable costs in the form of fees charged by banks for unpaid overdrafts. There would also be non-quantifiable costs for consumers in the form of potential losses from fraud in the event that the account details are lost or stolen as well as the risk of possible seizure of funds in the event of any court judgment.

Consumers will however also face recurring annual benefits of between EUR -14 million and more than EUR -68 million. Under this option, the benefits would, however, be negative. This is due to the fact that providers would assess the creditworthiness of borrowers in line with rules on credit which would make access more difficult. Consequently, benefits of increased access are actually a cost here because the new account features will have a negative impact on access. The annual recurring benefits are those found in Variant A above.

Consumers will however also face recurring annual benefits of between EUR -14 million and more than EUR -68 million. This figure is negative because compared to Option 2 it would lead to more unbanked consumers. Consequently, benefits of increased access are actually a cost here because it will lead to less access. Under this option, the benefits would, however, be negative. This is due to the fact that providers would assess the creditworthiness of borrowers in line with rules on credit. The annual recurring benefits are those found in Variant A above.

Payment services providers

Payment account providers will face total costs of between EUR -2 million and EUR -9 million in the first year. These costs are negative here as the providers would not have to open accounts for as many consumers and could reject them on the basis of inadequate creditworthiness. However, since a small overdraft or a buffer facility is already available in one Member State, it will be discounted from the calculation of costs for the payment services providers. These costs consist of annual recurring costs and one-off costs.

Table 2.Y: Incremental cost and benefits for providers compared to Option 2 (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
Annual account operation costs	-2	-7	-9
Other costs (modifying IT systems, internal procedures, staff training).	Not quantifiable	Not quantifiable	Not quantifiable
Total costs	-2	-7	-9
Benefits			
Recurring annual benefits	-0.4	-1	-2
Other benefits (increased customer base, reduced cost of cash, increased capital base, improved reputation)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	-0.4	-1	-2

One-off costs would be incurred by providers assessing the risks of granting the consumer an overdraft or buffer facility. The annual recurring costs are account operation costs. It is possible that a small overdraft or a buffer facility provided by banks in addition to a basic payment account would substantially increase the cost of providing a basic payment account for providers. This cost is not quantifiable. Payment services providers would face recurring annual benefits of between EUR -0.4 million and EUR -2 million. These benefits are however negative here as the providers would not have to open accounts for as many consumers and could reject them on the basis of inadequate creditworthiness. There would be the same further, non-quantifiable, benefits as in Option 2 above.

Governments

Member States will face total costs of up to EUR 0.25 million in the first year depending on the instrument chosen. This cost would not exist if this option were combined with Option 2. There could also be risks of growing over-indebtedness. Member States will face total benefits of between EUR -0.4 million and EUR -2 million in the first year. These benefits are negative since there would be more unbanked consumers relative to Option 2 and thus fewer benefits for governments. There would also be non-quantifiable benefits in terms of less fraud associated with paper systems and less costly local tax collection.

Table 2.Z: Incremental cost and benefits for Member States (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
One off costs of introducing legislation	0.09	0.09	0.09
Recurring costs of monitoring and supervising application	0.16	0.16.	0.16
Total costs	0.25	0.25	0.25
Benefits			
Recurring annual benefits	-0.4	-1	-2
Other benefits (less benefit and tax fraud)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	-0.4	-1	-2

Other stakeholders – utility firms

Utilities providers will face total benefits of between EUR -0,8 million and EUR -4 million in the first year. Under this Option, the benefits for utility firms would however be negative as the reduction in the number of unbanked (at least relative to Option 2) would be lower due to the risk of exclusion because of providers' assessing a consumer's ability to repay.

Table 2.AA: Incremental total benefits for utility firms from lower transaction costs (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
EUR 1,5/transaction	-0,8	-3	-4

5.4.3. *Variant C: ensure a minimum account balance that cannot be seized.*

Effectiveness of policy option

This option would contribute to a very small reduction in the number of unbanked consumers as the number of unbanked consumers who are at danger to get their balance seized is rather small. On the other hand, this option would be costly for banks who would be required to protect consumers' balance against seizure. Therefore, this option seems to be disproportionate to the set objectives. Depending on the effectiveness of Option 2, it should, however, improve slightly the quality of consumers' access to certain basic account services

This option would be effective in decreasing, albeit very slightly, the number of unbanked consumers and especially those who tend to fall into financial difficulties. Many of them have reservations about opening a payment account because they are afraid that their balance could be seized by creditors in case they fall into debt. Under this option, the balance would be protected to a certain extent. A payment account covering this feature could attract some vulnerable consumers and would be positive in giving them confidence so they are able to participate fully in the modern banked society. They could also receive and transfer funds (which is usually cheaper than other payment methods) from their payment account and therefore it would help them avoid paying excessive fees. They would still however have no access to all basic means of payment, as internet shopping facilities are not included in this option.

Banks might find it more difficult to provide cross-border services under this option since they would need to follow national rules protecting the basic payment account's balance against seizure, unless these rules are harmonised at EU level. An uneven playing field resulting from divergent national measures could discourage credit institutions from cross-border activity in this area. Without EU harmonisation, consumers may also refrain from accessing cross-border payment accounts since they may have difficulties in understanding whether their balance is equally protected in another Member State.

Depending on the policy instrument chosen and assuming that this option would introduce common general rules on the right of access across the EU (based on the implementation of the Recommendation), Member States would still be given the flexibility necessary to recognise different conditions at national level.

Impacts of policy option on stakeholders and efficiency

This option would be beneficial to users because a minimum balance on their basic payment accounts would be protected against seizure by creditors. Therefore, even if in debt, consumers would still have access to some minimum resources allowing them to pay for basic needs. However, since this additional feature would be costly for banks, consumers are likely to pay more for a basic payment account despite the Recommendation's requirement that it should be free or at a reasonable cost. This additional cost could further discourage vulnerable unbanked consumers.

Financial services providers would incur additional costs if they had to ensure non-seizable minimum balances on basic payment accounts. They would need to introduce additional procedures necessary to protect this balance. Since the costs of the maintenance of a basic payment account would increase for banks, it might not be feasible for them to offer this product free of charge or at low cost. If this were required by law (as currently envisaged by the Recommendation) then the losses of financial institutions could be substantial. To diminish these costs, banks might refrain from offering basic payment accounts cross-border and therefore miss potential new business opportunities and profits.

Companies, or other institutions which under national law are privileged creditors, would face substantial costs if they are not allowed to seize the resources from the debtor's account to which they would normally have a right.

This option would significantly affect Member States in terms of costs related to the implementation of the new rules (depending on the instrument to be chosen). The obligation to protect a minimum balance would require considerable, costly changes to national civil and commercial legislation in many Member States. However, account payments have proved to be the most economical channel to transfer benefits and wages, and therefore obvious cuts could be achieved by public administrations and businesses if they are able to make more payments by these means. The financial impact of this policy option on Member States depends also on the implementation of the Recommendation (Option 2) under which public authorities are required to organise public campaigns raising awareness about the availability of basic payment accounts.

Finally, society as a whole would benefit, through economic development and growth, but only to a limited extent, as this option would only slightly reduce the number of unbanked citizens.

Quantification of costs and benefits

The impacts of this policy option would largely be dependent on the degree of application of the provisions of the Recommendation (Option 2). In general, the same impacts as those described under Option 2 would be felt, with a few differences. They stem from the fact that under this option, consumers would have the right of access to a basic payment account with a minimum account balance that cannot be seized. As such, the figures provided illustrate the estimated incremental costs and benefits of this option compared with Option 2. For the calculation of the potential costs and benefits of this policy option, a discount is applied to take into account the fact that in one Member State (France) an account with a minimum balance that cannot be seized is already available. Thus, it should not be affected by this option.

Consumers

Consumers will face total costs of between EUR 9 million and EUR 45 million in the first year. These costs will be incurred in those Member States where an account with a minimum balance that cannot be seized is not available. The costs would be at the lower end of the scale as the reduction in the number of unbanked (at least relative to Option 2) would be small.

Table 2.BB: Incremental costs and benefits for consumers compared to Option 2 (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
Account operation costs	8	24	38
Failed transaction costs	1	5	7
Other costs (e.g. risk of account fraud, risk of seizure of funds)	Not quantifiable	Not quantifiable	Not quantifiable
Total costs	9	29	45
Benefits			
Benefits from reduced use of money transmission and cheques	27	85	133
Benefits through discounts for electronic payments	19	59	93
Benefits through discounts for online purchases	0	0	0
Other benefits (increased accessibility of funds, reduced risk of theft, increased choice of goods and services, accessibility of accommodation/employment/improved confidence, benefits from switching to a cheaper account)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	45	145	226

These figures include both one-off costs and recurring costs. However, in practice, no one-off costs for unbanked consumers have been identified since the cost of opening of a payment account is included in the first annual fee which consumer has to pay for the account maintenance. All costs incurred by consumers are therefore recurring costs. The recurring costs borne by consumers are those in Variants A and B above, and also:

- It is possible that an account with a minimum balance that cannot be seized could slightly increase the cost of a basic payment account for consumers since banks may want to charge consumers for this additional feature, but this cost is not quantifiable.

Consumers will also face recurring annual benefits of between EUR 45 – 226 million. Under this Option, the benefits would however be at the lower end of the scale as the reduction in the number of unbanked consumers is expected to be very small. The annual recurring benefits are those in Variants A and B above.

Payment services providers

Payment account providers will face total costs of between EUR 6 million and EUR 30 million in the first year. These costs consist of annual recurring costs and one-off costs. The annual recurring costs are account operation costs. It is possible that a basic payment account with a minimum balance that cannot be seized could slightly increase the cost of operation of a basic payment account for providers, but this cost is not quantifiable.

Table 2.CC: Incremental cost and benefits for providers (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
Annual account operation costs	6	19	30
Other costs (modifying IT systems, internal procedures, staff training).	Not quantifiable	Not quantifiable	Not quantifiable
Total costs	6	19	30
Benefits			
Recurring annual benefits	1	5	7

Other benefits (increased customer base, reduced cost of cash, increased capital base, improved reputation)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	1	5	7

Payment services providers would face recurring annual benefits of between EUR 1 million and EUR 7 million. There would be the same further, non-quantifiable, benefits as in Option 2 above.

Governments

Member States will face total costs of up to EUR 0.25 million in the first year depending on the instrument chosen. Member States will face total benefits of between EUR 1.5 million and EUR 7 million in the first year. There would also be non-quantifiable benefits in terms of less fraud associated with paper systems and less costly local tax collection.

Table 2.DD: Incremental cost and benefits for Member States (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
One off costs of introducing legislation	0.09		
Recurring costs of monitoring and supervising application	0.16		
Total costs	0.25		
Benefits			
Recurring annual benefits	1.5	5	7
Other benefits (less benefit and tax fraud)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	1.5	5	7

Other stakeholders – utility firms

Utilities providers will face incremental benefits of between EUR 3 million and EUR 13 million in the first year (expected to be at the lower end of the scale) as the reduction in the number of unbanked citizens is expected to be relatively low.

Table 2.EE: Incremental benefits for utility firms from lower transaction costs

	2 million consumers	6.4 million consumers	10 million consumers
EUR 1,5/transaction	3	9	13

5.4.4. *Variant D: Ensure that the features of payment account are not of a discriminatory nature.*

<u>Effectiveness of policy option</u>

This would contribute to a reduction in the number of unbanked consumers. Depending on the effectiveness of Option 2, it should also improve the quality of consumers' access to certain basic account services, especially in the cross-border context.

This option would be effective in ensuring that basic payment accounts offered by banks, both to residents and non-residents, do not contain any discriminatory conditions, e.g. they do not prohibit the use of certain payment services in another Member State. This would certainly give consumers more confidence and attract more users since they could easily use their basic payment account not only in a national, but also in a cross-border dimension without distinctions being made. This would encourage users to check for cross-border offers of basic financial services, thus contributing to the Single Market for retail financial services. Nevertheless, consumers would not have access to all basic payment means and they would need to pay for these additionally, for example, no facility for online purchases or internet banking is envisaged under this option.

It would also be easier for providers to offer services in other Member States since the rules, based on the same principles of the Recommendation (Option 2), would not differ substantially from one country to another. This would create a more level playing field for providers of basic payment accounts.

Depending on the policy instrument chosen and assuming that this option would introduce common general rules on the right of access across the EU (based on the implementation of the Recommendation), Member States would still be given the flexibility necessary to recognise different conditions at national level.

Impacts of policy option on stakeholders and efficiency

This option would bring particular benefits to consumers who could use their basic payment accounts (e.g. debit cards, bank transfers) easily and under the same conditions across the EU. This is broadly supported by users' representatives.[484] This would give consumers more freedom and potentially benefits from shopping in other Member States, even if online shopping would not be guaranteed under this option. This option is not likely to bring any major benefits to e-commerce businesses. However, the reduction in the number of unbanked citizens could benefit businesses through a reduction in the use of cash.

Under this option, providers would bear the costs necessary to ensure that a basic payment account operates under the same conditions at national and EU level. For example, consumers would be able to use their debit cards freely in other Member States without additional fees as well as make payments and transfers just like domestically. Such conditions are a standard with a regular payment account in the EU, but since a basic payment account is a low-cost product, banks may want to avoid offering the same conditions for this product in order to reduce costs. This situation was observed, for instance, in the Netherlands.[485] Further, higher costs for banks implied by this option may discourage them from operating in other Member States due to the potentially low or non-existent profitability of cross-border activity.

Member States would incur costs related to the implementation and enforcement of these new rules banning the discriminatory practices of banks. Public institutions would save by paying benefits to payment accounts of beneficiaries instead of using more costly means.

Finally, society as a whole would benefit from economic development and growth due to a reduction in the number of unbanked citizens. It would also help to create a more efficient and mobile population as consumers would be able to use payment services throughout the EU more easily.

Quantification of costs and benefits

The impacts of this policy option would largely be dependent on the degree of application of the provisions of the Recommendation (Option 2). In general, the same impacts as those described under Option 2 would be felt, albeit with some differences, which are described below. The use of a basic payment account (e.g. debit card) could not be restricted by the provider to the country where the account is opened. Consumer would be able to make use of the basic payment account in all EU Member States while providers would be allowed to impose additional, but not unreasonable, fees for the use of the account. As such, the figures provided illustrate the estimated incremental costs and benefits of this option compared with Option 2. For the calculation of the potential costs and benefits of this policy option, no discount factor is applied: no Member State has introduced non-discriminatory rules with regards to account use at both national and cross-border levels. Thus, it is assumed that all Member States would be affected by this policy option.

Consumers

[484] BEUC response to the Commission Consultation on access to a basic payment account, 25.01.2011, p. 7, http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm

[485] Information provided to the Commission by Member States.

Consumers will face total costs of between EUR 22 million and EUR 108 million in the first year (likely to be at the mid- to upper-end of this), as the reduction in the number of unbanked (at least relative to Option 2) is expected to be relatively high. This is due to fact that consumers will be able to use the basic payment account in the whole EU which may be especially useful to migrant consumers.

Table 2.FF: Incremental cost and benefits for consumers (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
Account operation costs	19	62	97
Failed transaction costs	2	7	11
Other costs (e.g. risk of account fraud, risk of seizure of funds)	Not quantifiable	Not quantifiable	Not quantifiable
Total costs	22	69	108
Benefits			
Benefits from reduced use of money transmission and cheques	40	128	200
Benefits through discounts for electronic payments	28	89	139
Benefits through discounts for online purchases	0	0	0
Other benefits (increased accessibility of funds, reduced risk of theft, increased choice of goods and services, accessibility of accommodation/employment/improved confidence, benefits from switching to a cheaper account)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	68	217	339

These figures include both one-off costs and recurring costs. However, in practice, no one-off costs for unbanked consumers have been identified, since the cost of opening of a payment account is included in the first annual fee which consumer has to pay for account maintenance. All costs incurred by consumers are therefore recurring costs. The recurring costs are those in Variants A, B and C above, and also:

It is possible that a basic account of which use is not limited to the country where it is opened could slightly increase its cost for consumers since banks may want to charge consumers for the possibility to use the account abroad. This cost is however not quantifiable and in addition it is possible that in fact in many Member States the cost of an annual maintenance of a payment account estimated at EUR 51 would already cover the possibility to use the account abroad.

Consumers will also face recurring annual benefits of between EUR 68 million and EUR 339 million (likely to be at the mid- to upper-end of the scale) as the reduction in the number of unbanked (at least relative to Option 2) is expected to be relatively high. This is due to fact that consumers will be able to use the basic payment account in the whole EU which may be especially useful to migrant consumers. The annual recurring benefits are those in Variants A, B and C above.

Payment services providers

Payment account providers will face total incremental costs of between EUR 19 million and EUR 94 million in the first year. These costs consist of annual recurring costs and one-off costs. The annual recurring costs are account operation costs. A basic payment account which can be used identically across the EU could increase the cost of operation of a basic payment account for providers, but this cost is not quantifiable. Payment services providers would face negative annual benefits of up to EUR -9 million. This is because there would be lower profits as revenues declined due to higher costs of managing cross-border transactions.

Table 2.GG: Incremental cost and benefits for providers (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			

Annual account operation costs	19	60	94
Other costs (modifying IT systems, internal procedures, staff training, lost revenues).	Not quantifiable	Not quantifiable	Not quantifiable
Total costs	19	60	94
Benefits			
Recurring annual benefits	-1.8	-6	-9
Other benefits (increased customer base, reduced cost of cash, increased capital base, improved reputation)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	-1.8	-6	-9

Governments

Member States will face total costs of up to EUR 0.38 million in the first year. Member States will face incremental benefits of between EUR 2 million and EUR 11 million in the first year above the costs of Option 2. There would also be non-quantifiable benefits in terms of less fraud associated with paper systems and less costly local tax collection.

Table 2.HH: Incremental cost and benefits for Member States (EUR millions)

	2 million consumers	6.4 million consumers	10 million consumers
Costs			
One off costs of introducing legislation	0.14		
Recurring costs of monitoring and supervising application	0.24		
Total costs	0.38		
Benefits			
Recurring annual benefits	2	7	11
Other benefits (less benefit and tax fraud)	Not quantifiable	Not quantifiable	Not quantifiable
Total benefits	2	7	11

Other stakeholders – utility firms

Utilities providers will face incremental benefits of between EUR 4 million and EUR 20 million annually (expected to be closer to the upper-end of the scale).

Table 2.II: Incremental benefits for utility firms from lower transaction costs

	2 million consumers	6.4 million consumers	10 million consumers
EUR 1.5/transaction	4	13	20

ANNEX III
PRESENTATION AND EASE OF COMPARISON OF BANK FEES

1. EXISTING POLICY AND LEGISLATIVE FRAMEWORK

1.1. Member State level initiatives

The 2011 study on bank fee information at national level[486] carried out on behalf of the European Commission provided an EU-wide inventory of initiatives addressed at improving transparency and comparability of payment account fees. These are detailed below.

Glossaries or standard terminologies[487]

In 2011, 65 glossaries were in place in the EU.[488] An increasing number of initiatives relating to glossaries over time have been observed across Member States: 16 glossaries date from between 2001 and 2007 and following the financial crisis, 19 initiatives have been launched since 2008, with 9 from 2009 or later.

None of the glossaries identified were specific to bank current accounts and generally encompassed different types of accounts (current, savings, etc.) as well as general financial terms (including at macro level). A glossary specific to cards terminology is in place in Slovenia. Glossaries vary significantly according to the accounts concerned (current, savings, etc.), the targets (consumers versus professionals) and the type of format (simple list of terms versus interactive tools).

No glossary was backed by legislation, except for the broader initiatives in Italy and Portugal encompassing disclosure of information on fees. For 59 glossaries, information on the organisations that had produced the glossary is available. The initiators of these initiatives are distributed as follows: 24 glossaries (40%) are issued by commercial entities (including financial portals, financial advisers, commercial websites) of which 4 are banks; 15 (25%) are issued by authorities and regulators of which 8 are central banks; 10 (17%) are issued by banking associations; 8 (14%) are issued by non-profit associations of which 4 are consumer associations and 2 (3%) are jointly issued by a banking association and a consumer association. Glossaries are not in place (either through legislation or via a voluntary commitment) in the following member States: Cyprus, Germany, Lithuania, Luxembourg, Netherlands, Poland and Sweden.

Glossaries targeting foreign consumers and providing a translation of terms into other languages, in addition to definitions, are operating in the Czech Republic, Italy, Portugal and Slovakia.

Generally, none of the glossaries represent standard terms that are binding for the financial sector, e.g. in lists of fees communicated to consumers. Belgium and Italy make two exceptions, as the initiatives in these countries aim at increasing transparency of lists of fees.

Examples:
In Belgium, a self-regulatory initiative on a common glossary is currently being prepared by the financial sector with the aim of having lists of fees based on the terminology used in this glossary.

[486] *Market study of the current state of play in Member States regarding initiatives in bank fee transparency and comparability in personal current bank accounts*, Van Dijk Management consultants, 2011, http://ec.europa.eu/consumers/rights/docs/1912012_market_study_en.pdf.

[487] Initiatives on glossaries that are owned by a single financial institution (e.g. in Finland and Ireland) are not considered. These glossaries solely cover terms used by a single bank, which may increase transparency for a better understanding of list of fees of that particular bank; however if all banks adopt this practice without concerting on a common glossary, it may hinder comparability of fees between banks. Glossaries targeting solely professionals, i.e. comprising exceedingly specific terms and complex definitions, were excluded from the initiatives as these do not target consumers at large and were considered to be hardly understandable for the average consumer.

[488] The survey conducted by this study included Norway.

A law in Italy provides that a glossary of terms must be included at the end of the list of fees. The glossary contains the same 15 terms, standardised for all banks and for all payment accounts offered to consumers. The glossary has been drafted in cooperation with experts in communications, to ensure that the explanations are clear, understandable and user friendly.

Ireland's consumer agency created the "*It's your money*" website focusing on money matters and financial services, also including a glossary, a comparison tool and an information initiative.

In Malta the financial regulator created "*My Money Box*" an initiative providing a glossary, a comparison tool and financial information. This tool is perceived to be a very efficient and effective way to compare bank charges.

The Slovak Ministry of Finance has set up a website, "*Fininfo*", focusing on money matters and financial services. It includes a glossary, financial education tools (e.g. financial literacy test) and information for consumers.

In the Netherlands, particular attention is devoted to financially excluded, illiterate and elderly people who have more difficulty using the internet. Such focus and the limited number of initiatives identified might be related to the fact that in the Netherlands the retail banking fees are among the lowest in Europe and there is no issue related to the lack of transparency and comparability.

Table 3.A: Glossaries

Type of initiative	Countries
Legislative Self-regulation	Italy Belgium
Non legislative intervention	Austria, Bulgaria, the Czech Republic, Denmark, Estonia, Greece, Spain, Finland, France, Hungary, Ireland, Latvia, Malta, Portugal, Romania, Slovenia, Slovakia and United Kingdom
No intervention	Cyprus, Lithuania, Luxembourg, Netherlands, Poland and Sweden

Disclosure of information on fees

This type of initiative includes obligations to disclose lists of fees and standard sheets for the presentation of tariffs. For the disclosure of information, the period 2009 - 2011 shows a particular development in the use of these initiatives: 12 initiatives originate during the 90s, 15 initiatives were initiated between 2000 and 2008, and 19 since 2009.

Out of 43 initiatives for which the information is available, 25 (58%) correspond to a legal obligation while 18 (42%) result from self-commitment (e.g. through banking codes) by the financial sector. Legal obligations were more numerous than other types of initiatives until 2008, while there has been a balance between the two approaches since 2009. Whether legally binding or voluntary, these initiatives aim to provide information in a standard format by making available up-to-date lists of fees at bank branches and/or on websites. In many cases, these initiatives are specific to neither current accounts nor to transparency requirements as they set out general rules of conduct of banks towards customers. No initiatives on disclosure are in place in Lithuania and Poland.

Examples:

France and the UK (and to some extent of Italy, Belgium and Portugal) reflect recent initiatives that go beyond the sole obligation to display lists of fees: they specifically aim at increasing the transparency and comparability of bank fees through a certain degree of standardisation of the structure and/or wording of the presentation of lists of fees and/or of monthly/annual statements of fees paid.

In France[489] and the UK[490] initiatives also have the advantage of being based on self-commitment by industry, but steered and monitored ex-post by authorities thus favouring effective market implementation.

489 Recent initiatives from the *Comité Consultatif du Secteur Financier* and the *Conseil Français de Normalisation Bancaire* were launched regarding the disclosure of banking fees on monthly statements, harmonisation of the terminology of monthly statements and harmonisation of commercial brochures, as well as the legal obligation concerning the annual statement of bank fees issued in 2009. These initiatives are based on self-commitment by industry, but steered and monitored ex-post by authorities.

490 An initiative on self-regulation has been launched by personal current account providers under the pressure of the *Office of Fair Trading*. It specifically aims at increasing transparency and comparability through commitments related to disclosure of lists of fees. This initiative is based on self-commitment by the industry, but steered and monitored ex-post by authorities.

Table 3.B: Disclosure of list of fees

Type of initiative	Countries
Legislative	Austria, Belgium, Bulgaria, the Czech Republic, Denmark, Germany, Greece, Hungary, Italy, Luxembourg, Latvia, Malta, Portugal, Sweden, Slovenia, and Slovakia
Self-regulation	France, UK
Non legislative intervention	Cyprus, Spain, Estonia, Finland, Ireland, Netherlands, Romania
No intervention	Lithuania and Poland

<u>Comparison tools</u>

This type of initiative covers the list of fees and interactive tools aimed at facilitating an informed choice amongst different offers proposed by banks. Most initiatives are operated by for-profit organisations. Approximately 30% are run by public authorities, not-for-profit organisations, or in collaboration between for-profit and not-for-profit organisations.

A total of 126 initiatives were identified in the EU. For 66 tools (52%), information about the duration of their operation was not available. Of the remaining 60 tools, a large majority (41 or 68%) came into operation between 2005 and 2010 and one tool started to operate in 2012. Comparison tools are present in all countries surveyed, with the exception of Luxembourg, and they are one of the two most common initiatives: 26% overall and close to 50% in Germany, Poland and UK.

The only country in which legislation has supported the creation of a comparison tool is Denmark: a tool was set up here by the "*Money and Pension Panel*", a board established by the Danish Parliament in June 2007 (Act No. 576 of 6 June 2007).

The number of tools owned and run by for-profit organisations is approximately 97 (77%). Organisations are mainly active in advertising/marketing, internet publishing, provision of information on finance or newspapers. 9 tools (7%) run by not-for-profit organisations (8 consumer associations and the *Arbeiter Kammer* in AT) have been identified. 6 tools (5%) are run by national banks, 4 (3%) are run by consumer councils and 4 (3%) are run by financial supervision authorities. 5 tools (4%) result from cooperation between actors.

<u>Examples</u>:

In Germany, The Girokonto Anbieter Vergleich comparison tool is based on ratings from Stiftung Warentest, a German consumer organisation founded by the German government in 1964 and involved in investigating and comparing goods and services in an unbiased way. This offers a kind of guarantee of quality and reliability of the information provided by the tool.

In Italy, the "Pattichiari" website presents a glossary, a comparison tool and financial information while the website of the consumer association Altroconsumo includes a comparison tool and financial information.

In Sweden, the "Konsumenternas" website of the Consumers Bureau for Bank and Finance and the Consumers Bureau for Insurance provides a comparison tool and information focusing on money matters and financial services.

In Slovenia and Slovakia, banks have the obligation to provide updated lists of fees, which are used in a comparison tool owned by the authority.

The five tools resulting from cooperation between relevant actors are: in Belgium, the consumer association runs a tool with the assistance from the ministry; in Denmark, the bank association and the Consumer Council run a tool together; in Estonia, the financial supervision authority runs a tool in cooperation with the banking association; in Italy, a consortium of banks jointly runs a tool; and in the UK the major banks run a tool developed in cooperation with the Office of Fair Trading.

Table 3.C: Comparison tools

Type of initiative	Countries
Legislative	Denmark
Self-regulation	-
Non legislative intervention	Austria, Belgium, Cyprus, the Czech Republic, Germany, Estonia, Greece, Spain, Finland, France, Hungary, Ireland, Italy, Lithuania, Latvia, Malta, Netherlands, Poland, Portugal, Romania Sweden, Slovenia, Slovakia and United Kingdom

No intervention	Luxembourg

Financial education and information initiatives

These types of initiatives are very diverse, as are their initiators. Most of them were started recently (57% since 2008). None of the initiatives identified is backed by legislation. Few initiatives focus on current accounts as such (15 or 12%) and only one of them - in Bulgaria - exclusively focuses on fees. The majority (114 or 88%) have a broader focus addressing money and finance issues (e.g. credit and deposit products), family budget, or the economy.

Enforcement actions

Enforcement actions involve making recommendations and imposing fines. They were identified specifically in relation to the transparency of bank fees in several countries though they are usually utilised as a policy tool for monitoring and making recommendations rather than for imposing fines.

Market studies

In many countries, stakeholders conduct regular or occasional comparative studies, scoring of operators, mystery shopping, etc. These initiatives contribute to providing public authorities with a more accurate knowledge basis to support further policy making.

Combined initiatives

Amongst all types of initiative identified, several belong to the same owner or initiator. Whilst in some cases, these initiatives are run independent of one another, in a number of other cases, they are strongly co-dependent on each other. This is particularly true in the case of websites combining two or more of the following initiatives: a glossary, a comparison tool, information or educational initiatives and market studies or other initiatives, e.g. a petition.

These websites offer the advantage of having a whole range of information readily available and tools for consumers wishing to better use and understand financial products, including current accounts. The owners or initiators of these websites were observed to be public authorities (consumer agencies, financial regulators, etc.), consumer associations or commercial owners.

Examples:

In Estonia, the financial regulator has created the “Minuraha” (My money) website which targets consumers, and which includes a glossary, several comparison tables (current accounts, credit cards, etc.), calculators (budget, etc.), education tools (e.g. financial knowledge tests), financial information and results of a consumer survey on financial consumption and consumer opinion on transparency of fees. It is interesting to highlight that there is also a simplified version of the website for young people, “Kool minuraha” (My money School);

In Italy the website of the consumer association Altroconsumo includes a comparison tool and financial information; the consumer association ZPS provides a website that includes a glossary, a comparison tool and information.

From this overview of existing national legislation or self-regulation approaches, it emerged that:

- Several diversified tools are implemented in each country. These initiatives appear to be very different from each other. As underlined by the study, only a very few best practices can be identified among the existing initiatives. These include the initiatives taken in Italy and Belgium on glossaries.
- In absolute terms, most of the tools launched in the EU are intended to increase financial education (27%); conversely, very few are enforcement actions. Several comparison tools are set up (26%). However, only 10% of initiatives aim to enhance the disclosure of lists of fees and 13% are intended to set up common glossaries. In many cases it was noted that comparison tools were used in combination with glossaries and lists of fees. This may be due to the fact that standardisation brought by glossaries and lists of fees may facilitate comparison.

- With respect to comparison tools, the different sources - mainly commercial in nature, raise the issue of objectivity regarding the fee information provided by such tools.
- The breakdown of data confirms the trends observed at EU level, notably that in most countries the least common initiatives are those relating to enforcement (9%) and to the disclosure of list of fees (10%).
- Initiatives aimed at disclosing the lists of fees are usually backed by legislation (83%). Enforcement actions are entirely backed by legislation. In general, however, only a minority of the overall national initiatives (18.5%) are backed by legislation.
- An increase in the number of all initiatives has been observed in recent years. There is a possibility that – in addition to a real increase in the number initiatives – the observed increase reflects the improving availability of information about such initiatives, due to an increased need for transparency in retail financial services.

2. PROBLEMS

Data on price variations in the current account market

The Commission conducted a study in 2009.[491] The objective was to determine the transparency of fees charged for a payment account, compare prices for the services linked to a payment account and to improve the Commission's understanding of the underlying factors behind price differences within and across Member States. The study covered all Member States and provided a comparable set of average prices for payment accounts. Table 3.E below provides a list of prices for the average domestic profile used in the 2009 Commission study adjusted for purchasing power. Prices range from EUR 41.17 in the Netherlands to EUR 243,64 in Italy. The EU average price is EUR 111.62. 10 Member States have above average prices.

Following its publication, this study was mainly criticised because it created eight hypothetical EU usage profiles reflecting different consumption patterns, which served as a basis to derive average prices per Member State. This was a good means to isolate the impact of different fee amounts between Member States, on a comparable basis. However the disadvantage of this approach was that average prices may not accurately reflect the situation in any Member State given that consumption patterns used could not reflect domestic consumption patterns accurately.

The study also reported average prices for domestic profiles, for which underlying transaction volumes were collected from available domestic sources. EU average consumption patterns were calculated as the weighted average of domestic consumption volumes. While the use of domestic profiles should have produced more realistic results for the annual average cost of an account within each Member State, difficulties encountered in collecting relevant information on volumes of transactions to determine domestic usage patterns may have led to sub-optimal results.

Nevertheless, the study provides a unique source of comparable information on current account prices in EU Member States. It is a valuable source of information for policy-making.

Table 3.D: Weighted average price per profile per country (€/year)

€ /year	**Domestic profiles**				**European profiles**			
	passive	**average**	**active**	**basic**	**passive**	**average**	**active**	**basic**
Austria	99,54	140,47	197,46	83,95	100,63	144,60	206,10	93,68
Belgium	29,05	58,15	82,07	16,28	30,75	62,41	94,39	16,59

[491] Data collection for prices of current accounts provided to consumers, 2009, Van Dijk Management Consultants.

Bulgaria	17,14	26,94	42,83	9,30	16,78	48,57	108,29	17,32
Cyprus	6,52	84,59	184,99	48,74	6,45	70,41	201,12	70,51
Czech Republic	39,65	95,37	156,52	54,81	41,11	112,84	196,18	74,87
Denmark	37,92	74,27	128,41	38,91	33,69	63,76	105,35	29,19
Estonia	25,57	50,51	93,08	46,98	27,38	69,39	137,67	71,33
Finland	44,65	104,42	206,56	94,04	45,00	82,25	150,06	67,00
France	91,35	154,11	232,15	91,21	92,45	152,14	226,43	80,51
Germany	62,85	89,13	114,71	78,92	66,16	100,34	145,41	86,16
Greece	14,81	53,98	111,67	45,06	14,13	109,57	292,07	98,34
Hungary	28,39	76,20	144,42	64,08	28,19	78,75	149,99	75,10
Ireland	56,40	81,85	118,39	37,17	58,30	82,99	134,36	40,77
Italy	134,99	253,14	401,72	143,19	117,02	295,66	602,70	210,05
Latvia	63,26	115,24	192,28	107,33	68,59	194,77	407,86	218,98
Lithuania	11,20	34,76	112,92	14,69	21,02	117,29	260,77	120,49
Luxembourg	40,37	56,64	95,99	25,64	40,55	73,82	135,83	56,81
Malta	53,21	71,85	99,47	45,38	51,79	60,55	79,93	41,21
The Netherlands	30,13	45,95	55,60	28,85	30,10	45,87	55,52	29,17
Poland	45,97	73,21	114,01	50,55	44,43	71,87	116,11	50,24
Portugal	26,01	44,89	81,97	13,19	27,29	56,41	114,59	26,81
Romania	30,28	82,59	141,90	69,79	21,20	75,36	163,01	64,51
Slovakia	44,49	73,68	125,08	55,59	48,01	103,52	195,74	88,61
Slovenia	43,50	100,40	200,76	70,13	44,32	84,61	157,16	54,15
Spain	104,72	178,21	303,57	134,06	101,94	211,56	411,66	193,14
Sweden	25,16	61,84	128,21	53,35	25,77	66,94	147,41	59,16
United Kingdom	94,99	103,20	111,40	28,34	64,96	77,46	86,70	32,54
EU15	76,10	112,98	160,00	61,76	67,01	115,18	187,28	75,24
NMS12	34,57	79,23	139,85	54,85	34,33	86,09	166,67	69,34
EU27	74,41	111,62	159,18	61,47	65,68	114,00	186,45	74,98

Source: Data collection for prices of current accounts provided to consumers, 2009, Van Dijk Management Consultants

Table 3.E: PPP adjusted weighted average price domestic average profile per country (€/year)

Member State	Average Prices €	Price level indices (EU27=100)	PPP Adjusted Prices €	Rank Highest First
Italy	253,14	103,9	243,64	1
Spain	178,21	94,2	189,18	2
Latvia	115,24	68,2	168,97	3
Romania	82,59	49,8	165,84	4
Czech Republic	95,37	69,8	136,63	5
France	154,11	115,2	133,78	6
Poland	73,21	57,1	128,21	7
Hungary	76,2	60	127	8
Austria	140,47	112,3	125,08	9
Slovenia	100,4	84,5	118,82	10
EU	**111,62**	**100**	**111,62**	**-**
Slovakia	73,68	68,1	108,19	11
United Kingdom	103,2	97,4	105,95	12
Malta	71,85	72,9	98,56	13
Cyprus	84,59	89,8	94,2	14
Finland	104,42	120,1	86,94	15
Germany	89,13	106,7	83,53	16
Estonia	50,51	69,2	72,99	17
Ireland	81,85	120	68,21	18
Bulgaria	26,94	44,5	60,54	19
Greece	53,98	92,7	58,23	20
Lithuania	34,76	62,3	55,79	21
Sweden	61,84	111,8	55,31	22
Portugal	44,89	84,3	53,25	23

Denmark	74,27	140,5	52,86	24
Belgium	58,15	114,1	50,96	25
Luxembourg	56,64	120,2	47,12	26
Netherlands	45,95	111,6	41,17	27

Source: 2009 VDMC Study (Prices); Eurostat (Price Level Indices)

Other national studies have provided different values for average prices of payment accounts. A study carried out in Italy in 2011[492] calculated the average price of a payment account at approximately EUR 110.2 (2009: EUR 113.6; 2008: EUR 114.3), which is far below the cost calculated in the Commission study. These differences do not necessarily result from inaccuracies in the different methodologies used, but rather reflect differences in the approach used to determine a relevant basket of services, identify usage profiles and collect information on prices.

A study carried out in France in 2010[493] was based on a similar methodology as the Commission's study above, but was limited to comparing average prices for Belgium, France, Germany, Italy, Netherlands, Spain and the United Kingdom. The study attempted to adjust the weaknesses it identified in the methodology used in the Commission's study. This study identified significant price variation between the countries analysed. Average prices of a payment account reported were as follows: Italy (EUR 191); Spain (EUR 177); France (EUR 157); Germany (EUR 133); Belgium (EUR 116); United Kingdom (EUR114); Netherlands (EUR 68). The average price for the sample stood at EUR 137. Although these amounts were calculated after having been adjusted for methodological weaknesses identified in the Commission study above, they broadly exhibit the same variation as the Commission's prior results.

Pricing Models

We have applied the models in Table IV of Chapter 2 of the main Impact Assessment to selected Members States to identify prevailing pricing models and main sources of fee revenue. This information is summarised in table 3.4 below.

492 *Indagine 2011 Sul Costo Dei Conti Correnti Bancari, Banca D'Italia*

493 *Rapport de Georges Pauget et Emmanuel Constans sur la tarification des services bancaires"*, 07/2010 (http://www.ladocumentationfrancaise.fr/var/storage/rapports-publics/ 104000365/0000.pdf)

Table 3.F: Prevailing pricing characteristics in selected Member States

Member State	Prevailing pricing models
Austria	Many **packaged and bundled offers** that incorporate specific services or benefits tailored to customer needs Majority of banks offer different types of current account pricing models that range from free current accounts that have no fixed charges to more expensive current accounts.
Belgium	The **account based** (annual fee model) is the most common one in Belgium, although some offers may include fees for operations such as withdrawal at the counter or paper-based credit transfers. **Indirect revenue based** (free-if-in-credit) offers have appeared recently. Current accounts represented 27% of the Belgian retail banking sector gross income in 2009, which was the same as the EU average.
Bulgaria	– Bulgarian banks charge for all cash withdrawals, both at the branch and ATM, and with €9 profit per retail current account. – Different pricing models, e.g. **monthly and transaction-based fee models** (most common), **packaged/ bundled offerings** etc. are applied by banks.
Germany	– **Packaged-based** pricing model is most common.
Denmark	– **Packaged / bundled offerings** make it difficult for customers to compare prices.
Spain	– A number of pricing models are used including **transaction based, account based** or **indirect-fee based** (free if in credit). Bank profitability derived from current accounts is not important in Spain compared to other sources of income in the retail banking sector, in particular compared to mortgages (at least before the crisis). – General profitability of the banking sector fell significantly between 2008 and 2012.
Finland	– **Package-based** pricing model It is customary that a person's main current account is within the same bank where they have their mortgage, although this is not a rule, more like a convenience. As the banks offer similar products, main competition is on mortgages that often determine the credit institutions where a person holds their current account. This is also because if a customer has their mortgage in the same bank as their current account, they often receive a discount on their basic banking charges through a 'loyal customer' or a bonus programme offered by the bank. Cross-subsidisation. A study conducted by Bank of Finland regarding banks' costs and revenues on retail payments indicates that banks can cover only about half of their total costs on payments with direct payment revenues from their clients. In addition to service fees, costs on retail payments are covered from interest margin revenues and other loan client fees.
France	– **Package-based** and **transactions-based** Margin on payment incidents is 83% on average, with the highest figure being for penalty charges (90%). According to UFC's estimations, those penalty charges bring 1.8 Billion Euros to French banks. Some industry representatives assert this figure is about 3.5 Billion Euros. In France, mortgages provide lower margins for banks – mortgages are typically used as a flagship product to attract and retain a customer in a highly competitive market. At the same time, remuneration of many savings products is highly regulated. Day to day banking is therefore more expensive – it represents a larger share of banks' revenue (20% of net bank product against 14% in Germany and less than 10% in other Eurozone countries).

Italy	Payment accounts have a "minimum cost" for clients of 34,20 / account corresponding to a tax levy charged for current accounts. This levy is usually charged in instalments every quarter. Most payment accounts use **a transaction based** pricing model where the customer pays for the services and products offered (fixed charges) such as the debit card, credit card, internet access, etc.
Latvia	– Most banks seem to use a combination of **transaction based** model with the **indirect revenue** based (free-if-in-credit) model and in few cases monthly fees.
Lithuania	– **Transaction based model** – In 2011, introduction of optional package pricing by payment service providers. – The emergence of cost based pricing models due to public authorities' concern that consumers should be consistently guided to cost-efficient solutions.
Luxembourg	– **Transaction (Fee) based model**
Netherlands	**Package-based.** Pricing of the most common products (received/ sent credit transfers, direct debits, debit cards, etc.) is based on a monthly or yearly fee and transactions are not individually priced. – Banks generally lose money on payment services but this is normally offset by customers that take out additional products i.e. mortgages.
Poland	Most banks pursue **transaction-based** model charging customers per transaction (or block of transactions), for instance per direct debit or domestic transfers. For certain type of personal accounts, monthly fees may be a main source of income while most of transactions are free of charge. – Mortgages are the main profitability driver for banks.
Portugal	– **Account-based** i.e. based on balance – Quarterly fees paid by customers on basis of average credit balance in current accounts. – The higher the balance the lower the fees. – No fees, if balance higher than a certain amount (circa €3,500).
United Kingdom	– Most popular model is **indirect revenue-based** (free-if-in-credit). – **Fee based model** – packaged services. – **Transaction based model – mainly prevalent in N. Ireland.** – Current accounts are gateway products. – Evidence suggests (although likely to vary according to bank) that current account provision is not profitable on a stand-alone basis.

Source: Study on the economic impact of bank free transparency and switching options (See Annex I, par. 1.1)

3. CONSEQUENCES

3.1. Consequences for Consumers

Low consumer confidence

As mentioned in the problems section above, consumer confidence is dented by the appearance of a weak relationship between the price of an account and the underlying cost of providing it. This perception is strengthened by product cross-subsidisation, where profits generated from a financial product are used to subsidise a loss maker. In this case consumers tend to focus their attention on higher priced items and perceive charges as unfair. Customer cross-subsidisation is a practice which often affects lower income earners and more vulnerable sections of society in what is perceived by consumers as a means to increase profit levels for credit institutions.

However this is not only a perception issue. Broad price differentials are observed for comparable payment account offers within Member States domestic markets raising real doubts as to the proper functioning of market forces.

Risk of consumer detriment

While many payment accounts offer equal or only a marginally different mix of services, they are not a homogeneous product. First they are heavily branded and are often differentiated through the use of product-specific terminology. Second credit institutions do not establish the price of a payment account based on their input costs, but take account of a wide range of variables such as the ability to cross-sell other products within their range, the ability to establish long-standing bank-customer relationships.

Third consumers have difficulty understanding information about payment account offers. This results in sub-optimal market outcomes and a loss in consumer welfare. This happens either when consumers purchase a payment account that does not match their needs or when they pay more than they would have for the same product had they been better informed.

Restricted product choice

Information asymmetry raises search costs for consumers and the difficulty in comparing bank offers discourages shopping around for a payment account, as many consumers reach the conclusion that bank accounts are all the same.[494]

Product choice is not only exercised upon a first time purchase but should also be available to consumers who may consider moving their account to another credit institution.

3.2. Consequences for banks

Barriers to market entry and expansion

Different regulatory frameworks and bank infrastructures established along national boundaries contribute to the fragmentation of the market and raise barriers to entry across borders. Access to cross border markets involves the cost of setting up infrastructure or taking over existing ones as well as to adapt to different levels of compliance and regulation together with adapting to different market conditions, prevailing pricing structures as well as other costs related to entering a market such as marketing. The experience of Banco Santander's internationalisation strategy provides a good example of credit institutions who have undertaken growth strategies cross-border. When planning to establish its presence across

[494] Review of barriers to entry, expansion and exit in retail, OFT, November 2010, available at: http://www.oft.gov.uk/OFTwork/markets-work/othermarketswork/review-barriers/

continental Europe during the 1990s Banco Santander saw Europe as several different markets with high entry barriers, rather than as a single banking and financial market.[495]

The degree of economies of scale that can be achieved by for example setting up common infrastructures for legal compliance and back office operations is significantly hindered by the wide variations in regulatory requirements within the EU.

3.3. Summary of problems and consequences

Table 3.G: Problems and consequences

Problems	Consequences
• **Complex products and fee structures** => A wide range of fees => Complex pricing models => Unclear and non-comparable information on services and fees • **Price dispersion in payment accounts within and across Member States; prices unrelated to underlying costs** • **Psychological factors (negative perceptions)** • **Ineffective, inconsistent or non-existent regulatory framework** • **Varying degrees of consumer protection across the EU**	• **Risk of consumer detriment** => information asymmetries increase and consumers find it harder to take informed purchase decisions => non-comparable pricing may prevent efficient competition => consumers purchase a payment account that does not match their needs or does not provide value for money => reduced consumer confidence • **Restricted cross-border activity** => regulatory and market differences hinder the internal market => increased costs for credit institutions operating in several Member States => Non-level playing field between market actors => Restricted market entry/expansion => Missed business opportunities • **Restricted product choice** => reduced product choice for financial and non-financial products and services => higher prices for financial and non-financial products and services => higher costs of shopping around • **Low consumer satisfaction** => lower consumer confidence

4. OBJECTIVES

The over-arching objective of this initiative is to create an efficient and competitive Single Market (Article 114.1 of the Treaty) with a high level of consumer protection (Article 114.3 of the Treaty) that fosters economic growth while improving social inclusion.

The general objectives of the three problem areas are:

- enhancing consumer confidence;
- broadening consumer choice both in terms of the quality of the products available and in terms of price reductions;
- facilitating financial inclusion and thereafter customer mobility;
- facilitating the cross-border activity of payment account providers; and
- ensuring a level playing field between market actors.

In relation to ease of comparison of bank fees, the specific objective is to ensure that EU consumers receive clear, complete and comparable information on bank fees.

The operational objectives are to ensure that:

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495 The Internationalisation of Retail Banking: Banco Santander's Journey towards Globalisation - Long Range Planning 42 (2009) 654 e 677.

- Consumers are able to understand bank offers and assess value for money
- Payment account offers are easily comparable
- Help consumers choosing the offer best matching their needs
- Increase consumers awareness of charges actually paid
- The burden of switching to consumers is reduced

5. POLICY OPTIONS, IMPACT ANALYSIS AND COMPARISON

5.1. Description of the options for policy instruments

Each of the above options could be given effect through a variety of different policy instruments. These include an industry self-regulation (Code of Conduct), Community level non-binding measures such as a Recommendation or Communication, or binding Community measures such as Community legislation in the form of a Regulation or Directive. Table 3.6 explores the feasibility of giving effect to each of our policy options through each of the available policy instruments.

Table 3.H: Description of options for policy instruments

Policy options: content vs instrument	Self-regulation	Recommendation	Communication	Directive	Regulation
1. No action	0	0	0	0	0
2. Standard price list	X	X		X	X
3. National glossaries for fee terms					
3(A) non-harmonised terminology	X	X		X	X
3(B) fully harmonised terminology	X	X		X	X
4. Comparison websites					
4(A) Single national website		X		X	X
4(B) Accreditation scheme		X		X	X
5. Representative examples					
5(A) set-up by banks	X	X		X	X
5(B) prescribed by M. States	X	X		X	X
6. Cost simulation					
6(A) set-up by banks	X	X		X	X
6(B) prescribed by M. States	X	X		X	X
7. EU standardised forms for ex-ante information (price list)		X		X	X
8. Banks obliged to provide ex-post information				X	X
9. EU standardised forms for ex-post information on fees		X		X	X

5.1.1. *Option 1: No action*

Effectiveness of policy option

Without action the comparability and presentation of payment account fees would not be improved remaining unclear to consumers. The current level of market fragmentation would increase as Member States continue to take uncoordinated action to address the issues identified in the problem section. While it is recognised that incremental – and welcome - improvements are being made in some Member States, notably France, the United Kingdom, Ireland, Italy and more recently Spain where recent measures enhance ex-ante and ex-post presentation requirements for fees, this is not universal. The consequence of asymmetric development is a broadening gap between consumer protection in Member States, which is contrary to the development, long term, of the single market.

From a policy and regulatory point of view this option hinders regulatory convergence between Member States. It also prevents further integration since the harmonising impact of options presented below, albeit with a longer-term view, would not take effect. There are potential commonalities brought about by the development of online distribution channels which increasingly shape the purchasing habits of consumers, their expectations for increased convenience and an increasing number services that go beyond historical banking habits set within national cultures. These developments will bring about more convergence in the bank-client relationship, to which EU level regulatory responses may be increasingly appropriate.

Impacts of policy option on stakeholders and efficiency

If no action is taken then further development of the internal market for payment accounts would be hampered. In the longer-term, additional regulatory action at national level would render EU action more costly to Member States and the retail banking industry. In addition, the current account market would not take full benefit of the advances at EU level in the payments market achieved through SEPA. Citizens would not be able to clearly distinguish between price advantages brought about by SEPA for direct debits and credit transfers if the price of the underlying payment account remains opaque, continues to exhibit significant differences in prices for equivalent payment account offers and remains a complex product.

Meanwhile credit institutions wishing to establish business across borders will continue to have to comply with different sets of rules and incur costs in adapting their processes and operations to different national requirements. Consumers living in Member States where bank infrastructures are less developed and the provision of daily banking services is more costly will not benefit from the arrival of new market entrants who operate lean processes and provide good service at competitive prices.

5.1.2. Option 2: A standard price list covering the 20 most representative fees or covering at least 80% of key charges incurred

Effectiveness of policy option

The mandatory provision of price lists using standardised terminology as a means to disclose fees ex-ante facilitates the comparison of different bank offers. This option would contribute towards establishing a level playing field between credit institutions competing in the payment account market and empower consumers provided the fees contained therein covered a significant part of the expenditure actually incurred.

Fees common to all Member States would be identified at EU level and supplemented nationally to cover the 20 most representative fees or at least 80% of key charges incurred. Common presentation requirements, which could include the introduction of a single form for ex-ante disclosure of payment account fees, would be established at EU level. EU action would also cover dissemination requirements to ensure that fee information is easily accessible to consumers.

Presenting all possible fees in a list, whether within leaflets or brochures available in bank branches or in a downloadable format over the internet, would virtually capture all bank customers and provide them with a comprehensive set of fee information. However, it may prove cumbersome and cause consumers to ignore the information. "*Long and overly complex information risks being of little value to consumers. Moreover excessive information can lead consumers to feel overwhelmed.*"[496]

[496] "*Consumer Policy Toolkit*" – OECD, Paris 2010.

Similar provisions[497] have existed in France since 2005, requiring banks to display fees prominently and to make brochures available to the public fee free of charge. A French report[498] notes that a survey carried out by the consumer organisation UFC Que Choisir, found in a sample of 12 institutions that fee brochures were 24 pages long and contained 303 fee line items. They also only presented fee items in isolation, lacking information on the nature of related services. In the same report 63% of bank clients were unsatisfied by the complexity of fee brochures, and 16% were very unsatisfied. In addition, a majority of responses to the public consultation on payment accounts[499] from consumers, financial services industry and public authorities, have indicated that the full standardisation of fee terminology could bring about the unintended consequence of standardising products. They also mentioned the risk of information overload to consumers. Fee lists containing a smaller number of fees may more appropriately provide concise and digestible information and actually help improve consumers' understanding of fees. Therefore it appears more appropriate to focus on a core set of fees rather than attempt to cover all fees within a standard form price list.

However in order to achieve the objectives of raising consumer confidence and increasing consumer choice, the fees retained should represent the major part of the expenditure actually incurred. EU action would address this issue by setting up a double criterion on the scope of fees to be included in standard price lists based on either the 20 most representative fees or a lower number of most frequent fees, provided they cover at least 80% of typical average expenditure incurred on a payment account. For example, since 2011 France has established a mandatory list of 10 standard fees, which it estimates would cover up to 80% of fees incurred by account holders. Regular monitoring and review provisions should also address the risk that pricing structures would by modified to escape required disclosures, by moving charges to fees not contained in the standard price list.

Further, those fees common to all Member States would be determined at EU level and then supplemented nationally.

Impacts of policy option and efficiency

Consumers would benefit from information that is concise and easy to compare between different bank offers. The tools made available to consumers to compare bank offers would not have a positive impact if the time invested in going through lengthy lists of fees for different banks outweighed the benefit of choosing the offer that presents best value. This is in line with consumers' general view that emerged during the public consultation, recognising that harmonisation of terminology should be limited to core terms and give due attention to the risk of excessive information.

EU legislation would impose requirements on credit institutions to make use of standard fee terminology and to make available and exhibit prominently standard fee lists. Credit institutions in all but four Member States where standard fee terminology is already in use, would incur costs to comply with the requirement to standardise fee terms.

However, as indicated, initiatives aimed at making banks disclose lists of fees already exist in 14 Member States. Industry codes or general banking practice cover the provision of fee information as part of contractual terms and conditions in 7 Member States. Therefore, the marjority of credit insititutions currently already comply in part with such requirements that would feature in EU legislation.

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497 Unlike the proposal above, the provisions in the "code monetaire et financier" do not foresee that fee lists and fee brochures would include fully standardised terminology. Reference to the French case is relevant in this context to assess the potential for information overload of the measure under consideration.

498 *Rapport sur la tarification des services bancaires*, July 2010, compiled for the French Ministry of the Economy.

499 *2012 Public consultation on bank accounts* (see footnote 11).

Generally costs to Member States are not expected to be significant for this option. However when compared to option 7, which foresees full standardisation of all fee terminology the cost of option 2 are higher as a result of additional recurring effort to review to set of cost fees, which would not be relevant to option 7.

Finally, the impact on an EU level supervisory authority should be considered in terms of coordinating the work of national supervisors, supporting the identification of common fees across the EU and ensuring that EU harmonisation criteria relating to the selection of complementary fees within Member States,. An EU level authority would also be charged with setting technical standards, issuing guidelines and coordinating longer term integration of the internal market.

<u>Quantification of costs and benefits</u>

- Standard, comparable fee information contained in standardised price lists would benefit consumers who sought better offers in the market. For the purposes of this assessment we estimate that changes in switching behaviour could result in a benefit to consumers of EUR 584.87 million, measured over the period from 2013 to 2022.
- Credit institutions and to a lesser extent, public authorities would be expected to incur costs as a result of the introduction of standard price lists.
- Total initial outlay for credit institutions is estimated at a range between EUR 95.95 – EUR 163.03 million. Relevant costs include updates to marketing and promotional material, changes to IT systems to produce price lists in standard form, costs linked to internal communication and training and input by industry to set up the list of fees with competent authorities.
- Total recurring costs to credit institutions are estimated to cost between EUR 183.17 – EUR 255.79 million between 2013 and 2022 mainly comprising additional staff costs due to incremental compliance requirements.
- One-off costs to Member States comprise identifying major fee items and implementing EU legislation are not considered material, assuming that credit institutions would provide major input into the selection process.
- Recurring costs to Member States from 2013 to 2022 are estimated at a range between EUR 0.60 – EUR 1.17 million and mainly comprise the cost of revising fee lists and monitoring and enforcement of legislation.

Table 3.I: 20 most representative fees or 80% of key charges incurred

Total EU benefits (million EUR)		
Consumer benefits:		
Changes in switching behaviour		584.87
Total consumer benefits:		584.87
Total EU costs (million EUR)	Min	Max
Credit institution costs:		
<u>One-off:</u>	95.95	163.03
<u>Recurring:</u>	183.17	255.79
Total credit institution costs:	**279.12**	**418.82**
Member State costs:		
<u>One-off:</u>	0.05	0.08
<u>Recurring:</u>	0.60	1.17
Total Member State costs:	**0.65**	**1.25**

A detailed description of the calculation basis and assumptions used in quantifying the above costs and benefits table (and each costs and benefits table throughout), is provided in Annex VI.

5.1.3. *Option 3: Introduce the requirement to develop glossaries for bank fee terms*

Effectiveness of policy option

Glossaries of fee terms are useful tools to encourage a better understanding of the meaning of fees, which in turn contributes towards empowering consumers to overcome inertia and widens their choice of bank offers. A glossary is an educational tool which can be combined with other options considered. In the public consultation, most financial services industry replies considered glossaries a useful tool mainly in terms of enhancing consumers' financial education. Consumer organisations recognised that glossaries are not always considered really helpful, especially if not accompanied by standardised terminology or without adequate circulation among conumers (BEUC, UFC-Que Choisir?, Which?) Glossaries should not be considered as a stand-alone option since they do not provide information about bank offers as such, neither in terms of prices nor of the services offered. This option could be combined with options 2, 4, 5, 6, 7 and 8.

Glossaries that are intended to cover all fee terms also share the concern described in the previous section that they may be cumbersome and lead to information overload. Consumers, who would be the main beneficiaries of such a tool, may shy away from lenghty documents, in particular if they only constitute a limited part of their search efforts, given that they do not provide specific information on bank offers. This is likely to restrict their use and limit any consequent benefit.

This option assumes that Member States would establish a single reference glossary to be used within their territory. Under this option we consider two alternative approaches being:a) a single glossary within each Member State containing single, harmonised definitions and b) a single glossary within each Member State collecting different definitions for fees in use within credit institutions. If structured in a way to categorise fees appropriately as well as the underlying services, the latter may assist a consumer in comparing the terminology used by different banks. This would require more effort and be more time consuming than if the glossary were to be populated by standardised terms. In addition it is more likely to result in information overload.

Impacts of policy option on stakeholders and efficiency

This option may assist consumers in developing an understanding of what fees mean. Moreover, drawing on recent experiences in France[500], setting up glossaries may assist in bringing about a harmonisation of practices of different credit institutions as regards their use of bank fee terminology, thus creating a clearer landscape for bank fees.

National level glossaries are not widespread, existing in only two Member States. If required, this option would impact upon a large number of Member States and could prove quite ambitious, given the diversity of terms in use. Setting up a glossary of unique standardised terms and its regular update would require the close involvement of credit institutions and their representative associations together with consumer organisations and coordination by competent public authorities. Therefore it is expected to generate high one-off costs.

In the public consultation, Member States expressed diverging views on the possible development of glossaries. Most of them stressed the usefulness of these tools when developed at the national level; some respondents supported EU level intervention in this area, while noting the difficulty to accomplish it; others, considered any intervention to improve glossaries unnecessary.

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500 See reply of the French Banking Federation to the Public consultation on bank accounts, 2012, available at: http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm#consultation and http://ec.europa.eu/consumers/consultations/bank_accounts_consultation-2012_03_20_en.htm

Common costs to both alternative approaches include, the cost of publicising the existence of the glossary for public authorities and credit institutions.

Quantification of costs and benefits

Benefits related to potential changes in switching behaviour have not been estimated for the introduction of glossaries, given that they are not a stand-alone option.

- Variant A: Glossaries containing non-harmonised terminology

While glossaries provide definitions of services and related fees that enable consumers to better understand the information provided to them with their payment account, they are not considered to derive direct quantifiable benefits in terms of changes to consumer behaviour either by managing their payment account better or by choosing to seek better offers.

One-off costs to credit institutions include internal communication and training costs for front office and marketing staff, updating websites and IT applications to be able to make available glossaries. Total initial outlay for credit institutions is estimated at between EUR 11.66 – EUR 23.58 million.

Total recurring costs to credit institutions are estimated to cost between EUR 149.67 – EUR 192.32 million from 2013 to 2022.

Initial one-off costs to public administrations are not material for this option as significant effort is not expected of public authorities. Recurring costs to Member States are estimated at a range of between EUR 0.84 million and EUR 1.61 million, comprising the cost of updating the glossary and costs associated with monitoring and enforcing legislation.

Table 3.J: Non-harmonised glossaries

Total EU costs (million EUR)	Min	Max
Credit institution costs:		
One-off:	11.66	23.58
Recurring:	149.67	192.32
Total credit institution costs:	161.33	215.90
Member State costs:		
One-off:	0.02	0.05
Recurring:	0.82	1.56
Total Member State costs:	0.84	1.61

- Variant B: Glossaries based on fully harmonised terminology

As noted in variant A, no quantifiable benefits are associated directly with this option.

One-off costs to credit institutions are estimated at between EUR 40.35 - EUR 72.76 million. This figure takes account of internal communication and training costs to familiarise front office and marketing staff with new standard definitions and explanatory material for customers linking terminology in use by a credit institution to standard terms in the glossary. Total recurring costs to credit institutions are estimated to cost between EUR 334.11 – EUR 442.78 million from 2013 to 2022.

Initial one-off costs to public administrations are estimated at between EUR 0.08 million and EUR 0.11 million. These comprise effort on the part of public authorities to set up fully harmonised definitions of fee terminology. Recurring costs to Member States are estimated at a range of between EUR 0.99 million and EUR 1.95 million, which take into account additional effort in maintaining the glossary as well as costs associated with monitoring and enforcing legislation.

Table 3.K: Fully harmonised glossaries

5.1.4. *Option 4: Introduce the requirement to set up independent fee comparison websites*

Total EU costs (million EUR)	Min	Max
Credit institution costs:		
One-off:	40.35	72.76
Recurring:	334.11	442.78
Total credit institution costs:	**374.46**	**495.54**
Member State costs:		
One-off:	0.08	0.11
Recurring:	0.99	1.95
Total Member State costs:	**1.07**	**2.06**

Effectiveness of policy option

Comparison sites could prove effective in achieving the objectives of this initiative. They provide an effective means for consumers to assess the merits of different offers in a single space and therefore represent lower search costs than other options under consideration, where for example, a consumer is required to collect information from separate credit institutions or perform more detailed analyses. If properly set up, they also provide the right balance between the need for information to be concise and clear and the need for it to be complete and comprehensive, through functionalities that enable internet users to drill down into deeper levels of information of interest to them. Therefore this option contributes towards the overall objective to make markets efficient.

In the liberalised markets of other network industries (e.g. telecommunications, electricity, gas), making price information clear and accessible for customers is considered crucial for the further developments of the EU markets that bring benefits to citizens in all Member States. For example, in light of the Commission report on the functioning of the retail electricity market,[501] in July 2012 the European Energy Regulators have developed guidelines of good practice for price comparison tools in the field of energy supply.[502] The recommendations highlight the key requirements of price comparison tools (such as independence, transparency, exhaustiveness, clarity, user-friendliness and accessibility), which can ensure neutral and objective information to consumers.

In the 2012 public consultation on bank accounts, broad support was expressed both by consumers and the banking industry as to the usefulness of comparison web-sites to help consumers and complement the obligation to provide clear information.

However, comparison websites must capture a broad range of consumers. Although internet penetration in European households continues to increase steadily[503], the proportion of individuals who did not use the internet in 2011 stood at 24%, (42% in 2006), which is still a significant portion of the European population. In addition, not all categories of consumers may be able and willing to make use of online comparison tools. This is particularly true for the more vulnerable sections of society, as indicated also during the public consultation. These may also be the groups who would benefit most from making purchases that reflect best value for money.[504] Neverthless, given that this tool would capture the vast majority of EU consumers, this will be the most effective tool for comparison purposes, especially if complemented by other options that address a broader range of consumers. Alternative comparison methods for those that do not use the internet, although more time consuming, would include manual comparison of fee information provided by credit institutions.

[501] Commission Staff Working Paper: "*The functioning of the retail electricity markets for consumers in the European Union*", SEC(2010) 1409.

[502] CEER (Council of European Energy Regulators): "*Guidelines of Good Practices on Price Comparison Tools*", 10 July 2012 (available at: http://www.energy-regulators.eu).

[503] The proportion of households in the EU with access to the internet reached 73% in 2011, representing an increase of 24 percentage points compared with 2006 according to Eurostat data.

[504] *Markets and Households on Low Incomes*, Office of Fair Trading, September 2010.

A recent EIOPA report[505] carried out in the context of the insurance market gives a positive view of the development of comparison sites as a means to stimulate competition. However it points to the fact that comparison sites tend to focus too strongly on price elements in lieu of understanding the terms and conditions of competing products. As illustrated by the 2011 study,[506] in many cases comparison tools are used in combination with glossaries and lists of fees. In the context of this option, we consider that comparison sites are well-adapted tools that could also provide other types of information, for example they could collect key customer service indicators or create a number of quality of service measures in agreement with credit institutions.

Another issue highlighted by EIOPA is the potential for conflicts of interest where close commercial links exist between insurers and commercial comparison websites. This is an essential issue to address if market information is to be free of bias and reliable. In order to ensure that comparison websites are independent, we consider two variants under this option. The first is to have a single comparison site within each Member State, managed by a competent public authority. As an alternative public authorities would set up accreditation schemes for private comparison sites as a means to ensure independence.

Entrusting the setting up of a comparison website to a public authority, covering virtually the whole range of bank acccount offers may be more appropriate in Member States where comparison tools are not widely used. However in more mature markets, existing private providers may be well established and may be willing and able to fulfil accreditation requirements in order to gain further recognition in the market and strengthen their reputation with consumers and credit institutions.

Finally, the scope of comparison websites may also not be bound by national markets but could evolve to cover broader geographical areas within the single market, where a business case exists. In this case, it may be more appropriate to allow Member States and the EU to establish oversight and monitoring mechanisms at an appropriate level, while allowing firms to seek business opportunities within the single market.

Impacts of policy option and efficiency

Comparison tools are becoming increasingly widespread within the EU. The number of available comparison sites has increased drastically since 2008,[507] cover more products than payment accounts and are present in all Member States with the exception of Luxembourg. Generally they are not established through legally binding instruments, but originate from a wide range of stakeholders including commercial operators, credit institutions, consumer organisations or organisations representing industry. As a result of market developments it appears more appropriate to establish accreditation schemes for operators of comparison sites.[508]

Website operators would be subject to requirements to acquire accreditation such as minimum numbers of products or providers websites should provide information about, dislosures of potential conflicts of interest and independence. In addition they would need to adhere to quality standards on the information provided together with requirements on timeliness. These standards would generate costs to website operators. Given that the onus of collecting and

505 *Initial Overview of Key Consumer Trends in the EU*, European Insurance and Occupational Pensions Authority (EIOPA), February 2012.

506 *Market study of the current state of play in Member States regarding initiatives in bank fee transparency and comparability in personal current bank accounts*, Van Dijk Management consultants, 2011. http://ec.europa.eu/consumers/rights/docs/1912012_market_study_en.pdf

507 *Ibid.*

508 BEUC's response to the CEER consultation "*Energy: Price Comparison Tools*" refers to successful accreditation scheme Confidence Code in the United Kingdom that is run by Consumer Focus.

processing information would fall upon website operators, credit institutions are not expected to incur compliance costs under this variant. Participation on comparison sites on the part of credit institutions would be voluntary and credit institutions would be able to weigh the benefits of promoting their payment accounts against the potential costs that may arise as a result of vountary arrangements with website operators to provide information on a regular basis.

The main set-up costs would fall upon competent public authorities who would be charged with developing accreditation systems as well as monitoring compliance and imposing sanctions where approprate for sites whose scope falls within national market boundaries. It may be appropriate for an EU level supervisor to develop accreditation of standards in collaboration with Member State authorities with the view of converging national authorities and developing a level playing field within the Single Market. Operators seeking to cover broader geographical areas than Member State territories could then fall under the direct supervisory powers of an EU level authority.

The impact on consumers who make use of comparison tools would be highly positive. As noted above, consumers could limit their search costs and receive relevant information - not only on prices - but also on other important information on services and service quality. In the public consultation, most consumer organisations acknowledged the potential benefits of comparison websites, accessible to all and run by public bodies. This was the preferred tool for enhancing transparency and comparability of bank fees. The financial services industry generally supported the development of comparison websites, but stated that they should remain voluntary, in particular if existing initiatives function well. A few respondents, however, pointed out the importance of a public intervention on websites, with a supervisory or management role (e.g. Banking Associations in the Czech Republic, Italy and the Netherlands).

Quantification of costs and benefits

- Variant A: A single official website managed by a competent authority

Benefits associated with changes in switching behaviour on the part of consumers are estimated at EUR 731.08 million from 2013 to 2022.

One-off costs to credit institutions are estimated at between EUR 13.75 - EUR 21.81 million. These mainly consist of costs incurred to set up internal processes to compile and submit fee information to a website managed by a public operator. Similarly, recurring costs to credit institutions, estimated at a range between EUR 49.36 – EUR 98.72 million from 2013 to 2022, consist of costs incurred in submitting price information to a website operator on a regular basis.

Initial outlay to Member States is estimated at a range of EUR 0.76 – EUR 2.8 million, consisting mainly of website set-up costs. Total recurring costs to Member States are estimated between EUR 14.04 – EUR 20.95 million. These figures are composed of time-based costs (EUR 7.93 – EUR 8.74 million) and acquisition costs (EUR 6.11 – EUR 12.21 million). Running websites are the major component of time-based costs, with an estimated cost of EUR 7.21 – 7.34 million, while acquisition costs are made up of the estimated cost of promoting the website through information campaigns.

Table 3.L: A single official website managed by a competent authority

Total EU benefits (million EUR)		
Consumer benefits:		
Changes in switching behaviour		731.08
Total consumer benefits:		**731.08**
Total EU costs (million EUR)	Min	Max
Credit institutions:		
One-off:	13.75	21.81
Recurring:	49.36	98.72
Total credit institutions costs:	**63.11**	**120.53**
Member State costs:		
One-off:	0.76	2.86
Recurring:	14.04	20.95
Total Member State costs:	**14.80**	**23.81**

- Variant B: Comparison sites licensed under an accreditation scheme

Benefits associated with changes in switching behaviour on the part of consumers are estimated at EUR 731.08 million from 2013 to 2022 as in Variant A to this option.

Credit institutions would not be significantly impacted by this option given that participation in comparison websites would be voluntary and the onus of collecting and processing fee information would call upon website operators.

Two website operators per Member State are assumed to obtain accreditation for the purposes of this assessment. These would incur one-off costs, (EUR 0.32 million – EUR 0.65 million), mainly incurred in setting up operations and internal controls to comply with accreditation standards. Similarly, recurring costs to website operators, estimated at a range between EUR 4.77 – EUR 9.53 million from 2013 to 2022, consist of costs of meeting requirements in view of compliance audits.

Initial outlay to Member States is estimated at a range of EUR 0.36 – EUR 0.66 million, consisting mainly of setting up an accreditation system. Total recurring costs to Member States are estimated between EUR 3.48 – EUR 6.74 million. These figures are composed of time-based costs (EUR 1.10 – EUR 1.98 million) and acquisition costs (EUR 2.38 – EUR 4.76 million). These mainly comprise the cost of monitoring websites and carrying out awareness campaigns.

Table 3.M: Comparison sites licensed under an accreditation scheme

Total EU benefits (million EUR)		
Consumer benefits:		
Changes in switching behaviour		731.08
Total consumer benefits:		**731.08**
Total EU costs (million EUR)	Min	Max
Website operators:		
One-off:	0.32	0.65
Recurring:	4.77	9.53
Total website operators costs:	**5.09**	**10.18**
Member State costs:		
One-off:	0.36	0.66
Recurring:	3.48	6.74
Total Member State costs:	**3.84**	**7.40**

5.1.5. Option 5: Introduce the requirement to provide representative examples when advertising payment accounts

Effectiveness of policy option

Representative examples are an effective means of providing clear and concise information through advertising material that demonstrates a snapshot of the main attributes of a payment account and the main elements of fees. Some account pricing models may be more suitable to the use of representative examples than others. In particular, pricing models that have a simple charge structure comprising a limited number of fees (e.g. package-based or indirect revenue based) can easily be presented, together with specific conditions and attributes of an account in a concise, tablular form. This allows consumers to obtain all of the main price features of an account at a glance, within advertising material.

On the contrary where payment accounts charge fees per transaction or block of transactions, (transactional-based), the cost of an account will depend heavily on consumption patterns and typically counts a greater number of fee items, (e.g. variable fees relating to cash handling and payments). In this case, fee information cannot be easily captured in a summary table format and needs more processing to be useful.

To reflect variable costs in representative examples, this option foresees the use of usage profiles reflecting differing kinds of account usage patterns. The first variant within this option foresees that credit institutions would set up their own representative examples using usage profiles developed internally for relevant products. Alternatively, Member States would set up standard representative usage profiles to be used consistently by credit institutions. Technically the latter variant should provide a better basis for comparison of different payment account offers than if credit institutions are free to develop own usage profiles.

While both variants would enable representative examples to be customised to differing levels of usage patterns, both alternatives would also multiply the number of representative examples that would have to be presented with advertising material for any one payment account product. We consider that a minimum of 3 and a maximum of 6 usage profiles[509] would be necessary to capture different levels of usage in a representative manner. As a result, where payment accounts charge fees per transaction (or per block of transactions), representative examples may not be an appropriate means of providing consise and easy to understand fee information within advertising material. The reasons are, first that this tool does not cater well for variable costs and second, because combining and providing information about underlying usage profiles may render information less clear and understandable, especially in advertising material. While the Commission's behavioural study,[510] indicated that the use of representative examples a positive impact on consumer switching behaviour, the study restricted the number of profiles to two extrement scenarios and was presented in a visually attractive manner, which may have influenced positive responses rates in this case.

Another issue to consider is that consumers may not be able to locate their own usage levels within a set of examples, without assistance.

As discussed in the problems section pricing models for payment accounts vary considerably within the EU. Table 3.F above shows eight Member States[511] where the transaction-based model was in use, out of a sample of 16 Member States.[512]

The use of representative examples is also of less value when used for packaged payment accounts, with a regular, single charge fee and tailored services. In some more mature markets, such as in France, the trend is to increasingly personalise packaged bank offers to meet customer needs. In such a tailor-made product environment, representative examples may also not be effective.

Impacts of policy option and efficiency

509 This assessment is based *Data collection for prices of current accounts provided to consumers*, Van Dijk Management Consultants (2009), which identified a total of 8 profiles of which, 4 were retained for the purposes of the analysis. The *World Retail Banking Report 2009,* Cap Gemini, uses 5 usage patterns to construct price indices.

510 Bank fees behaviour study, 2012, TNS Opinion Ltd.

511 France, Italy, Latvia, Lithuania, Luxembourg, Spain, Poland, Portugal, United Kingdom.

512 Table 3.4 *'Prevailing pricing characteristics in selected Member States'* in Section 2.

Detailed information on the current use of representative examples for the purposes of advertising within the EU is not available and no regulatory requirements or coordinated self-regulatory initiatives appear to be in place in Member States. A number of credit institutions may provide representative examples on a voluntary bases, mainly in The Netherlands and to some extent in the United Kingdom, fucussing on overdrafts. Therefore it is likely that credit institutions in all Member States would need to adapt to such a requirement. Credit institutions would incur one-off costs associated with setting up representatives examples and where relevant, account usage profiles. Additional costs would include adapting promotional material and the recurring costs of ensuring compliance with the requirements for all advertising launching new payment account products.

The option would impact upon public authorities mainly in the event that standard bank usage profiles were to be set up at Member State level. Public authorities would incur one-off costs in setting up usage profiles in this case. Costs would also arise for public authorities, credit institutions and consumer organisations, from the necessary coordination efforts during the set-up stage. Recurring costs would mainly be incurred in monitoring credit institutions and ensuring that representative examples reflect the attributes of payment account products accurately.

In the public consultation on payment accounts, a number of consumers (including BEUC) noted that entrusting credit institutions with the task to develop their own usage profiles could be problematic, introducing bias into profiles and also detrimental to the objective of providing clear and comparable information. Conversely, many representatives from the financial services industry indicated that representative examples should be provided on a voluntary basis and did not react favourably to standardisation of usage profiles at Member State level.

Both variants under this option have potential disadvantages. If representative examples do not provide clear and comparable information, they may have an adverse impact on stakeholders – particularly consumers. They present risks to industry as they do not guarantee improvements in providing a level playing field to market participants. Moreover, the benefit of representative examples is fundamentally linked to how well pricing structures adapt to the presentation of attributes provided for a payment account. This option is therefore not considered to fulfill the objectives established in this initiative.

Quantification of costs and benefits

- Variant A: Banks set up own representative examples

A change in consumer switching behaviour is estimated to accrue a benefit amounting to EUR 146.22 million from 2013 to 2022. Compared to other options, this reflects the difficulties first, of ensuring that representative examples would be a useful tool when applied to different pricing structures and second, of those arising due to the complexity that disclosure on different usage profiles within the same representative example may create.

Total one-off costs to credit institutions of setting up own representative examples are estimated at between EUR 265.44 – EUR 463.30 million. The major cost items to credit institutions are adapting advertising material in compliance with a legislative requirement, (EUR 174.52 – EUR 290.87 million). This amount also includes the cost of developing representative account usage profiles. Other major cost items include costs of updating IT systems and internal communication and training costs.

Total recurring costs to credit institutions are estimated at between EUR 323.68 – EUR 347.76 million from 2013 to 2022 and mainly comprise additional staff costs as a result of incremental compliance requirements (EUR 299.61).

One-off costs to Member States mainly consist of implementing legislation and are not expected to be material. Recurring costs to Member States from 2013 to 2022, are estimated at a range between EUR 0.71 - EUR 1.40 million and mainly comprise the cost monitoring and enforcement of legislation (estimated between EUR 0.33 - EUR 0.66 each).

Table 3.N: Representative examples using non-standard usage profiles set up by credit institutions

Total EU benefits (million EUR)		
Consumer benefits:		
Changes in switching behaviour		146.22
Total consumer benefits:		**146.22**
Total EU costs (million EUR)	Min	Max
Credit institution costs:		
One-off:	265.44	463.30
Recurring:	323.68	347.76
Total credit institution costs:	**589.12**	**811.06**
Member State costs:		
One-off:	0.02	0.03
Recurring:	0.71	1.40
Total Member State costs:	**0.73**	**1.43**

- Variant B: Member States prescribe representative examples

The estimate of benefits to consumers relating to a change in switching behaviour is equal to variant A above, amounting to EUR 146.22 million from 2013 to 2022.

Total one-off costs to credit institutions are estimated at between EUR 299.71 – EUR 522.34 million. The major cost items to credit institutions are the same as described in variant A. Here they are expected to be higher, reflecting additional compliance efforts in adapting marketing and IT to pre-defined usage profiles rather than profiles that are generated internally.

Total recurring costs to credit institutions are estimated at between EUR 362.97 – EUR 390.94 million from 2013 to 2022 and mainly comprise additional staff costs as a result of incremental compliance requirements.

One-off costs to Member States mainly consist of developing standard usage profiles and are estimated to cost between EUR 0.08 and EUR 0.12. Recurring costs to Member States are expected mainly through revisions of standard usage profiles, monitoring and enforcement of legal requirements. Total recurring costs to Member States are estimated at between EUR 0.94 - EUR 1.85 million from 2013 to 2022 and mainly comprise the cost monitoring and enforcement of legislation.

Table 3.O: Costs and benefits –representative examples using standard usage profiles

Total EU benefits (million EUR)		
Consumer benefits:		
Changes in switching behaviour		146.22
Total consumer benefits:		**146.22**
Total EU costs (million EUR)	Min	Max
Credit institution costs:		
One-off:	299.71	522.34
Recurring:	362.97	390.94
Total credit institution costs:	**662.08**	**912.08**
Member State costs:		
One-off:	0.08	0.12
Recurring:	0.94	1.85
Total Member State costs:	**1.02**	**1.97**

5.1.6. Option 6: Provide or make available a personalised cost simulation to prospective customers

Effectiveness of policy option

Cost simulations can be provided through both the major distribution channels used by credit institutions to sell payment accounts, i.e. the branch network and online. As a result, they are capable of capturing virtually all customers. They would cover the needs of consumers with varying degrees of financial education, as more proactive internet users could use tools to calculate cost simulations themselves, while others preferring to bank directly in branches would be assisted by an employee of a credit institution in compiling the information necessary to set up a simulation. Yet the ultimate responsibility to provide information that may reasonably reflect a client's usage patterns would fall upon the client themself, although factual information from a consumer's bank history and bank statements could be used to provide reliable information.

To be effective, personalised cost simulations need to be based on relevant information information, which requires efforts from both consumers and businesses. For example, in 2011 the United Kingdom launched an initiative to enable consumers to access their personal and transaction data in a safe way, named "Midata ".[513] The purpose of the intiative is for consumers to improve their purchasing decisions by becoming more aware of their consumption patterns. While this is precisely the kind of information necessary for cost simulations, initial research indicates that "*There is unlikely to be very much initial consumer interest in the overarching principle of companies releasing personal data for use by consumers. If anything, this news is likely to be received with suspicion until the benefits of this can be observed in practice.*" Some credit institutions provide a simple tool on their website for consumers to run simulations of overdraft charges. Yet, mandatory cost simulations approximating the features contained in this option are currently not widely in use.

In order to address different account usage patterns, this option considers the two scenarios presented in the discussion on representative examples. Under the first scenario, banks would provide fully personalised cost simulations attaching the fees charged on an account to information provided by a prospective customer on usage patterns, (apart from account management fees and other standard charges). Banks could also set up their own customer usage profiles and provide prospective customers with cost simulations corresponding to the most relevant profile, based on information collected from the customer. In the second scenario Member States would define a set of standard bank usage profiles for credit institutions to use when providing cost simulations. This approach suffers from the same weaknesses as the previous option that discussed the use of representative examples.

513 http://www.bis.gov.uk/policies/consumer-issues/consumer-empowerment/personal-data

Impacts of policy option and efficiency

The impact on consumers would depend on how they perceived this option. When contrasted with comparison websites, this option has the disadvantage that consumers would need to collect simulations from different institutions separately in order to compare offers, thus incurring higher search costs. In addition as mentioned above, the clarity of information could be hampered by different methodologies used by credit institutions within simulators and usage patterns. In the public consultation, several consumer organisations questioned the usefulness of these tools, raising in particular the risk of them being too generic.

The cost of developing and operating simulators would be borne by credit institutions, who would also incur additional set-up costs in adapting front office operations and training front office staff in branch networks. Public authorities would incur significant set up costs if charged with developing standard usage profiles. Coordination efforts would raise costs to industry representative organisations, credit institutions and consumer representatives involved in the process. Public authorities would incur additional setup costs in designing presentation and information requirements and recurring costs of monitoring compliance after entry into force. An EU level supervisor would be charged with coordinating the production of technical standards for the use of cost simulations, ensuring consistency in the application of this requirement across the internal market.

The appeal of cost simulations has not been ascertained and they are only used on a voluntary basis by a limited number of credit institutions. While they are mostly useful to estimate variable cost items associated with a payment account, they suffer from similar weaknesses to representative examples. As noted previously, different groups of stakeholders have indicated either potential for methodological bias when developing simulators or reluctance for simulators to become a regulatory tool. As a result their impact on stakeholders presents the risk of not providing clear and comparable information presented in an understandable way. They present risks to industry as they do not guarantee improvements in providing a level playing field to market participants. In the public consultation, several representative associations of banks could not support the development of standardised cost simulations, raising concerns on the effectiveness of this approach and the cost implied. Consequently, this option does not fulfil the objectives established in this initiative.

Quantification of costs and benefits

- Variant A: Banks provide personalised simulations or set up own usage profiles

Benefits to consumers from changes in switching behaviour are estimated at EUR 219.32 million from 2013 to 2022. Although both options that utilise usage profiles created by credit institutions (representative examples and cost simulations) do not fulfil the objectives of providing clear, comparable information on bank fees, the Commission’s estimate of benefits to consumers takes account of the potential broader impact personalised cost simulations – provided to consumers at the pre-contractual stage – could have over representative examples.

Total one-off costs to credit institutions of setting up own representative examples are estimated at a range between EUR 420.77 – EUR 691.71 million. The main items of cost to credit institutions arise from updating IT systems (EUR 139.91 – EUR 209.87 million) and marketing and promotional material (EUR 209.87 – EUR 349.78 million) to set up cost simulations. This also includes the cost of developing representative account usage profiles.

This option is expected to generate high costs to credit institutions over the long term as it imposes new procedures on credit institutions when opening accounts, requiring additional time to be spent by front office staff with payment account clients. Total recurring costs to credit institutions are estimated at between EUR 2 572.48 – EUR 3 682.59 million from 2013 to 2022. Of this amount, additional interaction by front office staff with clients' accounts for an estimated, EUR 2 204.17 – EUR 3 306.25 million from 2013 and 2022.

One-off costs to Member States mainly consist of implementing legislation and are not expected to be material. Recurring costs to Member States for the period from 2013 to 2022 are estimated between EUR 0.71 - EUR 1.40 million and mainly comprise the cost of monitoring and enforcement of legislation (estimated between EUR 0.33 - EUR 0.66 each).

Table 3.P: Costs and benefits – cost simulations using non-standard usage profiles set up by credit institutions

Total EU benefits (million EUR)		
Consumer benefits:		
Changes in switching behaviour		219.32
Total consumer benefits:		**219.32**
Total EU costs (million EUR)	Min	Max
Credit institution costs:		
One-off:	420.77	691.71
Recurring:	2 572.48	3 682.59
Total credit institution costs:	**2 993.25**	**4 374.30**
Member State costs:		
One-off:	0.02	0.03
Recurring:	0.71	1.40
Total Member State costs:	**0.73**	**1.43**

- Variant B: Member State prescribe usage profiles

The estimate of benefits to consumers resulting from a change in switching behaviour is at the same level as for Variant A above, amounting to EUR 219.32 million from 2013 to 2022.

Total one-off costs to credit institutions are estimated between EUR 461.12 – EUR 757.51 million. The major cost items to credit institutions are of the same kind as described in Variant A but are higher, reflecting additional compliance efforts in adapting marketing material and IT systems to pre-defined usage profiles rather than generating profiles internally.

Similar to variant A, recurring costs to credit institutions that are estimated at between EUR 2 821.51 – EUR 4 036.32 million from 2013 to 2022, are impacted upon by the expected additional time front office staff would need to dedicate to clients to provide cost simulations, (EUR 2 397.51 – EUR 3 596.27),.

One-off costs to Member States mainly consist of developing standard usage profiles and are estimated to cost between EUR 0.08 - EUR 0.12. Recurring costs to Member States are expected mainly as a result of revisions of standard usage profiles, monitoring and enforcement of legal requirements. Total recurring costs to Member States are estimated between EUR 0.99 - EUR 1.95 million from 2013 to 2022 and mainly comprise the costs of monitoring and enforcing legislation.

Table 3.R: Costs and benefits – cost simulations using standard usage profiles

Total EU benefits (million EUR)		
Consumer benefits:		
Changes in switching behaviour		219.32
Total consumer benefits:		**219.32**
Total EU costs (million EUR)	Min	Max
Credit institution costs:		
One-off:	461.12	757.51
Recurring:	2 821.51	4 036.32
Total credit institution costs:	**3 282.63**	**4 793.83**
Member State costs:		
One-off:	0.08	0.12
Recurring:	0.99	1.95
Total Member State costs:	**1.07**	**2.07**

5.1.7. Option 7: Introduce EU standardised forms for the provision of ex-ante information on fees (standard price lists)

Effectiveness of policy option

EU standardised forms for ex-ante information on bank fees would essentially comprise two elements: a standard presentation and fully standardised fee terminology.

First it would require the creation of a standard format for a price list of fees. This would include standard categories of fees presented in a pre-defined order. It would foresee specific disclosures regarding information about the frequency with which fees would be charged and measurement units (e.g. per transaction), together with additional presentation requirements covering the name and details of the credit institution, similar to the standard presentation format provided for in SECCI or ESIS.

As with SECCI and ESIS, a standard price list would need to regularise the terminology used to describe fees to create an EU standard for pre-contractual information. Unlike the Annual Percentage Rate of Charge,[514] which effectively establishes the cost of a loan, there is no such unique, single measure of cost that encompasses fees incurred under a payment account. Standardising all fee terminology at EU level would be complex; not all payment services instruments are commonly used throughout the EU, e.g. cheques are common in France but are not used at all in Belgium. The result could be that EU standard fees would not only be overly cumbersome to be effective, but they may also lead to confusion by requiring disclosure of fee items that may not be relevant to a large number of EU citizens.

Member States' responses to the Commission consultation on payment accounts acknowledged the need for coordination across borders and favoured flexibility to accommodate national circumstances. Consumers also took the view that full EU level harmonisation of fees terminology could be a medium to long-term goal. Respondents from industry held the view that harmonisation of fee terminology should happen at a national level, while they generally did not disagree with action coordinated by the EU.

While it is considered that Option 2 may identify commonalities between Member States where similar charging structures are in operation, a full EU level standardisation of fee terminology, without taking into account national circumstances does not appear to be supported by stakeholders in Member States.

Impacts of policy option and efficiency

The impact on consumers could vary widely depending on the relevance of a European standard price list to the fees actually incurred by EU citizens. As underlined by a majority of consumers responding to the public consultation, Member State standardisation of major fee

[514] As referred to in the Consumer Credit Directive (Directive 2008/48/EC on credit agreements for consumers and repealing Directive 87/102/EEC, OJ L 33 of 22.05.2008, p. 66).

items as described under Option 2 is a prerequisite to determining possible commonalities between Member States (or groups of Member States).

This option would generate costs to the EU in developing a fully standardised EU price list, as opposed to simply those fees common to all Member States. Member States would also incur set-up costs through coordination efforts with the EU. Recurring costs to credit institutions in complying with this requirement would be largely similar whether action were taken nationally or at EU level. However one-off costs would be higher in the event of EU-level standardisation: this would require a greater degree of adaptation on the part of credit institutions to comply with full standardisation, that would not allow for flexibility to take account of national banking practices and cultures would be affected.

Quantification of costs and benefits

- The Commission estimates that changes in switching behaviour could result in a benefit to consumers of EUR 438.65 million, measured from 2013 to 2022.
- Total initial outlay for credit institutions is estimated at between EUR 148.89 – EUR 252.07 million. Costs to credit institutions in adapting marketing and promotional material (EUR 107.51 – EUR 179.19) and from internal communication and training costs (EUR 33.59 – 58.79 million) are expected to be higher under this option than if EU standard terminology were to be undertaken only for a limited number of fees as described in Option 2. Other relevant one-off costs to credit institutions including changes to IT systems to produce price lists in standard form would not vary significantly to those estimates for Option 2.
- Total recurring costs to credit institutions are estimated at between EUR 224.89 – EUR 297.51 million from 2013 to 2022 and mainly comprise additional staff costs as a result of incremental compliance requirements.
- One-off costs to the European Institutions have not been quantified. Costs to Member States mainly comprise those of monitoring and enforcing legislation.

Table 3.S: Costs and benefits – EU standard form for ex-ante fee disclosure

Total EU benefits (million EUR)		
Consumer benefits:		
Changes in switching behaviour		438.65
Total consumer benefits:		**438.65**
Total EU costs (million EUR)	Min	Max
Credit institution costs:		
One-off:	148.89	252.07
Recurring:	224.89	297.51
Total credit institution costs:	**373.78**	**549.58**
Member State costs:		
One-off:	0.01	0.02
Recurring:	0.33	0.64
Total Member State costs:	**0.34**	**0.66**

5.1.8. Option 8: Introduce an obligation for banks to provide ex-post information on the fees incurred

Effectiveness of policy option

In order to provide information that can be used effectively, ex-post information needs to be provided in a dedicated summary and to be concise. However it should also provide sufficient detail of major elements of fees incurred to enable a consumer to understand what fee expenditure relates to, and to assess the need to either modify consumption patterns or move to another provider.

This option directly addresses the objective of making consumers aware of costs actually incurred, as obtaining a summary of information about charges incurred is key for a consumer to understand the cost holding an account.

This option is effective in combination with Options 2 and 4B and the ex-post fee items would match the ex-ante fee items in Option 2. This option - in combination with ex-ante fee comparison and presentation requirements - could help improve customer mobility while nurturing competition in the payment accounts market.

Impacts of policy option and efficiency

The impact of this option on consumers would be very positive. This benefit would be maximised if ex-ante and ex-post information requirements were coordinated. This could be achieved by ensuring that the major fee items selected under option 2 - disclosed in a standard price list - included ex-post fee information. This could be provided alongside regular information on total costs incurred. In the public consultation, almost all consumers stressed the key role of clear and timely information on actual fees paid and called for action in this area.

As described in the problems section, the approach taken by Member States to the provision of ex-post information on fees incurred varies widely ranging from a requirement of regular, dedicated and concise information in some Member States to no requirements in others. At least 11 Member States have adopted specific requirements for ex-post information;this option would have an important impact on harmonisation within the Internal Market and on the provision of equal levels of consumer protection.

Public authorities would mainly incur the cost of defining the content and presentation of summary fee sheets, in collaboration with representatives of credit instutions and consumer organisations. There would also be recurring costs associated with monitoring compliance of the requirements. An EU-level supervisor could coordinate the activities of Member State competent authorities during the set-up stage, overseeing the selection of those fees common to all Member States, and ensuring the consistent application of rules within the internal market.

Credit institutions are expected to incur costs in updating their information systems to be able to provide a summary of information at a level of detail determined by Member States. However, as confirmed by the contributions to the public consultation, most of the financial services industry has already adopted the practice of providing consumers with statements on a regular basis.

Quantification of costs and benefits

- The Commission estimates that benefits to consumers of providing ex-post information in a dedicated summary form, particularly if information is structured to match ex-ante fee presentation requirements, would accrue in the form of savings through better account management and through changes to consumer switching behaviour. These benefits are estimated to generate savings to consumers amounting to EUR 2 702.57 and EUR 1 462.16 million respectively from 2013 to 2022.

- Credit institutions would incur one-off costs mainly through adapting IT systems to filter charge information, developing summary form fee statements and due to internal reporting, amounting to EUR 192.42 – EUR 326.31 million. Total recurring costs to credit institutions are estimated at between EUR 260.37 – EUR 492.45 million from 2013 to 2022 and mainly comprise additional staff costs as a result of incremental compliance requirements and the cost of disseminating ex-post fee information in a standard form.

- Costs to Member States mainly comprise monitoring and enforcement of legislation. One-off costs are estimated between EUR 0.07 – EUR 0.11 million. The recurring costs to Member States are estimated at EUR 0.81 – EUR 1.59 million from 2013 to 2022.

Table 3.T: Costs and benefits – a requirement to provide ex-post information of fees incurred

Total EU benefits (million EUR)		
Consumer benefits:		
Changes in switching behaviour		1 462.16
Better account management		2 702.57
Total consumer benefits:		**4 164.73**
Total EU costs (million EUR)	Min	Max
Credit institution costs:		
One-off:	192.42	326.31
Recurring:	260.37	492.45
Total credit institution costs:	**452.79**	**818.76**
Member State costs:		
One-off:	0.07	0.11
Recurring:	0.81	1.59
Total Member State costs:	**0.88**	**1.70**

5.1.9. *Option 9: Introduce EU standardised forms for the provision of ex-post information on fees*

Effectiveness of policy option

EU standardised forms prescribing ex-post information requirements would establish presentation requirements covering all personal payment account fees developed at an EU level. Presentation requirements would include aspects such as the level of detail to be provided, information on unit costs, the number of charge events, total costs incurred as well any debit incurred and any credit interest earned.

As indicated in option 8, the provision of ex-post information would be most beneficial if combined with options for ex-ante information provision, focusing on providing consumers with detailed information about the most relevant fees incurred, for example those indicated in a standard ex-ante price list. For reasons discussed in the analysis of Options 2 and 7 above, standardisation of fee terms would only be effective at national level, after EU level standardisation of the fees common to all Member States.

Including all personal payment account fees in any EU action would not be helpful to consumers and may in fact be cumbersome, making such a tool unusable. As a result this option is not considered more effective than option 8 above.

Impacts of policy option and efficiency

The impact of this option on consumers is not expected to be as positive as the impact brought about by option 8, since the price list would cover all fees across the EU and not just those most relevant to consumers. The benefit derived from standard presentation requirements and coherence with ex-ante information requirements would be similar in both options 8 and 9. This option is likely to set up the requirement to present fee items in a summary sheet that may not represent major items of expenditure incurred by a large number of EU citizens. As indicated under option 8, most respondents to the public consultation from the financial services industry recalled current the current practices that have been already developed and used in terms of providing consumers with statements on a regular basis.

This option would generate costs to the EU to develop a standard summary form that provides ex-post information on fees incurred and identify every personal payment account fee in the EU. Costs to credit institutions in complying with this requirement would not vary to a large extent if fee lists are set up at the level of Member States or the EU.

Quantification of costs and benefits

- The Commission estimates that benefits to consumers would accrue in the form of savings through better account management and changes to consumer switching behaviour amounting to EUR 954.48 and EUR 292.43 million respectively from 2013 to 2022.

- Credit institutions would incur one-off costs mainly through adapting IT systems to filter charge information, develop summary form fee statements and reporting internally. This would amount to EUR 345.71 – EUR 681.55 million. These costs are expected to be higher than if summary ex-post fee statements were set up by Member States on the basis of common EU criteria given the greater potential for a departure from national banking practices and cultures resulting in greater adaptation efforts by credit institutions.
- Total recurring costs to credit institutions are estimated to cost between EUR 587.74 – EUR 1 100.48 million from 2013 to 2022 and mainly comprise additional staff costs as a result of incremental compliance requirements and the cost of disseminating information in standard form.
- Costs to Member States mainly comprise monitoring and enforcement of legislation. One-off costs are estimated between EUR 0.03 – EUR 0.05 million. The recurring costs to Member States are estimated at EUR 0.71 – EUR 1.40 million from 2013 to 2022.

Table 3.U: Costs and benefits – a requirement to provide ex-post information of fees incurred

Total EU benefits (million EUR)		
Consumer benefits:		
Changes in switching behaviour		292.43
Better account management		954.48
Total consumer benefits:		**1 247.11**
Total EU costs (million EUR)	Min	Max
Credit institution costs:		
One-off:	345.71	681.55
Recurring:	587.74	1 100.48
Total credit institution costs:	**933.45**	**1 792.03**
Member State costs:		
One-off:	0.03	0.05
Recurring:	0.71	1.40
Total Member State costs:	**0.74**	**1.45**

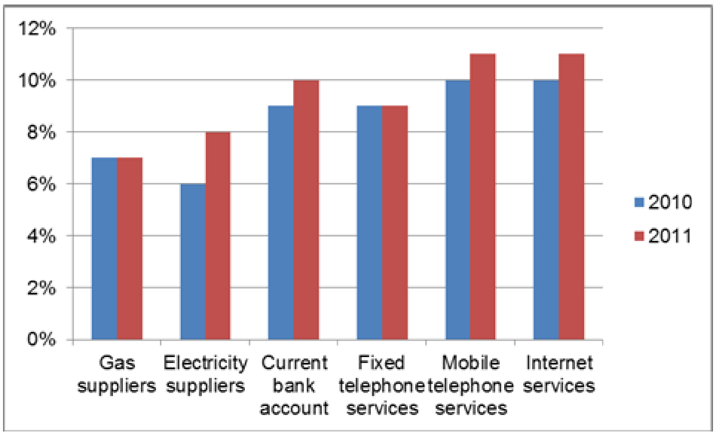
ANNEX IV
PAYMENT ACCOUNT SWITCHING

1. PROBLEMS

1.1. General problem: restricted customer mobility

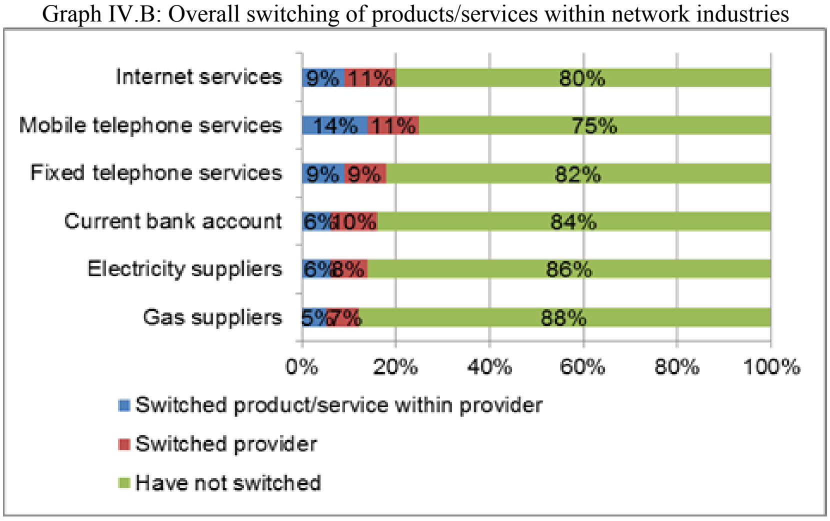
Comparison with other network industries

Graph IV.A: Annual switching rates for different network industries



Source: Monitoring consumer markets in the European Union, GFK, 2011

Graph IV.B: Overall switching of products/services within network industries



Source: Monitoring consumer markets in the European Union, GFK, 2011

In mobile telephony, for example, academic research[515] measured the impacts of introduction of mobile number portability on switching rates and on benefits resulting from increased efficiency and price reductions due to strengthening of competition in the mobile telephony sector.[516] It concluded that in countries where a good quality mobile number portability service was introduced[517] average prices[518] fell by 6.6% in the short term and by 12% over the

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[515] *Measuring the Benefits of Mobile Number Portability*, Sean Lyons, Department of Economics Trinity College Dublin, 2006, main conclusion on p. 27, http://www.tcd.ie/Economics/TEP/2006_papers/TEP9.pdf

[516] To estimate the average treatment effects of mobile number portability on retail prices and switching by customers, the study performed an econometric analysis of international time-series cross-section data of 38 countries for the time period 1999-2004.

[517] Good quality of the service was defined as portability service with duration of up to 5 days.

[518] Defined as real revenue per minute.

long run. The quarterly switching rates[519] increased by 13.6% over the short term and by 34.7% over the long term. These results were confirmed by another study[520] that analysed the impact of mobile number portability on prices in the EU15 countries from 1998 to 2002 and tested the impact of both regulatory (e.g. legislation on mobile number portability) and non-regulatory factors (e.g. income per capita in purchasing power parities, total population). The findings suggest that number portability leads to a reduction in prices, since competition is more intense and prices decreased in countries where mobile number portability was introduced.

Are low switching rates a problem?

Low switching rates are not, per se, a sign of insufficient competition. Low switching levels in retail banking markets are problematic only if consumers are not willing and able to switch rapidly when differences in fees or product features appear. A number of studies demonstrate that there is a significant discrepancy between the percentage of consumers unsatisfied with their bank and those that have not thought about switching their banks.[521] Dissatisfied customers are more likely to switch accounts than satisfied customers, but only 25% of very dissatisfied customers, and 40% of extremely dissatisfied customers, are likely to switch. High levels satisfaction can clearly not alone explain low switching rates.[522]

Restricted customer mobility has an adverse impact on both consumers and the banking industry. First, it increases providers' market power resulting in lower incentive for them to innovate and seek cost-efficiencies. Consequently, 'locked-in' customers experience higher prices and a reduced level of services. Second, it affects the supply side of banking services, as it is one of the factors that limit the possibility for efficient credit institutions to enter new markets or expand their client base.

1.2. Specific problems

1.2.1. Inadequate information

EBIC reported that information on payment account switching should be available on the national banking associations' websites and websites of banks and invited those banks that did not yet integrate the information on their webpage to do so.[523] Regarding the staff awareness, they stated that "*the situation will in any case improve over time as the branch staff will naturally get acquainted with this new service*."[524] However, a number of surveys and mystery shopping studies cited in the main report and below have come to different conclusions.

Table 4.A: Share of switching enquirers answering 'YES' to the following questions:

Did they explain how direct debits and standing orders would be transferred?	43%
Did they explain how payments would be cancelled at your old bank?	32%
Did they explain that they would inform your old bank and transfer the balance of your account?	35%
Did they explain that they would provide a dedicated switching team to do everything for you?	18%
Did they make it clear that you would not have to contact your old bank at all during the switching process?	26%

519 Proxied by 'churn' measured on a quarterly basis.

520 *Regulation of Mobile Telephony across the European Union: An Empirical Analysis*, Lukasz Grzybowski, University of Munich, Journal of Regulatory Economics 28:1, p.47-67, 2005 http://www.researchgate.net/publication/5156175_Regulation_of_Mobile_Telephony_across_the_European_Union_An_Empirical_Analysis

521 *PCA Consumer Research Findings*, Quadrangle-2011, p.13 http://www.quadrangle.com/PCA_switching_consumer_research.pdf

522 *ICB Final report recommendations*, ICB, September 2011, p. 184, http://www.ecgi.org/documents/icb_final_report_12sep2011.pdf

523 *Review of the EBIC Common Principles on bank account switching in the European Member States*, EBIC, 2011, p.4.

524 *Ibid.*

Were you given information on how long each step took?	21%
Was it made clear that switching service was free?	57%

Source: Consumer Market Study on the consumers' experiences with bank account switching with reference to the Common Principles on Bank Account Switching, GfK, January 2012.

In a review of a sample of 136 bank websites from all EU countries, BEUC concluded that in 10% of the cases, the relevant information was difficult to find and in 24% of cases, there was no information at all available on the website. Moreover, the websites of some of the largest banks in "*some countries*" were amongst those that failed to provide information about switching.[525] National research confirms these findings. In France, a survey[526] in 1 746 branches found that only 14% of branches had information on switching freely available in form of leaflets and information was provided spontaneously in only 35% of cases where the consumer expressed a wish to change the bank.

1.2.2. Complexity of switching process

Switching current accounts is a complex process. In order for customers not to be discouraged by this process, ideally, the process should be short, with the least possible time and effort incurred on the part of the consumer and free of errors. Many consumers, however, find switching to be too much effort. For example, in 2011 around 1% of EU citizens tried to switch payment accounts but gave up.[527] This figure was slightly higher in Estonia, France, Luxembourg and Slovakia (2%).[528] In another survey from 2009, 6% of consumers (equivalent to around 21 million consumers) felt that the cost and effort of switching was too much.[529] In a UK survey,[530] nearly two thirds of respondents indicated 'too much hassle' as the reason why they have not switched or not considered switching.

Difficulties transferring standing orders and direct debits represent one of the major barriers to account mobility. As part of an EU mystery shopping exercise[531] in 2011 around 400 mystery shoppers were instructed to perform a switch to a new bank including the transfer of a standing order from the old payment account. Out of the 276 shoppers who were said to be helped, two thirds were told that the bank could not assist them with the transfer of standing orders and only 19% successfully switched their payment account including a standing order. While the data for Member States differs significantly; it can be noted that the overall low success rate cannot be explained by a few 'black sheep' but a problem across the board.

Table 4.B: Overview: Results of attempted switches:

	Mystery shoppers	**Successful application for switching service**		**Successful switchers incl. one standing order**	
	Number	Number	%	Number	%
Austria	15	15	100%	13	87%

525 *Easy switching? – A long way to go; BEUC Monitoring Report of the 'Common Principles for Bank Account Switching'*, BEUC, January 2011, p.6-12, http://docshare.beuc.org/docs/1/DFMPDNNCIAHOOIFKIKKAABFKPDWY9DBYC69DW3571KM/BEUC/docs/DLS/2011-00183-01-E.pdf

526 *Tarifs et mobilité bancaires: le désolant palmarès des Banques*, UFC Que Choisir, October 010, pp.14-15, http://image.quechoisir.org/var/ezflow_site/storage/original/application/961abc610b3b1f8bd82e9ad5ed117a5f.pdf

527 *Special Eurobarometer on Retail Financial Services*, European Commission, March 2012, p.87, http://ec.europa.eu/internal_market/finservices-retail/docs/policy/eb_special_373-report_en.pdf

528 *Ibid.*

529 *Consumers' views on switching service providers*, Eurobarometer 243, European Commission, January 2009, p. 35, http://ec.europa.eu/public_opinion/flash/fl_243_en.pdf

530 *Stick or twist? An analysis of consumer behaviour in the personal current account market*, Consumer Focus, October 2010, p.21, http://www.consumerfocus.org.uk/files/2010/10/Stick-or-twist-for-web1.pdf.

531 *Consumer Market Study on the consumers' experiences with bank account switching with reference to the Common Principles on Bank Account Switching*, GfK, January 2012, pp 28, 292, http://ec.europa.eu/consumers/rights/docs/switching_bank_accounts_report_en.pdf

Belgium	15	12	80%	4	27%
Bulgaria	15	2	13%	1	7%
Cyprus	10	0	0%	0	0%
Czech Republic	15	7	47%	3	20%
Denmark	15	10	67%	2	13%
Estonia	15	15	100%	1	7%
Finland	15	12	80%	3	20%
France	20	9	45%	5	25%
Germany	20	15	75%	4	20%
Greece	15	5	33%	0	0%
Hungary	15	15	100%	3	20%
Ireland	15	15	100%	9	60%
Italy	15	14	93%	3	20%
Latvia	15	4	27%	2	13%
Lithuania	15	6	40%	3	20%
Luxembourg	9	9	100%	1	11%
Malta	10	1	10%	0	0%
Netherlands	15	14	93%	3	20%
Poland	15	15	100%	2	13%
Portugal	15	12	80%	4	27%
Romania	15	0	0%	0	0%
Slovakia	15	14	93%	1	7%
Slovenia	15	14	93%	0	0%
Spain	15	11	73%	0	0%
Sweden	15	14	93%	7	47%
UK	19	16	84%	4	21%
EU 27	**403**	**276**	**67%**	**78**	**19%**

Source: Consumer Market Study on the consumers' experiences with bank account switching with reference to the Common Principles on Bank Account Switching, GfK, January 2012.

In an Austrian study[532], direct debit transfers were singled out as the main concern for switching and were not transferred by any of the account providers involved in the mystery shopping study. Account providers could not guarantee that all direct debits would be transferred during the switch as neither the new nor the old bank has the relevant information on direct debits of third parties. Erroneous transfers of direct debits were said to be possibly resulting in additional charges to the consumer, such as reminder fees or reversing payment fees. Due to the high number of errors, the Austrian consumer organisation recommended that consumers should retrieve all information on direct debits from old statements and directly inform all relevant third party creditors in order to avoid problems. While this national mystery shopping exercise seems to contradict the results of Table 4.A above, the national exercise focused on direct debts, while the EU mystery shopping covered the transfer of standing orders.

Overall, the problem of potential misdirection of payments has been identified as the most prominent inconvenience of switching by all stakeholders.[533] A UK consumer organisation

[532] *Kontowechsel: Wie funktioniert er?,* VKI, March 2010, p.12, http://wien.arbeiterkammer.at/bilder/d118/Studie_Kontowechsel2010.pdf

[533] *2012 Public consultation on bank accounts* (see footnote 11), p. 195

stated that "*Problems with direct debits and standing orders were the biggest single source of difficulties experienced during the switching process*" and that "*nearly 36% experienced a problem with direct debits or standing orders.*"[534]

2. SUMMARY OF PROBLEMS AND CONSEQUENCES

Table 4.C: Problems and consequences

Problems	Consequences
Complexity of switching process => Time required for the switching => Uncertainty in the duration of the switching process => Errors resulting in delay or non-execution of recurrent payments, in particular direct debit transactions **Inadequate Information** => Limited awareness of the switching service by consumers => Limited knowledge of the switching service by bank staff **Psychological factors (negative perceptions)** **No cross-border switching service**	**Restricted cross-border activity** => Characteristics of switching process restrict consumer cross-border activity => Increased costs for credit institutions operating in several Member States => Non-level playing field between market actors => Restricted market entry/expansion => Missed business opportunities **Restricted product choice** => Reduced product choice for financial and non-financial products and services => Product/service received not adapted to customer needs/preferences => Higher prices for financial and non-financial products and services => Higher costs of shopping around **Low consumer satisfaction => lower consumer confidence**

3. DETAILED ASSESSMENT OF THE POLICY OPTIONS

3.1. Possible policy instruments

Each of the above options could be given effect through a variety of different policy instruments. These include an industry self-regulation (code of conduct), EU level non-binding measures such as a Recommendation or Communication, or binding EU measures such as legislation in the form of a Regulation or Directive.

Table 4.CA: Policy options versus instruments

	Communication	Self-regulation	Recommendation	Directive	Regulation
1. No action					
2. Ensure that the switching services follow the Common Principles (CP)		X	X	X	X
3. Improve the effectiveness of the CP					
3 (A) Improve the existing CP		X	X	X	X
3 (B) Broaden the scope of the CP to EU-wide cross-border switching		X	X	X	X
4. Set up an automatic redirection service for all receipts and payments from an old to a new account					
4 (A) Introduce a domestic automatic redirection service		X	X	X	X
4 (B) Introduce an EU-wide redirection service		X	X	X	X
5. Introduce payment account portability					
5 (A) Domestic payment account portability		X	X	X	X
5 (B) EU payment account portability		X	X	X	X

A Commission Communication would be unable to achieve any of the objectives, as it is a tool to communicate information to the Member States rather than effect a particular change. The following sections will assess the impact of the policy options and will describe which

[534] *Which! Consultation response,* p.6, http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm

policy instrument is the most appropriate to use, as well as the underlying reasons for the choice.

3.2. Option 1: No action

- Effectiveness of policy option

When assessing the effectiveness of no EU action, recent developments at Member State level need to be taken into account. As demonstrated in Sub-section 3.2.3 of the main report, the Common Principles are not sufficiently applied by payment account providers in the majority of Member States. Consequently, the defined objectives are not being met or are only partially met. The effectiveness of 'no action' is highly dependent on the application/non-application of the Common Principles. In most cases – partly due to the non-binding character of the Common Principles – it is a discretionary choice of account providers. In any event, the Common Principles do not contain any explicit provisions on raising awareness among consumers on the existence of switching services or any requirement for improving staff awareness of the switching process. As a result, it is not ensured that consumers receive adequate assistance during the switching process. In addition, no substantial reduction of the risk of lost/missed/inaccurate transactions resulting from switching of payment accounts can be expected, as third parties need to be informed of changes in payment account details 'manually'. Furthermore, as the Principles relate to domestic switching only, consumers wishing to switch cross-border are not helped.

A number of Member States have decided to go beyond what is expected by the self-regulatory principles in different ways. Ireland, for example, has decided to render the voluntary switching code legally binding to improve the application of the Common Principles via stricter monitoring and enforcement measures by public authorities. This implies that Ireland has already opted for Option 2 and therefore fulfils the objectives to the extent of that option.

In order to decrease the risk of lost/missed/delayed/inaccurate transactions resulting from switching of payment accounts, the Netherlands have introduced a re-routing system for payment orders sent to the 'old' payment account to be automatically sent on to the 'new' account. A similar, though technically different system, is currently being developed in the United Kingdom and should become operational in September 2013.

These actions taken by the Member States aim to facilitate domestic switching systems. However, as the approaches differ, they might lead to an even less consistent regulatory environment, making the potential cross-border switching of payment accounts even more difficult and hindering the potential benefits of a pan-European payment account market in the future.

- Impacts of policy option on stakeholders and efficiency

In the absence of any action, the consequences outlined in Section 3.4 of the main report will persist. Consumer mobility remains restricted and consumers are unable to reap the benefits of a well-functioning competitive internal market. Moreover, due to different frameworks in different Member States, consumers do not enjoy the same level of service by the payment providers. The fact that different Member States look for national solutions going beyond the requirements of the Common Principles further amplifies these divergences and creates further obstacles to an integrated internal market.

The overall impacts of this policy option would be negative for consumers. Direct and indirect costs to consumers are likely to remain, meaning that barriers to switching would persist.

Generally, consumer and civil society representatives have voiced clear discontent with the status quo and consider the voluntary character of the Common Principles to be a major cause of insufficient switching services.[535] The Financial Services User Group sees difficulty in the fact that self-regulation does not provide for sanction; therefore while voluntary commitments might be respected in some banking communities, they do not result in behavioural change in others.[536] For payments account providers, 'no action' is generally the preferred way forward: they believe that switching services complying with the Common Principles are in place and even though they recognise certain shortcomings in relation to misdirection of payments during the switching process, they do not see a need for additional measures.[537]

This option would be the least expensive in terms of short-term costs. Generally, providers of low quality products or those charging above average prices would benefit from no action, as they would be able to remain competitive due to restricted customer mobility. Providers offering better quality and higher value for money products and service to their (potential) customers would be affected negatively; the value-added to the customer of switching might not exceed actual or perceived switching costs. Therefore, more competitive providers would be penalised and limited in their attempts to expand their customer base domestically and across Europe.

The impact of 'no action' upon Member States would be neutral, unless they decided to take any national measures. If they acted unilaterally (as has already happened in Ireland), providers would be affected in a similar way as described in Option 3A or, in the case of the Netherlands or the United Kingdom, as described by Option 4A. If action were taken at national level alone, all stakeholders would, long-term, encounter consequences from an inconsistent regulatory framework negatively affecting the functioning of retail banking markets. Providers would be hindered in their attempts to enter new markets, and consumers would be offered fewer products of inferior quality.

3.3. Option 2: Ensure that the switching services follow the Common Principles

- Effectiveness of policy option

Ensuring the application of Common Principles should reduce the complexity and increase the certainty of the switching process. However, as the Common Principles do not contain any explicit provisions on raising awareness among consumers on the existence of the switching services or any requirement to improve staff knowledge of the switching process, it would not ensure that consumers receive adequate assistance during the switching process. In addition, it would not lead to any significant reduction of the risk of lost/missed/inaccurate transactions resulting from switching of payment accounts, as third parties would need to be informed of changes in payment account details manually. Furthermore, as the Common Principles do not contain any provisions on cross-border switching, their application on national level would be inconsistent and may preclude cross-border switching. The potential introduction of 27 different national legal regimes could hinder potential benefits from a future pan-European payment account market.

In conclusion, this option taken alone would produce insufficient effects to meet the defined objectives. Moreover, the effectiveness of this option would be highly dependent on the policy instrument, if any, chosen by Member States.

- Impacts of policy option on stakeholders and efficiency

[535] *2012 Public consultation on bank accounts* (see footnote 11), p.10.

[536] FSUG response to the *2012 Public consultation on bank accounts* (see footnote 11), p.12.

[537] *2012 Public consultation on bank accounts* (see footnote 11), p.11-12.

Consumers should, in principle, become more aware of switching processes and increasingly gain the confidence to ask their 'new' bank to provide them with the service. This increased confidence could also encourage shopping around for a better product. Consumers would be offered an improved service from account providers and be less restricted in their mobility. However, consumers may still be confronted with a time-consuming, complex process if they were to encounter insufficiently knowledgeable staff, and could continue to face difficulties with the transfer of recurrent payments. Furthermore, consumers wishing to switch provider cross-border would be unable to do so: cross-border provisions are not foreseen.

Payment account providers that have not fully implemented or correctly applied the Common Principles would incur one-off costs. These would consist of: adaptation of IT systems and business processes to comply with the Common Principles and monitor internal compliance; costs of staff training on the switching process; and updating website/branch information to include information on the switching service. Furthermore, they would incur recurrent costs relating to running, monitoring compliance with and reporting upon the switching service. However, providers wishing to expand their client base and/or enter new markets would be able to benefit from moderately increased customer mobility and a more level-playing field.

This option could benefit wider society by creating a more competitive environment due to increased customer and provider mobility.

For Member States, the impact of this option would be limited. Some costs would be incurred for running an awareness campaign. Additionally, they would incur monitoring costs and costs of reporting to the EU. Further costs to Member States would depend on the policy instrument chosen.

This option could be implemented in various ways. First, scoreboards providing information on the success/failure of switching between account providers could be developed. The Commission could also engage in more in-depth monitoring (e.g. annual reports). Second, Member States could designate a competent authority that would be responsible for monitoring the application of the Common Principles – this might involve conducting mystery shopping exercises and reporting on the results. To increase consumer awareness of the switching service, Member States could undertake information campaigns.

The policy instruments could be self-regulatory or binding. First, the Commission could issue a Recommendation inviting Member States to endorse the EBIC Common Principles. Member States would be free to determine how best to ensure the application of the EBIC Common Principles within their territory – through self-regulation or through legal measures. Secondly, the Commission could make the Common Principles on bank account switching binding at EU level. In this case, Member State authorities would be responsible for monitoring compliance, enforcement of the principles and reporting of results to the Commission. Member State monitoring could take different forms, such as mystery shopping, reporting obligations, etc.

Generally, consumers have expressed a clear preference for a legally binding approach, arguing that the Common Principles have been in place for three years, but were applied poorly. So far the only Member State that has adopted legal measures is Ireland.[538]A great majority of financial services industry representatives, on the other hand, would prefer that the Principles remain voluntary; they feel that binding measures might not adequately address the

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538 *Code of Conduct on the Switching of Current Accounts with Credit Institutions*, Republic of Ireland, 2010, http://www.centralbank.ie/regulation/processes/consumer-protection-code/Documents/Code%20of%20Conduct%20on%20the%20Switching%20of%20Current%20Accounts%20with%20Credit%20Institutions%201%20October%202010.pdf

specific needs of national banking markets and might not be flexible enough to adapt to future market developments.[539]

Outside the EU, recent legal measures aiming at facilitating payment account switching have recently (July 2012) been taken in Australia. The adopted measures including switching provisions similar to the Common Principles, though go beyond these by not only assisting the consumer by informing third parties to his/her direct debits/credits (by providing standard letters), but by actually performing this task on behalf of the consumer.[540]

In the event that the Common Principles were made legally binding at EU level, in case of a Directive, Member States would incur one-off legislative costs and recurring enforcement costs. Ireland would be the exception. If the legal instrument were a regulation, there would be no one-off costs to the Member States for the adoption of national legal measures, but costs of legislating would be incurred at EU level.

The overall impacts on stakeholders are likely to be limited and depend on the instrument chosen. As demonstrated in Section 7.6 of the main report, if binding measures were introduced, the impact on Member States and payment account providers would be slightly negative due to higher additional costs incurred. However, the positive effects for consumers would likely be significantly higher with a possibility of enforcement.

All Members States would be affected by this option, though only to a small extent. Ireland is likely to be affected only very marginally (e.g. if reporting to the EU is made obligatory), as it already has introduced switching legislation. The Netherlands and Denmark would also be affected only marginally[541], but they would potentially incur legislative costs.

- Quantification of costs and benefits

A summary of quantified costs and benefits is provided in Table 4.D.

Table 4.D: Costs and benefits – Ensure compliance with the existing Common Principles at domestic level

Total EU benefits (million EUR)		
Consumer benefits:		
Changes in switching behaviour		1 462.2
Total consumer benefits:		**1 462.2**
Total EU costs (million EUR)	Min	Max
Credit institution costs:		
One-off:	16.8	32.9
Recurring:	228.8	395.7
Total credit institution costs:	**245.6**	**428.6**
Member State costs:		
One-off:		3.2
Recurring:		18.8
Total Member State costs:		**22.0**

The total cost of implementing this option to the industry has been estimated at between EUR 246–429 million. These include one-off costs of EUR 17-33 million for adapting IT systems and business processes to facilitate the switching process; initial staff training and updating website information on the switching process; and time spent by banks' legal

[539] *Ibid.*, p.14.

[540] *Australian banking reforms*, Australian Government, July 2012, http://www.bankingreforms.gov.au/content/Content.aspx?doc=switching.htm

[541] The analysis for AT, BE, BG, DE, DK, ES, FI, FR, IT, LT, LU, LV, NL, PL, PT, UK is derived from the study; Quantification of the economic impacts of EU action to improve fee transparency, comparability and mobility in the Internal Market for personal current accounts", ICF GHK, 2012; for the other MS the category of impact was assessed by Commission staff.

departments on familiarisation with new legislative text (where appropriate). The industry would incur recurring costs of staff spending time in implementing switching (additional customer enquiries) and compliance monitoring and. If calculated for a 10-year period, these would total EUR 229–396 million.

The cost to Member States would be limited and only incurred if binding measures were introduced. In Table 4.D costs are quantified on the basis that the legal instrument used is a Directive. If the binding instrument were a Regulation, the costs to the Member States would be lower (as they would not incur the costs for transposing the Principles in national legislation), but the cost to EU-budget might increase accordingly.

The benefits to consumers, payment account providers and wider society would arise from facilitation of market access and an increase in cross-border activity due to economies of scale and scope. These would lower cross-border operating costs and increase consumer confidence and mobility, contributing to a more competitive environment, likely to influence price levels and product offers. For this option, these benefits are lower than they could be (and in cross-border terms are expected to be minimal) as only domestic switching is facilitated. Consumers who switch are estimated to save more than EUR 1 462 million. If a non-binding approach were chosen, this would probably be significantly lower.

Additional potential benefits arising to consumers, payment account provider and wider society resulting from a more competitive environment reached through greater customer and provider mobility have not been quantified.

A detailed description of the methodology used to calculate potential costs and benefits, including related assumptions, are presented in Annex VI.

3.4. Option 3: Add provisions to improve the effectiveness of the Common Principles

Variant A: Improve the existing Common Principles at domestic level

- Effectiveness of policy option

By introducing obligatory displays on banks websites and ensuring that staff are properly trained on switching procedures, this variant would ensure that consumers are made aware of switching services, provided with all relevant information, and receive adequate assistance. This would reduce indirect costs to consumers in terms of time and effort.

The objective of reducing the risk of lost/missed/inaccurate transactions resulting from switching of payment accounts to less than 5% of transferred transactions would not be fully met. Third parties would need to be informed of changes in payment account details 'manually', meaning that most of the direct costs to customers, such as postage or penalties from missed/late payments, would not be significantly reduced. Furthermore, as this option does not introduce any provisions on cross-border switching, its implementation would not, enable the consumers to maximise the benefits from the Single European Payment Area.

- Impacts of policy option on stakeholders and efficiency

Consumers would be more aware of the switching service and informed about what it comprised. The process would be easier and less time-consuming as consumers would be assisted by sufficiently knowledgeable staff. Although customer mobility would be less restricted, consumers may still face difficulties transferring recurrent payment and be discouraged from changing provider. Consumers wishing to switch cross-border would not be helped: cross-border provisions are not included, narrowing product choice granted, in principle, by the Single European Payment Area.

In their responses to the 2012 Commission consultation, consumer representatives noted that "the *consumer experience in relation to bank account switching depends on the level of staff* *preparedness and training of a particular bank branch, whilst all banks must comply equally with the same guidelines. Accordingly, better information and better training of bank staff would benefit banks and reduce the random variable which impacts on consumer experiences of switching and, more generally, the relationship between banks and their customers."*[542]

Providers, Member States and wider society would incur the same one-off and recurring costs and benefits as found in Option 2 above.

The effectiveness, impacts, costs and benefits would depend on the policy instrument via which this option is implemented. If a self-regulatory approach were chosen, all effects and impacts would likely be significantly lower – the lack of enforcement mechanisms would create a risk that the measures would not be implemented or applied properly. Even if a binding instrument were chosen, the implementation of Option 3A could be flexible enough to take into account national specificities and thus ensure nationally effective switching. Staff training provisions could specify that staff are to be adequately trained on the functioning of the switching service, leaving Member States to decide how this is to be applied.

Geographically, all Member States would be affected by this option. The cost and broader impact would depend on the current application of the Common Principles and the way how the additional provisions relating to staff training and provision on information were implemented. Consequently, other things being equal, Member States with a higher number of credit institutions would be affected to a greater extent than those with fewer. On this basis, the Member States impacted upon to a medium extent would be: Bulgaria, Cyprus, Germany, Hungary, Luxemburg, Latvia, Poland, Portugal and the United Kingdom.[543] The remaining Member States would be affected to a smaller extent.

- Quantification of costs and benefits

A summary of quantified costs and benefits is provided in Table 4.E below.

Table 4.E: Costs and benefits – Improve the existing Common Principles at domestic level

Total EU benefits (million EUR)		
Consumer benefits:		
Changes in switching behaviour		1 679.5
Total consumer benefits:		**1 679.5**
Total EU costs (million EUR)	Min	Max
Credit institution costs:		
One-off:	37.3	73.1
Recurring:	852.6	1 214.1
Total credit institution costs:	**889.9**	**1 287.2**
Member State costs:		
One-off:		3.2
Recurring:		18.8
Total Member State costs:		**22.0**

In practice, the incremental costs for industry from the implementation of this option should only be slightly higher than those cited under Option 2. However, given that the Common Principles do not have an explicit obligation for e.g. staff training, these additional costs (many of which should have already been incurred by providers applying the Common Principles) are far more than double that in the above table.

542 BEUC response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 19.

543 Data for AT, BE, BG, DE, DK, ES, FI, FR, IT, LT, LU, LV, NL, PL, PT, UK is derived from the study; Quantification of the economic impacts of EU action to improve fee transparency, comparability and mobility in the Internal Market for personal current accounts", ICF GHK, 2012; for the other MS the category of impact was assessed by Commission staff.

Costs to Member States would remain unchanged compared to Option 2: up to EUR 22 million for all costs for a period of 10 years.

The benefits in forms of money saved by consumers who switch will be EUR 1 680 million – higher than Option 2.

Additional benefits arising for consumers, payment account providers and wider society due to a more competitive environment have not been quantified, but are likely to be higher than for Option 2.

A detailed description of the methodology used to calculate potential costs and benefits, including related assumptions, is presented in Annex VI.

<u>Variant B: Broaden the scope of the improved Common Principles to cross-border switching</u>

- Effectiveness of policy option

This option is based on Option 3A, so meets the same objectives.

By introducing additional provision on cross-border switching and harmonising certain provisions of the Common Principles, such as the time-periods set for the 'new' and the 'old' bank to perform their respective tasks, implementation of this option would additionally create a consistent regulatory framework across the EU.

This option would to a large extent meet the defined operational objectives. Moreover, it could be considered as a first step ahead of possible further measures at a later stage, such as an EU-wide redirection service.

- Impacts of policy option on stakeholders and efficiency

Generally, stakeholders would encounter similar costs and benefits as with Variant A of this option. The difference would be that a consumer wishing to switch provider cross-border would be helped, since this option foresees relevant cross-border provisions. As a result, consumer mobility would be facilitated domestically and at EU level. Consumers would benefit from greater product choice due to the implementation of the Single European Payments Area and from lower account fees resulting from increased competitive pressure.

Payment account providers that have adopted processes incompatible with harmonised cross-border provisions (e.g. adopting stricter provisions as to the number of days for performing the tasks by the two banks) would face additional costs for adapting them. However, providers wishing to expand their client base and/or enter new markets would significantly benefit from increased EU-wide customer mobility providing for a more level-playing field.

If followed, the more competitive environment this variant would achieve (in comparison to Variant A) would also bring larger benefits to wider society, most likely in form of better quality products and overall lower account prices.

Member States might encounter additional costs, as closer cooperation of supervisory bodies of different Member States would be necessary for cross-border switching. Further costs to Member States also exist in the form of one-off costs relating to potential introduction of legal measures (if a Directive were chosen) and the organisation of awareness raising campaigns on the enhanced cross-border switching procedures (EUR 3 million) and recurrent costs related to monitoring and enforcement measures and potentially reporting to the EU (EUR 2 million a year).

As with Variant A, the overall impacts on stakeholders are likely to depend largely on the response of Member States and/or providers depending on the policy instrument chosen. Due to additional complexity given through the cross-border implications of this option, however, it is likely that the impacts of self-regulatory measures would be overall significantly lower than if legally binding measures are chosen. Even if in principle a consistent EU-wide framework could be implemented within a self-regulatory initiative, experience has shown that the Common Principles were insufficient, leaving doubt about whether they could be successful if implemented with an extended scope. Due to their generally principle-based wording, even a binding instrument could potentially leave a quite high flexibility to Member States in course of implementation. Member States could decide whether they wish to define the extent of staff training, the layout of information on the switching service, the exact content of the information that needs to be submitted from the 'old' bank to the 'new' one, and its format. A more standardised approach across the Member State would nevertheless be necessary for certain provisions (such as maximum length of the switching procedure) to ensure the functioning of the cross-border switching service.

As this option is introducing provisions facilitating cross-border switching service which was not existent in any of the Member States, diverse stakeholders within all Member States would be impacted by it. However, the extent of the impact across the Member States would depend on those same factors as outlined in Variant A above. On this basis, it has been assessed[544] that the Member States affected to the largest extent would be: Bulgaria, Germany, Finland, Luxemburg, Poland, Portugal, and the United Kingdom. Denmark, Estonia, Malta and the Netherlands would be affected to a smaller extent, while the remaining Member States would be affected to a medium extent.

- Quantification of costs and benefits

A summary of quantified costs and benefits is provided in Table 4.F below.

Table 4.F: Costs and benefits – Broadening the scope of the improved Common Principles to cross-border switching

Total EU benefits (million EUR)		
Consumer benefits:		
Changes in switching behaviour		3 655.4
Total consumer benefits:		**3 655.4**
Total EU costs (million EUR)	Min	Max
Credit institution costs:		
One-off:	67.2	129.4
Recurring:	2 041.3	2 649.2
Total credit institution costs:	**2 108.5**	**2 778.6**
Member State costs:		
One-off:		3.2
Recurring:		18.8
Total Member State costs:		**22.0**

The costs incurred from implementing this option to the industry would be between EUR 2 109-2779 million. These costs include the same categories of one-off costs and recurring costs as Variant A. The main difference in cost arises from a higher weighting factor due to higher necessary adaptation level by the payment account providers arising from additional requirements of this option.

Costs to Member States would remain unchanged to Options 2 and 3A and would, calculated over a 10-year period, amount to EUR 22 million.

The money saved by consumers who switch would be higher than for Options 2 and 3A due to easier domestic and cross-border mobility. They would amount to EUR 3655 million.

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Additional benefits for consumers, payment account providers and wider society resulting from a more competitive environment have not been quantified, but are likely to be higher than for Option 3A. The above costs and benefits are estimated on the basis of implementation within a Directive. If the choice of the instrument were a self-regulatory approach, the cost to Member States would probably be lower. However, the benefits to the consumers are likely to be considerably lower as there would be no enforcement mechanism and no guarantee of timely implementation.

The methodology used is presented in Annex VI.

3.5. Option 4: Set up an automatic redirection service for all receipts and payments from an old to a new account

Variant A: Introduce automatic domestic redirection service

- Effectiveness of policy option

Introducing a domestic automatic redirection service would be an effective measure to address the operational objectives at domestic level. Switching would become easier and less time-consuming for the customer. The risk of errors in transactions would be significantly reduced – even virtually eliminated – as all payments paid to/or debited from the 'old' payment account would be automatically redirected/rerouted to the 'new' payment account. A period for the redirection service of 13 months would guarantee this for infrequent payments too (e.g. annual recurrent payments). Direct costs (e.g. postage costs) and indirect costs in terms of consumer time would be significantly reduced: for most types of transactions, third parties would be automatically informed of the customer's new banking details via the 'payment infrastructure'. Only in a few exceptional cases, e.g. cash in-payments, would the consumer need to take action to inform other party – if known – of his/her new bank details. This option does not propose explicit provisions on raising consumer awareness of switching services, nor does it introduce requirements for staff training on the switching process, and so it would not ensure adequate assistance is provided to consumers. To ensure this, it could be combined with Option 3A.

As this option would introduce a national redirection service, it would most likely lead to 27 different systems in place across the EU, and would not contribute to the creation of a consistent EU framework. Moreover, it might be counterproductive to possible subsequent efforts to obtain potential cost efficiencies through the establishment of an EU-wide redirection service. Significant resources deployed by Member States and the financial industry to implement the domestic redirection system would create an infrastructure that would not necessarily be compatible with a later EU-wide redirection system. It would therefore increase the domestic mobility of customers but potentially create further obstacles to cross-border switching. The cross-border mobility of financial providers would be improved by increased domestic customer mobility, but the positive impact would be lower than in the case of introduction of an EU-wide redirection service, since many of the economies of scale would not be obtainable. Payment account providers operating cross-border would face significant investment in order to integrate themselves into two or more domestic redirection services. For this reason, this option does not create a level playing field between market actors.

- Impacts of policy option on stakeholders and efficiency

If a domestic redirection service were introduced, consumers would benefit from a significantly improved domestic switching process. As the process would be automated, consumer involvement would be reduced to a minimum. Consumers would not need to take action to inform third parties of changes to their payment account details (with a few exceptions) as they would be automatically informed via the system. Knowing that payments will not get lost or be delayed would improve consumer confidence in the switching process. Increased confidence would make consumers more likely to switch where a better offer exists. Generally, the direct cost in terms of postage and penalties for late/missed payments would be minimised by this option. Yet as the introduction of the redirection service would be costly to the industry, it is likely that these costs would be passed on to the consumers. As redirection is to be offered free of charge, the costs would be passed on to the consumers in other ways, meaning that all consumers, including those uninterested in switching, would need to pay. However, all consumers would benefit from a more competitive environment, but as this option only proposes a domestic redirection service, it would not help consumers wishing to switch cross-border.

For the industry, the introduction of a redirection service would impose significant initial costs. First, they would need to acquire familiarity with any new requirements, possibly requiring external legal and/or technical expertise. They would also face significant one-off costs for the internal development of a system to be aligned to an industry-wide switching service, which would include costs for adapting their IT-systems, business processes, monitoring systems and product pricings. Further one-off costs would relate to training of staff dealing with customer enquiries and adaptation of material for consumers on the switching service. Despite these high costs, some industry stakeholders have indicated that such automatic rerouting of payments represents best practice.[545]

In addition to the costs of adaptation of providers' internal payment systems, a redirection service would necessitate the development of a central infrastructure via which payments could be redirected. The costs for central development would consist of: designing and implementing a new messaging system to inform third parties that their payments have been redirected and communicate the new bank details to them; implementing changes to payment schemes to support redirection and forwarding of payments from the old account; and undertaking industry testing. Implementation and management of the new service would also be costly; these costs would most probably need to be in first instance borne by Member States (central authority) and could, upon functioning, be recovered from the banking industry as a 'per switch charge' over the initial period of the service's operation.

There would also be smaller recurrent costs for the industry and Member States. The industry would need to bear the costs for running the redirection service, for compensating customers in case of system errors, and for handling a potentially increased number of customer enquiries (as customer mobility would increase). Member States would incur recurrent costs for compliance monitoring and costs related to enforcement and to reporting to the EU. One-off costs to Member States would arise in case legislative measures should be adopted.

Introduction of redirection service would also incur costs for direct debit originators and merchants accepting recurring card transactions. These would need to adapt their IT systems and business processes.

So far, the Netherlands is the only Member State that has introduced a redirection service. The so-called 'Interbank Switch-Support Service' ('Overstapservice') has been available since February 2004 and includes the following features[546]:

- for 13 months all direct debits destined for the old account are, without delay, automatically re-routed to the new account through the Interpay clearing house. The

[545] *2012 Public consultation on bank accounts* (see footnote 11), p.12.

[546] *Background paper on the Dutch Interbank Switch Support Service (Overstapservice)*, NVB, May 2006, p.1, http://www.nvb.nl/publicaties/switchsupportmay20061.pdf

corporate customer that has initiated the direct debit is automatically informed of the new account number and is requested to update his database;

- for 13 months all credit transfers destined for the old account are, without delay, re-routed to the new account (also through the Interpay clearing house). The account holder must inform his debtors of the new account number, for which the ISSS brochure provides him with standard cards;
- the old bank cancels standing orders on the old account and provides the customer with a detailed specification. The customer must give this list to the new bank, requesting that it activates some or all of the standing orders on the new account.

Accordingly, if this option were retained, Dutch stakeholders would not incur any costs/benefits.

The United Kingdom is also in the process of developing a redirection service, which should be operational by September 2013. According to the final report of the Independent Commission on Banking[547], preliminary discussions with the Payments Council suggest that the costs of introducing an effective redirection service could be in the order of GBP 650 million to GBP 850 million. These are predominantly one-off costs – the ongoing maintenance costs would be very low, and may be offset by savings from fewer manual processes. These estimates include costs to all those potentially affected by the change, including central payments schemes, banks that are members of these schemes, banks that access these schemes through agency arrangements, and service users of payments systems, such as direct debit originators and merchants that take automated debit card payments. The ICB states that "*there is significant uncertainty around these costs, which are still subject to testing with banks and service users. In some cases, the direct costs of introducing the redirection service may be one element of wider investments in infrastructure, in which case it will be difficult to attribute costs specifically to the new service. The costs to small business direct debit originators are expected to be unchanged from the current system. The costs to small banks and banks that access payments systems through agency arrangements are still highly uncertain.*" [548]

"*The Commission's conclusion is that there are significant net benefits of such a service. This service may also have a financial stability benefit, as it will facilitate orderly resolution of failed current account providers by enabling the accounts to be switched to another bank easily and reliably*." [549]

Based on the information on the set-up and functioning of the Dutch and UK systems, they do not appear to be compatible should they be merged into a single system. This suggests that if this option were adopted, it might be counterproductive if an EU-wide redirection service might become desirable at a later stage, since this would probably require significant resources and effort.

Moreover, the technical implementation of a redirection service, may require a single clearing house domestically (such as the Bankers' Automated Clearing Services – now known as Bacs Payment Schemes Limited – in the UK) or the interlinking of clearing houses where there are several of them. In some Member States with multiple clearing houses, adaptation of payment systems would be more technically difficult and therefore more costly. Additionally, third parties to credit mandated direct debits (which are the standard for SEPA direct debits) might

[547] *ICB Final report recommendations*, ICB, September 2011, p. 220, http://www.ecgi.org/documents/icb_final_report_12sep2011.pdf
[548] *Ibid.*, p. 221.
[549] *Ibid.*

not be known to banks. As a consequence, their direct debits could not be automatically transferred to the new payment account. Nevertheless, it should be possible to redirect these payments once they are sent to the old account, and then inform the third party of the customer's changed account details.

Domestic redirection services could be implemented via self-regulation or legally binding measures. As implementation of this option requires substantial technical input from the industry, implementation by banking communities has advantages. However, due to the high initial one-off costs to the industry, the extent that to which the industry would wish to implement the redirection service on a voluntary basis is questionable. A legal obligation might therefore represent a more effective (and comparably efficient) way forward.

This option would have a large impact on all Member States except for the Netherlands and the UK.

- Quantification of costs and benefits

A summary of quantified costs and benefits is provided in Table 4.G below.

Table 4.G: Costs and benefits – Introduce domestic automatic redirection service

Total EU benefits (million EUR)		
Consumer benefits:		
Changes in switching behaviour		5 848.7
Reduction direct/indirect costs		1 284.2
Total consumer benefits:		**7 132.9**
Total EU costs (million EUR)	Min	Max
Credit institution costs:		
One-off:	500.0	22 734
Recurring:	not quantified	not quantified
Total credit institution costs:	**500.0**	**22 734**
Member State costs:		
One-off:		3.2
Recurring:		18.8
Total Member State costs:		**22.0**

Based on the costs of the re-routing system introduced in 2004 in the Netherlands (EUR 18 million) and the cost estimate for the UK redirection system (between GBP 650-850 million), it is estimated that the overall cost to the industry of introducing similar redirection systems in all 27 Member States would be between EUR 500 – 22 000 million.

As with some other options, the cumulative 10-year costs to the Member States are estimated at around EUR 22 million. However, as this option would likely be introduced in combination with either Option 2 or Option 3A, this cost would arise only once.

The benefits to consumers are estimated at EUR 7 133 million. Additional benefits for consumers, payment account providers and wider society resulting from a more competitive environment have not been quantified, but are likely to be higher than for Options 2 and 3A.

The costs of this option would not differ much according to the policy instrument chosen, and with a self-regulatory initiative there would be only marginal costs for Member States. The benefits of a self-regulatory approach would depend on its effectiveness, but are expected to be lower than for a legally binding approach.

Overall, however, the benefits would potentially be lower that the costs, making this option inefficient, and therefore disproportionate to the defined objectives.

The methodology used is presented in Annex VI.

<u>Variant B: Introduce an automatic EU-wide automatic redirection service</u>

- Effectiveness of policy option

An EU-wide automatic redirection service would fulfil all the objectives that Variant A above does. It would also create a consistent framework across the EU, reducing barriers to customer cross-border mobility. More mobile customers would represent more opportunities for competitive providers of retail financial services. Providers would be able to use similar systems in different Member States, facilitating and reducing the costs of cross-border expansion.

- Impacts of policy option on stakeholders and efficiency

Impacts on stakeholders would be similar to those described in Variant A. This option would also help consumers wishing to switch cross-border, therefore potentially bringing wider benefits to customers and industry. However, due to divergent national payment systems and use of different currencies, this option would be technically more challenging than Variant A.

All Member States, even those that already have a redirection system (the Netherlands, as of 2013 the United Kingdom), would be affected significantly by this option. The Netherlands and the United Kingdom would need to amend their systems to make it compatible with the EU system.

As with Variant A, the policy instrument chosen would not change the cost of implanting the policy much. A self-regulatory initiative would only impose marginal costs upon Member States. The benefits of a self-regulatory approach, which would be more challenging for this variant, as cross-border provisions would need to be agreed upon and applied, would depend on its effectiveness. Benefits are likely to be higher under a legally binding approach.

- Quantification of costs and benefits

A summary of quantified costs and benefits is provided in table 4.H below.

Table 4.H: Costs and benefits – Introduce EU-wide automatic redirection service

Total EU benefits (million EUR)		
Consumer benefits:		
Changes in switching behaviour		6 579.7
Reduction direct/indirect costs		1 426.9
Total consumer benefits:		**8 006.6**
Total EU costs (million EUR)	Min	Max
Credit institution costs:		
One-off:	500.0	22 734
Recurring:	not quantified	not quantified
Total credit institution costs:	**500.0**	**22 734**
Member State costs:		
One-off:		3.2
Recurring:		18.8
Total Member State costs:		**22.0**

Due to divergent national payment systems and use of different currencies, this option would be technically challenging and therefore costly to the industry. However, additional economies of scale would arise, benefiting providers operating in more than one Member State. As it is difficult to estimate these costs, we use the same broad estimate as with Option 4A.

As with some other options, the cumulative 10-year costs to Member States are estimated at EUR 22 million (or less with a Regulation). Since this option would likely be introduced in combination with Option 3B, this cost would arise only once.

Benefits are likely to be high. Consumers will save an estimated EUR 1 427 million[550] from the simpler switching process and EUR 8 000 million in reduced bank fees following a provider switch.[551] Additional potential benefits to stakeholders arising from a more competitive environment are likely to be higher than for Option 4A.

Overall, however, benefits would potentially be lower than costs, making this option inefficient and possibly disproportionate to the defined objectives.

The methodology used is presented in Annex VI.

3.6. Option 5: Introduce payment account portability

<u>Variant A: Domestic payment account portability</u>

- Effectiveness of policy option

Introduction of national account number portability would be an effective measure to address the operational objectives defined at domestic level. As the account number would stay with the customer who moves from one provider to another within the Member State, the whole process of switching would become a lot less complex and time-consuming for the consumer. There would be no need to inform third parties about new bank details: nothing would change for the customer apart from the provider's name and address. Consequently, the direct costs of switching for consumers would be significantly lowered; some costs, such as postage, would be eliminated. No transactions directed to or from the payment account would get lost during the process, since the account number would be the unique identifier and the payments would be executed automatically to the provider with whom the account is active at the very moment of the financial transaction; therefore, no payments would be missed or charged twice/double. Customers would need to be informed about 'account number portability', but as the switching process would be significantly simplified, there would be significantly less (or no) need for particular assistance by bank staff during the process.

This option would introduce payment account portability at domestic level and would lead to a multiplicity of systems in place within the EU; therefore, it would not help achieve a consistent framework across the EU. Moreover, it might undermine subsequent efforts to introduce EU-wide portability. Significant resources deployed by Members States and the finance industry to implement domestic payment account number portability would create infrastructure possibly incompatible with a subsequent EU-wide portability system.

As this option is domestically-focused, it does not facilitate customer cross-border mobility. While financial providers may find it easier to move cross-border as a consequence of this option, but less so than with EU-wide account number portability, and so does not create a fully-level playing field between market actors.

- Impacts of policy option on stakeholders and efficiency

Payment account number portability could be achieved in two ways. The first is that all numbering systems for all payment accounts would need to be unified, meaning that all accounts would need to be re-numbered in a standard way. This would be the most effective, though also the most costly way forward, as for historical reasons the numbering standards in different Members States – and sometimes even within Member States – diverge significantly. In recent years, significant efforts were made to standardise the payment information

550 Calculated as for variant A; assumption: benefits increase by 10%.

551 *Quantification of the economic impacts of EU action to improve fee transparency, comparability and mobility in the Internal Market for personal current accounts,* ICF GHK, 2012.

necessary for banks to execute payments. IBAN[552] and BIC[553] codes were introduced for this purpose and following SEPA[554] migration these codes will be the standards required for SEPA credit transfers and direct debits both at cross-border and national level. However, the IBAN contains a referral to the Member State and provider (and even the branch of a bank in some cases) allowing identification of the payment account. For these reasons, according to banking industry experts, the introduction of portable payment account numbers would mean that the current IBAN and BIC standards would have to be replaced.[555] As already stated in the Impact Assessment of the Payment Services Directive, "*… studies carried out in some Member States (Netherlands, 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*." Furthermore, it needs to be noted that the IBAN code, even though originally adopted by the European Committee for Banking Standards, was later adopted as an international standard and is currently used in numerous countries outside the EU.

Portability could also be introduced by creating a central 'database' that automatically 'translated' each existing account number in a new virtual account number. The customer would need to communicate this 'virtual' number once to all third parties who could change their records. If the consumer wishes to switch between providers (or between accounts with a single provider), the new account number would replace the old account number in the database, and so the new account number would be assigned to the 'virtual' number. The consumer would not need to communicate the new payment account details.

This way of achieving account number portability could potentially be compatible with IBAN coding. Nevertheless, for this method, potential operational risks would need to be taken into account when designing/developing the system. As customers and public authorities make heavy demands on payment systems, technical problems could not only entail direct economic damage, but also pose a challenge to financial stability and increase the risk of fraud or the accidental disclosure of personal data. Additionally, it would be necessary to enable tracking of the active provider for each account number for tax purposes.

If domestic account portability could be successfully and cost-efficiently implemented, it would be most beneficial to consumers wishing to switch domestically. It would eliminate the risk of missed/delayed payments, financially benefiting consumers (reduction of costs related to missed payments such as late payment fees, unexpected overdrafts costs or longer-term effects such as possible black marks on their credit history). Consumers would find the process understandable and straightforward, decreasing the time and effort involved in switching. As they would not need to inform third parties of changes in their payment account details, consumers would benefit from a real reduction of direct costs of switching in terms of postage costs. An easy and error-free switching process would substantially improve consumer satisfaction and confidence.

Consumers would also benefit from increased domestic customer mobility, which would stimulate competition between providers, leading to more product innovation by the providers and therefore more product choice and better value for consumers. These effects would be smaller than with cross-border portability. Furthermore, as this option would result in

[552] International Bank Account Number

[553] Bank Identifier Code

[554] Single European Payments Area

[555] See also: *The SEPA IBAN Strategy*, June 2006, p. 2. The bank identifier that is embedded in the IBAN is the identifier assigned by national clearing systems or other national bodies. Most national clearing codes in the IBAN identify the bank at branch level.

substantial costs to the financial industry, it is likely that a (significant) part of these costs will be passed on to consumers. As set out above, as the switching service is meant to be free of charge, costs would be passed on to all consumers, irrespective of their desire to switch. Furthermore, depending on method of implementation, consumers would bear one-off costs of informing third parties of their new portable account number or the 'virtual' account number and updating the account information in their everyday business transactions (including i.e. reprinting of stationery). To direct debit originators and those who make automatic payments into customers' accounts the introduction of payment account portability would impose initial costs for adapting account information in their database. Subsequent costs would be significantly reduced, as there would be no/substantially less need for them to change their entries relating to payment account information in the database at a later stage.

For the financial industry, this option would impose considerable initial costs - primarily one-off compliance costs related to the implementation of account number portability and significantly smaller recurrent costs related to its functioning. The compliance costs would comprise familiarisation costs with new legal and technical requirements of portability (potentially requiring external expertise); costs of adapting IT systems to make accounts portable across EU; costs of adapting business processes to meet the requirements of account portability; costs of initial customer communications and of initial staff training on portability; and dealing with customer enquiries. One-off administrative costs would arise for adapting IT systems and business processes to monitor internal compliance. Recurrent costs would be linked to the increased operational costs of handling additional customer enquiries and the costs of reporting on compliance activities to a supervisory body.

Once account number portability was operational, the financial services industry would benefit from a simpler switching process. Even higher domestic customer mobility would facilitate the market entry and client acquisition of competitive market players.

Due to its technical nature, this option could be implemented through either a self-regulatory initiative or a legally binding approach with a number of regulatory technical standards. At present, no existing domestic laws could prevail over any self-regulatory agreement, leaving the door open for a self-regulatory approach. However, due to the high one-off costs of this option and the fact that the significantly less costly and burdensome Common Principles were not sufficiently applied on a voluntary basis, a legal obligation might be necessary to achieve effective results.

For Member States, costs would depend on the implementing instrument. If a legally binding instrument were chosen, this option would potentially result in one-off costs for the transposition of the EU legislation into national law (in case of a Directive) and for conceptual development of the portability system and related necessary changes to national payment infrastructure. Potentially information campaigns to raise awareness of the portability service among consumers could be envisaged. Recurrent costs would arise for compliance monitoring and enforcement costs, and costs for reporting to the EU. Alternatively, if the legal instrument chosen were a Regulation, most of these costs would not accrue to Member States, but would need to be financed directly from the EU budget.

Due to the historical differences in account numbering, any new system is likely to retain some idiosyncrasies.. All Member States would be significantly affected by this option, as no Member State has a portability system in place, though Sweden may be affected less due to its existing "Bankgiro" system for corporate customers. Consequently, providers operating in several Member States would be confronted with significant initial outlays with limited possibility to profit from economies of scale. Furthermore, if different account number portability system were introduced across the EU, these would not necessarily be compatible with a potential EU-wide portability that could be envisaged at a later stage without deploying significant additional resources to adapt the systems.

- Quantification of costs and benefits

A summary of quantified costs and benefits is provided in Table 4.I below.

Table 4.I: Costs and benefits – Account number portability at national level

Total EU benefits (million EUR)		
Consumer benefits:		
Changes in switching behaviour		8 773.0
Reduction direct/indirect costs		1 284.2
Total consumer benefits:		**10 057.2**
Total EU costs (million EUR)		
Credit institution costs:		
One-off:		14 700
Recurring:		not quantified
Total credit institution costs:		**14 700**
Member State costs:		
One-off:		3.2
Recurring:		18.8
Total Member State costs:		**22.0**

The quantification of the overall costs of introducing domestic payment account portability is difficult. The costs would arguably be similar to introducing EU-wide portability (i.e. EUR 14 700 million for the European banking industry). On the one hand, some of the cumulative costs might be higher due to fewer economies of scale, especially for small Member States. Similarly, overall costs to Member States might be higher, as they might conceptually develop and design their own systems. However, some technical aspects might be less costly if portability were introduced only domestically. As these effects are difficult to quantify, for simplicity the costs of domestic portability are assumed to be equal to the costs of EU-wide portability.

The overall benefits of this option are potentially lower than from an EU-wide portability: the effect on consumer and provider mobility would be smaller and would not fully level the payment account market playing field. The benefits that were quantified for this option stem from two sources. First, there are benefits for consumers resulting from better product choice (savings in bank fees following a provider switch) estimated at EUR 8 773 million. Second, there are reduced consumer costs estimated at EUR 1 284 million. All stakeholders could benefit from a more competitive environment; these benefits are difficult to quantify.

In conclusion, the long-term benefits of EU-wide portability would need to be weighed up more carefully against the technical issues behind modifications to payment infrastructures. For now, this option seems disproportionate.

The methodology used is presented in Annex VI.

Variant B: EU-wide payment account portability

- Effectiveness of policy option

As domestic payment account portability is an implicit prerequisite to EU-wide account number portability, this variant would be an effective measure to address all operational objectives as described in the analysis of Option 5A. Moreover, as this variant would introduce pan-European payment account portability, it would automatically create a consistent framework across the EU. At the same time, it would significantly reduce the barriers to customer cross-border mobility. More mobile customers would represent greater opportunity for competitive providers of retail financial services. Together with the fact that the financial services providers would not need to use differing infrastructure related to payment account numbering in different Member States, this would facilitate and increase their cross-border mobility.

Overall, introduction of EU-wide payment account portability would be the most effective measure in view of the operational objectives. Increased customer mobility and financial services mobility would lead to more competitiveness in the retail financial sector, improve the level-playing field between market actors and result in larger consumer choice and lower prices, which would lead to greater consumer satisfaction and confidence.

- Impacts of policy option on stakeholders and efficiency

EU level account number portability could be achieved in the two ways described above, with similar difficulties.

An additional difficulty that would need to be solved is that, if payment account numbers were to be easily transferable between Member States, for tax purposes, a system would need to be developed that would allow tracking of the payment account provider and Member State where the payment account is active.

If EU-wide portability could be successfully and cost-efficiently implemented, it would be the option benefiting consumers wishing to switch the most. Consumers and providers would be affected in a similar manner to that in Variant A above; however, the benefits would likely be magnified because of increased cross-border mobility. Consumers would benefit from easier improved product choice and direct costs savings. Payment account providers operating in more than one Member State would benefit from potentially higher economies of scale and lower compliance costs. Generally, payment account providers would benefit from easier market entry/expansion due to higher consumer and provider mobility.

As introduction of EU-wide portability would necessitate conceptual development it might be possible to delegate the task to a European body such as the European Banking Authority (EBA).

Within the feedback to Commission public consultation[556], a majority of consumer representatives and several Member States identified the introduction of EU-wide payment account portability as the best long-term solution, eliminating obstacles to switching payment accounts. The European consumer organisation BEUC encouraged Commission to launch an in-depth feasibility study on EU-wide account number portability, in order to better assess its cost and benefits and its implications, such as compatibility with the IBAN system. [557] Overall, implementation of EU-wide portability would have significant impacts on all Member States.

- Quantification of costs and benefits

A summary of quantified costs and benefits is provided in Table 4.J below.

Table 4.J: Costs and benefits – EU-wide account number portability

Total EU benefits (million EUR)	
Consumer benefits:	
Changes in switching behaviour	9 504.1
Reduction direct/indirect costs	1 426.9
Total consumer benefits:	**10 931.0**
Total EU costs (million EUR)	

[556] *2012 Public consultation on bank accounts* (see footnote 11), p. 16.

[557] response to the *2012 Public consultation on bank accounts* (see footnote 11), p. 16.

Credit institution costs:		
One-off:		14 700
Recurring:		not quantified
Total credit institution costs:		**14 700**
Member State costs:		
One-off:		3.2
Recurring:		18.8
Total Member State costs:		**22.0**

The cost of introducing payment account portability would be high. The cost across the EU for the technical reorganisation of account numbering systems alone would total around EUR 14 700 million for the European banking industry.[558] The EUR 14 700 million figure excludes further reorganisation costs, particularly in relation to customers (adaptation of customer systems, information for business partners and other organisational measures). For example, when switching accounts, banks will still expect to reissue physical cards and cheque books, as these include bank logos and account number details.

Assuming that the demand for switching significantly increased once account number portability were operational – and considering that the yearly demand for national switching in the EU is currently 7.7%[559] – a prudent estimate of its increase would be around 10%. In a conservative scenario, the cost per switch would be calculated by dividing the total costs among 10% of the current account users (i.e. about 35.8 million customers). This would mean that cost of introducing account number portability would amount to approximately EUR 413 per payment account switcher in a given year in the EU. However, as the recurrent costs of porting account numbers are very low in comparison to one-off initial outlay, it may be argued, that the significant investment required for the one-off adaptation of the account number portability should be viewed as a mid- to long-term investment and one should consider the costs to be amortised over several years. Considering a 5-year horizon and assuming 10% switching rate per annum, the costs per switch would amount to EUR 82.

As this option also foresees the facilitation of cross-border switching, consumers would make direct cost savings of EUR 1 427 million[560] from a more efficient process and EUR 9 504 million from lower bank fees following a switch.[561] Additional potential benefits arising to consumers, payment account providers and wider society, including a more competitive environment, have not been quantified, but would likely be significantly higher than if portability were introduced domestically.

In conclusion, the long-term benefits of EU-wide portability will need to be weighed up more carefully against the technical issues behind modifying payment infrastructures. For the time being, however, implementation of this option is disproportionate to the identified problems.

The methodology used is presented in Annex VI.

558 *Customer Mobility in Relation to Bank Accounts,* BearingPoint GmbH, 2007, p. 48. This figure seems to be consistent with an estimation quoted by a Dutch bank in the Expert Group, according to which in the Netherlands the number portability would cost, only for the banks, EUR 300-500 million as well as with the Dutch Banking Association who estimated the number portability to cost EUR 260-510 million.

559 *Consumers' views on switching service providers*, Eurobarometer 243, European Commission, January 2009, p.85, http://ec.europa.eu/public_opinion/flash/fl_243_en.pdf,

560 Calculated as for variant A; assumption: benefits increase by 10%.

561 Based on model of analysis of potential reduction of PCA prices resulting from switching options by the contractor (GfK), *Quantification of the economic impacts of EU action to improve fee transparency, comparability and mobility in the Internal Market for personal current accounts,* ICF GHK, 2012.

ANNEX V
GLOSSARY

Term	Definition
Basic payment account	A basic payment account includes the ability to deposit and withdraw cash into and from the account. It also enables the consumer to make essential payment transactions such as receiving income or benefits, paying bills or taxes and purchasing goods and services, including via direct debit, credit transfer and the use of a payment card.
Consumer	Any natural person who requests and makes use of a basic payment account for purposes other than his trade, business, craft or profession.
Churn	The share of customers who change providers in a given year.
Credit transfer	A payment service for crediting a payee's payment account, where a payment transaction or a series of payment transactions is initiated by the payer on the basis of the consent given to his payment service provider.
Debit card	A payment card not allowing payment transactions which exceed the balance of the account.
Direct Debit	Direct debit is a payment service that allows a payee (e.g. an electricity company or a mobile phone operator) to instruct its bank to collect (to debit) varying amounts directly from a customer's account. The transaction is initiated by the payee (the company in the example provided) on the basis of the payer's (consumer's) consent given to the payee or to the payer's own service provider.
Gateway product	A product that a consumer purchases which leads to subsequent product/service purchases with the same provider.
Payment account	An account held in the name or one or more payment service users, which is used for the execution of payment transactions; held by a payment services provider.
Payment card	any personalised card used for payment orders/transactions, including a debit card or pre-paid card; which can be used at points of sale where the card is accepted, including for online purchases.
Payment service provider	Any of the categories referred to in Article 1(1) of Directive 2007/64/EC and the legal and natural persons referred to in Article 26 of that Directive, but excludes those institutions listed in Article 2 of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions benefiting from a Member State waiver exercised under Article 2(3) of Directive 2007/64/EC, to which belong: – credit institutions/banks; – payment institutions, e.g. GSM companies, bill payers, money remittance institutions, etc.; – electronic money institutions; – post office giro institutions; – other payment services providers, e.g. public authorities or national central banks (in some cases).
Payment service user	A natural or legal person making use of a payment service in the capacity of either payer or payee, or both.
Payment transaction	An act, initiated by the payer or by the payee of transferring funds, irrespective of any underlying obligations between the payer and the payee.
Pre-paid card	A payment card pre-loaded with funds.
SEPA	Single Euro Payments Area
Standing order	An instruction initiated by the payer (i.e. a consumer) through an instruction to their payment institution to pay a set amount at regular intervals to the payee's account.

ANNEX VI

ASSUMPTIONS AND CALCULATION BASES USED IN DETERMINING COSTS AND BENEFITS

Detailed tables: benefits and costs of access to basic payment accounts

Option 1: No action

Option 2: Ensure application of the provisions of the Recommendation

Since three Member States (Belgium, France and Italy) have already implemented the Recommendation, the calculation of costs and benefits of this option for different stakeholders covers 24 Member States.

Table 6.A: Ensure application of the provisions of the Recommendation

Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Number of consumers that could potentially open an account as a result of this option			Number of consumers impacted would be 2 million (pessimistic scenario), 6.4 million (realistic scenarios) or 10 million (optimistic scenario). Source: SEC(2011)906, p. 41 and annexes, p. 51, "While the number of European consumers who desire access to a bank account but are deprived of it have been estimated to amount to about 6.4 million, an additional optimistic scenario considers the possibility of a 10 million uptake. The additional demand of 3.6 million basic accounts could come from previously disinterested unbanked consumers who notice the new product and become interested (especially if it is low-priced). It could also come (albeit to a small extent) from some consumers who although not unbanked, will close their existing ordinary account in case they can get a basic account for a lower price." Under this policy option, it is assumed that all these consumers would be impacted. No discount is therefore applied to the 3 scenarios.
Benefits to consumers	**Total benefits resulting from improved access to a basic payment account**	**542 - 2711**	
		320-1600	Benefits from discounts from reduced use of out-of-bank money transmission services (e.g. reduced use of postal orders): EUR 60[562] saved annually per consumer on money transmission services multiplied by the number of unbanked consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). Benefits from discounts from reduced use of cheques: EUR 120[563] saved annually per consumer by withdrawal from cheques multiplied by the number of unbanked consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). The benefits are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
		222-1111	Benefits from discounts from electronic payments (e.g. discounts available by paying utility bills by direct debit rather than cash): EUR 125[564] saved per consumer / per year by using the more efficient means of payment multiplied by the number of unbanked consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). The estimated benefit of EUR 125 per consumer per year is considered a prudent estimate.[565] Data from the UK suggests that vulnerable

562 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 44. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

563 *Ibid.*

564 *Ibid.*, p. 46.

			consumers in the UK could be paying EUR 880-1 100 a year in higher costs because they are excluded from mainstream financial services.[566] The benefits are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
		0	Benefits from online purchases: EUR 0. Based on the evidence collected for this impact assessment, it is assumed that being able to access a bank account would not necessarily provide access to the appropriate means of payment to enable online purchases.
Costs to consumers	**Total costs for consumers**	**108-542**	
	Account operation costs	91 – 453	• Annual recurring charge for maintenance of the account: the figure is calculated by multiplying the annual maintenance charge of EUR 51[567] by the number of consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). • The costs are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
	Cost of inappropriate use of the account	18 – 89	• For the purposes of this calculation, an average failed transaction cost of EUR 20 is assumed (in France and the UK, these charges are estimated at somewhere between EUR 17 and EUR 22 for each failed transaction[568]). • It is assumed that 25% of unbanked consumers who would open a bank account (i.e. 25% under the pessimistic, realistic and optimistic scenarios) would make on average 2 failed transactions per year.[569] This number is multiplied by the average failed transaction cost of EUR 20[570]. • The costs are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to payment services providers	Recurring annual benefits from providing access to a basic payment account	18 - 89	• Average price of a payment account which consumer has to pay has been calculated at EUR 51[571], where the estimated costs incurred by account provider are equal to EUR 40[572]. This results in revenue of approximately EUR 10[573] for providers per each account which is multiplied by the number of unbanked consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). • The benefits are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy

565 *Ibid.*, p. 46.

566 *Ibid.*, p. 46. From Family Welfare Association (retrieved from http://www.inclusioncentre.org.uk/3.html).

567 *Ibid.*, p. 40. The data was collected by CSES associates across the European Union from local banks.

568 *Ibid.*, p. 41.

569 Estimate by Commission services.

570 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 44. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study, p. 41

571 *Ibid.*, p. 40.

572 *Ibid.*, p. 54.

573 *Ibid.*, p. 54.

			option.
Costs to payment services providers	One-off costs of introducing basic bank accounts (if not already exist)	N/A	• These costs of will generally be incorporated into the annual fees charged to consumers. Over time, the more basic bank accounts that there are, the lower the incremental costs[574], thus these are assumed to be marginal.
	Recurring annual costs resulting from operating a basic payment account	71 – 356	• The costs are calculated by multiplying the annual cost of operation of an account (EUR 40[575]) by the number of consumers who would open an account (3 scenarios are 2 million, 6.4 million and 10 million). The CSES study also concluded that these costs were highly dependent on the design of the product being offered and the more electronic features provided, the cheaper the account.[576] • The costs are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to Member States (governments)	Benefits resulting from savings on payments of social security	18 – 89	Savings resulting from payments of social benefits via bank transfers (instead of more costly means e.g. benefit cheques) are estimated at EUR 7-12 per recipient per annum[577], thus an average of EUR 10 per recipient per annum[578] has been applied which is multiplied by the number of unbanked consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). The benefits are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
Costs to Member States (governments)	**Total costs for Member States**	**3.02**	
	One-off costs of legislating	1.13	• The cost of legislating is assumed to require about 1 500 man hours[579] where the EU average employee cost per hour is estimated to be around EUR 31.5[580] which is multiplied by 24 Member States which have not yet implemented the Recommendation. • This methodology may overestimate the actual costs of legislating. Calculations based on an alternative methodology in another impact assessment on the basis of data provided by Member States give a far lower figure. However, in order to prevent an underestimation of the costs and in order to be consistent with a previous impact assessment on access to basic account services[581], it was decided to use the methodology used in SEC(2011)906.

574 *Ibid.*, p. 50.

575 *Ibid.*, p. 52. Data is based on national studies, notably from the UK as well as research by external consultants. The study specifically states that in at least one case, stakeholders consider the UK data as representative of other countries.

576 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report*, Centre for Strategy and Evaluation Services (CSES), July 2010, p. 52. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study. Data is based on national studies, notably from the UK as well as research by external consultants. The study specifically states that in at least one case, stakeholders consider the UK data as representative of other countries.

577 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report*, Centre for Strategy and Evaluation Services (CSES), July 2010, p. 54. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

578 Calculation by Commission services.

579 SEC(2011)906, annexes, p. 58.

580 Eurostat 2008, Average Hourly Labour costs, Nace Rev. 1.1.

581 SEC(2011)906.

	Recurring costs of monitoring application of legislation	1.89	• The annual cost of monitoring and enforcing is assumed to require about 2 500[582] man hours where the EU average employee cost per hour is estimated to be around EUR 31.5[583] which is multiplied by 24 Member States which have not yet implemented the Recommendation yet. • This methodology may overestimate the actual costs of legislating. Calculations based on an alternative methodology in another impact assessment on the basis of data provided by Member States give a far lower figure. However, in order to prevent an underestimation of the costs and in order to be consistent with a previous impact assessment on access to basic account services[584], it was decided to use the methodology used in SEC(2011)906.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to utility firms	Recurring annual benefits from reductions in transaction costs: many banked consumers would switch to direct debit payments.	32 - 160	The transaction cost savings for water and energy payments can oscillate between EUR 1.2-2 55 (EUR 0.6-EUR 1 for water payments and EUR 0.6-EUR 1 for energy payments respectively) per transaction.[585] In order to make the necessary overall estimation of benefits to be obtained by utility firms in the 24 Member States which have not yet implemented the Recommendation, an average saving of EUR 1.5[586] per transaction has been assumed. It is assumed that 12 transactions take place a year. This is multiplied by the number of unbanked consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). The benefits are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.

Option 3: Modify the provisions of the Recommendation relative to the beneficiaries

Variant A: Introduce a universal right to a basic payment account

The calculation of costs and benefits of this option for different stakeholders covers 27 Member States. No discount is therefore applied.

Table 6.B: Modify the provisions of the Recommendation relative to the beneficiaries- Variant A: Introduce a universal right to a basic payment account

Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Number of consumers that could potentially open an account as a result of this option			Number of consumers impacted would be 2 million (pessimistic scenario), 6.4 million (realistic scenarios) or 10 million (optimistic scenario). Source: SEC(2011)906, p. 41 and annexes, p. 51, "While the number of European consumers who desire access to a bank account but are deprived of it have been estimated to amount to about 6.4 million, an additional optimistic scenario considers the possibility of a 10 million uptake. The additional demand of 3.6 million basic accounts could come from previously disinterested unbanked consumers who notice the new product and become interested (especially if it is low-priced). It could also come (albeit to a small extent) from some consumers who

582 SEC(2011)906, annexes, p. 58.

583 Eurostat 2008, Average Hourly Labour costs , Nace Rev. 1.1.

584 SEC(2011)906.

585 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report*, Centre for Strategy and Evaluation Services (CSES), July 2010, p. 60. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study;

586 Calculation by Commission services.

			although not unbanked, will close their existing ordinary account in case they can get a basic account for a lower price." Under this policy option, it is assumed that all these consumers would be impacted. No discount is therefore applied to the 3 scenarios.
Benefits to consumers	**Total benefits resulting from improved access to a basic payment account**	**610 - 3050**	
		360-1800	• Benefits from discounts from reduced use of out-of-bank money transmission services (e.g. reduced use of postal orders): EUR 60[587] saved annually per consumer on money transmission services multiplied by the number of unbanked consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). • Benefits from discounts from reduced use of cheques: EUR 120[588] saved annually per consumer by withdrawal from cheques multiplied by the number of unbanked consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). • All 27 Member States would be impacted by this option, therefore no discount is applied.
		250-1250	• Benefits from discounts from electronic payments (e.g. discounts available by paying utility bills by direct debit rather than cash): EUR 125[589] saved per consumer / per year by using the more efficient means of payment multiplied by the number of unbanked consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). • The estimated benefit of EUR 125 per consumer per year is considered a prudent estimate.[590] Data from the UK suggests that vulnerable consumers in the UK could be paying EUR 880-1 100 a year in higher costs because they are excluded from mainstream financial services.[591] • All 27 Member States would be impacted by this option, therefore no discount is applied.
		0	• Benefits from online purchases: EUR 0. Based on the evidence collected for this impact assessment, it is assumed that being able to access a bank account would not necessarily provide access to the appropriate means of payment to enable online purchases.
Costs to consumers	**Total costs for consumers**	**122-610**	
	Account operation costs	102 – 510	• Annual recurring charge for maintenance of the account: the figure is calculated by multiplying the annual maintenance charge of EUR 51[592] by the number of consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). • All 27 Member States would be impacted by this option, therefore no discount is applied.
	Cost of inappropriate use of the account	20 – 100	• For the purposes of this calculation, an average failed transaction cost of EUR 20 is assumed (in France and the UK, these charges are estimated at somewhere between EUR 17 and EUR 22 for each failed transaction[593]). • It is assumed that 25% of unbanked consumers who would open a bank account (i.e. 25% under the pessimistic, realistic and optimistic

587 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 44. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.
588 *Ibid.*, p. 44.
589 *Ibid.*, p. 46.
590 *Ibid.*, p. 46.
591 *Ibid.*, p. 46. From Family Welfare Association (retrieved from http://www.inclusioncentre.org.uk/3.html).
592 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 40. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study. The data was collected by CSES associates across the European Union from local banks.
593 *Ibid.*, p. 41.

			scenarios) would make on average 2 failed transactions per year.[594] This number is multiplied by the average failed transaction cost of EUR 20[595]. • All 27 Member States would be impacted by this option, therefore no discount is applied.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to payment services providers	Recurring annual benefits from providing access to a basic payment account.	20 - 100	• Average price of a payment account which consumer has to pay has been calculated at EUR 51[596], where the estimated costs incurred by account provider are equal to EUR 40[597]. This results in revenue of approximately EUR 10[598] for providers per each account which is multiplied by the number of unbanked consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). • All 27 Member States would be impacted by this option, therefore no discount is applied.
Costs to payment services providers	Recurring annual costs resulting from operating a basic payment account.	80 – 400	• The costs are calculated by multiplying the annual cost of operation of an account (EUR 40[599]) by the number of consumers who would open an account (3 scenarios are 2 million, 6.4 million and 10 million). The CSES study also concluded that these costs were highly dependent on the design of the product being offered and the more electronic features provided, the cheaper the account.[600] • All 27 Member States would be impacted by this option, therefore no discount is applied.
	One-off costs of introducing basic bank accounts (if not already exist)	N/A	• These costs of will generally be incorporated into the annual fees charged to consumers. Over time, the more basic bank accounts that there are, the lower the incremental costs[601], thus these are assumed to be marginal.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to Member States (governments)	Benefits resulting from savings on payments of social security	20 – 100	• Savings resulting from payments of social benefits via bank transfers (instead of more costly means e.g. benefit cheques) are estimated at EUR 7-12 per recipient per annum[602], thus an average of EUR 10 per recipient per annum[603] has been applied which is multiplied by the number of unbanked consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). • All 27 Member States would be impacted by this option, therefore no discount is applied.

594 Estimate by Commission services.

595 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 41. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

596 *Ibid.*, p. 40. The data was collected by CSES associates across the European Union from local banks.

597 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 54. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

598 *Ibid.*, p. 54.

599 *Ibid.*, p. 52. Data is based on national studies, notably from the UK as well as research by external consultants. The study specifically states that in at least one case, stakeholders consider the UK data as representative of other countries.

600 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report*, Centre for Strategy and Evaluation Services (CSES), July 2010, p. 52. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study. Data is based on national studies, notably from the UK as well as research by external consultants. The study specifically states that in at least one case, stakeholders consider the UK data as representative of other countries.

601 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 50. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

602 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report*, Centre for Strategy and Evaluation Services (CSES), July 2010, p. 54. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

Costs to Member States (governments)	Total costs for Member States	3.4	
	One-off costs of legislating	1.27	• The cost of legislating is assumed to require about 1 500 man hours[604] where the EU average employee cost per hour is estimated to be around EUR 31.5[605] which is multiplied by 27 Member States. • This methodology may overestimate the actual costs of legislating. Calculations based on an alternative methodology in another impact assessment on the basis of data provided by Member States give a far lower figure. However, in order to prevent an underestimation of the costs and in order to be consistent with a previous impact assessment on access to basic account services[606], it was decided to use the methodology used in SEC(2011)906.
	Recurring costs of monitoring application of legislation	2.12	• The annual cost of monitoring and enforcing is assumed to require about 2 500[607] man hours where the EU average employee cost per hour is estimated to be around EUR 31.5[608] which is multiplied by 27 Member States. • This methodology may overestimate the actual costs of legislating. Calculations based on an alternative methodology in another impact assessment on the basis of data provided by Member States give a far lower figure. However, in order to prevent an underestimation of the costs and in order to be consistent with a previous impact assessment on access to basic account services[609], it was decided to use the methodology used in SEC(2011)906.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to utility firms	Recurring annual benefits from reductions in transaction costs: many banked consumers would switch to direct debit payments.	36 – 180	• The transaction cost savings for water and energy payments can oscillate between EUR 1.2-2 55 (EUR 0.6-EUR 1 for water payments and EUR 0.6-EUR 1 for energy payments respectively) per transaction.[610] In order to make the necessary overall estimation of benefits to be obtained by utility firms in the 24 Member States which have not yet implemented the Recommendation, an average saving of EUR 1.5[611] per transaction has been assumed. It is assumed that 12 transactions take place a year. This is multiplied by the number of unbanked consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). • All 27 Member States would be impacted by this option, therefore no discount is applied.

Variant B: Introduce a right to a basic payment account at least for national residents

[603] Calculation by Commission services.
[604] SEC(2011)906, annexes, p. 58.
[605] Eurostat 2008, Average Hourly Labour costs, Nace Rev. 1.1.
[606] SEC(2011)906.
[607] SEC(2011)906, annexes, p. 58.
[608] Eurostat 2008, Average Hourly Labour costs , Nace Rev. 1.1.
[609] SEC(2011)906.
[610] *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report*, Centre for Strategy and Evaluation Services (CSES), July 2010, p. 60. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study;
[611] Calculation by Commission services.

Since three Member States (Belgium, France and Italy) have already implemented the Recommendation, thus they provide for a right to a basic payment account at least for national residents, the calculation of costs and benefits of this option for different stakeholders covers 24 Member States. In addition, for this option the number of unbanked national residents has been calculated as 82% of the total unbanked consumers.

Table 6.C: Modify the provisions of the Recommendation relative to the beneficiaries- Variant B: Introduce a right to a basic payment account at least for national residents

Benefit / cost per stakeholder and type	Benefit / cost description	Euro (Millions)	Calculation basis
Number of consumers that could potentially open an account as a result of this option			Number of consumers impacted would be 2 million (pessimistic scenario), 6.4 million (realistic scenarios) or 10 million (optimistic scenario). Source: SEC(2011)906, p. 41 and annexes, p. 51, "While the number of European consumers who desire access to a bank account but are deprived of it have been estimated to amount to about 6.4 million, an additional optimistic scenario considers the possibility of a 10 million uptake. The additional demand of 3.6 million basic accounts could come from previously disinterested unbanked consumers who notice the new product and become interested (especially if it is low-priced). It could also come (albeit to a small extent) from some consumers who although not unbanked, will close their existing ordinary account in case they can get a basic account for a lower price." Under this policy option, it is assumed that all these consumers would be impacted. No discount is therefore applied to the 3 scenarios. In 2010, citizens living in another Member State represented 12.3 million people (18% of the EU population above 15 years of age).[612]
Benefits to consumers	**Total benefits resulting from improved access to a basic payment account**	**444 - 2223**	
		262-1312	• Benefits from discounts from reduced use of out-of-bank money transmission services (e.g. reduced use of postal orders): EUR 60[613] saved annually per consumer on money transmission services multiplied by the number of unbanked consumers who would open an account (depending on the scenario). • Benefits from discounts from reduced use of cheques: EUR 120[614] saved annually per consumer by withdrawal from cheques multiplied by the number of unbanked consumers who would open an account (depending on the scenario). • The benefits are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
		182-911	• Benefits from discounts from electronic payments (e.g. discounts available by paying utility bills by direct debit rather than cash): EUR 125[615] saved per consumer / per year by using the more efficient means of payment multiplied by the number of unbanked consumers who would open an account (depending on the scenario). • The estimated benefit of EUR 125 per consumer per year is considered a prudent estimate.[616] Data from the UK suggests that vulnerable consumers in the UK could be paying EUR 880-1 100 a year in higher costs because they are excluded from mainstream financial services.[617]

612 http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Total_population_and_resident_non-national_population_by_group_of_citizenship,_2010.png&filetimestamp=20111125175609

613 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 44. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

614 *Ibid.*, p. 44.

615 *Ibid.*, p. 46.

			• The benefits are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
		0	• Benefits from online purchases: EUR 0. Based on the evidence collected for this impact assessment, it is assumed that being able to access a bank account would not necessarily provide access to the appropriate means of payment to enable online purchases.
Costs to consumers	**Total costs for consumers**	**89-445**	
	Account operation costs	74 – 371	• Annual recurring charge for maintenance of the account: the figure is calculated by multiplying the annual maintenance charge of EUR 51[618] by the number of consumers who would open an account (depending on the scenario). • The costs are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
	Cost of inappropriate use of the account	15 – 72	• For the purposes of this calculation, an average failed transaction cost of EUR 20 is assumed (in France and the UK, these charges are estimated at somewhere between EUR 17 and EUR 22 for each failed transaction[619]). • It is assumed that 25% of unbanked consumers who would open a bank account (i.e. 25% under the pessimistic, realistic and optimistic scenarios) would make on average 2 failed transactions per year.[620] This number is multiplied by the average failed transaction cost of EUR 20[621]. • The costs are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to payment services providers	Recurring annual benefits from providing access to a basic payment account	15 - 73	• Average price of a payment account which consumer has to pay has been calculated at EUR 51[622], where the estimated costs incurred by account provider are equal to EUR 40[623]. This results in revenue of approximately EUR 10[624] for providers per each account which is multiplied by the number of unbanked consumers who would open an account (depending on the scenario). • The benefits are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.

616 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 46. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

617 *Ibid*., p. 46 from Family Welfare Association (retrieved from http://www.inclusioncentre.org.uk/3.html).

618 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 40. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study. The data was collected by CSES associates across the European Union from local banks.

619 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 41. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

620 Estimate by Commission services.

621 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 41. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

622 *Ibid.*, p. 40. The data was collected by CSES associates across the European Union from local banks.

623 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 54. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

624 *Ibid*., p. 54.

Costs to payment services providers	Recurring annual costs resulting from operating a basic payment account	58 – 292	• The costs are calculated by multiplying the annual cost of operation of an account (EUR 40[625]) by the number of consumers who would open an account (depending on the scenario). The CSES study also concluded that these costs were highly dependent on the design of the product being offered and the more electronic features provided, the cheaper the account.[626] • The costs are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
	One-off costs of introducing basic bank accounts (if not already exist)	N/A	• These costs of will generally be incorporated into the annual fees charged to consumers. Over time, the more basic bank accounts that there are, the lower the incremental costs[627], thus these are assumed to be marginal.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to Member States (governments)	Benefits resulting from savings on payments of social security	15 – 73	• Savings resulting from payments of social benefits via bank transfers (instead of more costly means e.g. benefit cheques) are estimated at EUR 7-12 per recipient per annum[628], thus an average of EUR 10 per recipient per annum[629] has been applied which is multiplied by the number of unbanked consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). • The benefits are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
Costs to Member States (governments)	**Total costs for Member States**	**3.02**	
	One-off costs of legislating	1.13	• The cost of legislating is assumed to require about 1 500 man hours[630] where the EU average employee cost per hour is estimated to be around EUR 31.5[631] which is multiplied by 24 Member States which have not yet implemented the Recommendation. • This methodology may overestimate the actual costs of legislating. Calculations based on an alternative methodology in another impact assessment on the basis of data provided by Member States give a far lower figure. However, in order to prevent an underestimation of the costs and in order to be consistent with a previous impact assessment on access to basic account services[632], it was decided to use the methodology used in SEC(2011)906.
	Recurring costs of monitoring application of legislation	1.89	• The annual cost of monitoring and enforcing is assumed to require about 2 500[633] man hours where the EU average employee cost per hour is estimated to be around EUR 31.5[634] which is multiplied by 24 Member States which have not yet implemented the Recommendation yet.

625 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report*, Centre for Strategy and Evaluation Services (CSES), July 2010, p. 52. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study. Data is based on national studies, notably from the UK as well as research by external consultants. The study specifically states that in at least one case, stakeholders consider the UK data as representative of other countries.

626 *Ibid.*, p. 52.

627 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report*, Centre for Strategy and Evaluation Services (CSES), July 2010, p. 50. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

628 *Ibid.*, p. 54.

629 Calculation by Commission services.

630 SEC(2011)906, annexes, p. 58.

631 Eurostat 2008, Average Hourly Labour costs, Nace Rev. 1.1.

632 SEC(2011)906.

633 SEC(2011)906, annexes, p. 58.

634 Eurostat 2008, Average Hourly Labour costs , Nace Rev. 1.1.

			• This methodology may overestimate the actual costs of legislating. Calculations based on an alternative methodology in another impact assessment on the basis of data provided by Member States give a far lower figure. However, in order to prevent an underestimation of the costs and in order to be consistent with a previous impact assessment on access to basic account services[635], it was decided to use the methodology used in SEC(2011)906
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to utility firms	Recurring annual benefits from reductions in transaction costs: many banked consumers would switch to direct debit payments.	26 - 131	• The transaction cost savings for water and energy payments can oscillate between EUR 1.2-2 55 (EUR 0.6-EUR 1 for water payments and EUR 0.6-EUR 1 for energy payments respectively) per transaction.[636] In order to make the necessary overall estimation of benefits to be obtained by utility firms in the 24 Member States which have not yet implemented the Recommendation, an average saving of EUR 1.5[637] per transaction has been assumed. It is assumed that 12 transactions take place a year. This is multiplied by the number of unbanked consumers who would open an account (depending on the scenario). • The benefits are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.

Variant C: Introduce a right to a basic payment account at least to those non-residents with a link to the country where they wish to open an account

Since three Member States (Belgium, France and Italy) have already implemented the Recommendation, thus they provide for a right to a basic payment account at least to those non-residents with a link to the country where they wish to open an account, the calculation of costs and benefits of this option for different stakeholders covers 24 Member States.

In addition, for this option the number of unbanked non-residents with a link to the country where they wish to open an account has been calculated as 50% of the total unbanked non-residents applying for an account. This figure has been summed up to the total of unbanked national residents who would also have a right to a basic payment account under this option.

Table 6.D: Modify the provisions of the Recommendation relative to the beneficiaries- Variant C: Introduce a right to a basic payment account at least to those non-residents with a link to the country where they wish to open an account

Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Number of consumers that could potentially open an account as a result of this option			Number of consumers impacted would be 2 million (pessimistic scenario), 6.4 million (realistic scenarios) or 10 million (optimistic scenario). Source: SEC(2011)906, p. 41 and annexes, p. 51, "While the number of European consumers who desire access to a bank account but are deprived of it have been estimated to amount to about 6.4 million, an additional optimistic scenario considers the possibility of a 10 million uptake. The additional demand of 3.6 million basic accounts could come from previously disinterested unbanked consumers who notice the new product and become interested (especially if it is low-priced). It could also come (albeit to a small extent) from some consumers who

[635] SEC(2011)906.

[636] *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report*, Centre for Strategy and Evaluation Services (CSES), July 2010, p. 60. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study;

[637] Calculation by Commission services.

			although not unbanked, will close their existing ordinary account in case they can get a basic account for a lower price." Under this policy option, it is assumed that all these consumers would be impacted. No discount is therefore applied to the 3 scenarios. In 2010, citizens living in another Member State represented 12.3 million people (18% of the EU population above 15 years of age).[638]
Benefits to consumers	**Total benefits resulting from improved access to a basic payment account**	**493 - 2467**	
		291-1456	• Benefits from discounts from reduced use of out-of-bank money transmission services (e.g. reduced use of postal orders): EUR 60[639] saved annually per consumer on money transmission services multiplied by the number of unbanked consumers who would open an account (depending on the scenario). • Benefits from discounts from reduced use of cheques: EUR 120[640] saved annually per consumer by withdrawal from cheques multiplied by the number of unbanked consumers who would open an account (depending on the scenario). • The benefits are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
		202-1011	• Benefits from discounts from electronic payments (e.g. discounts available by paying utility bills by direct debit rather than cash): EUR 125[641] saved per consumer / per year by using the more efficient means of payment multiplied by the number of unbanked consumers who would open an account (depending on the scenario). • The estimated benefit of EUR 125 per consumer per year is considered a prudent estimate.[642] Data from the UK suggests that vulnerable consumers in the UK could be paying EUR 880-1 100 a year in higher costs because they are excluded from mainstream financial services.[643] • The benefits are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
		0	• Benefits from online purchases: EUR 0. Based on the evidence collected for this impact assessment, it is assumed that being able to access a bank account would not necessarily provide access to the appropriate means of payment to enable online purchases.
Costs to consumers	**Total costs for consumers**	**99-493**	
	Account operation costs	83 – 413	• Annual recurring charge for maintenance of the account: the figure is calculated by multiplying the annual maintenance charge of EUR 51[644] by the number of consumers who would open an account (depending on the scenario). • The costs are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy

[638] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Total_population_and_resident_non-national_population_by_group_of_citizenship,_2010.png&filetimestamp=20111125175609

[639] *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 44. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

[640] *Ibid.,* p. 44.

[641] *Ibid.,* p. 46.

[642] *Ibid.,* p. 46.

[643] From Family Welfare Association (retrieved from http://www.inclusioncentre.org.uk/3.html).

[644] *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 40. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study. The data was collected by CSES associates across the European Union from local banks.

			option.
	Cost of inappropriate use of the account	16 – 81	• For the purposes of this calculation, an average failed transaction cost of EUR 20 is assumed (in France and the UK, these charges are estimated at somewhere between EUR 17 and EUR 22 for each failed transaction[645]). • It is assumed that 25% of unbanked consumers who would open a bank account (i.e. 25% under the pessimistic, realistic and optimistic scenarios) would make on average 2 failed transactions per year.[646] This number is multiplied by the average failed transaction cost of EUR 20[647]. • The costs are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to payment services providers	Recurring annual benefits from providing access to a basic payment account	16 - 81	• Average price of a payment account which consumer has to pay has been calculated at EUR 51[648], where the estimated costs incurred by account provider are equal to EUR 40[649]. This results in revenue of approximately EUR 10[650] for providers per each account which is multiplied by the number of unbanked consumers who would open an account (depending on the scenario for the number of impacted consumers). • The benefits are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
Costs to payment services providers	Recurring annual costs resulting from operating a basic payment account	65 – 324	• The costs are calculated by multiplying the annual cost of operation of an account (EUR 40[651]) by the number of consumers who would open an account (3 scenarios are 2 million, 6.4 million and 10 million). The CSES study also concluded that these costs were highly dependent on the design of the product being offered and the more electronic features provided, the cheaper the account.[652] • The costs are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
	One-off costs of introducing basic bank accounts (if not already exist)	N/A	• These costs of will generally be incorporated into the annual fees charged to consumers. Over time, the more basic bank accounts that

645 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 41. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

646 Estimate by Commission services.

647 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 41. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

648 *Ibid.*, p. 40. The data was collected by CSES associates across the European Union from local banks.

649 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 54. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

650 *Ibid.*, p. 54.

651 *Ibid.*, p. 52. Data is based on national studies, notably from the UK as well as research by external consultants. The study specifically states that in at least one case, stakeholders consider the UK data as representative of other countries.

652 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report*, Centre for Strategy and Evaluation Services (CSES), July 2010, p. 52. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study. Data is based on national studies, notably from the UK as well as research by external consultants. The study specifically states that in at least one case, stakeholders consider the UK data as representative of other countries.

			there are, the lower the incremental costs[653], thus these are assumed to be marginal.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to Member States (governments)	Benefits resulting from savings on payments of social security	16 – 81	• Savings resulting from payments of social benefits via bank transfers (instead of more costly means e.g. benefit cheques) are estimated at EUR 7-12 per recipient per annum[654], thus an average of EUR 10 per recipient per annum[655] has been applied which is multiplied by the number of unbanked consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). • The benefits are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.
Costs to Member States (governments)	**Total costs for Member States**	**3.02**	
	One-off costs of legislating	1.13	• The cost of legislating is assumed to require about 1 500 man hours[656] where the EU average employee cost per hour is estimated to be around EUR 31.5[657] which is multiplied by 24 Member States which have not yet implemented the Recommendation. • This methodology may overestimate the actual costs of legislating. Calculations based on an alternative methodology in another impact assessment on the basis of data provided by Member States give a far lower figure. However, in order to prevent an underestimation of the costs and in order to be consistent with a previous impact assessment on access to basic account services[658], it was decided to use the methodology used in SEC(2011)906.
	Recurring costs of monitoring application of legislation	1.89	• The annual cost of monitoring and enforcing is assumed to require about 2 500[659] man hours where the EU average employee cost per hour is estimated to be around EUR 31.5[660] which is multiplied by 24 Member States which have not yet implemented the Recommendation yet. • This methodology may overestimate the actual costs of legislating. Calculations based on an alternative methodology in another impact assessment on the basis of data provided by Member States give a far lower figure. However, in order to prevent an underestimation of the costs and in order to be consistent with a previous impact assessment on access to basic account services[661], it was decided to use the methodology used in SEC(2011)906.
Benefit / cost per	**Benefit / cost description**	**Euro**	**Calculation basis**

653 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report*, Centre for Strategy and Evaluation Services (CSES), July 2010, p. 50. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

654 Ibid, p. 54.

655 Calculation by Commission services.

656 SEC(2011)906, annexes, p. 58.

657 Eurostat 2008, Average Hourly Labour costs, Nace Rev. 1.1.

658 SEC(2011)906.

659 SEC(2011)906, annexes, p. 58.

660 Eurostat 2008, Average Hourly Labour costs , Nace Rev. 1.1.

661 SEC(2011)906.

stakeholder and type		(Millions)	
Benefits to utility firms	Recurring annual benefits from reductions in transaction costs: many banked consumers would switch to direct debit payments.	29 - 146	• The transaction cost savings for water and energy payments can oscillate between EUR 1.2-2 55 (EUR 0.6-EUR 1 for water payments and EUR 0.6-EUR 1 for energy payments respectively) per transaction.[662] In order to make the necessary overall estimation of benefits to be obtained by utility firms in the 24 Member States which have not yet implemented the Recommendation, an average saving of EUR 1.5[663] per transaction has been assumed. It is assumed that 12 transactions take place a year. This is multiplied by the number of unbanked consumers who would open an account (depending on the scenario). • The benefits are discounted to take into account the fact that 3 Member States (Belgium, France and Italy) have already applied this policy option.

Option 4: Improve the features of the basic payment account

Variant A: Enlarge the list of basic services to include internet banking and online purchasing

The calculation of costs and benefits of this option for different stakeholders covers 27 Member States. No discount is therefore applied.

Table 6.E: Improve the features of the basic payment account- Variant A: Enlarge the list of basic services to include internet banking and online purchasing

Benefit/ cost per stakeholder and type	Benefit / cost description	Euro (Millions)	Calculation basis
Number of consumers that could potentially open an account as a result of this option			Number of consumers impacted would be 2 million (pessimistic scenario), 6.4 million (realistic scenarios) or 10 million (optimistic scenario). Source: SEC(2011)906, p. 41 and annexes, p. 51, "While the number of European consumers who desire access to a bank account but are deprived of it have been estimated to amount to about 6.4 million, an additional optimistic scenario considers the possibility of a 10 million uptake. The additional demand of 3.6 million basic accounts could come from previously disinterested unbanked consumers who notice the new product and become interested (especially if it is low-priced). It could also come (albeit to a small extent) from some consumers who although not unbanked, will close their existing ordinary account in case they can get a basic account for a lower price." Under this policy option, it is assumed that all these consumers would be impacted. No discount is therefore applied to the 3 scenarios
Benefits to consumers	**Total benefits resulting from improved access to a basic payment account**	**236 - 1179**	

[662] *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report*, Centre for Strategy and Evaluation Services (CSES), July 2010, p. 60. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study;

[663] Calculation by Commission services.

		88-440	• Benefits from discounts from reduced use of out-of-bank money transmission services (e.g. reduced use of postal orders): EUR 84[664] saved annually per consumer on money transmission services multiplied by the number of unbanked consumers who would open an account (depending on the scenario). A higher figure for savings on money transmission has been estimated for calculation of this option (EUR 7 per transaction per month[665]) because with an access to internet banking consumer will be able to make even more electronic transactions and thus save on other more costly ways of transferring money. • Benefits from discounts from reduced use of cheques: EUR 120[666] saved annually per consumer by withdrawal from cheques multiplied by the number of unbanked consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). • In order to be able to benefit from access to an account, consumers first need access. As such, this includes the benefits of Option 2. In order to establish the incremental benefit of this option alone, the benefits of Option 2 are deducted from the total. • All 27 Member States would be impacted by this option, therefore no discount is applied.
		28-139	• Benefits from discounts from electronic payments (e.g. discounts available by paying utility bills by direct debit rather than cash): EUR 125[667] saved per consumer / per year by using the more efficient means of payment multiplied by the number of unbanked consumers who would open an account (2 million, 6.4 million or 10 million depending on the scenario). • The estimated benefit of EUR 125 per consumer per year is considered a prudent estimate.[668] Data from the UK suggests that vulnerable consumers in the UK could be paying EUR 880-1 100 a year in higher costs because they are excluded from mainstream financial services.[669] • In order to be able to benefit from access to an account, consumers first need access. As such, this includes the benefits of Option 2. In order to establish the incremental benefit of this option alone, the benefits of Option 2 are deducted from the total. • All 27 Member States would be impacted by this option, therefore no discount is applied.
		120-600	• Benefits from discounts from online purchases: EUR 60 saved per consumer / per year on online purchases multiplied by a number of unbanked consumers.
Costs to consumers	**Total costs for consumers**	**22-108**	
	Account operation costs	19 – 97	• Annual recurring charge for maintenance of the account: the figure is calculated by multiplying the annual maintenance charge of EUR 55 by the number of consumers who would open an account. A higher figure for the charge of annual account maintenance has been used for the calculation of this option (EUR 55) in order to cover additional features of the basic payment account: internet banking and online purchase facility.
	Cost of inappropriate use of the account	2 – 11	• For the purposes of this calculation, an average failed transaction cost of EUR 20 is assumed (in France and the UK, these charges are estimated at somewhere between EUR 17 and 22 for each failed transaction). • It is assumed that 25% of unbanked consumers who would open a bank account would make on average 2 failed transactions per year. This number is multiplied by an average failed transaction cost of EUR 20.
Benefit / cost per	**Benefit / cost description**	**Euro**	**Calculation basis**

664 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 44. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

665 Estimate by Commission services.

666 *Study on the costs and benefits of policy actions in the field of ensuring access to basic account – Final Report,* Centre for Strategy and Evaluation Services (CSES), July 2010, p. 44. http://ec.europa.eu/internal_market/finservices-retail/inclusion_en.htm#study.

667 *Ibid.,* p. 46.

668 *Ibid.,* p. 46.

669 *Ibid.,* p. 46 from Family Welfare Association (retrieved from http://www.inclusioncentre.org.uk/3.html).

stakeholder and type		(Millions)	
Benefits to payment services providers	Recurring annual benefits from providing access to a basic payment account.	2 - 11	• Average price of a payment account which consumer has to pay has been calculated under this option at EUR 55, where the costs incurred by account provider are equal to ca. EUR 43-45. This results in revenue of ca. EUR 10 for providers per each account which is multiplied by a number of consumers who would open a bank account.
Costs to payment services providers	Recurring annual costs resulting from operating a basic payment account.	15 – 74	• The costs are calculated by multiplying the annual cost of operation of an account under this option (EUR 43) by the number of consumers who would open an account. A higher figure of annual cost of account operation has been used for the calculation of this option (EUR 43) in order to cover the cost of additional features of the basic payment account: internet banking and online purchase facility.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to Member States (governments)	Benefits resulting from savings on payments of social security	2 – 11	• Savings resulting from payments of social benefits via bank transfers (instead of more costly means e.g. cheques) are estimated at EUR 7-12 per recipient per annum, thus the average of EUR 10 per recipient per annum has been applied which is multiplied by a number of consumers who would open a bank account.
Costs to Member States (governments)	**Total costs for Member States**	**0**	
	One-off costs of legislating	0	• The cost of legislating is assumed to require about 1500 man hours where the EU average employee cost per hour is estimated to be around EUR 31.5 which is multiplied by 27 Member States.
	Recurring costs of monitoring application of legislation	0	• The cost of monitoring is assumed to require about 2500 man hours where the EU average employee cost per hour is estimated to be around EUR 31.5 which is multiplied by 27 Member States.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to utility firms	Recurring annual benefits from reductions in transaction costs: many banked consumers would switch to direct debit payments.	16 – 80	• The transaction cost savings for water and energy payments can oscillate between EUR 1.2-2 per transaction. A higher figure for benefits on payments collection by utility firms has been used for calculation of this option (EUR 2 per transaction) because with an access to internet banking consumer will be able to make even more electronic payments which will allow for greater savings of utility firms.

Variant B: Enlarge the list of basic services to include a small overdraft or a 'buffer' facility

Since one Member State (France) has already implemented the Recommendation, and in addition banks in France can offer a basic payment account with a small overdraft or a 'buffer' facility, therefore the calculation of costs and benefits of this option for different stakeholders covers 26 Member States.

In addition, for this option the total number of unbanked consumers who would open a basic payment account has been reduced by 10%. Given a small overdraft or a buffer facility available under this option, providers would need to conduct creditworthiness assessment of applicants and it is estimated that based on this, 10% of them would be rejected (based on data from the UK).

Table 6.F: Improve the features of the basic payment account- Variant B: Enlarge the list of basic services to include a small overdraft or a 'buffer' facility

Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to consumers	**Total benefits resulting from improved access to a basic payment account**	**-14 to -68**	

		-8 to -40	• Benefits from discounts from reduced use of out-of-bank money transmission: EUR 60 saved per consumer / per year on money transmission services multiplied by a number of unbanked consumers. • Benefits from discounts from reduced use of cheques: EUR 120 saved per consumer / per year by withdrawal from cheques multiplied by a number of unbanked consumers.
		-6 to -28	• Benefits from discounts from electronic payments: EUR 125 saved per consumer / per year multiplied by a number of unbanked consumers.
Costs to consumers	**Total costs for consumers**	**-11 to -57**	
	Account operation costs	-2 to -11	• Annual recurring charge for maintenance of the account: the figure is calculated by multiplying the annual maintenance charge of EUR 51 by the number of consumers who would open an account.
	Cost of inappropriate use of the account	-9 to -46	• For the purposes of this calculation, an average failed transaction cost of EUR 20 is assumed (in France and the UK, these charges are estimated at somewhere between EUR 17 and 22 for each failed transaction). • It is assumed that under this option 25% of unbanked consumers who would open a bank account would make on average 1 failed transaction per year. This number is multiplied by an average failed transaction cost of EUR 20. It is assumed that consumers with positive credit histories are less likely to make failed transactions and therefore the number of failed transactions per year has been decreased (from 2 to 1) compared to other policy options.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to payment services providers	Recurring annual benefits from providing access to a basic payment account.	-0.4 to -2	• Average price of a payment account which consumer has to pay has been calculated at EUR 51, where the costs incurred by account provider are equal to ca. EUR 40. This results in revenue of ca. EUR 10 for providers per each account which is multiplied by a number of consumers who would open a bank account.
Costs to payment services providers	Recurring annual costs resulting from operating a basic payment account.	-2 to -9	• The costs are calculated by multiplying the annual cost of operation of an account (EUR 40) by the number of consumers who would open an account.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to Member States (governments)	Benefits resulting from savings on payments of social security	-0.04 to -2	Savings resulting from payments of social benefits via bank transfers (instead of more costly means e.g. cheques) are estimated at EUR 7-12 per recipient per annum, thus the average of EUR 10 per recipient per annum has been applied which is multiplied by a number of consumers who would open a bank account.
Costs to Member States (governments)	**Total costs for Member States**	**2.52**	
	One-off costs of legislating	0.94	• The cost of legislating is assumed to require about 1500 man hours where the EU average employee cost per hour is estimated to be around EUR 31.5 which is multiplied by 26 Member States.
	Recurring costs of monitoring application of legislation	1.57	• The cost of monitoring is assumed to require about 2500 man hours where the EU average employee cost per hour is estimated to be around EUR 31.5 which is multiplied by 26 Member States.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to utility firms	Recurring annual benefits from reductions in transaction costs: many banked consumers would switch to direct debit payments.	-0.8 to -4	The transaction cost savings for water and energy payments can oscillate between EUR 1.2-2 per transaction. In order to make the necessary overall estimation of benefits to be obtained by utility firms in the 26 Member States, an average of EUR 1.5 has been assumed and multiplied by a number of consumers who would open a bank account.

Variant C: Indicate a minimum account balance that cannot be seized

Since one Member State (France) has already implemented the Recommendation, and in addition banks in France can offer a basic payment account with a minimum account balance that cannot be seized, therefore the calculation of costs and benefits of this option for different stakeholders covers 26 Member States.

Table 6.G: Improve the features of the basic payment account- Variant C: Indicate a minimum account balance that cannot be seized

Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to consumers	**Total benefits resulting from improved access to a basic payment account**	**45 – 226**	
		27 – 133	Benefits from discounts from reduced use of out-of-bank money transmission: EUR 60 saved per consumer / per year on money transmission services multiplied by a number of unbanked consumers. Benefits from discounts from reduced use of cheques: EUR 120 saved per consumer / per year by withdrawal from cheques multiplied by a number of unbanked consumers.
		19 – 93	Benefits from discounts from electronic payments: EUR 125 saved per consumer / per year multiplied by a number of unbanked consumers.
Costs to consumers	**Total costs for consumers**	**9 – 45**	
	Account operation costs	8 – 38	• Annual recurring charge for maintenance of the account: the figure is calculated by multiplying the annual maintenance charge of EUR 51 by the number of consumers who would open an account.
	Cost of inappropriate use of the account	1 - 7	• For the purposes of this calculation, an average failed transaction cost of EUR 20 is assumed (in France and the UK, these charges are estimated at somewhere between EUR 17 and 22 for each failed transaction). • It is assumed that under this option 25% of unbanked consumers who would open a bank account would make on average 2 failed transactions per year. This number is multiplied by an average failed transaction cost of EUR 20.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to payment services providers	Recurring annual benefits from providing access to a basic payment account.	1 – 7	Average price of a payment account which consumer has to pay has been calculated at EUR 51, where the costs incurred by account provider are equal to ca. EUR 40. This results in revenue of ca. EUR 10 for providers per each account which is multiplied by a number of consumers who would open a bank account.
Costs to payment services providers	Recurring annual costs resulting from operating a basic payment account.	6 – 30	• The costs are calculated by multiplying the annual cost of operation of an account (EUR 40) by the number of consumers who would open an account.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to Member States (governments)	Benefits resulting from savings on payments of social security	1.5 – 7	Savings resulting from payments of social benefits via bank transfers (instead of more costly means e.g. cheques) are estimated at EUR 7-12 per recipient per annum, thus the average of EUR 10 per recipient per annum has been applied which is multiplied by a number of consumers who would open a bank account.
Costs to Member States	**Total costs for Member States**	**2.52**	

(governments)	One-off costs of legislating	0.94	• The cost of legislating is assumed to require about 1500 man hours where the EU average employee cost per hour is estimated to be around EUR 31.5 which is multiplied by 26 Member States.
	Recurring costs of monitoring application of legislation	1.57	• The cost of monitoring is assumed to require about 2500 man hours where the EU average employee cost per hour is estimated to be around EUR 31.5 which is multiplied by 26 Member States.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to utility firms	Recurring annual benefits from reductions in transaction costs: many banked consumers would switch to direct debit payments.	3 - 13	The transaction cost savings for water and energy payments can oscillate between EUR 1.2-2 per transaction. In order to make the necessary overall estimation of benefits to be obtained by utility firms in the 26 Member States, an average of EUR 1.5 has been assumed and multiplied by a number of consumers who would open a bank account.

Variant D: Ensure that the features of the bank account are not of a discriminatory nature

The calculation of costs and benefits of this option for different stakeholders covers 27 Member States.

Table 6.H: Improve the features of the basic payment account- Ensure that the features of the bank account are not of a discriminatory nature

Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to consumers	**Total benefits resulting from improved access to a basic payment account**	**68 339**	
		40 – 200	Benefits from discounts from reduced use of out-of-bank money transmission: EUR 60 saved per consumer / per year on money transmission services multiplied by a number of unbanked consumers. Benefits from discounts from reduced use of cheques: EUR 120 saved per consumer / per year by withdrawal from cheques multiplied by a number of unbanked consumers.
		28 – 139	Benefits from discounts from electronic payments: EUR 125 saved per consumer / per year multiplied by a number of unbanked consumers.
Costs to consumers	**Total costs for consumers**	**22 – 108**	
	Account operation costs	19 – 97	• Annual recurring charge for maintenance of the account: the figure is calculated by multiplying the annual maintenance charge of EUR 55 by the number of consumers who would open an account. A higher figure for the charge of annual account maintenance has been used for the calculation of this option (EUR 55) in order to cover the possibility to use the account (e.g. debit card) also abroad.
	Cost of inappropriate use of the account	2 – 11	• For the purposes of this calculation, an average failed transaction cost of EUR 20 is assumed (in France and the UK, these charges are estimated at somewhere between EUR 17 and 22 for each failed transaction). • It is assumed that 25% of unbanked consumers who would open a bank account would make on average 2 failed transactions per year. This number is multiplied by an average failed transaction cost of EUR 20.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to payment services providers	Recurring annual benefits from providing access to a basic payment account.	0	Average price of a payment account which consumer has to pay has been calculated under this option at EUR 55, where the costs incurred by account provider are equal to ca. EUR 45-47. The costs are higher for banks under this option because they would need to incur higher system costs for the account services provided in the same way at national and cross-border level. This gives the revenue of ca. EUR 8 for providers per each account which is multiplied by a number of consumers who would open a bank account.
Costs to payment services providers	Recurring annual costs resulting from operating a basic payment account.	19 - 94	• The costs are calculated by multiplying the annual cost of operation of an account under this option (EUR 45) by the number of consumers who would open an account. A higher figure of annual cost of account operation has been used for the calculation of this option (EUR 45) in order to cover the possibility to use the account (e.g. debit card) also abroad.

Benefit / cost per stakeholder and type	Benefit / cost description	Euro (Millions)	Calculation basis
Benefits to Member States (governments)	Benefits resulting from savings on payments of social security	2 – 11	Savings resulting from payments of social benefits via bank transfers (instead of more costly means e.g. cheques) are estimated at EUR 7-12 per recipient per annum, thus the average of EUR 10 per recipient per annum has been applied which is multiplied by a number of consumers who would open a bank account.
Costs to Member States (governments)	**Total costs for Member States**	**3.8**	
	One-off costs of legislating	1.41	• The cost of legislating is assumed to require about 1500 man hours where the EU average employee cost per hour is estimated to be around EUR 31.5 which is multiplied by 27 Member States.
	Recurring costs of monitoring application of legislation	2.36	• The cost of monitoring is assumed to require about 2500 man hours where the EU average employee cost per hour is estimated to be around EUR 31.5 which is multiplied by 27 Member States.
Benefit / cost per stakeholder and type	**Benefit / cost description**	**Euro (Millions)**	**Calculation basis**
Benefits to utility firms	Recurring annual benefits from reductions in transaction costs: many banked consumers would switch to direct debit payments.	4 - 20	• The transaction cost savings for water and energy payments can oscillate between EUR 1.2-2 per transaction. In order to make the necessary overall estimation of benefits to be obtained by utility firms in the 27 Member States, an average of EUR 1.5 has been assumed and multiplied by a number of consumers who would open a bank account.

Ease of comparison of bank fees, requirements covering presentation and payment account switching

The assumptions used as well as the basis for calculation of economic impacts in this section are taken from the study *'Quantification of the economic impacts of EU action to improve fee transparency, comparability and mobility in the internal market for bank personal current accounts'*

Assumptions used in the analysis of costs and benefits

- For the purposes of this assessment costs and benefits are assumed to accrue as from 2013. The basis for adjustments made to express quantities, whether in terms of volumes or prices, relative to the base year 2013 is described within each assumption below.
- All benefits and recurring costs are calculated over a period covering 2013 to 2022 and are expressed at their present values, discounted at a rate of 4%.
- EU average prices are derived from 2009 average prices[670] adjusted for inflation[671] to express prices in 2012 terms. In order to adjust prices to 2012 levels, the rate of inflation in 2011 was used by way of assumption.[672]

670 Data collection for prices of current accounts provided to consumers – Van Dijk Management Consultants (2009).

671 Eurostat: HICP (2005=100) - Annual Data (average index and rate of change) – Changes in prices of financial services, 2009 – 2011.

672 Specific price information for Belgium, Poland and Spain was used to further adjust the evolution in prices. Information was collected as part of the study *Quantification of the economic impacts of EU action to improve fee transparency, comparability and mobility in the internal market for bank personal current accounts*, GHK consulting.

- **Labour costs to credit institutions**: Unless otherwise specified the daily labour rate for credit institutions is EUR 232. This is computed on the basis of:
  - EU average hourly labour rate for 2007[673] (EUR 27.11)
  - Starting from the EU average hourly labour rate for 2007, a forecast is computed for 2012 (EUR 32.44), based on an annual increase in the EU average hourly labour rate of 3.7%.
  - The annual 3.7% increase is calculated on the basis of the average year-on-year increase in the EU average hourly labour rate recorded between 2000 and 2007.[673]
  - For the purposes of this assessment costs are assumed to be incurred as from 2013. The 2012 forecast hourly labour rate is adjusted for inflation at a rate of 2% to reflect 2013 prices.
  - The daily labour rate is computed on the basis of a 7 hour working day.
- **Labour costs for management in credit institutions:** The cost of labour for management in credit institutions is calculated at a 20% premium of the labour costs to credit institutions described above.
- **Labour costs to Member States**: Unless otherwise specified the daily labour rate for Member States is EUR 115. This is computed on the basis of:
  - EU average hourly labour rate for 2007[674] (Euro 12.02)
  - The EU average hourly labour rate is forecast for 2012 (Euro 16.14), on the basis of an annual increase in the EU average hourly labour rate of 6.1% between 2008 and 2012.
  - The annual 6.1% increase is calculated on the basis of the average year-on-year increase in the EU average hourly labour rate recorded between 2000 and 2007
  - For the purposes of this assessment costs are assumed to be incurred as from 2013. The 2012 forecast hourly labour rate is adjusted for inflation at a rate of 2% to reflect 2013 prices.
  - The daily labour rate is computed on the basis of a 7 hour working day.
- Unless otherwise stated the **total number of credit institutions in the EU** in 2013 is estimated at 7.855. This is estimated as follows:

[673] Source: Hourly labour costs, Financial Intermediation – Nace Rev. 1.1, Eurostat, 2007.
[674] *Hourly labour costs, Public administration and defence; compulsory social security – Nace Rev. 1.1*, Eurostat, 2007.

– The number of credit institutions in the EU in May 2012[675] (8.003)

- An assumed annual reduction in the number of credit institutions due to gradual consolidation of 1.85%
- The reduction rate is calculated based on the average decrease in the number of credit institutions recorded between 2009 (8.360) and 2011 (8.060)
- Unless otherwise stated the **total number of employees in credit institutions** in the EU in 2013 is estimated at 2 538 320. This is estimated as follows:
  - The forecast 2013 average number of employees per credit institution (324), multiplied by the forecast number of credit institutions (7.855) described above.
  - The 2012 average number of employees is forecast on the basis of change in the average number of employees in credit institutions between 2009, (327) and 2010, (326).
  - Average number of employees in credit institutions for years 2009 and 2010 are derived from the total number of employees in 2009 (2 751 008) and 2010 (2 700 806)[676] divided by the average number of credit institutions between January and December in the same years (2009: 8 421; 2010: 8 290)675
- Unless otherwise stated the **total number of bank account holders in the EU in 2013** is calculated as 365 972 765. This is estimates as follows:
  - EU population figures and for 2011[677] - EU population over 15 years of age for 2011, (422 133 188) and EU projected population figures for 2015677 (428 993 918)
  - The average annual increase between the EU population over 15 years of age between the 2011 and 2015 figures above is computed as +0,4%
  - Applying an average annual increase of +0,4%, the 2013 forecast EU population over 15 years of age is 425 549 727.
  - The bank account penetration rate in the EU was 84% in 2011.[678]

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675 European Central Bank: (List of MFIs ; Frequency: Monthly ; MFI category: Credit Institutions).

676 European Central Bank: (Number of employees of credit institutions).

677 Eurostat Population data; Population projections – both figures are computed as total EU population less EU population under 15 years of age.

678 *Special Eurobarometer on Retail Financial Services*, European Commission, February 2012, figure 2, p. 13, http://ec.europa.eu/internal_market/finservices-retail/policy_en.htm.

– For the purposes of estimating bank account penetration levels in the EU in 2013, a 1% annual increase is assumed. The penetration rate in the EU is therefore calculated as 86%

– The number of current account holders in 2013 is derived by applying the 86% penetration rate to the EU population over 15 years of age of 425 549 727

– A discount factor is applied in computing costs where relevant to reflect the distance from the policy frontier in each option assessed.

– Table 6.I below provides a summary of discount factors applied to the calculation of costs where relevant.[679]

Table 6.I: Discount factors applied to the calculation of costs

Measure	Variant	Discount Factor
Ex- ante Fee Disclosure		
1. Standard price list	A:20 most common fees	0.35
2.Glossaries	A:non- harmonised terminology	0.29
	B: harmonise terminology	0.65
3.Comparison website	A: single website at Member State level	0.51
	B: Accreditation system in Member State	1.00
4.Representative examples	A: self- tailored usage profiles	0.74
	B:standard usage profiles	0.83
5.Cost simulations	A: self-tailored usage profiles	0.89
	B: standard usage profiles	0.97
6.EU standardised form for provision of information on fees		0.46
Comparable fee disclosure ex- post		
1.Ex- post fee information		0.35
2.EU standardised forms		0.80
Facilitating the process of payment account switching		
2. Ensure that the switching services follow the Common Principles		0.15
3. Improve the effectiveness of the Common Principles	A: enhanced Common Principle	0.34
	B: incl. cross-border provisions	0.58

679 The regulatory baseline assessment and methodology used to compute the discounting factor were provided in the study *Quantification of the economic impacts of EU action to improve fee transparency, comparability and mobility in the internal market for bank personal current accounts*, GHK consulting.

4. Automatic redirection service	A: at Member State level	0.81
	B: at EU level	0.84
5.Bank account portability	A: at Member State level	1.00
	B: at EU level	1.00

- Discount factors are computed based on a regulatory baseline assessment for a sample of 16 Member States to determine the distance from the policy frontier posed by each of the options under assessment.
- Distance from policy frontier assessments were quantified into rating scales from 0 to 5. A '0' rating means that equivalent measures to those proposed by any single policy option are present in a Member State. A rating of 5 means that the Member State has no measures in place that relate or approximate to the measures proposed within a policy option.
- Ratings for the individual Member States assessed were aggregated into groups per rating given. A simple extrapolation method was used to apply the ratings to the 27 Member States. The extrapolation method used was to apply ratings in the same proportions for the 27 Member States as those identified through the assessment of the regulatory framework within the 16 Member States analysed.
- The rating scales measuring the distance from the policy frontier were then applied to costs by setting up the set of assumptions indicated below:

Table 6.J

Distance	Adjustment factor*
0 = no change	0%
1 = minor approximation	10%
2 = some change	25%
3 = moderate change	50%
4 = major change	75%
5 = no measures in place	100%

*Expressed as a percentage applied to costs computed either on a time basis or as acuisition costs

Costs

One-off costs are the initial outlay incurred by credit institutions or member states as a result of implementing a policy option. One-off costs are assumed to be incurred within 1 year from the adoption of a policy option and are therefore expressed in their nominal values.

Recurring costs are costs incurred on an ongoing basis or at a certain level of frequency. All recurring costs are computed over the period from 2013 to 2022 for the purposes of this impact assessment.

Both one-off costs and recurring costs may take the form of time-based costs or acquisition costs. Time-based costs are costs resulting from the allocation of human resources to an activity, required to implement a policy option. Acquisition costs represent the cost of acquiring a good or a service.

Time-based costs

Time based costs are computed by multiplying the following elements:

- Daily labour rate (for credit institutions or Member States as described above);
- Number of full time equivalent involved and time spent by each on an activity generating costs;
- A relevant cost multiplier (expressed in terms of number of credit institutions, number of employees of credit institutions, number of bank account holders, number of Member States, or number of employees of public administrations)
- Where relevant the discount factor is applied to reflect the extent to which currently a policy option is at least partially applied within Member States.

Acquisition costs

Acquisition costs are computed by multiplying the following elements:

- Unit cost of acquiring a good or service
- A relevant cost multiplier (expressed in terms of number of credit institutions, number of employees of credit institutions, number of bank account holders, number of Member States, or number of employees of public administrations)
- Where relevant the discount factor is applied to reflect the extent to which currently a policy option is at least partially applied within Member States

The basis for calculation of each of the activities resulting in costs and the benefits quantified for individual options as part of this impact assessment are provided below.

Benefits

Consumers: Changes in switching behaviour

Options that contribute towards promoting ease of comparison and set out common presentation criteria, coupled with measures to ensure smooth switching are expected to impact the number of consumers who switch to a better bank account offer. While benefits in the form of more or better services, higher service quality or customer care are important triggers for consumers who decide to switch suppliers, these benefits could not be quantified. The benefit to an incremental number of consumers who would switch bank accounts as a result of EU action is quantified in terms of possible cost savings from moving to a cheaper account.

For the purposes of this assessment it is assumed that consumers could derive up to 20% savings on the computed EU average price for a current account. The increase in switching levels is estimated per option for a range between a cumulative +0.05% and +3.25% per annum as a result of EU action. Details of the impact allocated per option of increased switching levels are provided below.

Consumers: Changes in account management behaviour

The analysis constructs a benefit to consumers linked specifically to the options ex-post information requirements. The benefit derives from potential cost savings consumers would accrue through by being better informed about the cost to them of holding their current account.

For the purposes of this assessment it is assumed that consumers could derive up to 10% in savings on the computed EU average price for a current account by adapting consumption patterns on the basis of information available to them about costs incurred. The benefit is calculated upon the assumption that the percentage of consumers who would benefit from changes in consumption patterns are: 0%: 2013; 1.28%: 2014, 2015; 3.84%: 2016-2022. Details of the impact allocated per option of increased switching levels is provided in table 6.K to table 6.CC below.

The basis for calculation of each of the activities resulting in costs and the benefits quantified for individual options as part of this impact assessment are provided in table 6.K to table 6.CC below.

Detailed tables of benefits and costs

Table 6.K: Ease of comparison and presentation requirements for bank fees – Option 2

Option 2: A standard price list to be provided as part of account opening procedures			
Benefit per stakeholder and cost type	**Benefit description**	**Euro (Millions)**	**Calculation basis**
Benefits to consumers	Benefit accrued from changes in switching behaviour	584.87	• Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%. • The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +0.2%. Amounts are expressed on a cumulative basis. • Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022
Cost per stakeholder and cost type	**Cost description**	**Range in Euro (Millions)**	**Calculation basis**
One-off costs to credit institutions **Time-based costs**	Internal communication and training	5.93–11.86	• 1 to 2 hours per person • All front office/ marketing employees will have to spend some time on familiarising themselves with new requirements – this is assumed to be 20% of industry workforce • Discount factor – distance from policy frontier = 0.35
	Input into the process of determining a list of most relevant fees	0.77 – 1.28	• 2 staff members per bank would be involved in this exercise • They will devote 3 to 5 days each • Not all credit institutions across the EU would contribute to this exercise – it is assumed that 20% (of the total of 7.855) credit institutions, would contribute to this process • Discount factor – distance from policy frontier = 0.35

	Time spent by the legal department to familiarise with legislation	0.64 – 1.28	• 1 staff member per bank would be involved in this exercise • Time spent 1 to 2 days • Discount factor – distance from policy frontier = 0.35
	Management time spent reviewing product and pricing strategy	1.16	• 3 members of management team per credit institution • 0.5 days per person – one half day meeting to determine new pricing strategy • It is assumed that management wages are higher than average industry wages by 20% • Discount factor – distance from policy frontier = 0.35
	Time spent by legal department to adapt contractual documentation	0.91 – 1.82	• 1 member of the legal team per bank • 0.5 to 1 day per person • Discount factor not applied as all banks would have to update contracts to include references to the standard price list which would now have a specific name under national law
		9.41 – 17.41	
One-off costs to Credit institutions **<u>Acquisition costs</u>**	Cost of adapting marketing/ advertising promotional material	83.21 – 138.69	• Unit cost per credit institution = range of Euro 30 000 – 50 000 • Discount factor – distance from policy frontier = 0.35 •
	Cost of updating/adapting IT applications to provide standard price lists	2.77 – 5.55	• Unit cost per credit institution = range of Euro 1 000 – 2 000 • Discount factor – distance from policy frontier = 0.35
	Updating websites to provide newly required information	0.55 – 1.39	• Individual cost per credit institution ranging between Euro 200 - 500 • Discount factor: Distance from the policy frontier = 0.35
		86.54 – 145.62	
Recurring costs to Credit institutions **<u>Time-based costs</u>**	Additional staff costs generated by new compliance requirements	142.85	• 10% of 1 Full Time Equivalent per credit institution per annum • Discount factor: Distance from the policy frontier = 0.35
	Recurring reporting requirements	8.02 - 16.05	• 1 person per bank • 0.5 to 1 day per year • No discount factor applied
		150.84 – 158.90	
Recurring costs to Credit institutions **<u>Acquisition costs</u>**	Costs of printing price lists	32.30- 96.89	• Unit cost = Euro 0.10 to 0.30 per print out • Lists are made available in hard copy format to 10% of customers [consider bank account holders] • Discounting factor not applied as new price lists would need to be printed in accordance with standard format and a given name
		32.30- 96.89	
One-off costs to public authorities **<u>Time-based costs</u>**	Identifying and agreeing 20 most common fees	0.04 – 0.07	• 2 officials are involved • Each official spends 20 to 30 days per year on this activity • Discount factor: Distance from the policy frontier = 0.35
	Transposing EU legislation into national law	0.01 – 0.02	• 1 official involved • Time spent estimated at 10 to 15 days on this activity

			• Discount factor: Distance from the policy frontier = 0.35
		0.05-0.09	
Recurring costs to public authorities **<u>Time-based costs</u>**	Revising list of common fees	0.10- 0.19	• 2 officials are involved • Time spent estimated at 5 to 10 days per year on this activity • Discount factor: Distance from the policy frontier = 0.35
	Monitoring compliance	0.12- 0.23	• 1 official involved • 12 to 24 days per year to monitor compliance (e.g. scanning websites of banks) • Discount factor: Distance from the policy frontier = 0.35
	Reporting to EU	0.05 - 0.08	• 1 official involved • 2 to 3 days per official per year • Discounting factor not applied – as not a requirement under current situation
	Enforcement costs e.g. sweeps, investigations	0.33- 0.66	• 1 official involved • 12 to 24 days per year • Discount factor: Distance from the policy frontier = 0.35
		0.60-1.17	

Table 6.L: Ease of comparison and presentation requirements for bank fees – Option 3 Variant A

Option 3: Introduce the requirement to develop glossaries for bank fee terms Variant A: A glossary containing non-harmonised terminology			
Cost per stakeholder and cost type	**Cost description**	**Range in EUR (Millions)**	**Calculation basis**
One-off costs to credit institutions **<u>Time-based costs</u>**	Internal communication and training	4.83 – 9.66	• 1 to 2 hours per person • All front office/ marketing employees will have to spend some time on familiarising themselves with new requirements – this is assumed to be 20% of industry workforce • Discount factor – distance from policy frontier = 0.29
	Time spent on developing glossary of fee terms used by a bank	1.57 – 2.61	• 1 staff members per bank would be involved in this exercise • They will devote 3 to 5 days each • Discount factor – distance from policy frontier = 0.29
	Time spent by the legal department to familiarise with legislation	0.52 – 1.05	• 1 staff member per bank would be involved in this exercise • Time spent 1 to 2 days per year • Discount factor – distance from policy frontier = 0.29
	Time spent by legal department to adapt contractual documentation	0.91 – 1.82	• 1 member of the legal team per bank • 0.5 to 1 day per person • Discount factor not applied as all banks would have to update contracts to include references to the glossary
		7.83-15.14	
One-off costs to Credit institutions	Cost of updating/adapting IT applications with a glossary	2.26 – 4.52	• Unit cost per credit institution = range of EUR 1.000 - 2.000 • Discount factor – distance from policy frontier = 0.29

<u>**Acquisition costs**</u>	Adding glossary to website	1.57 – 3.93	• Individual cost per credit institution ranging between Euro 200 - 500 • Discounting factor not applied as all banks would have to add new, glossary to websites.
		3.83-8.44	
Recurring costs to Credit institutions <u>**Time-based costs**</u>	Additional staff costs generated by new compliance requirements	116.30	• 10% of 1 Full Time Equivalent per credit institution per annum • Discount factor – distance from policy frontier = 0.29
	Updating glossary with new fees/services	16.05-32.11	• 1 person per bank • 1 to 2 days per year • Discounting factor not applied as all credit institutions would have to update glossary when new terms are introduced
	Recurring reporting requirements	8.03-16.05	• 1 person per bank • 0.5 to 1 day per year • No discount factor applied.
		140.38 – 164.46	
Recurring costs to Credit institutions <u>**Acquisition costs**</u>	Costs of printing glossaries	9.29-27.86	• Unit cost = Euro 0.10 to 0.30 per print out • Glossary assumed to be made available in hard copy format to 10% of customers • Discount factor – distance from policy frontier = 0.29
		9.29-27.86	
One-off costs to public authorities <u>**Time-based costs**</u>	Initial compilation of glossary	0.01 – 0.02	• 2 officials are involved • Each official spends 5 to 10 days per year on this activity • Discount factor: Distance from the policy frontier = 0.29
	Transposing EU legislation into national law	0.02– 0.03	• 1 official involved • Time spent estimated at 5 to 10 days on this activity • Discount factor not applied as there is no current legislative basis in Member States
		0.02-0.05	
	Updating glossary	0.11-0.16	• 2 officials are involved • Time spent estimated at 2 to 3 days per year on this activity • Discount factor not applied as there is no current legislative basis in Member States
Recurring costs to public authorities <u>**Time-based costs**</u>	Monitoring compliance	0.33-0.66	• 1 official involved • 12 to 24 days per year to monitor compliance (e.g. scanning websites of banks) • Discounting factor not applied – no legislative base for glossaries in Member States currently
	Reporting to EU	0.05-0.08	• 1 official involved • 2 to 3 days per official per year • Discounting factor not applied – as not a requirement under current situation
	Enforcement costs	0.33-0.66	• 1 official involved • 12 to 24 days per year

			• Discounting factor not applied – as not a requirement under current situation
		0.82-1.56	

Table 6.M: Ease of comparison and presentation requirements for bank fees – Option 3 Variant B

Option 3: Introduce the requirement to develop glossaries for bank fee terms Variant B: A glossary based on fully harmonised terminology			
Cost per stakeholder and cost type	**Cost description**	**Range in Euro (Millions)**	**Calculation basis**
One-off costs to credit institutions **<u>Time-based costs</u>**	Internal communication and training	21.73 – 38.03	• 0.3 to 0.5 days per person • All front office/ marketing employees will have to spend some time on familiarising themselves with new requirements – this is assumed to be 20% of industry workforce • Discount factor – distance from policy frontier = 0.65
	Industry input /support to the development of a standardised glossary	1.41 – 2.35	• 2 staff members per bank would be involved in this exercise • They will devote 3 to 5 days each • Discount factor – distance from policy frontier = 0.65
	Time spent by the legal department to familiarise with legislation	1.18 – 2.35	• 1 staff member per bank would be involved in this exercise • Time spent 1 to 2 days per year • Discount factor – distance from policy frontier = 0.65
	Management time spent on reviewing product/ pricing strategy	8.47 – 14.12	• 2 members of management team per credit institution • 3 to 5 days per person • It is assumed that management wages are higher than average industry wages by 20% • Discount factor – distance from policy frontier = 0.65
	Time spent by legal department to adapt contractual documentation	0.91 – 1.82	• 1 member of the legal team per bank • 0.5 to 1 day per person • Discount factor not applied as all banks would have to update contracts to include references to the glossary
		33.70-58.67	
One-off costs to Credit institutions **<u>Acquisition costs</u>**	Cost of updating/adapting IT applications with a glossary	5.08 – 10.16	• Unit cost per credit institution = range of Euro 1 000 – 2 000 . • Discount factor – distance from policy frontier = 0.65
	Adding glossary to website	1.57 – 3.93	• Individual cost per credit institution ranging between Euro 200 - 500 • Discounting factor not applied as all banks would have to add new, glossary to websites.
		6.65-14.09	
Recurring costs to Credit institutions **<u>Time-based costs</u>**	Additional staff costs generated by new compliance requirements	261.68	• 10% of 1 Full Time Equivalent per credit institution per annum • Discount factor – distance from policy frontier = 0.65
	Updating glossary with new fees/services	32.11 – 48.16	• 1 person per bank • 2 to 3 days per year • Discounting factor not applied as all credit institutions would have to update glossary when new terms are introduced
	Recurring reporting requirements	8.03 – 16.05	• 1 person per bank • 0.5 to 1 day per year

			• No discount factor applied.
		301.81 – 325.89	
Recurring costs to Credit institutions **<u>Acquisition costs</u>**	Costs of printing glossaries	32.30 – 96.89	• Unit cost = Euro 0.10 to 0.30 per print out • Glossary assumed to be made available in hard copy format to 10% of customers • Discounting factor not applied as all banks would have to print glossaries.
		32.30 – 96.89	
One-off costs to public authorities **<u>Time-based costs</u>**	Initial compilation of glossary	0.06 – 0.08	• 2 officials are involved • Each official spends 15 to 20 days per year on this activity • Discount factor: Distance from the policy frontier = 0.65
	Transposing EU legislation into national law	0.02– 0.03	• 1 official involved • Time spent estimated at 5 to 10 days on this activity • Discount factor not applied as there is no current legislative basis in Member States
		0.8-0.11	
Recurring costs to public authorities **<u>Time-based costs</u>**	Updating glossary	0.27 – 0.55	• 2 officials are involved • Time spent estimated at 5 to 10 days per year on this activity • Discounting factor not applied – no legislative base for glossaries in Member States currently
	Monitoring compliance	0.33 – 0.66	• 1 official involved • 12 to 24 days per year to monitor compliance (e.g. scanning websites of banks) • Discounting factor not applied – no legislative base for glossaries in Member States currently
	Reporting to EU	0.05 – 0.08	• 1 official involved • 2 to 3 days per official per year • Discounting factor not applied – as not a requirement under current situation
	Enforcement costs	0.33 – 0.66	• 1 official involved • 12 to 24 days per official per year • Discounting factor not applied – as not a requirement under current situation
		0.99 - 1.95	

Table 6.N: Ease of comparison and presentation requirements for bank fees – Option 4 Variant A

Option 4: Introduce the requirement to set up independent fee comparison websites Variant A: A single official website within each Member State managed by a competent authority			
Benefit per stakeholder and cost type	**Benefit description**	**EUR (Millions)**	**Calculation basis**
Benefits to consumers	Benefit accrued from changes in switching behaviour	731.08	• Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%. • The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +0.25%. Amounts are expressed on a cumulative basis. • Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022
Cost per stakeholder and cost type	**Cost description**	**Range in Euro (Millions)**	**Calculation basis**
One-off costs to credit institutions **<u>Time-based costs</u>**	Management time spent on reviewing product/ pricing strategy	1.68	• 3 members of management team per credit institution • 0.5 days per person – one half day meeting to determine new pricing strategy • It is assumed that management wages are higher than average industry wages by 20% • Discount factor – distance from policy frontier = 0.51

		1.68	
One-off costs to Credit institutions **<u>Acquisition costs</u>**	Setting up internal process	12.07 – 20.13	• Unit cost = EUR 3 000 to EUR 5 000 per credit institution • Discount factor – distance from policy frontier = 0.51
		12.07 – 20.13	
Recurring costs to Credit institutions **<u>Time-based costs</u>**	Submitting price data to website operator	49.36 – 98.72	• 1 person per bank • 6 to 12 days per year • Discount factor – distance from policy frontier = 0.51
		49.36 – 98.72	
One-off costs to public authorities **<u>Time-based costs</u>**	Website development *(includes both time-based and acquisition costs)*	0.74 – 2.83	• 2 officials are involved • Each official spends 15 to 20 days on this activity • Discount factor: Distance from the policy frontier = 0.51 • Unit cost of creating a website: EUR 50 000 – EUR 200 000
	Transposing EU legislation into national law	0.02– 0.03	• 1 official involved • Time spent estimated at 5 to 10 days on this activity • Discount factor not applied as there is no current legislative basis in Member States
		0.76 – 2.86	
Recurring costs to public authorities **<u>Time-based costs</u>**	Website running *(includes both time-based and acquisition costs)*	7.21-7.34	• 2 FTE officials are involved • Discount factor: Distance from the policy frontier = 0.51 • EUR 1 000 – EUR 2 000 for server hosting, software upgrades and IT consumables
	Website feedback and evaluation	0.17-0.34	• 1 official per Member State to analyse feedback provided by users, conduct user surveys, review feedback and develop recommendations for improvement • 12 to 24 days per year • Discount factor: Distance from the policy frontier = 0.51
	Monitoring compliance	0.16-0.33	• 1 official involved • 6 to 12 days per official per year • Discounting factor not applied – no legislative base for price comparison site in Member States currently
	Reporting to EU	0.05-0.08	• 1 official involved • 2 to 3 days per official per year • Discounting factor not applied – as not a requirement under current situation
	Enforcement costs	0.33-0.66	• 1 official involved • 12 to 24 days per official per year • Discounting factor not applied – as not a requirement under current situation
		7.93 – 8.74	
Recurring costs to public authorities **<u>Acquisition costs</u>**	Promoting websites through information campaigns	6.11-12.21	• Each MS spends EUR 50 000 – EUR 100 000 on promotional activities/ information campaigns per year • Discount factor: Distance from the policy frontier = 0.51
		6.11-12.21	

Table 6.O: Ease of comparison and presentation requirements for bank fees – Option 4 Variant B

Option 4: Comparison sites licensed under an accreditation scheme Variant B: Comparison websites licensed under an accreditation scheme			
Benefit per stakeholder	**Benefit description**	**Euro (Millions)**	**Calculation basis**

and cost type			
Benefits to consumers	Benefit accrued from changes in switching behaviour	731.08	• Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%. • The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +0.25%. Amounts are expressed on a cumulative basis. • Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022
Cost per stakeholder and cost type	**Cost description**	**Range in Euro (Millions)**	**Calculation basis**
One-Off costs to Website operators **Acquisition costs**	Cost of obtaining accreditation	0.05- 0.11	• Assumed 2 websites per MS on average • Each website operator will incur EUR 1 000 – EUR 2 000 on obtaining accreditation per year • No Discount factor applied.
	Initial investments to meet requirements of accreditation system e.g. setting up a complaints handling mechanism ting up internal process	0.27- 0.54	• Each website operator will spend EUR 5 000 – EUR 10 000 • No Discount factor applied.
		0.32 – 0.65	
Recurring costs to Website operators **Acquisition costs**	Meeting requirements - annual audit	4.77-9.53	• Each website operator will incur EUR 10 000 – EUR 20 000 • No Discount factor applied.
		4.77-9.53	
One-Off costs to public authorities **Time-based costs**	Setting up an accreditation system *(includes both time-based and acquisition costs)*	0.36 - 0.66	• 2 officials involved • Each official will spend 15 to 20 days on this activity • No Discount factor applied. • Each MS incurs acquisition costs of EUR 10 000 – EUR 20 000
		0.36 - 0.66	
Recurring costs to public authorities **Time-based costs**	Quarterly audits	0.44- 0.66	• 1 official involved • Each official will spend 16 to 24 days on this activity • No Discount factor applied.
	Regular monitoring of sites	0.66 – 1.32	• 1 official involved • Each official will spend 24 to 48 days on this activity • No Discount factor applied.
		1.10 – 1.98	

Recurring costs to public authorities **<u>Acquisition costs</u>**	Awareness raising campaigns	2.38 - 4.76	• Each MS spends EUR 10 000 – EUR 20 000 on promotional activities/ information campaigns per year • No Discount factor applied.
		2.38 – 4.76	

Table 6.P: Ease of comparison and presentation requirements for bank fees – Option 5 Variant A

Option 5: Introduce the requirement to provide representative examples Variant A: Banks set up own representative examples			
Benefit per stakeholder and cost type	**Benefit description**	**Euro (Millions)**	**Calculation basis**
Benefits to consumers	Benefit accrued from changes in switching behaviour	146.22	• Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%. • The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +0,05%. Amounts are expressed on a cumulative basis. • Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022.
Cost per stakeholder and cost type	**Cost description**	**Range in Euro (Millions)**	**Calculation basis**
One-off costs to credit institutions **<u>Time-based costs</u>**	Internal communication and training	24.88 –43.54	• 0.3 to 0.5 days per person • All front office/ marketing employees will have to spend some time on familiarising themselves with new requirements – this is assumed to be 20% of industry workforce • Discount factor – distance from policy frontier = 0.74
	Developing compliant representative examples	2.69 – 4.04	• 1 staff member per bank would be involved in this exercise • They will devote 2 to 3 days each • Discount factor – distance from policy frontier = 0.74
	Time spent by the legal department to familiarise with legislation	0.67 – 1.35	• 1 staff member per bank would be involved in this exercise • S/he will devote 0.5 to 1 day each • Discount factor – distance from policy frontier = 0.74
	Management time spent reviewing product and pricing strategy	2.43	• 3 members of management team per credit institution • 0.5 days per person – one half day meeting to determine new pricing strategy • It is assumed that management wages are higher than average industry wages by 20% • Discount factor – distance from policy frontier = 0.74
	Time spent by legal department to adapt contractual documentation	0.91 – 1.82	• 1 member of the legal team per bank • 0.5 to 1 day per person • Discount factor not applied as all banks would have to update contracts
		31.58 – 53.17	
One-off costs to Credit	Cost of adapting marketing/	174.52 – 290.87	• Unit cost per credit institution = range of EUR 30 000 – 50 000

institutions **<u>Acquisition costs</u>**	advertising promotional material		• Discount factor – distance from policy frontier = 0.74
	Cost of updating/adapting IT applications to generate representative examples	58.17 – 116.35	• Unit cost per credit institution = range of EUR 10 000 – 20 000 • Discount factor – distance from policy frontier = 0.74
	Updating websites with representative examples	1.16 – 2.91	• Individual cost per credit institution ranging between EUR 200 - 500 • Discount factor: Distance from the policy frontier = 0.74
		233.86 – 410.13	
Recurring costs to Credit institutions **<u>Time-based costs</u>**	Additional staff costs generated by new compliance requirements	299.61	• 10% of 1 Full Time Equivalent per credit institution per annum • Discount factor: Distance from the policy frontier = 0.74
	Updating representative examples	16.05 - 32.11	• 1 member of the legal team per bank • 1 to 2 days per person • Discounting factor not applied as representative examples not typically provided by banks
	Recurring reporting requirements	8.03 - 16.05	• 1 official per bank • 0.5 to 1 days per year • Discounting factor not applied as representative examples not typically provided by banks
		323.68 – 347.76	
One-off costs to public authorities **<u>Time-based costs</u>**	Transposing EU legislation into national law	0.02 – 0.03	• 1 official involved • Time spent estimated at 5 to 10 days on this activity • Discount factor not applied
		0.02 – 0.03	
Recurring costs to public authorities **<u>Time-based costs</u>**	Monitoring compliance	0.33 - 0.66	• 1 official involved • 12 to 24 days per year to monitor compliance (e.g. scanning websites of banks) • Discount factor not applied
	Reporting to EU	0.05 - 0.08	• 1 official involved • 2 to 3 days per official per year • Discounting factor not applied
	Enforcement costs e.g. sweeps, investigations	0.33 - 0.66	• 1 official involved • 12 to 24 days per year • Discounting factor not applied
		0.71 – 1.40	

Table 6.Q: Ease of comparison and presentation requirements for bank fees – Option 5 Variant B

Option 5: Introduce the requirement to provide representative examples Variant B: Member States prescribe representative examples			
Benefit per stakeholder and cost type	**Benefit description**	**Euro (Millions)**	**Calculation basis**
Benefits to consumers	Benefit accrued from changes in	146.22	• Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%.

	switching behaviour		• The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +0.05%. Amounts are expressed on a cumulative basis. • Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022
Cost per stakeholder and cost type	**Cost description**	**Range in Euro (Millions)**	**Calculation basis**
One-off costs to credit institutions **<u>Time-based costs</u>**	Internal communication and training	27.82–48.68	• 0.3 to 0.5 days per person • All front office/ marketing employees will have to spend some time on familiarising themselves with new requirements – this is assumed to be 20% of industry workforce • Discount factor applied – distance from policy frontier = 0.83
	Industry inputs to develop a standard usage profile	3.01 – 4.52	• 1 staff member per bank would be involved in this exercise • S/he will devote 2 to 3 days to this exercise • Discount factor applied – distance from policy frontier = 0.83
	Developing compliant representative examples	3.01 – 4.52	• 1 staff members per bank would be involved in this exercise • They will devote 2 to 3 days each • Discount factor applied – distance from policy frontier = 0.83
	Time spent by the legal department to familiarise with legislation	0.75 – 1.51	• 1 staff member per bank would be involved in this exercise • S/he will devote 0.5 to 1 day each • Discount factor applied – distance from policy frontier = 0.83
	Management time spent reviewing product and pricing strategy	2.71	• 3 members of management team per credit institution • 0.5 days per person – one half day meeting to determine new pricing strategy • It is assumed that management wages are higher than average industry wages by 20% • Discount factor applied – distance from policy frontier = 0.83
	Time spent by legal department to adapt contractual documentation	0.91 – 1.82	• 1 member of the legal team per bank • 0.5 to 1 day per person • Discount factor not applied as all banks would have to update contracts
		38.22- 63.76	
One-off costs to Credit institutions **<u>Acquisition costs</u>**	Cost of adapting marketing/ advertising promotional material	195.14 – 325.24	• Unit cost per credit institution = range of EUR 30 000 – 50 000 • Discount factor applied– distance from policy frontier = 0.83
	Cost of updating/adapting IT applications to generate representative examples	65.05 – 130.09	• Unit cost per credit institution = range of EUR 10 000 – 20 000 • Discount factor applied – distance from policy frontier = 0.83
	Updating websites with representative examples	1.30 – 3.25	• Individual cost per credit institution ranging between EUR 200 - 500 • Discount factor applied: Distance from the policy frontier = 0.83
		261.49 – 458.58	
Recurring costs to Credit institutions	Additional staff costs generated by new compliance requirements	335	• 10% of 1 Full Time Equivalent per credit institution per annum • Discount factor applied: Distance from the policy frontier = 0.83
	Industry inputs to (assumed)	6.65-13.29	• 1 staff member per bank would be involved in this exercise

Time-based costs	annual revision of standard usage profile		• S/he will devote 0.5 to 1 day per year to this exercise • Discount factor applied: Distance from the policy frontier = 0.83
	Updating representative examples	13.29 - 26.60	• 1 member of the legal team per bank • 1 to 2 days per person • Discount factor applied: Distance from the policy frontier = 0.83
	Recurring reporting requirements	8.03 – 16.05	• 1 official • 0.5 to day per year • Discount factor not applied.
		362.97 – 390.94	
One-off costs to public authorities **Time-based costs**	Developing standard usage profiles	0.06 – 0.09	• 2 officials are involved • Each official spends 10 to 15 days of his/her time on this activity • Discounting factor not applied
	Transposing EU legislation into national law	0.02 – 0.03	• 1 official involved • Time spent estimated at 5 to 10 days on this activity • Discount factor not applied
		0.08 – 0.12	
Recurring costs to public authorities **Time-based costs**	Revising standard usage profiles	0.23-0.45	• 2 officials per MS are involved • Each official spends 5 to 10 days of his/her time on this activity • Discount factor applied: Distance from policy frontier = 0.83
	Monitoring compliance	0.33 – 0.66	• 1 official involved • 12 to 24 days per year to monitor compliance (e.g. scanning websites of banks) • Discount factor not applied
	Reporting to EU	0.05 -0.08	• 1 official involved • 2 to 3 days per official per year • Discounting factor not applied
	Enforcement costs e.g. sweeps, investigations	0.33-0.66	• 1 official involved • 12 to 24 days per year • Discounting factor not applied
		0.94 – 1.85	

Table 6.R: Ease of comparison and presentation requirements for bank fees – Option 6 Variant A

Option 6: Set up the requirement to provide cost simulations to prospective clients Variant A: Banks set up own customer profiles			
Benefit per stakeholder and cost type	**Benefit description**	**Euro (Millions)**	**Calculation basis**
Benefits to consumers	Benefit accrued from changes in switching behaviour	219.32	• Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%. • The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +0.075%. Amounts are expressed on a cumulative basis. • Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022
Cost per stakeholder and cost type	**Cost description**	**Range in Euro (Millions)**	**Calculation basis**
One-off costs to credit	Internal communication and	52.36 –104.71	• 0.5 to 1 days per person

institutions **Time-based costs**	training		• All front office/ marketing employees will have to spend some time on familiarising themselves with new requirements – this is assumed to be 20% of industry workforce • Discount factor applied – distance from policy frontier = 0.89
	Time spent by the legal department to familiarise with legislation	0.81 – 1.62	• 1 staff member per bank would be involved in this exercise • 0.5 to 1 day per person • Discount factor applied – distance from policy frontier = 0.89
	Management time spent reviewing product and pricing strategy	2.92	• 3 members of management team per credit institution • 0.5 day per person • It is assumed that management wages are higher than average industry wages by 20% • Discount factor – distance from policy frontier = 0.89
	Time spent by legal department to adapt contractual documentation	0.91 – 1.82	• 1 member of the legal team per bank • 0.5 to 1 day per person • Discount factor not applied as all banks would have to update contracts
		56.99 – 111.07	
One-off costs to Credit institutions **Acquisition costs**	Cost of adapting marketing/ advertising promotional material	209.87 – 349.78	• Unit cost per credit institution = range of EUR 30 000 – 50 000 • Discount factor – distance from policy frontier = 0.89
	Cost of updating/adapting IT applications to generate cost simulations	139.91 – 209.87	• Unit cost per credit institution = range of EUR 20 000 – 30 000 • Discount factor – distance from policy frontier = 0.89
	Updating websites with cost simulations	13.99 – 20.99	• Individual cost per credit institution ranging between EUR 2 000 – 3 000 • Discount factor: Distance from the policy frontier = 0.89
		363.78 – 580.64	
Recurring costs to Credit institutions **Time-based costs**	Additional staff costs generated by new compliance requirements	360.29	• 10% of 1 Full Time Equivalent per credit institution per annum • Discount factor applied – distance from policy frontier = 0.89
	Cost of longer customer interactions	2 204.17 – 3 306.25	• 2 to 4 days extra per customer service staff (estimated as 20% of total industry workforce) • Discount factor applied – distance from policy frontier = 0.89
	Recurring reporting requirements	8.03 -16.05	• 1 staff member per bank • 0.5 to 1 day per year • Discount factor not applied.
		2 572.48 – 3 682.59	
One-off costs to public authorities **Time-based costs**	Transposing EU legislation into national law	0.02–0.03	• 1 official involved • Time spent estimated at 5 to 10 days on this activity • Discount factor not applied
Recurring costs to public authorities **Time-based costs**	Monitoring compliance	0.33 – 0.66	• 1 official involved • 12 to 24 days per year to monitor compliance (e.g. scanning websites of banks) • Discount factor not applied
	Reporting to EU	0.05-0.08	• 1 official involved • 2 to 3 days per official per year

			• Discounting factor not applied
	Enforcement costs e.g. sweeps, investigations	0.33-0.66	• 1 official involved • 12 to 24 days per year • Discounting factor not applied
		0.71 – 1.40	

Table 6.S: Ease of comparison and presentation requirements for bank fees – Option 6 Variant B

Option 6: Set up the requirement to provide cost simulations to prospective clients Variant B: Member States prescribe representative examples			
Benefit per stakeholder and cost type	**Benefit description**	**Euro (Millions)**	**Calculation basis**
Benefits to consumers	Benefit accrued from changes in switching behaviour	219.32	Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%. The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +0.075%. Amounts are expressed on a cumulative basis. Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022
Cost per stakeholder and cost type	**Cost description**	**Range in Euro (Millions)**	**Calculation basis**
One-off costs to credit institutions **Time-based costs**	Internal communication and training	56.95 –113.90	• 0.5 to 1 day per person • All front office/ marketing employees will have to spend some time on familiarising themselves with new requirements – this is assumed to be 20% of industry workforce • Discount factor – distance from policy frontier = 0.97
	Industry inputs to develop a standard usage profile	3.52 – 5.29	• 1 staff member per bank would be involved in this exercise • S/he will devote 2 to 3 days to this exercise • Discount factor – distance from policy frontier = 0.97
	Time spent by the legal department to familiarise with legislation	0.88 – 1.76	• 1 staff member per bank would be involved in this exercise • S/he will devote 0.5 to 1 day • Discount factor – distance from policy frontier = 0.97
	Management time spent reviewing product and pricing strategy	3.17	• 3 members of management team per credit institution • 0.5 days per person • It is assumed that management wages are higher than average industry wages by 20% • Discount factor – distance from policy frontier = 0.97
	Time spent by legal department to adapt contractual documentation	0.91 – 1.82	• 1 member of the legal team per bank • 0.5 to 1 day per person • Discount factor not applied as all banks would have to update contracts
		65.44 – 125.94	
One-off costs to Credit institutions	Cost of adapting marketing/ advertising promotional material	228.28 – 380.47	Unit cost per credit institution = range of EUR 30 000 – 50 000 Discount factor – distance from policy frontier = 0.97
	Cost of updating/adapting IT	152.19 – 228.28	Unit cost per credit institution = range of EUR 20 000 – 30 000

Acquisition costs	applications to generate cost simulations		Discount factor – distance from policy frontier = 0.97
	Updating websites with cost simulations	15.22 – 22.83	Individual cost per credit institution ranging between EUR 2 000 – 3 000 Discount factor: Distance from the policy frontier = 0.97
		395.68 – 631.57	
Recurring costs to Credit institutions **Time-based costs**	Additional staff costs generated by new compliance requirements	391.89	10% of 1 Full Time Equivalent per credit institution per annum Discount factor: Distance from the policy frontier = 0.97
	Cost of longer customer interactions	2 397.51 – 3 596.27	• 2 to 4 days extra per customer service staff (estimated as 20% of total industry workforce) • Discount factor: Distance from the policy frontier = 0.97
	Recurring reporting requirements	32.11-48.16	1 staff member per bank 2-3 days per year Discount factor not applied.
		2 821.51 – 4 036.32	
One-off costs to public authorities **Time-based costs**	Developing standard usage profiles	0.06 – 0.09	2 officials are involved Each official spends 10 to 15 days of his/her time on this activity Discounting factor not applied
	Transposing EU legislation into national law	0.02 – 0.03	1 official involved Time spent estimated at 5 to 10 days on this activity Discount factor not applied
		0.08 – 0.12	
Recurring costs to public authorities **Time-based costs**	Revising standard usage profiles	0.27-0.55	2 officials per MS are involved Each official spends 5 to 10 days of his/her time on this activity Discounting factor not applied
	Monitoring compliance	0.33 – 0.66	1 official involved 12 to 24 days year to monitor compliance (e.g. scanning websites of banks) • Discount factor not applied
	Reporting to EU	0.05 – 0.08	1 official involved 2 to 3 days per official per year Discounting factor not applied
	Enforcement costs e.g. sweeps, investigations	0.33 – 0.66	1 official involved 12 to 24 days per year Discounting factor not applied
		0.99 – 1.95	

Table 6.T: Introduce EU standardised forms for the provision of ex-ante information on fees (price lists) – Option 7

Benefit per stakeholder and cost type	**Benefit description**	**Euro (Millions)**	**Calculation basis**
Benefits to consumers	Benefit accrued from changes in switching behaviour	438.65	• Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%. • The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +0,15%. Amounts are expressed on a cumulative basis. Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022
Cost per stakeholder and cost type	**Cost description**	**Range in Euro (Millions)**	**Calculation basis**
One-off costs to credit	Internal communication and	33.60 –58.79	• 0.3 to 0.5 per person

institutions **<u>Time-based costs</u>**	training		• All front office/ marketing employees will have to spend some time on familiarising themselves with new requirements – this is assumed to be 20% of industry workforce
	Industry inputs to develop an EU standard form	0.66 – 1.0	• 2 staff member per credit institution would be involved in this exercise • S/he will devote 2 to 3 days to this exercise • Discount factor – distance from policy frontier = 0.46
	Time spent by the legal department to familiarise with legislation	0.41 – 0.83	• 1 staff member per credit institution would be involved in this exercise • S/he will devote 0.5 to 1 day each • Discount factor – distance from policy frontier = 0.46
	Management time spent reviewing product and pricing strategy	1.49	• 3 members of management team per credit institution • 0.5 days per person • It is assumed that management wages are higher than average industry wages by 20% • Discount factor – distance from policy frontier = 0.46
	Time spent by legal department to adapt contractual documentation	0.91 – 1.82	• 1 member of the legal team per bank • 1.5 to 1 day per person • Discount factor not applied as all banks would have to update contracts to include references to the standard price list which would now have a specific name under national law
		37.07 – 63.92	
One-off costs to Credit institutions **<u>Acquisition costs</u>**	Cost of adapting marketing/ advertising promotional material	107.53 – 179.19	Unit cost per credit institution = range of EUR 30 000 – 50 000 Discount factor – distance from policy frontier = 0.46
	Cost of updating/adapting IT applications to generate cost simulations	3.58 – 7.17	Unit cost per credit institution = range of EUR 1 000 – 2 000 Discount factor – distance from policy frontier = 0.46
	Updating websites with new pricing information	0.72 – 1.79	Individual cost per credit institution ranging between UR 200 - 500 Discount factor: Distance from the policy frontier = 0.35
		111.82 – 188.15	
Recurring costs to Credit institutions **<u>Time-based costs</u>**	Additional staff costs generated by new compliance requirements	184.57	10% of 1 Full Time Equivalent per credit institution per annum Discount factor: Distance from the policy frontier = 0.35
	Recurring reporting requirements	8.03-16.05	1 staff member per bank 0.5 to 1 day per year Discount factor not applied.
		192.59 – 200.62	
Recurring costs to Credit institutions **<u>Acquisition costs</u>**	Printing costs – price lists	32.30 - 96.89	Unit cost = EUR 0.10 to 0.30 per print out Lists are made available in hard copy format to 10% of customers Discounting factor not applied as new price lists would need to be printed in accordance with standard format and a given name
		32.30 - 96.89	
One-off costs to public	Transposing EU legislation into	0.01 – 0.02	1 official involved

authorities **Time-based costs**	national law		Time spent estimated at 10 to 15 days on this activity Discount factor: Distance from the policy frontier = 0.46
		0.01 – 0.02	
Recurring costs to public authorities **Time-based costs**	Monitoring compliance	0.15 - 0.3	1 official involved 12 to 24 days per year to monitor compliance (e.g. scanning websites of banks) Discount factor: Distance from the policy frontier = 0.46
Recurring costs to public authorities **Time-based costs**	Reporting to EU	0.03 - 0.04	1 official involved 2 to 3 days per official per year Discount factor: Distance from the policy frontier = 0.46
	Enforcement costs e.g. sweeps, investigations	0.15 - 0.3	1 official involved 12 to 24 days per year Discount factor: Distance from the policy frontier = 0.46
		0.33 – 0.64	

Table 6.U: Introduce an obligation for banks to provide ex-post information on the fees incurred - Option 8

Benefit per stakeholder and cost type	Benefit description	Euro (Millions)	Calculation basis
Benefits to consumers	Benefit accrued from changes in switching behaviour	1 462.16	Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%. The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +0.5%. Amounts are expressed on a cumulative basis. Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022 No discount factor used as changes to potential switching rates are incremental in nature and therefore already take account of the current situation in Member States
	Benefits accrued from better account management	2 702.57	Net present value ('NPV') of estimated incremental cost savings accrued to consumers through better account management from 2013 to 2022, discounted at 4%. The impact on consumer switching behaviour is assumed as follows: 2013-2015: +10% of total number of bank account holders; and 30% from 2016-2022. Percentage savings figures represent an estimate of cumulative savings. Savings are calculated based on the assumption that consumers would accrue cost savings equal to a constant 15% of an EU yearly average cost of a bank account between 2013 and 2022 Discount factor used: 80%
		4 164.73	
Cost per stakeholder and cost type	**Cost description**	**Range in Euro (Millions)**	**Calculation basis**
One-off costs to credit institutions **Time-based costs**	Internal communication and training	11.65- 20.39	0.3 to 0.5 per person All front office/ marketing employees will have to spend some time on familiarising themselves with new requirements – this is assumed to be 20% of industry workforce
	Input into the process of determining a list of most relevant fees	0.76 - 1.26	2 staff members per bank would be involved in this exercise 3 to 5 days each Discount factor – distance from policy frontier = 0.35
	Time spent by the legal department to familiarise with legislation	0.32 – 0.63	1 staff member per bank would be involved in this exercise S/he will devote 1.5 to 1 day to this task Discount factor – distance from policy frontier = 0.35
	Management time spent reviewing product and pricing	1.14	3 members of management team per credit institution 0.5 days per person

	strategy		It is assumed that management wages are higher than average industry wages by 20% Discount factor – distance from policy frontier = 0.35
	Time spent by legal department to adapt contractual documentation	0.91 – 1.82	1 member of the legal team per bank 0.5 to 1 day per person Discount factor not applied as all banks would have to update contracts to include references to the standard price list which would now have a specific name under national law
		14.77 – 25.24	
One-off costs to Credit institutions **Acquisition costs**	Cost of updating/adapting IT applications to provide standard price lists	81.74 – 136.23	Unit cost per credit institution = range of EUR 30 000 – 50 000 Discount factor – distance from policy frontier = 0.35
	Cost of adapting marketing/advertising promotional material	81.74-136.23	Unit cost per credit institution = range of EUR 30 000 – 50 000 Discount factor – distance from policy frontier = 0.35
	Adapting format of account statements to include summary box or annex	13.62 – 27.25	Unit cost per credit institution = range of EUR 5 000 - 10 000 Discount factor – distance from policy frontier = 0.35
	Updating website with common fee terms	0.54 – 1.36	Unit cost per credit institution = range of EUR 200 – 500 Discount factor – distance from policy frontier = 0.35
		177.65 – 301.07	
Recurring costs to Credit institutions **Time-based costs**	Additional staff costs generated by new compliance requirements	140.32	10% of 1 Full Time Equivalent per credit institution per annum Discount factor: Distance from the policy frontier = 0.35
	Recurring reporting requirements	8.03-16.05	1 official involved Time spent estimated at 1 days on this activity Discount factor not applied
Recurring costs to Credit institutions **Acquisition costs**	Disseminating fee information to consumers in standard form	112.02-336.07	Unit cost = Euro 0.10 to 0.30 per print out Lists are made available in hard copy format to 10% of customers [consider bank account holders] Discount factor: Distance from the policy frontier = 0.35
		260.37–492.45	
One-off costs to public authorities **Time-based costs**	Transposing EU legislation into national law	0.03 – 0.05	1 official involved Time spent estimated at 10 to 15 days on this activity Discount factor not applied
	Identifying and agreeing most common fees	0.04 – 0.06	2 officials involved Time spent estimated at 20 to 30 days on this activity Discount factor: Distance from the policy frontier = 0.35
		0.07 – 0. 11	
Recurring costs to public authorities **Time-based costs**	Revising list of common fees	0.10-0.19	2 officials are involved Time spent estimated at 5 to 10 days per year on this activity Discount factor: Distance from the policy frontier = 0.35
	Monitoring compliance	0.33-0.66	1 official involved 12 to 24 days per year to monitor compliance (e.g. scanning websites of banks) Discount factor not applied – as not a requirement under current situation

	Reporting to EU	0.05-0.08	1 official involved 2 to 3 days per official per year Discounting factor not applied – as not a requirement under current situation
	Enforcement costs e.g. sweeps, investigations	0.33-0.66	1 official involved 12 to 24 days per year to monitor compliance (e.g. scanning websites of banks) Discount factor not applied – as not a requirement under current situation
		0.81–1.59	

Table 6.V: Introduce EU standardised forms for the provision of ex-post information on fees - Option 9

Benefit per stakeholder and cost type	Benefit description	Euro (Millions)	Calculation basis
Benefits to consumers	Benefit accrued from changes in switching behaviour	292.43	• Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%. • The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +0,1%. Amounts are expressed on a cumulative basis. • Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022 • No discount factor used as changes to potential switching rates are incremental in nature and therefore already take account of the current situation in Member States.
	Benefits accrued from better account management	954.68	• Net present value ('NPV') of estimated incremental cost savings accrued to consumers through better account management from 2013 to 2022, discounted at 4%. • The impact on consumer switching behaviour is assumed as follows: 2013-2015: +2% of total number of bank account holders; 2016-2022: +5% of total number of bank account holders. Percentage savings figures represent an estimate of cumulative savings. • Savings are calculated based on the assumption that consumers would accrue cost savings equal to a constant 15% of an EU yearly average cost of a bank account between 2013 and 2022 • Discount factor used: 80%
		1 247.11	
Cost per stakeholder and cost type	**Cost description**	**Range from – to in Euro (Millions)**	**Calculation basis**
One-off costs to credit institutions **<u>Time-based costs</u>**	Internal communication and training	26.77 – 46.84	• 0.3 to 0.5 per person • All front office/ marketing employees will have to spend some time on familiarising themselves with new requirements – this is assumed to be 20% of industry workforce • Discount factor – distance from policy frontier = 0,80
	Industry inputs to develop an EU standard form	1.74 – 2.90	• 2 staff member per credit institution would be involved in this exercise • S/he will devote 3 to 5 days to this exercise • 20% of credit institutions involved • Discount factor – distance from policy frontier = 0,80
	Time spent by the legal department to familiarise with legislation	0.72 – 1.45	• 1 staff member per bank would be involved in this exercise • S/he will devote 0.5 to 1 day • Discount factor – distance from policy frontier = 0,80
	Management time spent reviewing product and pricing strategy	2.61	• 3 members of management team per credit institution • 0.5 days per person • It is assumed that management wages are higher than average industry wages by 20%

			• Discount factor – distance from policy frontier = 0,80
	Time spent by legal department to adapt contractual documentation	0.91 – 1.82	• 1 member of the legal team per bank • 0.5 to 1 day per person • Discount factor not applied as all banks would have to update contracts to include references to the standard price list which would now have a specific name under national law
		32.75-55.62	
One-off costs to Credit institutions **Acquisition costs**	Cost of updating/adapting IT applications enable filtering of transactions, generate summary charges etc.	312.96 - 625.93	• Unit cost per credit institution = range of EUR 50 000 – 100 000 • Discount factor – distance from policy frontier = 0.80
		312.96 – 625.93	
Recurring costs to Credit institutions **Time-based costs**	Additional staff costs generated by new compliance requirements	322.36	• 10% of 1 Full Time Equivalent per credit institution per annum • Discount factor: Distance from the policy frontier = 0.80
	Recurring reporting requirements	8.03-16.05	• 1 official involved • Time spent estimated at 0.5 to 1 days on this activity • Discount factor not applied
		330.39-338.41	
Recurring costs to Credit institutions **Acquisition costs**	Disseminating fee information to consumers in standard EU form - assumed annually	257.35-772.06	• Unit cost = Euro 0.10 to 0.30 per print out • Lists are made available in hard copy format to 10% of customers [consider bank account holders] • Discount factor: Distance from the policy frontier = 0.80
		257.35-772.06	
One-off costs to public authorities **Time-based costs**	Transposing EU legislation into national law	0.03 – 0.05	• 1 official involved • Time spent estimated at 10 to 15 days on this activity • Discount factor not applied
		0.03 – 0.05	
Recurring costs to public authorities **Time-based costs**	Monitoring compliance	0.33-0.66	• 2 officials are involved • Time spent estimated at 12 to 24 days per year on this activity • Discount factor not applied
	Reporting to EU	0.05-0.08	• 1 official involved • 2 to 3 days per official per month to monitor compliance (e.g. scanning websites of banks) • Discount factor not applied
	Enforcement costs e.g. sweeps, investigations	0.33-0.66	• 1 official involved • 12 to 24 days per year • Discounting factor not applied – as not a requirement under current situation
		0.71-1.40	

Payment account switching

Table 6.W

Option 2: Ensure that the switching services follow the Common Principles on bank account switching

Benefit per stakeholder and cost type	Benefit description	Euro (Millions)	Calculation basis
Benefit accrued from changes in switching behaviour	A: existing Common Principles	1 462.16	• Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%. • The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +0.50%. Amounts are expressed on a cumulative basis. • Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022
Cost per stakeholder and cost type		**Range in Euro (Millions)**	**Calculation basis**
One-Off costs to credit institutions **<u>Time-based costs</u>**	Time spent by legal department to familiarise with new legislative requirements	0.14 – 0.28	They will devote 0.5 to 1 day per institution Daily average labour rate for credit institutions calculated as = EUR 232 The number of credit institutions = 7 855 Applied weighting factor = 0.15
	Cost of adapting business processes to facilitate switching in compliance with CP	1.39- 1.95	1 staff members per bank would be involved in this exercise They will devote 5 to 7 days each The number of credit institutions = 7 855 Applied weighting factor = 0.15
	Initial staff training on switching process and dealing with customer enquiries	9- 18	• They will devote 0.5 to 1 day per staff directly dealing with customers (20% of total staff of credit institutions) • Applied weighting factor = 0.15
One-Off costs to Credit institutions **<u>Acquisition costs</u>**	Cost of adapting IT systems to facilitate switching in compliance with CP	6.01- 12.03	Unit cost per credit institution = range of Euro 5 000 – 10 000 The number of credit institutions = 7.855 Applied weighting factor = 0.15
	Updating website to include information on switching process	0.24- 0.60	Unit cost per credit institution = range of Euro 200 - 500 Applied to all credit institutions = 7 855 Applied weighting factor = 0.15
Recurring costs to Credit institutions **<u>Time-based costs</u>**	Staff time involved in implementing switching	18-36	Staff dealing directly with consumers will devote additional 1 to 2 days a year Daily average labour rate for credit institutions calculated as = EUR 232 Applied weighting factor = 0.15
	Cost of internal compliance - additional staff costs of compliance department	7	Yearly costs of 0.1 staff per credit institution Daily average labour rate for credit institutions calculated as = EUR 232, year assumed to have 252 working days Applied weighting factor = 0.15
	Submitting compliance statement to regulatory body	0.9-1.8	• They will devote 0.5 to 1 day staff cost per credit institution
One-Off costs to public authorities **<u>Time-based costs</u>**	Transposing EU legislation into national law - developing legislation	1.26	Assumes 1500 hours' work at average wage rate (EUR 31.5) per Member State
	Awareness raising campaigns	1.89	Average cost per Member States is assumed to be EUR 70.000
Recurring costs to public authorities **<u>Time-based costs</u>**	Monitoring compliance, Reporting and enforcement costs	2.13	Assumes 2500 hours' work at average wage rate (EUR 31.5) per Member State

Table 6.X

Option 3A: Add provisions to improve the existing Common Principles on bank account switching at domestic level			
Benefit per stakeholder and cost type	**Benefit description**	**Euro (Millions)**	**Calculation basis**
	Benefit accrued from changes in switching behaviour	1 679.50	• Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%. • The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +0,75%. Amounts are expressed on a cumulative basis. Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022
Cost per stakeholder and cost type	**Cost description**	**Range in Euro (Millions)**	**Calculation basis**
One-Off costs to credit institutions **<u>Time-based costs</u>**	Time spent by legal department to familiarise with new legislative requirements	0.31- 0.62	They will devote 0.5 to 1 day per institution Daily average labour rate for credit institutions calculated as = EUR 232 The number of credit institutions = 7 855 Applied weighting factor = 0.35
	Cost of adapting business processes to facilitate switching in compliance with the enhanced CP	3.1- 4.34	1 staff members per bank would be involved in this exercise Time devoted will be 5 to 7 days The number of credit institutions = 7 855 Applied weighting factor = 0.35
	Initial staff training on switching process and dealing with customer enquiries	20.02-40.05	• They will devote 0.5 to 1 day per staff directly dealing with customers (20% of total staff of credit institutions) • Applied weighting factor = 0.35
One-Off costs to Credit institutions **<u>Acquisition costs</u>**	Updating website to include information on switching process	0.53- 1.34	Unit cost per credit institution = range of Euro 200 - 500 Number of credit institutions = 7 855 Applied weighting factor = 0.35
	Cost of adapting IT systems to facilitate switching in compliance with this option	13.38- 26.75	Unit cost per credit institution = range of EUR 5 000 – 10 000 Number of credit institutions = 7 855 Applied weighting factor = 0.35
Recurring costs to Credit institutions **<u>Time-based costs</u>**	Staff time involved in implementing switching	80.1-120.1	Staff dealing directly with consumers will devote additional 2 to 3 days a year Daily average labour rate for credit institutions calculated as = EUR 232 Applied weighting factor = 0.35
	Cost of internal compliance - additional staff costs of compliance department	15.6	Yearly costs of 0.1 staff per credit institution Daily average labour rate for credit institutions calculated as = EUR 232, year assumed to have 252 working days Applied weighting factor = 0.35
	Submitting compliance statement to regulatory body	0.9-1.8	• They will devote 0.5 to 1 day staff cost per credit institution • Daily average labour rate for credit institutions calculated as = EUR 232, year assumed to have 252 working days
One-Off costs to public authorities **<u>Time-based costs</u>**	Transposing EU legislation into national law - developing legislation	1.26	Assumes 1500 hours' work at average wage rate (EUR 31.5) per Member State
	Awareness raising campaigns	1.89	Average cost per Member States is assumed to be EUR 70 000
Recurring costs to public authorities	Monitoring compliance, Reporting and enforcement costs	2.13	Assumes 2500 hours' work at average wage rate (EUR 31.5) per Member State

Time-based costs			

Table 6.Y

Option 3B: Broaden the scope of the improved Common Principles to EU-wide cross-border switching			
Benefit per stakeholder and cost type	**Benefit description**	**EUR (Millions)**	**Calculation basis**
Benefits to consumers	Benefit accrued from changes in switching behaviour	3 655.41	• Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%. • The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +1%. Amounts are expressed on a cumulative basis. • Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022
Cost per stakeholder and cost type	**Cost description**	**Range in EUR (Millions)**	**Calculation basis**
One-Off costs to credit institutions **Time-based costs**	Time spent by legal department to familiarise with new legislative requirements	0.52- 1.05	• 1 staff member per bank would be involved in this exercise • Time spent will be 0.5 to 1 day • Daily average labour rate for credit institutions calculated as = EUR 232 • Applied weighting factor = 0.58
	Cost of adapting business processes to facilitate switching in compliance with the measures of this option	9.1- 12.73	• 1 staff member per bank would be involved in this exercise • Time devoted will be 5 to 7 days • The number of credit institutions = 7 855 • Applied weighting factor = 0.58
	Cost of adapting business processes to facilitate switching in compliance with the measures of this option	33.99-67.97	• They will devote 0.5 to 1 day per staff directly dealing with customers (20% of total staff of credit institutions) • Applied weighting factor = 0.58
One-Off costs to Credit institutions **Acquisition costs**	Updating website to include information on switching process	0.91 -2.27	Unit cost per credit institution = range of EUR 200- 500 Applied to all credit institutions = 7 855 Applied weighting factor = 0.58
	Cost of adapting IT systems to facilitate switching in compliance with this option	22.70- 45.41	Unit cost per credit institution = range of EUR 5 000 – 10 000 The number of credit institutions = 7 855 Applied weighting factor = 0.58
Recurring costs to Credit institutions **Time-based costs**	Staff time involved in implementing switching	203.-271.88	Daily average labour rate for credit institutions calculated as = EUR 232 Applied weighting factor = 0.58
	Cost of internal compliance - additional staff costs of compliance department	26.5	Yearly costs of 0.1 staff per credit institution Daily average labour rate for credit institutions calculated as = EUR 232, year assumed to have 252 working days Applied weighting factor = 0.58.
	Submitting compliance statement to regulatory body	0.9-1.8	They will devote 0.5 to 1 day staff cost per credit institution Daily average labour rate for credit institutions calculated as = EUR 232
One-Off costs to public authorities **Time-based costs**	Transposing EU legislation into national law - developing legislation	1.26	Assumes 1500 hours' work at average wage rate (EUR 31.5) per Member State
	Awareness raising campaigns	1.89	Average cost per Member States is assumed to be EUR 70 000

Recurring costs to public authorities **Time-based costs**	Monitoring compliance, Reporting and enforcement costs	2.13	Assumes 2 500 hours' work at average wage rate (EUR 31.5) per Member State

Table 6.Z

Option 4A: Introduce a domestic automatic redirection service			
Benefit per stakeholder and cost type	**Benefit description**	**EUR (Millions)**	**Calculation basis**
Benefits to consumers	Benefit accrued from changes in switching behaviour	5 848.65	• Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%. • The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +1%. Amounts are expressed on a cumulative basis. Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022
	Benefits resulting from direct costs savings	1 284.2	• Direct costs savings for postage EUR 83 million: = average number of direct monthly debits multiplied by the number of potentially switched bank accounts multiplied by EUR 0.5 postage fees; this number is multiplied by 0.9 to account for the fact that those consumers who might wish to switch cross-border (estimated as 10% of the switchers) will not incur these benefits • Costs savings resulting from a reduction in errors in transfer of recurrent payments = EUR 140 million: = average number of direct monthly debits multiplied by 8.5% (UK estimate of number of recurrent payment transfers gone wrong[680]) multiplied by EUR 10 (estimate for an average late payment fee or potential overdraft fees resulting from direct debiting to wrong account[681]). This number is multiplied by 0.9 to account for the fact that those consumers who might wish to switch cross-border (estimated as 10% of the switchers) will not incur these benefits. • Costs savings in terms of time value = EUR 1 061 million: = number of switchers[682] multiplied by 1h multiplied by the average hourly wage (1/7 of the average daily rate EUR 232). The assumption of 1 hour[683] is for this calculation as the consumer not only saves time during the switching process, but also time that would be needed to sort out recurrent payments then went wrong. This number is multiplied by 0.9 to account for the fact that those consumers who might wish to switch cross-border (estimated as 10% of the switchers) will not incur these benefits.
Cost per stakeholder and	**Cost description**	**Range in EUR**	**Calculation basis**

680 ICB Final report recommendations, ICB, September 2011, p. 220, http://www.ecgi.org/documents/icb_final_report_12sep2011.pdf.
681 *Ibid.*
682 Estimated as 10% of Europe-wide payment account users.
683 Conservative estimate of time saved by consumers due to redirection service.

cost type		(Millions)	
One-Off costs to credit institutions	Overall cost of introduction of a redirection service	500 – 22 734	• Based on the costs for industry of the re-routing system introduced in 2004 in the Netherlands (EUR 18 million) and the cost estimate for the redirection system that is being developed in the United Kingdom (estimated cost ranges between GBP 650-850 million) • This range was determined by: 1. Identifying a price range for the costs per credit institution calculated as costs of introduction of such service in the Member States were such costs/estimates are available (Netherlands, United Kingdom) divided by the number of existent credit institution in the respective Member State 2. Then multiplying these range values with the total number of credit institutions in the EU (7 992[684]) -> the resulting range being between EUR 0.5-23 million per credit institution and to EUR 500-22 734 million in total. • The overall average cost of implementation of this option = EUR 11 622 million.
Recurring costs to Credit institutions	Not quantified		

Table 6.AA

Option 4B: Introduce an EU-wide automatic redirection service			
Benefit per stakeholder and cost type	**Benefit description**	**EUR (Millions)**	**Calculation basis**
Benefits to consumers	Benefit accrued from changes in switching behaviour	6 579.73	• Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%. • The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +1%. Amounts are expressed on a cumulative basis. • Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022
	Benefits resulting from direct costs savings	1 426.9	• Direct costs savings for postage EUR 92 million: = average number of direct monthly debits multiplied by the number of potentially switched bank accounts multiplied by EUR 0.5 postage fees • Costs savings resulting from a reduction in errors in transfer of recurrent payments = EUR 156 million: = average number of direct monthly debits multiplied by 8.5% (UK estimate of number of recurrent payment transfers gone wrong[685]) multiplied by EUR 10 (estimate for an average late payment fee or potential overdraft fees resulting from direct debiting to wrong account[686]). • Costs savings in terms of time value = EUR 1 179 million: = number of switchers[687] multiplied by 1h multiplied by the average hourly wage (1/7 of the average daily rate EUR 232). The assumption of 1 hour[688] is for this calculation as the consumer not only saves time during the switching process, but also time that would be needed to sort out recurrent payments then went wrong.
Cost per stakeholder and	**Cost description**	**Range in EUR**	**Calculation basis**

684 Current number of credit institutions in Europe (ECB data).
685 ICB Final report recommendations, ICB, September 2011, p. 220, http://www.ecgi.org/documents/icb_final_report_12sep2011.pdf.
686 *Ibid.*
687 Estimated as 10% of Europe-wide payment account users.
688 Conservative estimate of time saved by consumers due to redirection service.

cost type		(Millions)	
One-Off costs to credit institutions	Overall cost of introduction of a redirection service	500 – 22 734	• Based on the costs for industry of the re-routing system introduced in 2004 in the Netherlands (EUR 18 million) and the cost estimate for the redirection system that is being developed in the United Kingdom (estimated cost ranges between GBP 650-850 million) • This range was determined by: 1. Identifying a price range for the costs per credit institution calculated as costs of introduction of such service in the Member States were such costs/estimates are available (Netherlands, United Kingdom) divided by the number of existent credit institution in the respective Member State 2. Then multiplying these range values with the total number of credit institutions in the EU (7 992[689]) -> the resulting range being between EUR 0.5-23 million per credit institution and to EUR 500-22,734 million in total. • The overall average cost of implementation of this option = EUR 11 622 million.
Recurring costs to Credit institutions	Not quantified		

Table 6.BB

Option 5A: Domestic payment account portability			
Benefit per stakeholder and cost type	**Benefit description**	**EUR (Millions)**	**Calculation basis**
Benefits to consumers	Benefit accrued from changes in switching behaviour	8 772.98	• Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%. • The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +1%. Amounts are expressed on a cumulative basis. • Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022
	Benefits resulting from direct costs savings	1 284.2	• Direct costs savings for postage EUR 83 million: = average number of direct monthly debits multiplied by the number of potentially switched bank accounts multiplied by EUR 0.5 postage fees; this number is multiplied by 0.9 to account for the fact that those consumers who might wish to switch cross-border (estimated as 10% of the switchers) will not incur these benefits • Costs savings resulting from a reduction in errors in transfer of recurrent payments = EUR 140 million: = average number of direct monthly debits multiplied by 8.5% (UK estimate of number of recurrent payment transfers gone wrong[690]) multiplied by EUR 10 (estimate for an average late payment fee or potential overdraft fees resulting from direct debiting to wrong account[691]). This number is multiplied by 0.9 to account for the fact that those consumers who might wish to switch cross-border (estimated as 10% of the switchers) will not incur these benefits. • Costs savings in terms of time value = EUR 1 061 million: = number of switchers[692] multiplied by 1h multiplied by the average hourly wage (1/7 of the average daily rate EUR 232). The assumption of 1 hour[693] is for this calculation as the consumer not only saves time during the switching process, but also time that would be needed to sort out recurrent payments then went wrong. This number is multiplied by 0.9 to account for the fact that those consumers who might wish

689 Current Number of credit institutions in Europe (ECB data).
690 ICB Final report recommendations, ICB, September 2011, p. 220, http://www.ecgi.org/documents/icb_final_report_12sep2011.pdf.
691 *Ibid.*
692 Estimated as 10% of Europe-wide payment account users.
693 Conservative estimate of time saved by consumers due to redirection service.

			to switch cross-border (estimated as 10% of the switchers) will not incur these benefits.
Cost per stakeholder and cost type	**Cost description**	**Range in EUR (Millions)**	**Calculation basis**
One-Off costs to credit institutions	Overall cost of introduction of a redirection service	14 700	• This figure has been estimated by a study "Customer Mobility in Relation to Bank Accounts" conducted by BearingPoint GmbH in 2007, (p. 48.) • It seems to be consistent with an estimation quoted by a Dutch bank in the Expert Group, according to which in the Netherlands the number portability would cost, only for the banks, EUR 300-500 million as well as with the Dutch Banking Association who estimated the number portability to cost EUR 260-510 millions.
Recurring costs to Credit institutions	Not quantified		
One-Off costs to public authorities **Time-based costs**	Transposing EU legislation into national law - developing legislation	1.26	• Assumes 1 500 hours' work at average wage rate (EUR 31.5) per Member State
	Awareness raising campaigns	1.89	• Average cost per Member States is assumed to be EUR 70 000
Recurring costs to public authorities **Time-based costs**	Monitoring compliance, Reporting and enforcement costs	2.13	• Assumes 2 500 hours' work at average wage rate (EUR 31.5) per Member State

Table 6.CC

Option 5B: EU payment account portability			
Benefit per stakeholder and cost type	**Benefit description**	**EUR (Millions)**	**Calculation basis**
Benefits to consumers	Benefit accrued from changes in switching behaviour	8 772.98	• Present value ('PV') of estimated incremental cost savings accrued to switchers from 2013 to 2022, discounted at 4%. • The impact on consumer switching behaviour is assumed as follows: 2013: +0% of total number of bank account holders; 2014-2022: a constant +1%. Amounts are expressed on a cumulative basis. • Savings are calculated based on the assumption that switchers would accrue cost savings equal to a constant 20% of an EU yearly average cost of a bank account between 2013 and 2022
	Benefits resulting from direct costs savings	1 426.9	• <u>Direct costs savings for postage EUR 92 million</u>: = average number of direct monthly debits multiplied by the number of potentially switched bank accounts multiplied by EUR 0.5 postage fees • <u>Costs savings resulting from a reduction in errors in transfer of recurrent payments = EUR 156 million:</u> = average number of direct monthly debits multiplied by 8.5% (UK estimate of number of recurrent payment transfers gone wrong[694]) multiplied by EUR 10 (estimate for an average late payment fee or potential overdraft fees resulting from direct debiting to wrong account[695]). • <u>Costs savings in terms of time value = EUR 1 179 million</u>: = number of switchers[696] multiplied by 1h multiplied by the average hourly wage (1/7 of the average daily rate EUR 232). The assumption of 1 hour[697] is for this calculation as the consumer not only saves time during the switching process, but also time that would be needed to sort out recurrent payments then went wrong.

694 ICB Final report recommendations, ICB, September 2011, p. 220, http://www.ecgi.org/documents/icb_final_report_12sep2011.pdf.
695 *Ibid.*

Cost per stakeholder and cost type	Cost description	Range in EUR (Millions)	Calculation basis
One-Off costs to credit institutions	Overall cost of introduction of a redirection service	14 700	• This figure has been estimated by a study "Customer Mobility in Relation to Bank Accounts" conducted by BearingPoint GmbH in 2007, (p. 48.) • It seems to be consistent with an estimation quoted by a Dutch bank in the Expert Group, according to which in the Netherlands the number portability would cost, only for the banks, EUR 300-500 million as well as with the Dutch Banking Association who estimated the number portability to cost EUR 260-510 millions.
Recurring costs to credit institutions	Not quantified		
One-Off costs to public authorities **Time-based costs**	Transposing EU legislation into national law - developing legislation	1.26	Assumes 1 500 hours' work at average wage rate (EUR 31.5) per Member State
	Awareness raising campaign	1.89	Average cost per Member States is assumed to be EUR 70 000
Recurring costs to public authorities **Time-based costs**	Monitoring compliance, Reporting and enforcement costs	2.13	Assumes 2 500 hours' work at average wage rate (EUR 31.5) per Member State

Administrative burden

Administrative burden is calculated for the package of preferred options set out in Section 8.1, 'Cumulative impacts and impacts on stakeholders'. Our analysis in Section 8.2.4, 'Administrative burden' indicates that the preferred set of options in the area of access is expected to generate only a limited amount of administrative burden. However administrative burden is expected to arise from the preferred options in the areas of ease of comparison of bank fees and requirements covering presentation and payment account switching.

Given that the set of preferred options covering presentation requirements for fees and switching inherently contain significant information requirements, particularly for credit institutions, it was necessary to quantify administrative burden as part of this impact assessment.

Our assessment indicates that administrative costs generated by the package of preferred options would not be incurred by credit institutions or Member States in the absence of legislation. As a result cost items that are administrative costs in nature are allocated in full to administrative burden.

The measurement of administrative burden is derived from the quantification of costs in the study *'Quantification of the economic impacts of EU action to improve fee transparency, comparability and mobility in the internal market for bank personal current accounts'*. Thus the computation of burdens on a cumulative basis results from amounts derived for compliance costs for individual options. Further details on the methodology used to compute administrative burden is summarised below:

1. Identify administrative costs within overall costs of compliance:

[696] Estimated as 10% of Europe-wide payment account users.

[697] Conservative estimate of time saved by consumers due to redirection service.

- The categories and items of cost incurred by credit institutions, comparison website operators and Member States in meeting legal obligations as a result of the package of preferred options are provided in the table below:

Table 6.DD

Types of required action	**Cost items description (CI – Credit institution; MS – Member States; WO – Comparison website operators)**
Familiarising with the information obligation:	– Time spent by legal department to familiarise with new legislative requirements (CI)
Retrieving relevant information from existing data	– Cost of updating IT systems to enable filtering of transactions, generate summary charges, et c (CI)
Adjusting existing data	– Cost of adapting IT systems with list of standard fees (CI) – Time spent by legal department to adapt contractual information (CI) – Updating website with new pricing information (CI)
Designing information material	– Adapting format of account statements to include summary box or annex (CI) – Cost of adapting marketing/advertising/promotional material (CI) – Revising list of common fees (MS)
Filling forms	– Cost of internal compliance – additional staff costs of compliance department (CI)
Holding meetings	– Industry inputs/support to the development of a standard price list with most common fees (CI) – Identifying list of most common fees (MS) – Setting up an accreditation system (MS)
Inspecting and checking	– Meeting audit requirements (WO) – Monitoring compliance (MS) – Performing audits - website operators (MS) – Regular monitoring of websites (MS)
Submitting information to the relevant authority	– Cost of obtaining accreditation (WO) – Submitting compliance statement/price lists to regulatory body (CI) – Cost of printing price lists (CI) – Disseminating fee information to consumers in standard form (CI) – Reporting to the EU (MS)
Buying equipment & supplies	– Initial investments to meet requirement of accreditation system (WO)
Other	– Awareness raising campaigns (MS) – Enforcement (MS)

2. Determine the basis for calculation of administrative burden

- Administrative costs are calculated in compliance with the EU Standard Cost Model. As a result all time-based costs are expressed in terms of the following formula: tariff * time * population (n° of entities impacted). In some cases, costs of acquisition for services directly linked to work required to meet legal obligations is computed using an estimated cost of acquisition * population.

- A discount factor was applied to the costs derived using the formula to reflect the incremental nature of costs generated by EU action. The discount factor reflects the distance between the current regulatory and market baseline within Member States and the EU proposals contained in the set of preferred options. For further details on the discount factor used refer to point 4 below.
- Unless otherwise specified the same assumptions were used in deriving the amounts underlying administrative burden as in the quantification of costs as described in section "Ease of comparison of bank fees, requirements covering presentation and payment account switching" above.
- A detailed description of the calculation basis for each item of administrative burden is provided in table 6.EE below.

3. Eliminate double counting of administrative costs relevant to more than one preferred option within the package

- Administrative burden for the package of preferred options is calculated based on the costs determined on an individual option basis, for relevant administrative costs in point 1 above.
- Items of administrative costs that are generated by a single option within the package: The calculation basis used to appear only in one preferred option within the package, the same calculation basis is used to derive administrative burden as that used to quantify the item of cost in the option
- Items of administrative costs incurred in more than one preferred option within the package: In none of these cases (relevant to time-based costs), was it considered appropriate to cumulate the time allocation attributed to each option to derive total time for the action on a cumulative basis. As a result the amount corresponding to the highest time based effort assessed for the preferred options on an individual basis was applied to avoid overstating administrative costs common to more than one option.

4. Determine an appropriate discount factor to apply to administrative costs on a cumulative basis

- The use of a discount factor to reflect the incremental nature of costs derived from the proposed EU action with respect to the regulatory and market baseline within Member States is part of the methodology used in the study *'Quantification of the economic impacts of EU action to improve fee transparency, comparability and mobility in the internal market for bank personal current accounts'*
- Items of administrative costs that are generated by a single option within the package: The same discount factor as the one applied to the relevant option was used. As in the quantitative assessment performed for options on an individual basis, discount factors are only applied to costs items where relevant. The same approach was adopted in the calculation of administrative costs.

- Items of administrative costs incurred in more than one preferred option within the package: A discount factor of 0.5[698] is applied to amounts of administrative costs computed using the formulae set out in point 1. This is a weighted average discount factor computed for the preferred package of options based on the calculation used to derive discount factors determined on a per option basis.

Table: 6.EE: Administrative burden per stakeholder group and per cost item

Preferred options reference	**Cost description**	**Range from – to in Euro (Millions)**	**Calculation basis**
Credit institutions – One off costs			
Bank fees option 2	Input into the process of determining a list of most relevant fees	0.77 – 1.28	• 2 staff members per bank would be involved in this exercise • They will devote 3 to 5 days each • Not all credit institutions across the EU would contribute to this exercise – it is assumed that 20% (of the total of 7.855) credit institutions, would contribute to this process • Discount factor – distance from policy frontier = 0.35
Bank fees options 2, 8 Payment account switching option 3b	Time spent by the legal department to familiarise with legislation	0.91 – 1.82	• 1 staff member per bank would be involved in this exercise • Time spent 1 to 2 days • Discount factor – distance from policy frontier = 0. 5
Bank fees options 2, 8	Time spent by legal department to adapt contractual documentation	0.91 – 1.82	• 1 member of the legal team per bank • 0.5 to 1 day per person • Discount factor not applied as all banks would have to update contracts to include references to the standard price list which would now have a specific name under national law
Bank fees options 2, 8	Cost of updating/adapting IT applications to provide standard price lists	117.82 – 196.37	– Unit cost per credit institution = range of EUR 30 000 – 50 000 • Discount factor – distance from policy frontier = 0.5
Bank fees options 2, 8	Cost of adapting marketing/advertising promotional material	117.82 – 196.37	Unit cost per credit institution = range of EUR 30 000 – 50 000 • Discount factor – distance from policy frontier = 0.5
Bank fees option 8	Adapting format of account statements to include summary box or annex	13.62 – 27.25	• Unit cost per credit institution = range of EUR 5 000 - 10 000 • Discount factor – distance from policy frontier = 0.35
Bank fees options 2, 8 Payment account switching option 3b	Updating website with common fee terms/pricing information	0.79 – 1.96	• Unit cost per credit institution = range of EUR 200 – 500 • Discount factor – distance from policy frontier = 0. 5
		253.55 – 428.69	
Credit institutions – Recurring costs			
Bank fees option 2	Costs of printing price lists	32.30- 96.89	• Unit cost = Euro 0.10 to 0.30 per print out • Lists are made available in hard copy format to 10% of customers [consider bank account holders]

698 *Quantification of the economic impacts of EU action to improve fee transparency, comparability and mobility in the internal market for bank personal current accounts*, GHK consulting

			• Discounting factor not applied as new price lists would need to be printed in accordance with standard format and a given name
Bank fees options 2, 8 Payment account switching option 3b	Additional staff costs generated by new compliance requirements	202.27	• 10% of 1 Full Time Equivalent per credit institution per annum • Discount factor: Distance from the policy frontier = 0.5
Bank fees options 2, 8 Payment account switching option 3b	Recurring reporting requirements	8.03 – 16.05	• 1 person per bank • 1 day per year • No discount factor applied.
Bank fees options 8	Disseminating fee information to consumers in standard EU form - assumed annually	112.02 – 336.07	• Unit cost = Euro 0.10 to 0.30 per print out • Lists are made available in hard copy to customers [consider bank account holders] • Discount factor: Distance from the policy frontier = 0.35
		354.61 – 651.28	
Comparison website operators – One off costs			
Bank fees option 4b	Cost of obtaining accreditation	0.05- 0.11	• Assumed 2 websites per MS on average • Each website operator will incur EUR 1 000 – EUR 2 000 on obtaining accreditation per year No Discount factor applied.
Bank fees option 4b	Initial investments to meet requirements of accreditation system e.g. setting up a complaints handling mechanism ting up internal process	0.27- 0.54	• Assumed 2 websites per MS on average • Each website operator will spend EUR 5 000 – EUR 10 000 No Discount factor applied.
		0.32 – 0.65	
Comparison website operators – Recurring costs			
Bank fees option 4b	Meeting requirements - annual audit	4.77 – 9.53	• Each website operator will incur EUR 10 000 – EUR 20 000 • No Discount factor applied.
		4.77 – 9.53	
Member States – One off costs			
Bank fees options 2, 8	Identifying and agreeing 20 most common fees	0.06 – 0.09	• 2 officials are involved • Each official spends 20 to 30 days per year on this activity • Discount factor: Distance from the policy frontier = 0.5
Bank fees options 4b	Setting up an accreditation system	0.36 - 0.66	• 2 officials involved • Each official will spend 15 to 20 days on this activity • No Discount factor applied. • Additional acquisition costs within a range of EUR 10 000 – EUR 20 000
Payment account switching option 3b	Awareness raising campaigns (introductory)	1.89	• Average cost per Member State assumed to be EUR 70 000
		2.32 – 2.65	
mber States – Recurring costs			
Bank fees options 2, 8	Revising list of common fees	0.14- 0.27	• 2 officials are involved

			• Time spent estimated at 5 to 10 days per year on this activity • Discount factor: Distance from the policy frontier = 0.5
Bank fees options 2, 8 Payment account switching option 3b	Monitoring compliance	18.76	• Assumes 2500 hours' work at an average wage rate (EUR 31.5) per Member State • No discount factor applied.
Bank fees options 2, 8	Reporting to EU	0.05 - 0.08	• 1 official involved • 2 to 3 days per official per year • Discounting factor not applied – as not a requirement under current situation
Bank fees options 2, 8	Enforcement costs	0.33 – 0.66	• 1 official involved • 12 to 24 days per year • No discount factor applied.
Bank fees options 4b	Quarterly audits	0.44- 0.66	• 1 official involved • Each official will spend 16 to 24 days on this activity • No Discount factor applied.
Bank fees options 4b	Regular monitoring of sites	0.66 – 1.32	• 1 official involved • Each official will spend 24 to 48 days on this activity • No Discount factor applied.
Bank fees options 4b	Awareness raising campaigns	2.38 - 4.77	• Each MS spends EUR 10 000 – EUR 20 000 on promotional activities/ information campaigns per year • No Discount factor applied.
		22.77 – 26.52	