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SESSION IV

**FINANCIAL SECTOR INQUIRIES – A HUNGARIAN EXAMPLE ILLUSTRATING SOME OVERLAPS
BETWEEN COMPETITION AND CONSUMER POLICIES**

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THE INTERFACE BETWEEN COMPETITION AND CONSUMER POLICIES OECD GLOBAL FORUM ON COMPETITION, 22.02.2008

1. This room document is to complement the oral intervention by Hungary concerning the *The Interface between Competition and Consumer Policies* item of the agenda of the Global Forum on Competition (GFC). The document deals with the Hungarian experiences that are partly related to switching. While recognising that a whole item of the GFC agenda is dedicated to switching (*High Switching Costs: A barrier to Competition and a Detriment to Consumers*), the experiences of Hungary briefly described below provide an illuminative illustration of the relation between competition policy and consumer protection.

2. In 2004-2005 the Hungarian Competition Authority (Gazdasági Versenyhivatal – GVH) has conducted a sector inquiry regarding home mortgage loans. This sector inquiry was triggered – beyond several complaints, a letter from the Parliamentary Ombudsman of Civil Rights and the increasing public concern about the effective use of government subsidies – by the fact that the level of interest rates offered by banks, the steadily growing profits and interest rate margins exceeding EU-average suggested that effective price competition might be limited.

3. The home mortgage loans market was rapidly growing during the investigated period. The expansion of the market was realized at a rather high concentration level (70% of the market was controlled by 5 market players, and 52% was in the hands of the market leader) albeit the HHI for banking groups has decreased in the investigation period. As a result of government subsidies, the market kept growing with the appearance of an increasing number of players; and as a consequence of this, competition at the home mortgage loan segment should have become more intensive. As compared to other aspects of competition, in price competition this phenomenon could hardly be noticed during the investigated period, mainly due to the effect of regulation and government subsidies. On the other hand factors, like the limited ability of consumers to make an informed choice also played an important role. As a result of the sector inquiry, the GVH made several recommendations to supervisory authorities and the Hungarian Bankers' Association (a self regulatory body). A significant portion of the proposals pointed towards the need to increase market transparency, namely that information for consumers should be made accessible in a clear and understandable way enabling them to make meaningful comparison of the various offers by the banks. The recommendations, among others, pointed out that

- banks should provide individualised information on fees for each consumers before contracting,
- in the case of government subsidised loans a simplified and more comparable fee structure should be applied,
- the APR (annual percentage rate – an indicator of total cost of credit, which had been applied for a long time elsewhere in the Hungarian financial services but were adopted only during the sector inquiry for home loans), should be refined in order to fulfil its function,
- more efforts should be done by authorities to encourage informed consumer choice by various means of consumer education and information assistance.

A further finding was the necessity to examine general terms and conditions applied by credit institutions from the aspect of whether unilateral benefits in favour of the credit institution applied in sample contracts are in accordance with specific consumer protection provisions of the civil law on unfair contractual conditions.

4. In the course of the home mortgage loan sector inquiry the GVH started to recognise that switching is a fundamental factor of competition in the financial sector. (Previously switching was considered relevant mainly from a market definition point of view, although it was acknowledged also in the competitive pressure context in car liability insurance liberalisation.) One important conclusion was that informed consumer choice, and also “physical” ability to make that choice is essential for an effective competition, and this holds not only for the original decision but also in the context of subsequent switching between financial services (which sometimes can substitute each other) or between banks (service providers), at least in the case of long term services such as a home loan or a current account.

5. This realisation coincided with the increased interest of the European Competition Network (ECN) and the OECD Competition Committee in switching. Based on the international experience gained in various ECN and OECD events and on its own results, the GVH decided to initiate in 2007 a sector inquiry dedicated to switching between retail banking products. This still ongoing inquiry focuses on current account and certain credit products, i.e. personal loans and mortgage loans. The GVH also hired market research companies to make two questionnaire-based surveys (one for switching in consumer banking and another for switching in the SME market).

6. At the current stage of the inquiry the GVH considers that the resulting recommendations will again be primarily aimed at providing or improving the necessary conditions for consumers to make an informed choice on switching (and to put consumers into the position to consider switching as an option). This is so because the preliminary findings suggest that the most important reasons of discouraged switching –especially regarding current account– are not those associated with the level of explicit and material switching cost (and also time and inconvenience) or other factors connected to the structural conditions of competition, but the disability of consumers to make an informed choice (including that their perceived or anticipated cost of switching is often much higher than actual switching cost is). The GVH will also consider whether to push forward a regulated switching regime – in order to slash switching costs, which tend to be very high at least for credit products and to influence consumer anticipation– to be realised either by regulation or by self-regulation.

7. In summary, both the mortgage loan sector inquiry, and the two sector inquiries on switching were started on a genuine competition policy ground, and ended with remedy proposals that mainly belong to the domain of consumer protection. Moreover, they did not represent a journey from one policy area to the other in the sense that the conclusion was not such as we had a consumer protection problem instead of a competition problem. Rather it turned out that in these cases consumer protection remedies are probably the best to treat a competition problem.