COMPETITION AND REGULATION IN RETAIL BANKING

-- Switching Packs: An Outline of Country Experiences --
INTRODUCTION

1. Retail banking products involve the maintenance of an ongoing relationship between the customer’s bank and the customer. In many sectors with products that involve ongoing relationships, switching is a relatively common occurrence on an annual basis. However, switching between banks for current account customers is a relatively rare occurrence. Some analysts suggest that lack of serious contemplation of switching may explain the perceived lack of vigorous competition in the retail banking sector. Because of the potential link between switching behaviour and competition, this note provides details of how one method to ease switching for customers has been implemented in several OECD countries.

2. The relatively low level of search and switching for retail banking products is confirmed for current account customers, based on a survey of approximately 2000 U.K. consumers. Only 8% searched for information on competing current account suppliers and only 5% actually switched. These figures are significantly lower than for a variety of other sectors, including electricity and fixed line phone services, as shown in Table 1.

<table>
<thead>
<tr>
<th>Market</th>
<th>Aware</th>
<th>Searched</th>
<th>Switched</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>86</td>
<td>23</td>
<td>17</td>
</tr>
<tr>
<td>Electricity</td>
<td>88</td>
<td>28</td>
<td>24</td>
</tr>
<tr>
<td>Mobile</td>
<td>90</td>
<td>29</td>
<td>24</td>
</tr>
<tr>
<td>Fixed line</td>
<td>84</td>
<td>14</td>
<td>8</td>
</tr>
<tr>
<td>Calls</td>
<td>82</td>
<td>17</td>
<td>13</td>
</tr>
<tr>
<td>Broadband</td>
<td>68</td>
<td>26</td>
<td>17</td>
</tr>
<tr>
<td>Car insurance</td>
<td>85</td>
<td>40</td>
<td>29</td>
</tr>
<tr>
<td>Mortgage</td>
<td>78</td>
<td>22</td>
<td>14</td>
</tr>
<tr>
<td>Current account</td>
<td>93</td>
<td>8</td>
<td>5</td>
</tr>
</tbody>
</table>


3. One reason that may explain limited switching of current accounts is that both the financial and non-financial costs of switching are significant. For example, banks may impose charges for closing accounts. Moreover, the time required for an individual to notify payors of new account information and to update automatic payments to creditors can be perceived as significant, as can the cost of an error in updating.

4. In order to reduce the costs of switching, banking associations in a number of countries have introduced “switching packs,” often at the instigation of governments. The principle behind switching packs is that when a customer changes from one bank to another, the transition is smoothed by an arrangement in which the old bank transfers information and payments automatically to the new one, without the intervention of the customer. The information transferred can include automatic payments from an account so that, in theory, the likelihood of double payment of bills is reduced. If the system works well, the difficulties of changing accounts are reduced. Moreover, if customers are aware of the existence of
switching packs, they may consider switching more seriously than in absence of switching packs. Assuming that the competitive pressure of actual and potential switching serve as a constraint on pricing of banks, switching packs may help to promote more vigorous competition among banks for retail customers.

5. The nature of switching packs differs across countries. This note therefore outlines the nature of switching packs that exist or are contemplated in a number of OECD countries, and provides references to further sources for the benefit of those wishing to review or learn from existing switching pack implementation. These outlines are based on country responses to a letter requesting information from Alberto Heimler, Chair of the Working Party on Competition and Regulation.
6. Canadian banks have each implemented their own switching packs which govern the practice of allowing bank customers to switch from one banking institution to another. However, the switching process in Canada is not transparent. Only limited information about switching banks is available on each of the individual bank websites. Generally, the information on the bank website includes information regarding the ‘free’ service that the bank you are switching to offers, along with a disclaimer that the bank you are switching from may charge fees when you ask to have accounts moved to another institution. No further information is available from the bank without contacting an in-branch customer service representative.

7. Any service fees that may be charged to switch from one financial institution to another are not often readily available without an in-branch visit. However, we do know that penalties do exist when moving items such as mortgages and Registered Retirements Savings Plans, and the fees imposed maybe more significant that fees imposed to move a savings or chequing account.

8. Although no substantial research currently exists in this area, there are studies underway. This will be monitored and the feedback provided to the OECD, as appropriate.
IRELAND


10. These codes were developed voluntarily by the Irish Banking Federation – the representative organisation for the retail banks. The decision to develop switching codes was a pre-emptive response to the Irish Competition Authority’s examination of competition in personal current accounts and in working capital lending to small businesses, and the Financial Regulator’s consultation on a general consumer protection code for banks (and other financial institutions and agents) which had the potential to impose a switching process on the banks.

- The Competition Authority’s final report on “Competition in the (non-investment) banking sector in Ireland” was published on 22nd September 2005. The Competition Authority recommended (as it had in its interim report in December 2004) that the Irish Banking Federation should develop codes for switching personal and business current accounts.
- In Ireland, the Financial Regulator has a strong consumer protection and consumer information mandate, backed up with significant powers. The Financial Regulator published its Consumer Protection Code – which is mandatory for banks – in August 2007.

11. In essence, the switching codes are a set of rules that banks must adhere to, and standards that they must endeavour to achieve, in order to facilitate an efficient, predictable and reliable system for individual consumers and businesses who wish to switch their account. Based on these rules and standards, each participating bank creates its own “switching pack” to entice new customers. The switching process and protocols commence after the switching customer has opened their new account, and signed the relevant forms in the new bank’s switching pack. Switching customers must also return cards and cheques to the old bank, to facilitate the account closing. The banks do the rest.

12. For personal account customers, the balance on the account, standing orders and direct debits (not just the information on these), plus any charges, stamp duty and/or interest due will be transferred from the old bank directly to the new bank within 7 working days and the old account closed. The entire process of switching may take longer due to the time it takes to open a new account and complete the relevant forms. Business account customers follow a similar process, with the same timescale of 7 working days, but have to also consider their payroll system, informing their own customers, and the most suitable date to switch. Switching is free.

13. Public awareness of the potential for switching bank account is, anecdotally, reasonably high. The term “switching” has now become common parlance. The Irish Banking Federation conducted a review of usage of the Personal Switching Code in its first year and found that 17,000 consumers had used the code. There was some evidence of account switching outside of the code. The Irish Banking

---

1 See www.tca.ie/PromotingCompetition/MarketStudies/Banking/Banking.aspx

2 Note: the Financial Regulator was previously known as the Irish Financial Services Regulatory Authority, or IFSRA, and the two terms feature in the accompanying materials.
Federation estimates that adding this switching together with switching of personal accounts under the code gives an overall switching rate of 1.5% of current accounts in Ireland in the first 12 months of the code.

14. Links to relevant materials are provided below:

Shortcut to IBF PCA Switching Launch Pack:  

Shortcut to Account Switching, first year results, Feb06:  
http://www.ibf.ie/media/releases/04022006a.shtml

Shortcut to CA banking report executive summary:  

Shortcut-IFSRA Consumer Protection Code:  

Shortcut to Issue 3 of About Banking:  

Business Account Switching Code pdf:  
15. Although there are no formalized switching codes or agreements among banks there is an initiative, recently taken within ABI (the Italian Banks' Association), called "Cambio Conto" that should help customers switching.

16. The initiative is taken by “Patti Chiari”, a consortium of 170 banks, promoted by ABI in 2003, aimed at simplifying relations between banks and customers by tools that should help customers in better understanding and using payment instruments. The Cambio Conto initiative contains, on one hand, Guidelines for banks' customers, available on the ABI website and at banks' customer counters, explaining, one by one, which are the five steps that a customer should take when changing bank, giving suggestions on how to avoid missing payments, etc. Besides this detailed description there is a commitment, voluntarily taken by the banks which have joined the initiative (42 up to now), to adopt three instruments that should facilitate switching: 1) The provision to each customer of a list of all the products they are using on their account. This should help customers in understanding more clearly what services they are buying from their banks and what they should look for when moving to another bank. This provision is already in place (since 15 December 2006); 2) The automatic transfer of all direct debit payments from the old to the new bank. This will be guaranteed from 12 February 2007; 3) The monitoring of average switching times for four typology of accounts (for example current account with debit card or account with debit card and other services, etc). The customers will be able to compare the average times for closing an account by different banks on the website of Patti Chiari.

17. The Guidelines themselves, giving information to consumers on how to change accounts and transfer services to a new account, might be helpful. One should consider, in fact, the situation of lack of transparency that characterizes the Italian banking sector, where even the commitment to provide a list of the products which the customers are already buying (which sounds quite obvious) might help customers in their choices.

18. However, the most important instrument of this voluntary initiative adopted by banks is undoubtedly the automatic transfer of direct debit payments that might really make switching easier and more rapid. This is, at the moment, only a commitment, so it will be necessary to wait for it to be implemented to draw conclusions on its effectiveness.

19. The Guide can be found in PDF form at this address: http://www.pattichiari.it/inside.asp?id=387.
NETHERLANDS

20. In January 2004, banks in the Netherlands started to offer a switching service (Interbank-Switch Support Service, ISSS) to consumers. The consumer can request to use the switching service by means of a form which he needs to submit to this new bank. Under this system, the former bank ensures that all income, such as salary and benefits, are automatically credited to the new account for 13 months. The customer must take the initiative to inform his employer or the organisation(s) from which he receives a benefit of the amendments. With regard to debits, the new bank informs companies which submit instructions for automatic debt collection of the change in the account number. On 1 October 2004, a special application form was made available for the commercial market.

(2) The institutional mechanism by which switching banks were developed and implemented (e.g., banking association agreement, government regulation);

The Interbank-Switch Support Service has been developed and implemented by the Dutch Banking Association and its members.

(3) How consumers find out about switching packs and any indications of consumer awareness, use of such switching packs; and

21. The customer can receive information from its (new) bank and through general information provided by the Dutch Banking Association. For example, the Banking Association has created a website with information on the switching service (see www.overstapservice.nl).

22. The Dutch Banking Association states in its Annual Yearbook of 2004 that some 45 000 (chiefly private) customers took advantage of this service in 2004 (some 0.6% of the total number of households in the Netherlands)\(^3\) In 2005 the numbers increased to a total of 65,000 consumers and 5,000 small and medium sized enterprises. Research as to the experience and appreciation of the ISSS (August 2005) demonstrates that the brand awareness of the ISSS among the Dutch increased from 17% in 2004 to 49 % in 2005. The size of the group that has a demand for the ISSS appears to be small: only 5 % of the customers state that they have the intention to switch to another bank.

(4) A description of what policy actions/discussions preceded and may have led to the implementation of switching packs.

23. The deterrent effect of a possible enforcement of mandatory account number portability could be seen as a driving force behind the implementation of switching packs.

\(^3\) The absolute value of this rate is not very high, but it is higher than the Dutch Banking Association had expected.
1. The report "measures to lessen the inconvenience for customers when switching bank - account number portability"

1.1 Conclusions

24. A working group, acting on mandate from the Norwegian Ministry of Finance, has reached the conclusion that account number portability (ANP) in Norway cannot be recommended. The costs associated with ANP would most probably exceed the anticipated benefits.

25. Instead, the group recommends that the banking industry should introduce a switching code. This would make bank switching easier and increase competition. The code must contain a binding set of rules and procedures for the process of switching banks, thereby reducing the customers' inconveniences.

1.2 Background

26. With reference to the report Competition in Nordic Retail Banking, the Norwegian Ministry of Finance gave the Financial Supervisory Authority the task of appointing a working group to consider possible measures to be taken to lessen the inconvenience for customers associated with bank switching. The report was published 19th June 2007.

27. The working group originally consisted of representatives from the Financial Supervisory Authority, the Central Bank, the Consumer Council and the Competition Authority. After an initiative from the industry the two banking organisations (the Norwegian Financial Services Association (FNH) and the Norwegian Savings Banks' Association) were included in the group.

28. According to the mandate, the working group focused on ANP and switching costs. The group did not consider measures to make it easier to search and compare services and prices, or to counteract lock-in effects deriving from loyalty programs. However, in January 2008, a public information website for financial products was launched. The website is aimed at reducing these kinds of barriers to consumer mobility in the financial markets.

2. Findings on account number portability

2.1 Technical aspects

29. The Norwegian account number system has a common or standardised structure, opposed to some other countries where each bank lay down its own structure. All Norwegian account numbers consist of 11 digits. The four first digits identify the bank. This functions as an address for transactions, and is essential to the central clearing system in Norway. The two next digits represent the type of account. These digits may vary from one bank to another. The next four digits is the actual customer identifying number. The last digit is for control and is calculated on the basis of the ten preceding digits. It reduces the risks of various errors.

---

4 Report from the Nordic competition authorities no 1/2006, Competition in Nordic Retail Banking

5 Tiltak og ordninger som kan gi reduerte ulemper for kundene ved bytte av bankforbindelse – bankkontoenummerportabilitet. The report is available in Norwegian only.

6 www.finansportalen.no
30. In other words, the Norwegian account number is used as an identifier within the systems of each bank. Key functions in the banking system are based on the four first digits. Full (true) ANP presupposes a change in the meaning of these digits. Accordingly, a change in each bank’s account current books is called for, as well as in the infrastructure. Because of the assumed high costs associated with such a change, a solution with full ANP was not investigated further.

31. Instead, the working group examined whether it was possible to approach ANP in a more practical manner, retaining the logic based on the four first bank identifying digits in today’s system. This part of the report relies on considerations made by another working group, consisting of members of the industry only (the reference group).

32. The reference group came up with two alternative models for implementing ANP. Both alternatives imply a central entity monitoring which bank the different customer accounts belong to. In both models the customer is perceived to keep his account number, but in reality he is given a new extended number with the bank identifying digits.

33. In the shell model the extended number is hidden for the customer, and will only be used within the infrastructure, thus working as a shell. In addition, the account number needs to be translated to the “shell number” every time there is contact between customers and banks. In this model all transactions must pass through a central entity.

34. In the alteration model the perceived account number is given additional digits by the customer’s bank, i.e. the number is altered. This extended number is used in the communication between the banks and in the banking infrastructure. The banks have to update information on the extended numbers to a central register entity.

2.2 Regulations

35. The IBAN\(^7\) and BIC\(^8\) systems used for cross-border payments presuppose an identification of the bank connected to the number that identifies the customer. This is incompatible with the concept of ANP. The group states in the report that the Payment Service Directive may be a problem for introducing ANP in Norway. Branches of foreign banks operating in Norway could be faced with additional requirements compared to the rest of the EU.

2.3 Cost analysis

36. This part of the report largely relies on the considerations of the reference group. Within the limits of available time it was not possible to make a systematic examination identifying all the measures necessary to introduce ANP in Norway. The group states that accordingly, it is not possible to have an exact opinion of the total costs of such a measure.

37. The reference group assumes that about four billion inquiries would have to be made to the central entity monitoring the account numbers each year. This is assumed to represent an annual cost of NOK 400 million (EUR 50 million). It is assumed by the reference group that such a project would involve higher costs than any other IT project carried out by the banks so far. In an example comparing the ANP project with the Y2K preparations, the group points out that ANP in addition involves alterations in the structure of the banks own systems as well as in the common infrastructure. The reference group will not

\(^7\) International Bank Account Number – ISO 13613

\(^8\) Bank Identifier Code – ISO 9362
exclude a total cost of NOK 4 billion (EUR 500 million). In addition the reference group points to consequences for different authorities relying on account number information.

2.4 The views of the Norwegian Competition Authority

38. The Competition Authority is of the opinion that measures that can reduce switching costs can contribute to increased mobility and more fierce competition. The introduction of ANP is one way to reduce switching costs. As a general point of view the Authority considers ANP to be a desirable measure. However, the assumed costs of introducing such a system in Norway means that other less costly measures should be introduced first. Furthermore, it seems favourable to coordinate this with a possible introduction of ANP in the EU.

39. Thus, the Norwegian Competition Authority finds that a switching code (SC) is more appropriate as a means to make bank switching easier on the customers’ behalf at this point in time. In this respect, the Authority supports the main conclusions of the working group.

3. A Norwegian Switching Code

3.1 The working group’s recommendations

40. The working group recommends that a SC should be established for both private and business customers. Today there is already a form of gentleman’s agreement in place between banks. However, the group sees the need for a more formal and binding SC. The report does not state the exact criteria of the code, but indicate that a code should contain the following elements: The switch must be swift – three bank days is recommended

- The scope of the code must be determined – current account, payment cards and payment orders should be included
- Loans should be treated separately with routines for termination
- The code must solve the problem of future payment orders and unpaid card payments
- Use of forms should be standardised
- Customer information about the consequences of the switch

41. The group does not find government regulation necessary at this point, since the industry will introduce a SC in 2008. The SC will apply to private customers only and is made by the two bank organisations. The working group states that government regulation should be considered after the industry's SC has been effective for a while. The working group stresses, though, that the code should comprise business customers as well as private customers.

42. In the Norwegian infrastructure, there is already established a central register, the renumbering register. Its object is to reduce the inconveniences for business customers when switching bank. With the renumbering register, all transactions to business customers are routed through the register and led to the new bank if the business customer has switched account. In 2006 about 12 000 accounts were registered in the renumbering register. An account can be registered for up to one year, which is considered long enough for unsettled payments to be settled.
43. The working group recommends that the renumbering register should be part of the SC for business customers. Since private customers normally have a limited number of debtors, the group finds the register is less suitable for this group of customers.

3.2 The framework of the new switching code

44. By the turn of the year, the two banking organisations, the Norwegian Financial Services Association (FNH) and the Norwegian Savings Banks' Association adopted an agreement as a follow-up of the recommendations of the working group. The agreement has status as interbank rules and will apply to all the members, i.e. all Norwegian banks. Foreign banks can also join the agreement. It will be effective from May 2008.

45. Although the agreement states a number of obligations that will apply to the banks, the implementation will be carried out within each of the 146 banks in Norway. Thus, the exact result and criteria have not yet been finalised. The code intends to cover all parts of the customer relationship and includes the following services:

- Transfer of deposit from old to new bank
- Termination of old accounts
- Six months forwarding of both payments and charges directed to old account
- Payment or transfer of debt
- A system where the new bank gets a summary of payment orders to use for establishing new payment orders

46. The agreement also includes a sheet of information material and three standard forms regarding transfer of deposit, redemption of a loan and redemption of credit cards.

3.3 The views of the Norwegian Competition Authority

47. In general the Norwegian Competition Authority supports the recommendations from the working group. The scope of the code as the report described it is promising. However, as the report is not very specific on the criteria for the SC, it leaves maybe too much for the industry to decide upon.

48. Another point is that the report takes too lightly on examining the possibilities connected to the renumbering register used by business customers. Although it recommends that it should be part of the SC for business clients, there is no convincing explanation for why this register cannot play a substantial part of the SC for private customers as well. The Authority is pleased to see that the Ministry of Finance now has given the Financial Supervisory Authority the task of examining which customer groups that should be comprised by the renumbering register as part of the follow-up of the report.

49. The SC leaves a great part of administering and organising work to be done by the customer itself. The customer has to coordinate the switch of the different types of bank services, which implies several problems for the customer. For instance, the proposed code does not include a guidance to set up the new customer relationship. If, for instance the customer has not yet ordered a payment card, the three-day switch will leave him without a card for some time, as it normally takes one to two weeks to get a new card and a PIN code.
50. Furthermore, the new bank only gets information about the payment orders from the old bank, whereas it should be possible to authorise the new bank to transfer the payment orders as part of the SC. As it may take time to organise new payment orders, the three-day time limit leaves a time gap between working payment orders in the old and new bank. This can have a negative effect on customer confidence in the SC. The Authority also questions why the transfer service lasts only six months, and not twelve or thirteen as seen in other countries.

51. Another point is that the standard forms are unnecessarily complicated. The customer needs to fill in all the account numbers involved in the switch, including the ones from the new bank.

52. As the Authority sees it, clear and reassuring routines constitute some of the most important components of a SC. The code’s sheet of general information works more as a list of everything that can go wrong when switching bank, instead of being a step-by-step guide on how to do it. Such a guide is missing. We also believe that it would be a good idea for the banking organisations to set up a separate web page with information related to the SC.
UNITED KINGDOM

(Response as of 19/12/2006)

53. In the UK there are two voluntary codes of practice in retail banking: the Banking Code, to which all the main high street banks, building societies and card issuers have signed up to, and the Business Banking Code, to which the main suppliers of small business banking services subscribe. These include commitments on the part of banks to help customers switch. The commitments can be found at:

- Section 7 on page 11 of the Banking Code
- Section 7 on page 12 of the Business Banking Code

(I) How the switching pack works

54. If a customer chooses to use its new bank’s switching service, the new bank takes responsibility for the switching process. The new bank not only has to inform the customer about the switching process but also to make all the necessary arrangements to transfer direct debits and standing order instructions from the old to the new bank (if requested by the customer). Within this context banks commit:

- To a specific schedule for switching. In particular, the old bank is to provide the new bank with information on standing orders and direct debits within three working days of receiving a request to do so. Overall, new banks have to ensure that new customers have all they need to operate their account within 10 working days of approving their application.
- Not to make any extra charges for individual consumers closing or switching their current account. For businesses, banks agree not to make any extra charges except where agreed with the customer previously or when the customer tells the bank it wants to close or switch account.

55. Further details are set out in the two Codes themselves. In addition, the process for consumers under the Banking Code is summarised at paragraphs 20 to 28 of the attached appendix to the Competition Commission’s provisional findings in relation to Northern Ireland personal current accounts.

56. Furthermore the major banks gave a series of legally binding undertakings following a Competition Commission (CC) study into banking services for small and medium sized enterprises. These included Switching Undertakings (agreed by Barclays, HSBC, Lloyds TSB and Royal Bank of

---

9 They do not specify that banks should provide specific packages of documents in a so-called switching pack but make a number of commitments in relation to the process itself.

10 See http://www.competition-commission.gov.uk/inquiries/ref2005/banking/provisional_findings.htm

11 The supply of banking services by clearing banks to small and medium sized enterprises (Cm5319). A full copy of this report can be found at: http://www.competitioncommission.org.uk/rep_pub/reports/2002/462banks.htm#full
Scotland Group in respect of their operations in England and Wales; AIB Group (UK) plc, Bank of Ireland, Northern Bank and Ulster Bank in respect of their operations in Northern Ireland; HBOS Scotland, Clydesdale and Royal Bank of Scotland in respect of their operations in Scotland), which came into force on the 31st of December 2003. These undertakings required the signatory banks to complete certain tasks in relation to switching within a specified period of time and publish performance results. Details can be found in the OFT document on switching undertakings: “Banking services to small and medium sized enterprises : Undertakings related to targets for current account switching” (October 2003), ref OFT620a.

(2) Institutional mechanism by which switching packs were developed and implemented

57. As noted above, the Banking Code is a voluntary code of practice and is sponsored by the British Bankers Association (BBA), the Building Societies Association (BSA) and APACs, the UK payments association. The Banking Code was established in 1991 and has been monitored and enforced by the independent Banking Code Standards Board (BCSB) since 1999. The first Business Banking Code was established in March 2002, and is closely modelled on the Banking Code. The Business Banking Code covers business customers with an annual turnover of up to £1 million.12

58. The Codes have been subject to independent review, as set out at paragraphs 45 to 51 of Appendix 2.2 (“The Banking Code”) of the CC provisional findings. The views of Government and consumer bodies are taken into account as part of the review process.

59. As noted, there is also a series of undertakings by major banks in UK in relation to switching.

(3) How customers find out about switching packs and any indications of consumer awareness, use of such switching packs

60. The Banks typically provide documents that explain the process of switching in their branches. As noted above, under the Banking Codes a customer’s new bank has to explain the switching process to its new customers.

61. However consumer awareness may be relatively low. For example, a survey in Northern Ireland conducted by Millward Brown for the Competition Commission (CC) found that “most respondents felt uninformed about the switching process.”13 The CC provisionally found that measures such as the Banking Code “are working to ease the switching process but that customers either are not aware of this prior to switching or are unwilling to rely on it working smoothly in their own case.”14

62. A recent survey conducted by the Warwick Business School showed that among those SME customers who did switch, the majority said that the process was easy to use.15 Similarly for individual consumers, the CC found that individual customers’ perceptions about problems were more negative than the actual experience of those who had switched.16

---

12 This includes associations, charities and clubs with an annual turnover of under £1 million.
13 Paragraph 4.210 of CC’s provisional findings in its market investigation into personal current account banking services in Northern Ireland.
14 Paragraph 4.210 of CC’s provisional findings in its market investigation into personal current account banking services in Northern Ireland.
16 Paragraph 4.206