

# Agenda

Advancing economics in business

## The price of banking: an international comparison

The British Bankers' Association has published an international price comparison of core retail banking products. The study, conducted by Oxera, breaks new ground in the level of detail and insight it brings to the prices and costs faced by consumers in 11 countries. It focuses on the most commonly used banking products (current accounts, savings accounts, credit cards, and personal loans) and compares these using five consumer profiles. This article summarises the main findings of the report and highlights some of the methodological issues

Individual consumers, consumer groups, regulators, competition authorities, and the suppliers of banking services themselves, have an interest in understanding the costs of banking services to consumers and how these costs compare between countries. For example, the European Commission has embarked on an EU-wide investigation into the cost of retail banking services in Member States.<sup>1</sup> An international price comparison can be useful in this respect by giving an indication of the charges consumers pay for banking services in different countries.

### Consumer profiles

Undertaking an international price comparison of banking is far from straightforward. Banking products often have a range of fees and are used by different types of consumer in different ways. Oxera's study for the British Bankers' Association (BBA) therefore provides a comparison of prices at two levels, as outlined below.

- **Rate card comparison**—charges were collected for a wide range of transactions for each of the four banking products, including APRs (annual percentage

rates), annual fees and transaction fees. The charges for a variety of services were compared across the 11 developed countries.

- **Consumer profile level**—the use of the products by consumers with a particular profile is translated into one overall charge. For example, a typical median-income family in the UK uses an overdraft facility for a certain amount, ATMs in and outside the UK to withdraw money, a debit card to make purchases in and outside the UK, and it will make a range of other payment transactions such as direct debit, standing order and Internet payments. In using these services, the typical median-income family incurs X amount of costs. The consumer profiles are outlined in the box below.

By applying the consumer profiles to the different banking charges, the total costs per banking product and consumer profile were estimated for each country. These cost figures were then compared across countries.

The number of transactions made by consumers is likely to differ by country. Local consumer profiles were therefore used. Differences in consumer behaviour across countries may be due to variations in the structure and level of banking charges (consumers are more likely to use services with relatively low charges); the existence or absence of certain services; and cultural differences (eg, in some countries such as Italy or Germany, a larger proportion of payments are made by cash than in other countries, such as the UK or the Netherlands). The profiles for UK consumers were based on actual UK transaction data. For most other countries, the profiles were based on public domain data from sources such as the ECB 2005 Blue Book and the BIS 2005 Red Book.

#### What does the price comparison include?

**Products:** current accounts, savings accounts, credit cards, and personal loans.

**Consumer profiles:** students, young professionals, low-income families, median-income families, and pensioners.

**Countries:** Australia, Canada, Finland, France, Germany, Ireland, Italy, the Netherlands, Sweden, the UK and the USA.

This article is based on the Oxera report 'The Price of Banking: An International Comparison', prepared for the British Bankers' Association, November 2006. Available at [www.oxera.com](http://www.oxera.com).

**Table 1 Current account best-value ranking**

	Top countries	Bottom countries
Students	Ireland, Finland, Netherlands, UK	Canada, France, Italy
Young professionals	Finland, Netherlands, UK	Australia, Canada, France, Italy
Low-income families	Netherlands, UK, USA	Australia, Canada, Italy
Median-income families	Netherlands, UK, USA	Australia, France, Germany, Italy
Pensioners	Ireland, UK, USA	Australia, Canada, Italy

Note: Countries are ranked in alphabetical order.  
Source: Oxera calculations.

This approach allows for an assessment of differences in costs incurred by different types of consumer, and a comparison of prices and costs across countries. By using local consumer profiles, any differences in costs incurred by consumers across countries can be explored in more detail by assessing the extent to which higher or lower costs are caused by price effects (ie, higher or lower prices for the same transactions), or by volume effects (ie, higher or lower numbers of transactions, or a cheaper or more expensive mix of transactions). These findings are discussed in this article.

## Comparison of costs and prices across consumers

The consumer profile analysis indeed shows that the usage of banking services differs by type of consumer, resulting in different costs. For example, in most countries, the costs incurred by young professionals using current account services are higher than those incurred by students and pensioners. This is mainly driven by a high number of international ATM withdrawals and debit card transactions.

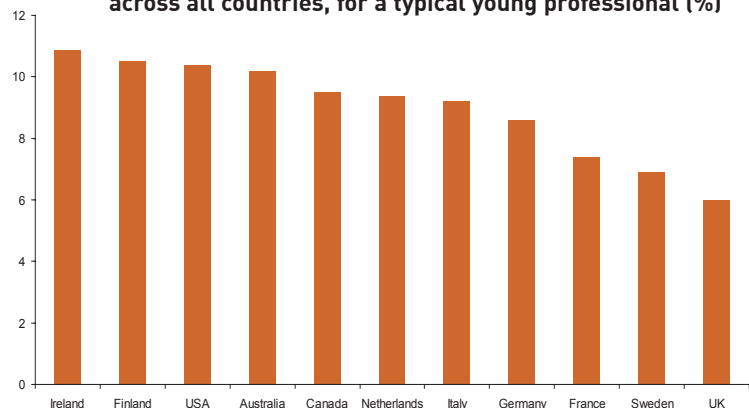
Furthermore, in the UK, for example, young professionals (with graduate accounts) and students have access to free overdraft facilities. In France, there is a wide range of savings accounts with government-controlled interest rates—eg, for students and low-income families. In Ireland there are income restrictions on certain types of credit card that offer a lower interest rate than those offered by standard credit cards.

## Comparison of costs and prices across countries

– **Current accounts**—Table 1 above shows the top and bottom countries in terms of cost of current account for each consumer profile. The UK is among the top three countries (where ‘top’ denotes the countries with the lowest fees) for all five consumer profiles, the Netherlands for four, and the USA for three profiles. Using a current account in Canada, Australia, France and Italy is relatively expensive for most consumer profiles.

- **Personal loans**—for most consumer profiles, personal loans in the UK, Sweden and France are cheaper than in all the other countries covered in the comparison. The exception is loans for students, where the UK is more expensive. Figure 1 compares effective interest rates on a two-year loan across all countries for a young professional.
- **Credit cards**—a distinction can be made between two types of credit card user: those who pay off the entire balance on their credit cards on time and every month (transactors), and those who regularly revolve the balances on their credit cards (revolvers). For transactors, UK credit cards are the most competitive across all the countries. This is due to the rarity of annual fees and the relatively long interest-free period in the UK. Other countries where credit cards are less expensive include the USA, Canada and Ireland. For revolvers, Australia, the USA and Canada have the lowest charges, and Italy, France, and Ireland are consistently more expensive.
- **Savings accounts**—the returns on instant-access savings accounts in France, the Netherlands and the UK are among the highest. Figure 2 shows a comparison of the interest rates payable on the most commonly available instant-access savings accounts (for a balance of €5,000 invested for one year).

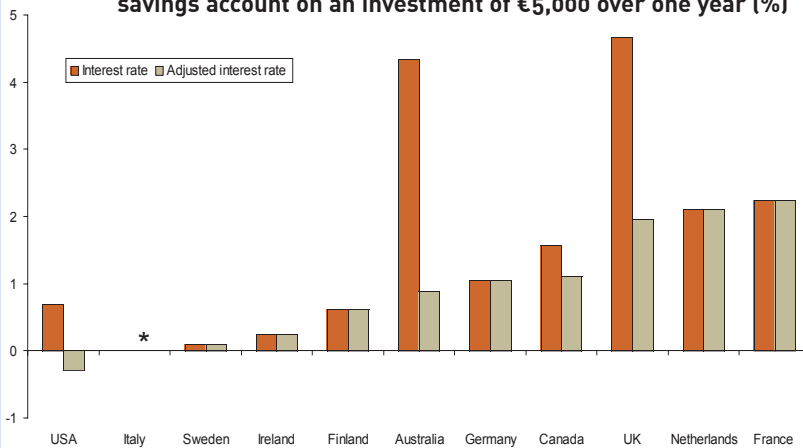
**Figure 1 Effective APRs (adjusted) on a two-year personal loan across all countries, for a typical young professional (%)**



Note: To ensure an accurate like-for-like comparison, adjustments have been made to take into account differences in underlying interest rates between the countries. The adjustments are based on prevailing inter-bank interest rates in each country/currency zone.

Source: Oxera calculations.

**Figure 2 Interest rates (adjusted and unadjusted) on an instant-access savings account on an investment of €5,000 over one year (%)**



Note: The French interest rates are not fully comparable as they are set by government regulation and there is limited availability for deposits. \* denotes that the product is not available. The adjusted interest rates take into account the differences in inter-bank rates between countries in the comparison, taking the underlying interest rate in the Euro area as the reference point. Given that the underlying interest rates in Australia, Canada, the UK and the USA are higher than in the Euro area, the interest rates in these countries are adjusted downwards.  
Source: Oxera calculations.

## Price and volume effect

The difference in the level of consumer costs of current accounts between the various countries can be due to a price effect (eg, a difference in the level of the annual fee or transaction charges) and/or a volume effect (a difference in the usage of a particular service by consumers).

The use of local consumer profiles allows for a more detailed price–volume analysis of current accounts. This is explained in more detail in the box below. The analysis shows that, for most of the comparisons of current accounts, higher or lower costs are a reflection of higher or lower prices rather than an indication of a significant difference in usage of a particular service. However, in some countries the volume effect is more important. In the USA, for example, some types of consumer appear to incur similar or lower costs in using current account

### Analysis of price and volume effects by international comparison

The costs of using a current account may vary by country and type of consumer. The comparison uses local consumer profiles, allowing an analysis of the extent to which the differences in total costs are due to variations in the underlying prices or in usage.

Table 2 shows the full consumer profile comparison of current accounts used by young professionals in the UK and the USA.

**Table 2 Comparison of fees in the UK and the USA, young professionals (€)**

	UK fees	US fees
UK young professional	35	67
US young professional	35	36

Source: Oxera.

The table shows that using a current account in the USA may cost a typical young professional €36 in fees, while a typical young professional in the UK may pay €35 in fees. This suggests that the USA is similar in cost to the UK.

The comparison can be split into two parts:

- the difference that can be accounted for by US and UK young professionals using different levels of banking services (a volume effect);
- the difference that arises from the different charges levied (a price effect).

The cost estimates in Table 2 can be used to calculate the price and volume effects. Assuming US prices and profiles as the base, the price and volume effects are as follows.

- Volume effect—if US young professionals were to behave like UK young professionals, they would spend

€67 on total current account charges. The ratio of €36 to €67 (54%) is due to a volume effect—US young professionals use 46% 'less' chargeable services in the USA than UK young professionals.

- Price effect—if UK young professionals were to face US charges, they would spend €67 on current account services. The ratio between €35 and €67 (191%) is due to a price effect—ie, it shows that US young professionals pay higher average prices than UK young professionals.

Therefore, US young professionals consume 54% of the level of chargeable services that UK young professionals consume (when valued at US prices), and pay on average 191% of the UK cost of these services. The product of these is therefore the headline figure that US young professionals pay 103% of UK fees.

Similar effects are observed when assuming UK prices and profiles as the base. Although US young professionals appear to pay similar fees for current account services, this masks a significant reduction in levels of service for US consumers. In other words, US young professionals use fewer banking services than their UK counterparts. For most of the comparisons in the study, the headline effect is confirmed by the usage analysis. In general, the price effect is the driver of the results—that is, countries that appear more costly are indeed more costly on average (although there are interesting nuances arising from usage differences). For the USA and Germany in particular, limited usage by certain customer profiles masks the fact that average prices are in fact higher than in the UK.

services compared with consumers in the UK, but this masks a reduction in the levels of service—ie, US consumers use fewer current account services than their UK counterparts and pay a higher price for them. Consumers match their choices to price signals sent by the banking service providers. Although US and UK consumers may incur similar levels of costs, UK consumers arguably receive greater benefits.

## Concluding remarks

No analysis of this type is without limitations and the results should be interpreted with care. For example, a service provider in one of the countries with relatively low charges (eg, the UK or the Netherlands) moving to another country would not necessarily be able to offer

the same products at the same price. Differences in regulation, economies of scale, ability to outsource and overall costs can all affect the price a bank is able to offer a customer. Furthermore, this report focuses on typical products used by a typical consumer. This means that, for example, premium services where insurance and reward schemes or other services are combined into the price of the product were not covered.

However, the comparison is comprehensive in terms of the consumer profiles, products and number of countries—eg, the consumer profiles cover around 60% of households in the UK. As such, this study provides a useful resource for understanding the costs of banking services, and providing an international comparison.

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<sup>1</sup> European Commission (2006), 'Interim Report I: Payment Cards—Sector Inquiry under Article 17 Regulation 1/2003 on Retail Banking', April, and European Commission (2006), 'Interim Report II: Current Accounts and Related Services—Sector Inquiry under Article 17 Regulation 1/2003 on Retail Banking', July.

If you have any questions regarding the issues raised in this article, please contact the editor, Derek Holt: tel +44 (0) 1865 253 000 or email [d\\_holt@oxera.com](mailto:d_holt@oxera.com)

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