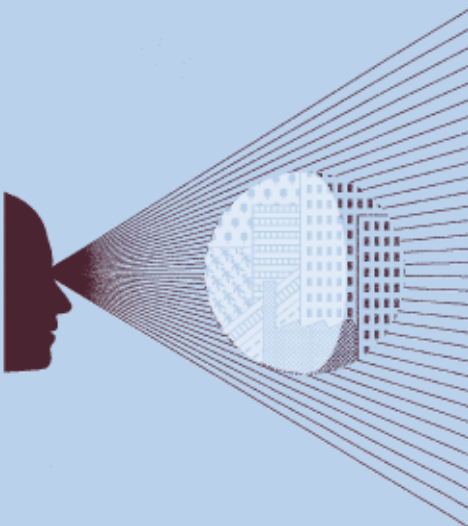


The price of banking: An international comparison

**Report prepared for
British Bankers' Association**

November 2006



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This Oxera report compares the price and cost of the main banking products used by the vast majority of British consumers with the price and cost of those products in ten other developed countries. In order to develop a realistic comparison of the way consumers use financial services, the study focuses on the four most commonly used banking products in the UK. It compares these products using five profiles that illustrate the range of typical customers taking advantage of these products, such as students, and low- and medium-income families. The consumer profiles cover around 60% of households in the UK. The products selected are used by a large proportion of the UK population. 90% of UK households have a current account and 52% a savings account. As would be expected, debt products have a lower penetration, with 42% of the adult population in the UK having an overdraft facility, 66% a credit card and 16% a personal loan.¹

The countries selected for this study (the UK, Australia, Canada, France, Finland, Germany, Ireland, Italy, the Netherlands, Sweden, and the USA²) are a deliberate cross-section of developed countries, providing a rich mix of cultural characteristics, regulatory environments and development of financial markets. Moreover, because consumers use the four main banking products in varying ways at different times of their lives, simple comparisons of price would not give the full picture. That is why the five consumer profiles provide a detailed view of how these consumer costs can differ according to country and time of life. In this report, prices are defined as the fees charged on individual features, and costs as the actual amount paid by consumers given their usage patterns.

The conclusions are clear. For current accounts, personal loans, savings accounts and credit card users who pay off their monthly balance in full, the UK is one of the cheapest countries for a typical customer to use a typical service. UK banks are also among the most transparent in their presentation of information about charges for their services, and the UK also offers one of the broadest ranges of services available to customers.

This report breaks new ground in the level of detail on, and insight into, the costs faced by consumers in 11 developed countries. No study of this type is without limitations and these are explained clearly in the report, but they do not affect the finding that the UK compares favourably on price, range of product and the transparency of its banks.

1.1 Overall assessment

- This study shows that a typical UK customer using a range of banking services is able to benefit from some of the cheapest services of all the countries covered in the study. This finding generally holds across the different consumer profiles. Finland and the Netherlands are also notable as countries with low-cost banking services.
- Credit cards are free in the UK whereas in most other countries of the study they carry an annual charge. The UK also has longer interest-free periods than most. However, as regards the cost of credit card credit, when incurred, the UK is mid-ranking compared with the other countries in this study. This may reflect the higher usage of credit in the

¹ Department for Work and Pensions (2005), 'Family Resources Survey 2004–2005'; MORI (2003), 'Financial Survey for Citizens Advice', July; APACS (2005), 'Plastic Card Review' and APACS website.

² Some preliminary analysis was also undertaken for Spain; however, information on the charges of banking products was limited. Although the Central Bank of Spain collects data on charges of, for example, current accounts, this is done at the aggregate level across a range of different types of current account, making it impossible to determine which charges relate to which type of current account.

UK—interest rates for consumers with higher risk profiles are likely to be higher than for consumers with lower risks, resulting in higher average interest rates.

- The UK also has among the broadest range of services, with easy and cheap access to overdraft facilities from a current account and access to cash overseas using debit card products (neither of which are available in Finland, for example); instant-access savings products (not available, or less common, in Italy and the USA); and credit card products that allow extended borrowing (not available, or less common, in Germany and the Netherlands).
- Banks in the UK are among the most transparent of all the countries covered in this study. Fees and charges are disclosed by all banks and are easily understood. Other countries where banks are similarly transparent include the Netherlands and Finland.

1.1.1 Usage of banking services by different types of consumer

- The consumer profile analysis shows that the usage of banking services differs by type of consumer, resulting in different consumer costs. For example, in most countries the costs incurred by young professionals in using current account services are higher than those incurred by students and pensioners. This is mainly driven by a higher number of international ATM withdrawals and debit card transactions.
- Furthermore, some types of consumer are offered special deals: for example, in the UK, 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—for example, 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.

1.1.2 Products

- The fees on UK current accounts, and the total consumer costs of using current accounts (ie, including the costs of authorised overdrafts), are consistently among the lowest in all of the countries covered in this study. Only current accounts in the Netherlands charge consistently lower fees than in the UK for most types of consumer.
- The difference in the level of consumer costs of current accounts between the UK and other countries can be due to a price effect (for example, 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 more detailed price–volume analysis of current accounts shows that, for most of the comparisons of current accounts, higher or lower costs are simply 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: for example, in the USA, where some types of consumer appear to incur similar or lower costs in using current account services compared with consumers in the UK, 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 these services. 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.
- For consumers who pay off the entire balance on their credit cards on time and every month, UK credit cards are the most competitive across all of the countries examined. This is due to the rarity of annual fees and the relatively long interest-free period in the UK.
- For consumers who regularly revolve the balances on their credit cards (ie, consumers who do not pay the balance off each month), the UK is mid-ranking in terms of its

competitiveness. Italy, France and Ireland (except for median-income families in Ireland) are consistently more expensive.

- When adjusted for underlying interest rates, personal loans in the UK are, for most consumer profiles, cheaper than loans in all other countries covered in the study. The exception is loans for students. However, students have access to government-sponsored student loans and interest-free overdrafts. The UK also has some of the lowest arrangement fees and administration/management fees for personal loans.
- The returns on instant-access savings accounts in the UK are among the most competitive of all the countries covered in this study. In most countries, the interest rates are higher on three-year-term accounts than on instant-access accounts. It could be argued that this is to be expected, given that consumers may need to be ‘compensated’ through higher interest rates for the lower level of accessibility to funds. However, in the UK, the Netherlands and Australia, the opposite holds: the average interest rate on instant-access accounts is slightly higher than that on three-year-term accounts. One reason for this may be that banks in these countries offer most of their savings accounts on an instant-access basis, and therefore compete most vigorously for such savings.

1.2 Main findings

1.2.1 The consumer costs of using current account services

Table 1.1 shows the costs incurred by different types of UK consumer in using current account services. The usage of banking services differs by type of consumer, resulting in different consumer costs. For example, young professionals use debit cards for payments and cash withdrawals much more than pensioners, while pensioners tend to use cheques much more frequently than young professionals.

Table 1.1 Annual costs to consumers of using core banking services in the UK (€)

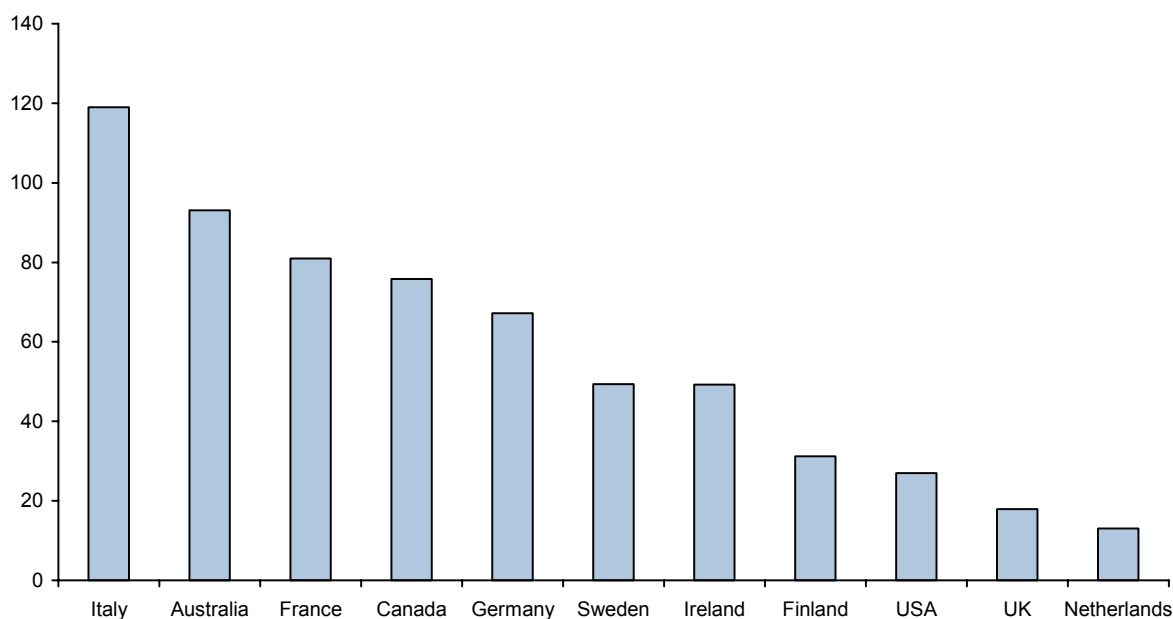
	Current account (fees only)	Costs of overdrafts	Total costs of current accounts
Student	14	–5 (benefit)	9
Young professional	35	–5 (benefit)	30
Low-income family	13	7	20
Median-income family	18	9	27
Pensioner	5	11	16

Source: Oxera calculations.

These cost differences are mainly driven by the frequency of usage of international ATM withdrawals and international debit card payments because domestic transactions are in the majority of cases free. Furthermore, students and young professionals often have access to free overdraft facilities. This aspect is included in Table 1.1 by attaching a value to the usage of free overdraft facilities resulting in a negative overdraft cost (ie, a benefit) to students and young professionals.

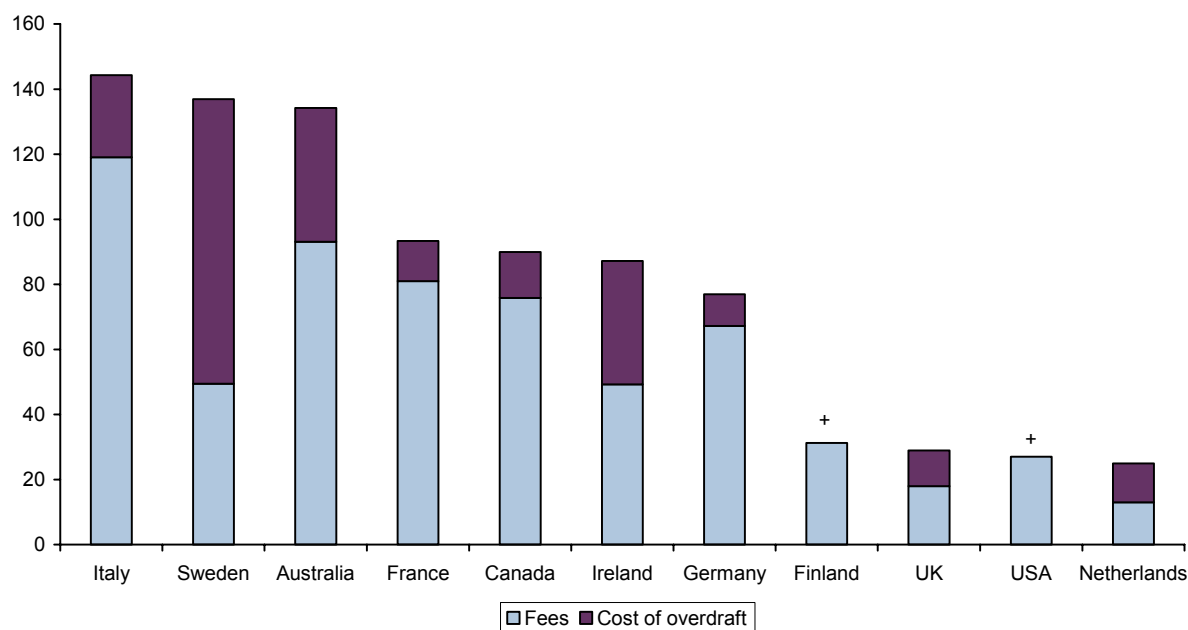
The annual and transaction fees for overdraft facilities on UK current accounts are among the lowest in all the countries covered in this study. Only current accounts in the Netherlands charge consistently lower fees than in the UK for most types of consumer. Figure 1.1 shows the level of current account fees paid by a typical median-income family across the countries in the report. Figure 1.2 shows the total annual costs of a current account (including the cost of an arranged overdraft) for a typical median-income family.

Figure 1.1 Comparison of annual fees on current accounts used by a typical median-income family (€)



Source: Oxera calculations.

Figure 1.2 Comparison of the total annual cost of current accounts for a typical median-income family (€)



Note: + denotes that comparable/suitable overdraft facilities are not available.

Source: Oxera calculations.

Table 1.2 shows the top and bottom countries in terms of cost of current account for each consumer profile. For all five consumer profiles, the UK is among the top three countries (where 'top' denotes the countries with the lower fees).

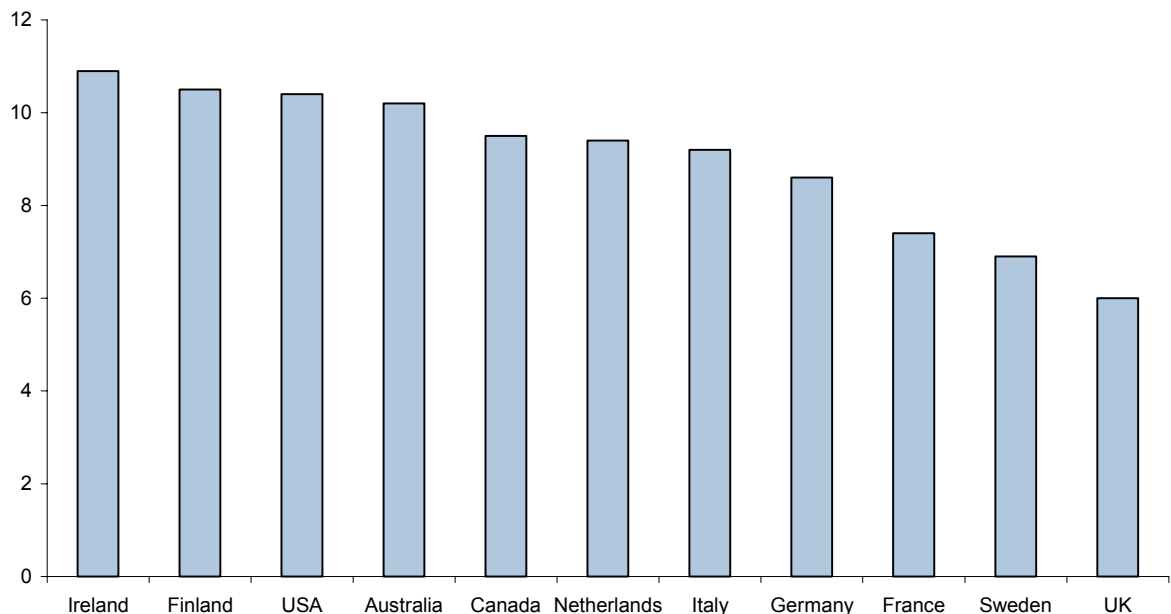
Table 1.2 Current account ranking

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

Note: Countries are not ranked in any particular order.
Source: Oxera calculations.

1.2.2**Personal loans**

For most profiles, personal loans in the UK are cheaper than those in all the other countries covered in this study.³ The exception is loans for students, who nonetheless have access to government-sponsored student loans and interest-free overdrafts in the UK. The UK also has some of the lowest arrangement fees and administration/management fees. Figure 1.3 compares effective interest rates on a two-year loan across all countries in this study, for a young professional.

Figure 1.3 Comparison of the effective APR (adjusted) on a two-year personal loan across all countries, for a typical young professional (%)

Note: APR, annual percentage rate.
Source: Oxera calculations.

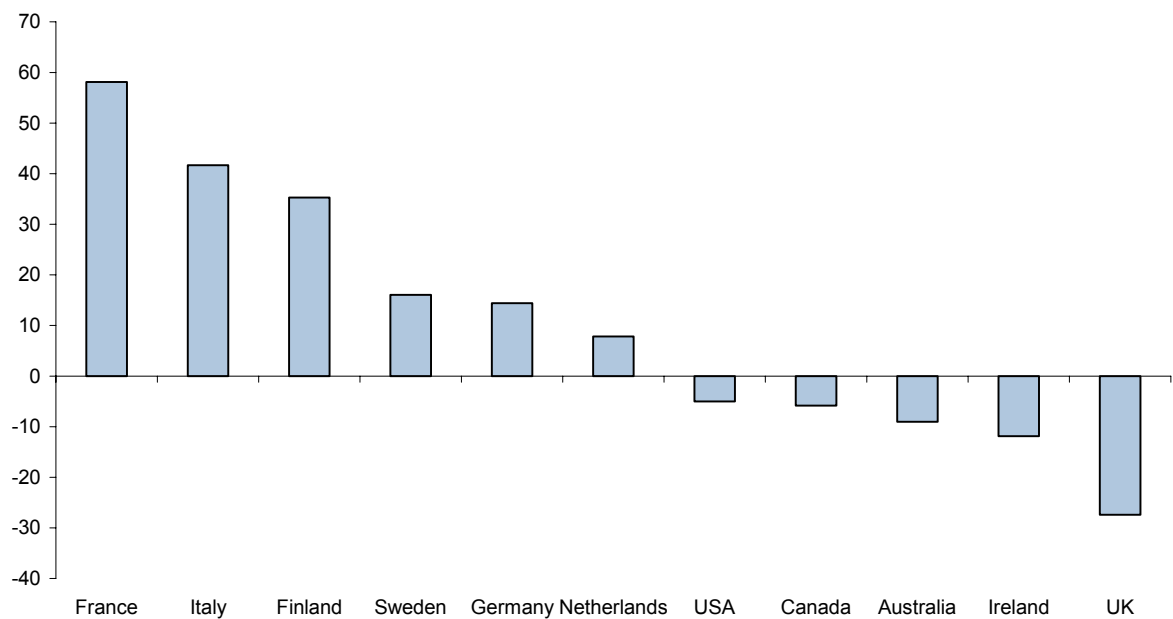
1.2.3**Credit cards**

For consumers who pay off the entire balance on their credit cards on time and every month (transactors), UK credit cards are the most competitive across all the countries (see

³ To ensure an accurate like-for-like comparison, adjustments have been made to take into account differences in underlying interest rates between the countries covered in this study. The adjustments are based on prevailing inter-bank interest rates in each country/currency zone. A full explanation of the adjustment process is included in section 2.

Figure 1.4, which compares the cost of a credit card for a typical low-income family). This is due to the rarity of annual fees and the relatively long interest-free period in the UK.

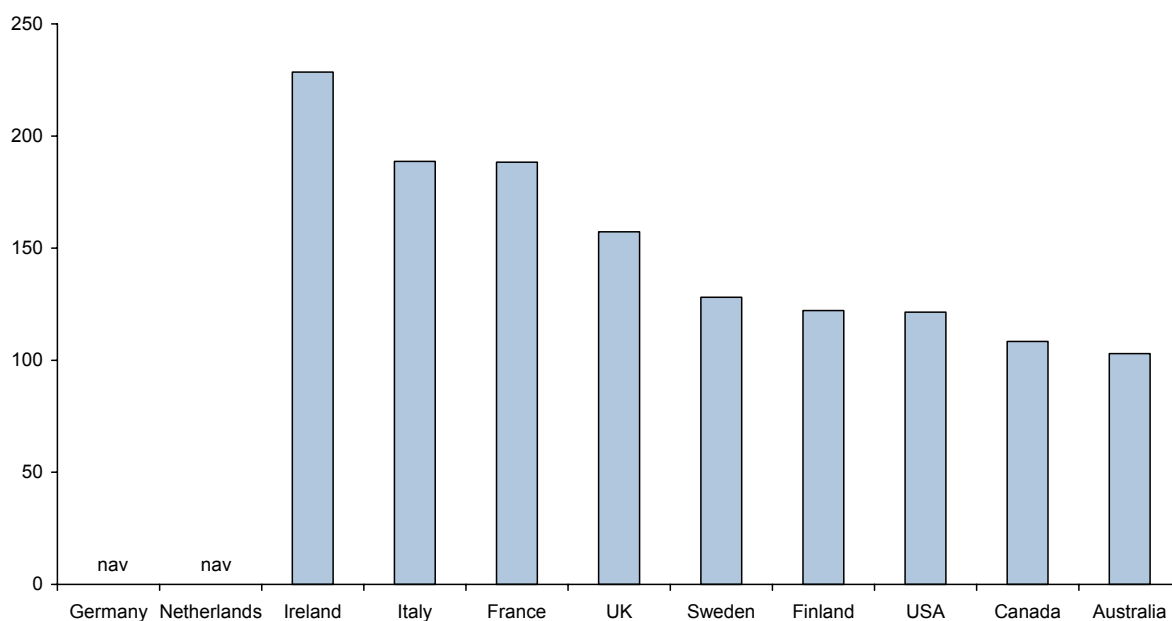
Figure 1.4 Comparison of the average annual cost for a low-income family transactor credit card user (€)



Source: Oxera calculations.

For consumers who regularly revolve the balances on their credit cards, the UK is mid-ranking in terms of its competitiveness. Italy, France, and Ireland are consistently more expensive (except for median-income families in Ireland). Figure 1.5 shows the cost of a credit card for a typical low-income family that borrows on a credit card (a 'revolver').

Figure 1.5 Comparison of the average annual cost (adjusted) for a low-income family revolver credit card user (€)



Note: nav denotes that the service is not available.

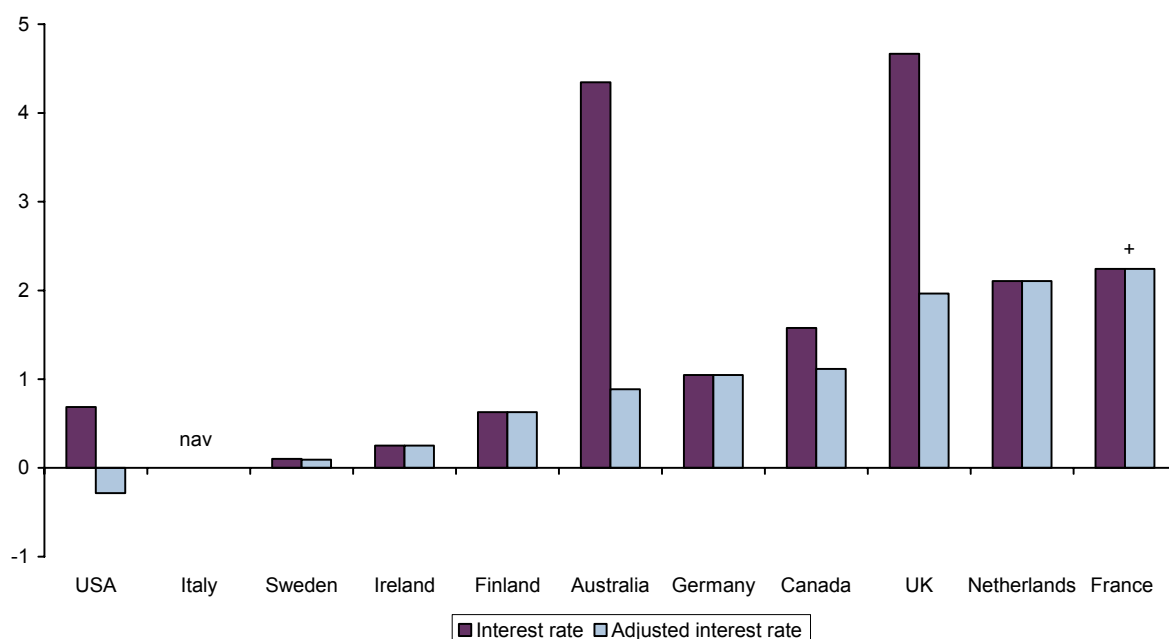
Source: Oxera calculations.

1.2.4

Savings accounts

The returns on instant-access savings accounts in the UK are among the highest (with the difference in underlying interest rates controlled for). Figure 1.6 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 1.6 Comparison of 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. nav denotes that the product is not available.

Source: Oxera calculations.

1.3 Transparency of charging

For any consumer, knowing when, how much and why you are charged is an important attribute of banking services. This research provides insight into how easy it is for consumers to obtain this information.

The ease with which information about charges can be obtained varies by country. For example, in the UK, the Netherlands and Finland, information on bank charges was very accessible and could be understood with relative ease. In others, only minimal price data was provided by banks, and in many cases the applicability of a number of charges and fees was unclear. In some countries (for example, Italy) the lack of transparency provided by the banks was offset to some extent by transparency provided by the regulatory authorities or the bankers' associations, which collect information on the prices of banking products and make this available on the Internet.

Table 1.3 summarises the transparency of retail banking charges across the countries covered in this study, dividing the transparency into three types:

- price transparency provided by the banks;
- price transparency provided by a central institution (eg, regulatory authorities or bankers' associations);
- transparency of charging (ie, how easy it is to understand when fees apply and when they do not).

In the table, the level of transparency is categorised as follows: A = high transparency—complete and easily understood information; B = moderate transparency—occasional gaps and unexplained/unclear charges; and C = low transparency—incomplete information and unexplained/unclear charges. The table shows that the UK, Finland, Ireland, the Netherlands and Sweden are highly transparent.

Table 1.3 Transparency of banking fees and charging

	Banks	Central institution	Charging
UK	A	–	A
Netherlands	A	–	A
Finland	A	–	A
Ireland	A	A	A
Sweden	A	–	A
Italy	B	A	B
Canada	A	–	B
Australia	B	–	B
Germany	C	–	A
USA	C	–	B
France	B	–	B/C

Note: Where no rating is given, this indicates that the central institution does not provide explicit information relating to charges and fees on retail financial products.

Source: Oxera.

1.4 Limitations of this study

This study breaks new ground in the level of detail and insight it brings to the prices and costs faced by consumers in the UK and in comparable developed countries. However, the nature of such a study spanning 11 widely differing countries means it is sensible to bear in mind the limitations of any study of this kind that seeks to establish meaningful international comparisons.

Most importantly, a UK service provider moving to a country covered in this report 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 incurred by banks can all affect the price a bank is able to offer a customer.

Furthermore, this study is reliant on accurate and transparent prices across the countries involved. Exhaustive attempts were made to collect price data from banks, and, where necessary, to verify that data with the banks themselves or with the relevant bankers' associations. However, to the extent that the standards on the disclosure of prices and fees differ between the countries in the study, there is an inevitable scope for error, as this cannot always be controlled for. In particular, there is a risk that transparency of fees and charges may make one country look more expensive than other countries in which fees and charges are levied, but not disclosed in advance.

The third point to remember is that this report focuses on typical products used by a typical consumer. This means that premium services where insurance and reward schemes can be combined into the price of the product are not covered, nor are the administration fees that can be levied for the minority of customers who go overdrawn without authorisation (only authorised overdrafts are considered in the study). Such fees are in any case extremely difficult to compare since each country uses a wide range of approaches to tackle unauthorised borrowing.

1.5 Peer review

The research undertaken by Oxera was peer-reviewed by Professor David Llewellyn, of Loughborough University. David is Chairman of the Loughborough University Banking Centre. His research interests lie in the analysis of financial institutions and markets, financial

regulation, and competitive strategies in the financial sector. He has published widely in these areas and is the author of several books. For several years, he was a Public Interest Director of the Personal Investment Authority (the former regulator of personal investment products and services) and has also served as a consultant to the IMF, World Bank, OECD, and banks and regulatory agencies in several countries. He is an Honorary Visiting Professor at the Cass Business School in London, and a Visiting Professor at the Swiss Banking School in Zurich and the IESE Business School in Madrid. He is currently President of SUERF, a network association of central banks, financial practitioners and academics.

External assessor's statement

David T. Llewellyn
Professor of Money & Banking
Loughborough University

Individual consumers, consumer pressure groups, regulators, competition authorities, and the suppliers of banking services themselves, have an interest in the costs of banking services to consumers and the relative costs compared with comparable countries. We know, for instance, that the European Commission is soon to deliver its final report on an EU-wide investigation into the cost of retail banking services in each of the EU countries.

And yet public debate in this area is often very subjective and frequently based on impressionistic judgements rather than concrete or robust empirical evidence. This is partly because, unlike most other goods and services, there is no easy way to make price comparisons. It is for this reason, and in order to shed light on this important issue, that the British Bankers' Association commissioned Oxera to undertake a large-scale and systematic international price comparison of a set of core retail banking products and services. The objective has been to measure the costs of banking services to UK consumers and to compare these with the costs of similar banking services and products in ten other countries. The comparisons are made in terms of the price of products and the total costs of banking services incurred by five typical customer groups when using these products, based on actual consumer behaviour.

The study therefore has three dimensions: an identified set of products (current accounts, savings accounts, credit cards, and personal loans), eleven countries (UK, Australia, Canada, France, Finland, Germany, Ireland, Italy, the Netherlands, Sweden and the United States), and five customer groups (students, young professionals, low-income families, median-income families, and pensioners).

In line with good research practice, at the outset of the project the BBA appointed an independent External Assessor to the project who was not part of the research team itself but was nevertheless consulted at all stages in the programme of research and was required to make an assessment of the validity of the final conclusions. The purpose was to subject the research to a peer review process. In particular, my role has been to advise on, and assess, the research strategy and methodology of the team, advise on data sources, comment at various stages of the research on any issues raised by the team or identified by myself, and to consider the draft of the final report. Above all, my role has been to assess the validity of the methodology applied in the study, and to consider the conclusions and whether they are warranted by the evidence assembled during the course of the extensive research study. On all counts I am entirely satisfied and can commend this report to all interested parties. The project has applied state-of-the-art methodology and the final report makes a very valuable contribution to our understanding of cost differences between retail banking products and services on an international basis. This should help to inform public debate.

It must be said at the outset that this can be a difficult area of research as price comparisons are complex in banking services, both conceptually and because data are not always precisely comparable. There are several reasons for this difficulty: not all products and services are available in all countries; apparently similar products are not precisely the same in all countries as they embody different characteristics, which means that care is needed that like is being compared with like; it is impossible to systematically measure differences in quality of services between banks in different countries (because there is no objective measure of quality comparable between countries and because it would be difficult to place an objective and comparable valuation on the quality of a service); consumer profiles and behaviour patterns vary between countries (different customers use different combinations of services and behaviour may change over time, which means that there is no single, fully representative measure of the cost of a banking product); the degree of transparency varies considerably between countries, and data on a strictly comparable basis are not always readily available; there is a wide variety of different charging models; allowance has to be made for

differences in the systemic level of interest rates; different regulations between countries may affect the comparisons, as would different tax regimes. Above all, perhaps, the degree of transparency in charges varies considerably between countries—being notably high in the UK, Finland, Ireland, the Netherlands and Sweden.

A particular methodological issue to consider is the distinction between price and volume effects on the basis of different consumer patterns, both between different consumer groups in the same country and also between countries. As the report clearly identifies, comparing the price of specific products without considering the pattern of usage is likely to lead to misleading conclusions. Different groups use particular banking products and services in different ways, and these differences will vary between countries. The research was focussed on identifying both price differences between countries (differences in prices for standard bank products and services), and also differences in overall consumer costs based on the way accounts and services are used in each country.

With respect to “prices”, variables such as interest rates, fees, charges, etc were used. A systematic and robust methodology was applied and is described in detail in the report. In essence, when making international comparisons, a matrix methodology was applied, which considered five different consumer groups in each country and a common set of banking products and services. By analysing consumer profiles in each country, differences in the overall costs of using core banking products can be explained in terms of value effects (reflecting the extent of use of products and services) and price effects.

This is an important issue because the overall cost of banking services to any consumer is based on the price of individual products and the extent of their use and the way they are used. All dimensions vary between countries and between different consumer groups within countries. It is in order to get an accurate overall view that the study adopted a matrix approach.

Several sources of information were used in the study: websites of banks, telephone calls, mystery-shopping exercises, government statistical websites, published reports (e.g. of central banks, the European Central Bank, the Bank for International Settlements), bankers’ associations and market research companies. UK banks provided data on consumer behaviour patterns. A large number of interviews with banks and other agencies were also conducted.

Several specific conclusions are worth noting at the outset, which, as the External Assessor of the project, I judge to be warranted by the evidence assembled by the research team at Oxera and described and analysed in the final report:

- UK banks are amongst the most transparent of all countries with respect to published charges and prices of their retail products.
- Banks in the UK offer the broadest range of retail banking services amongst the sample of eleven countries, and across the board to all of the consumer groups identified in the study.
- UK banks have amongst the lowest standard charges (annual and transactional) on current accounts for all five consumer groups. The fees on UK current accounts, and the total costs of using current accounts (including using overdrafts) are consistently amongst the lowest of the countries compared. Only one country seems to charge lower fees than banks in the UK. It is also the case that only in the UK and the USA are there no annual fees or charges on current accounts for typical consumers.
- With respect to personal loans, and after adjusting for systemic differences in the level of interest rates, the costs for most customer groups are lower in the UK than in any of the other countries in the sample. The UK also has amongst the lowest arrangement and management fees for consumer loans.
- If a credit card is used on the basis of avoiding interest charges (i.e. consumers pay off the entire balance on time), the costs of credit cards are lower in the UK than in any other country, mainly because of the rarity of annual charges and the particularly long interest-free period. Furthermore, when account is taken of the APR on debt balances and the annual fees, it is

found that the UK is mid-ranking in terms of its competitiveness. Excluding the UK and USA, there is usually a trade-off between APRs and annual fees: the lower is the latter, and the higher tends to be the former. The UK is almost unique in having both relatively low interest rates on credit card balances and low (usually zero) fees.

- Allowing for systemic differences in interest rates, the UK has amongst the highest returns on instant-access savings accounts.

The overall conclusion, which seems to be robust across several product and consumer categories, is that a typical UK customer using a range of banking services benefits from some of the cheapest services and products amongst all the countries surveyed. The UK also has amongst the broadest range of services available to retail customers. For instance, not all retail customers in the sample countries have access to overdraft facilities, access to cash in other countries from debit card products, instant-access savings products, and credit cards that allow extended borrowing. Furthermore, banks in the UK are amongst the most transparent with respect to publicising fees and charges of all the countries covered in the survey.

Public debate on these important issues needs to be based on firm and robust empirical evidence rather than on *ad hoc* impressions. The report produced by the Oxera team makes an important contribution.

David T. Llewellyn
Professor of Money & Banking
Loughborough University
November 2006

2 Methodology

2.1 International price comparison

International price comparison is an established tool used to assess price levels in an industry. Studies incorporating this technique have been undertaken in the UK by, for example, the Department of Trade and Industry in its analyses of the competitiveness of certain industries, and by regulatory authorities such as the Office of Fair Trading and the Competition Commission.

Banking products often have a number of different fees and are used by different types of consumer in different ways. This makes an international price comparison of banking products far from straightforward. This section describes the methodology, the products and prices covered, the consumer profiles, information sources and sample of banks.

2.2 Price comparison at product and consumer profile level

2.2.1 Comparison of prices at two levels

The study provides a comparison of prices at two levels, as outlined below.

- *Rate card comparison*—charges have been collected for a wide range of transactions for each of the products in this study, including APRs (annual percentage rates), annual fees and transaction fees. The charges for a variety of individual services are compared across the countries included in the study.
- *Consumer profile level*—the use of the various products by consumers with a particular profile is translated into one overall price. 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.

Within the consumer profile comparison the following types of consumer are included: student, young professional, low-income family, median-income family, and pensioner. These consumer profiles are set out in further detail in section 2.4.

By applying the consumer profiles to the different banking charges (eg, the UK set of banking charges), the total costs per banking product and consumer profile are obtained. These cost figures are then compared across countries. This component of the analysis is explained below.

2.2.2 Terminology: prices, fees, charges and costs

The following terminology is used in this report.

- *Charges and fees*—most core retail banking services have a range of price features such as annual fees, interest rates, and transaction charges. In this report, these price features are referred to as ‘charges’ or ‘fees’.
- *Costs*—in this report the term ‘costs’ generally refers to the total amount of money consumers pay for using a particular service. Costs are calculated by applying the relevant charge or fee to the relevant volume metric, such as the number of transactions

or the amount of money borrowed. For example, the cost of an overdraft facility is calculated by applying the relevant interest rate to the amount of overdraft facility used plus any applicable overdraft facility arrangement fee.

- *Total costs or overall price*—the terms ‘total costs’ and ‘overall price’ refer to the total costs consumers incur in using a core retail banking service. For example, as explained above, the total costs of current accounts refer to the costs consumers typically incur in using a current account—ie, the costs of using an overdraft facility of a certain amount, the costs of withdrawing cash from ATMs in and outside the UK, and the costs of making other transactions such as debit card transactions and direct debits.

2.3 Products and coverage of charges

2.3.1 Products

The study considers the prices of the following products.

- *Current accounts*—these include standard current accounts, which offer an overdraft facility and debit card. Premium accounts/packages are not covered in this study because they often include more than just current account services (eg, free travel insurance), which would add an unnecessary layer of complexity to the price comparison. Furthermore, basic bank accounts⁴ are not included as these accounts are only offered in a limited number of countries such as the UK and the Netherlands.
- *Credit cards*—the study focuses on a standard credit card that would be available to most consumers. A standard UK credit card typically offers an interest-free period and the option of extended credit. Credit cards for particular special purposes, such as affinity cards, are not included, as these are, by their very nature, aimed at particular (minority) interest groups. Premium credit cards that may offer other services are also not included.
- *Personal loans*—the study includes a two-year, fixed-rate loan that is repayable in equal monthly instalments.
- *Savings accounts*—the study compares two types of savings account:
 - an instant-access savings account;
 - a three-year-term account (or its local equivalent), where the investment cannot be accessed for a specific period without incurring charges. While these accounts are not marketed in the UK as actively as instant-access savings accounts, in other countries (eg, Italy and the USA), investment in longer-term savings is more common.

ISAs (individual savings accounts) are popular among UK consumers, and are therefore included among the range of savings accounts in the UK product profile. Where similar accounts are available in other countries (most notably, France), these are included. However, accounts which are subject to government contributions (for instance, *Bausparen* accounts in Germany) are not included in the comparison, as the return to the consumer on their investments depends not only on the interest rate offered by their bank, but also on the contributions provided by the government.

⁴ The UK Banking Code defines a ‘basic account’ in the UK as having the following features: employers can pay income directly into the account; the government can pay pensions, tax credits and benefits directly into the account; cheques and cash can be paid into the account; bills can be paid by direct debit, by transferring money to another account, or by payment to a linked account; cash can be withdrawn at cash machines (basic bank account holders can also withdraw cash at Post Office Counters); there is no overdraft facility; and the last penny in the account can be withdrawn.

To reflect the growth of Internet banking, Internet savings accounts are included in the comparison in those countries where they are available.

In some cases, banks offer certain products for specific consumer groups—eg, some banks offer specific current accounts for students. Such products are included in the study where they match the consumer profile. One of the principal advantages of a consumer-profile-based approach is that the appropriate products can be matched with the relevant consumer behaviour pattern. Hence, the student consumer profile is only applied to student accounts (or, in the absence of student accounts, to those accounts which the student would be likely to use instead); likewise, for instance, an account marketed at pensioners would only be used in conjunction with the pensioner consumer profile.

Furthermore, banks may offer products with different charging structures depending on the intensity of usage of the products. For example, consumers may choose between a current account without an annual fee and charges for individual transactions, and a current account with an annual fee but no charges for individual transactions.

This is taken into account by choosing the cheapest account for each consumer *across each of the banks*, and then weighting the cost of those accounts according to the market share of the respective banks. Hence, a consumer who undertakes a large number of transactions could be assigned an account with an annual fee and lower transaction charges, whereas a consumer who undertakes few transactions could be assigned an account without an annual fee, but with higher per-transaction charges.

As such, the study does not necessarily obtain data only on the best-buy products that are currently available. Indeed, using only the cheapest, best-buy prices would be unlikely to give a balanced basis for cross-country comparison—the cheapest prices may often be offered by small banks serving a relatively small number of consumers, and may therefore not represent the prices that the majority of consumers typically pay for the products.

The charges covered for each of the products in this study can be broadly classified as follows:

- interest rates on positive and negative balances;
- domestic and international transaction fees, including ATM transactions, point-of-sale transactions, payments by cheque, and electronic money transfers;
- annual fees and arrangement fees.

2.4 Consumer profiles

The consumer profiles are defined as follows.

- *Student*—classified as customers aged between 18 and 23 who hold a student bank account.
- *Young professional*—a recent graduate, aged between 25 and 30; sole account holder, with a pre-tax income of between £20,000 and £30,000 per year. They may have a graduate account.
- *Low-income family*—a couple aged between 30 and 35. They have a joint account. Annual pre-tax family income is between £15,000 and £20,000.⁵

⁵ Based on data from PovertyWatch; the low-income threshold is defined as 60% of median income; in 2002/03, income for a low-income couple with two children was £283 per week, equivalent to £14,716 per year. This figure has been inflated by 2.5% per year to arrive at an estimate for 2004/05. To ensure a representative number of consumers in the UK bank data, a £5,000 range was placed around this figure.

- *Median-income family*—a couple aged between 40 and 50. They have a full current account and may have other products such as mortgages, credit cards, and savings accounts. Accounts are held jointly. Annual pre-tax family income is between £35,000 and £45,000.⁶
- *Pensioners*—a couple, both of whom are aged 65 or above. They have a joint account and their annual pre-tax income is between £15,000 and £20,000.⁷ In addition, they have less than £5,000 in savings with their current account provider.

These definitions are based on discussions with the British Bankers' Association (BBA), the Association of Payment Clearing Services (APACS) and the largest UK banks.

2.4.1 Profiles are defined as typical consumers

Consumers do not necessarily use all the banking products included in this study. Even if they use a particular product, they do not necessarily use all the facilities offered (eg, while most consumers have a current account, some may not use the overdraft or CHAPS payment facilities). Furthermore, the usage of products and product features may differ by consumer profile (eg, while most median-income families may use their debit card to withdraw cash from an ATM overseas, the number of low-income families that do so may be limited).

Based on analysis of the consumer profile data in the UK, the types of transaction can be categorised in the following three ways.

- *Universal transactions*, which the vast majority of people within a consumer profile actually use. Examples are domestic debit card purchases (all consumer profiles) and cheque payments.
- *Less common transactions*, which are undertaken by a minority, but still a significant number of consumers. Examples are international cash withdrawals using debit cards.⁸
- *Exceptional transactions*, which either no consumers or only a small minority of consumers actually undertake. A good example is the CHAPS payments in the UK (such payments occur very seldom across all consumer profiles, and are mainly used by solicitors for the exchange of contracts in house purchases).

The consumer profiles represent 'typical' consumers and include universal and less common transactions.⁹ Exceptional (ie, atypical) transactions are not included, although the prices of these transactions are included in the rate card analysis.

⁶ Derived from the ONS 'Family Expenditure Survey 2003–04'. This figure relates to the median income of working couples with two children.

⁷ Based on data from the ONS; the average income for pensioner couples in 2003/04 was £345 per week. The figure was inflated by 2.5% to arrive at an estimate for 2004/05. To ensure a representative number of consumers, a £5,000 range was placed around this figure.

⁸ If the average number of transactions across the consumer profile is equal to or greater than one, the transaction was counted as a less common rather than an exceptional transaction. If the average number of transactions across the consumer profile is less than one, the transaction is excluded from the profile.

⁹ The number of universal transactions per consumer is calculated by dividing the total number of universal transactions by the number of consumers who actually undertook the universal transactions. The number of less common transactions per consumer is calculated by dividing the total number of these transactions by the total number of consumers using the product concerned, rather than by the number of consumers responsible for those specific transactions. Dividing the total number of transactions by the total number of consumers responsible for these transactions would overestimate the number per consumer, since only a small proportion of consumers are responsible for these transactions.

2.4.2 UK consumer profile data

The UK consumer profiles are based on evidence from APACS and the four largest UK retail banks. The data presented in this report constitutes averages for the consumer profiles across the different banks.

2.4.3 Non-UK consumer profiles

The number of transactions made by consumers is likely to differ by country, for several reasons:

- *differences 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*—in Finland, for example, it is not possible to make cash withdrawals outside of the country using a Finnish debit card;
- *cultural differences*—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.

Detailed examination of international statistics has revealed only limited verifiable data on consumer habits in most of the countries covered in this survey. The exceptions to this are the UK (where consumer profiles are based on data from UK banks, see section 2.4.2) and Italy (where the Italian Bankers' Association has undertaken a significant amount of survey-based research into the behaviour of Italian consumers).¹⁰ For the other countries, the consumer profiles are therefore based on aggregate data on the types of transaction in these countries. For most transactions, data from the ECB Blue Book and the BIS Red Book was used; equivalents were added for Australia, as it was not covered by either of these publications.¹¹

In all non-UK countries except Italy, UK consumer behaviour data was used to break down the aggregate data by consumer profile. This approach assumes that the relative use of transactions between the profiles is similar across the countries. In other words, if a UK young professional writes half as many cheques as a UK median-income family, this is assumed to hold across all countries. As a cross-check, the Italian profiles produced by the Italian Bankers' Association were compared with the UK profiles (from UK banks) and found to be consistent with this assumption.¹²

The ECB Blue Book and BIS Red Book report only the total number of transactions by individuals, and businesses and corporations. Ideally, it would be possible to separate out the number of transactions undertaken by individuals from those undertaken by businesses and corporations. However, in the absence of such information, the approach is based on the assumption that the split between individual and business transactions is roughly the same across all countries. Further information on this division (per country) would enable a more specific set of adjustment factors to be generated.

The sets of transactions included as being representative within the non-UK consumer profiles need to be treated carefully. For example, in Finland, individuals rarely use cheques.

¹⁰ In 2003 the Italian Bankers' Association (in conjunction with PattiChiari) conducted a consumer survey to collect data on the numbers of a range of transactions undertaken by students, low- and medium-income families and pensioners. PattiChiari (www.pattichiari.it) was set up in conjunction with the Italian Bankers' Association to improve the transparency of Italian retail banking products, particularly current accounts. Most of the large Italian retail banks show the PattiChiari symbol on their websites, indicating their participation in the scheme.

¹¹ See ECB (2005), 'The Blue Book' and BIS (2005), 'The Red Book'. Australian data was sourced from several organisations. Data on cheques and credit transfers: Reserve Bank of Australia, table C03 'Cheques and Direct Entry Payments', Series CCDEPCTN and CCDEPDEPCTN; data on credit cards: Australian Payment Clearing Association (APCA); data on ATM withdrawals: Reserve Bank of Australia, table C02, 'Debit Card Statistics', Series CDCACTN; data on direct debits: APCA.

¹² Notwithstanding this, the approach to producing the consumer profiles in other countries may over- or underestimate the actual numbers of transactions to the extent that there are greater differentials in charges between the consumer profiles than exist in the UK (or Italy). This may be the case particularly for students and pensioners, who sometimes pay lower transaction charges in countries in which significant charges are levied for the other consumer profiles. However, this effect appears to be limited mainly to Ireland.

Hence, including such transactions within the consumer profiles for Finland would not be a robust representation of Finnish consumer behaviour.

Moreover, due to the likelihood that savings and borrowing behaviour in each country is influenced by a number of exogenous macroeconomic factors (rather than simply the cost of borrowing and the benefits of saving), average positive and negative balances for each consumer profile have been held constant across all countries, and are based on an analysis of the UK consumer profile data. In other words, the difference in costs incurred by consumers in using savings accounts and personal loans across different countries is only explained in terms of price effects (ie, higher or lower interest rates); the possible volume effects (ie, consumers in the UK saving or borrowing more or less than consumers in other countries) are not taken into account.

2.5 Comparing like with like

When comparing the costs of banking services across countries, it is important to recognise the impact of any underlying factors that would influence the cost of banking. This ensures that any comparison of costs is well understood. The main factors to be borne in mind when examining the results are set out below.

2.5.1 Tax

Taxes are applied to banking services in many different ways across each of the 11 countries in this study. The most common form is tax on interest received (a form of income tax). Other forms of tax include a stamp duty applied to debit, credit and charge cards in Ireland, and a stamp duty applied to current accounts in Italy.

To ensure a fair comparison, taxes payable are *not* considered. The objective of this study is to compare the costs of the services provided by the banks alone and on a like-for-like basis—the inclusion of taxes, which differ from country to country, would not allow for such a like-for-like comparison. Hence, the costs of accounts in each of the countries represent only what consumers pay to, or receive from, their banks and do not consider any amounts paid in the form of taxes.

Where taxes are applied (other than taxes on interest income, which are applied in all countries), this is noted in the relevant country report.

2.5.2 Prevailing interest rates

For a fair comparison to be made between products available in the countries covered in this study, adjustments have been made for the prevailing central bank interest rates in each country. In particular, the adjustments affect the way in which interest income (through savings accounts) or interest payments (borrowing) is accounted for.

- In countries with relatively high prevailing central bank interest rates, a savings account would be expected to pay more interest, all other things being equal, than one in a country with relatively low central bank interest rates.
- Likewise, in countries with relatively high prevailing central bank interest rates, more interest would be payable on a loan, all other things being equal, than would be payable in a country with a lower prevailing central bank interest rate.

To adjust for these differences, the inter-bank interest rate has been recorded and taken into account in the calculations. The interest rate used for this was the inter-bank LIBOR rate (or its equivalent) in each of the countries concerned. The rates are those quoted at the end of business for each day over a period of 30 days—interest rates on loans, credit cards and savings accounts by banks in the different countries were collected for the same period.

To allow a like-for-like comparison of interest rates on overdrafts, savings accounts, loans and credit card credit between the UK and countries in the Euro area, the *difference* between the inter-bank rate in the UK and that in the Euro area was deducted from the interest rates on these products in the UK. A similar adjustment was made to interest rates in other non-Euro area countries such as Sweden, the USA and Australia. In other words, the Euro area was taken as the reference level, as this was the lowest rate of all the countries in this study. Consequently, overdrafts, personal loans, savings accounts and credit card credit in Euro area countries were not subject to adjustment.¹³

To value the benefit that credit card users who pay off the full balance on their account every month (transactors) receive from the interest-free period, the *levels* of the inter-bank rates in each country have been used.

2.6 An example from the analysis: price and volume effects by international comparison

The detail in the analysis for current accounts means that price differences can be explored, which may be due to variation in the underlying prices or in usage.

Table 2.1 presents an example of the cost of using a current account for a low-income family in the UK and in Germany.

Table 2.1 Example: current accounts for low-income families in the UK and Germany (€)

	Total charges		Fees only	
	UK charges	German charges	UK fees	German fees
UK family	21	110	13	103
German family	18	76	10	69

Source: Oxera.

The table shows that using a current account in the UK may cost a typical low-income family around €21 per year in overall charges, of which €13 are fees (the remaining charges consist of overdraft payments), while a low-income family in Germany may spend approximately €76 on current account service charges, of which €69 are fees (the remaining charges consist of overdraft payments).

Looking at the fees, the comparison can be split into the difference:

- in the extent to which German and UK families use current accounts (a volume effect);
- that arises from the different charges levied (a price effect).

These are illustrated below.

While a German family pays more in fees overall (5.31 times as much), this can be decomposed into a volume effect and a price effect in two ways.

Table 2.2 shows the results when the effects are calculated assuming German prices and profiles as the base.

- *Volume effect*—if German families were to behave like UK families, they would incur a cost of €103 in terms of current account fees. The ratio of €69 to €103 (67%) is due to a

¹³ Furthermore, the level of the inter-bank rates in each country was applied to credit cards so that the benefit to consumers (who pay off the full balance on their account every month) of holding interest-free balances on their credit card could be calculated for all countries.

volume effect (when valued at German rates)—in this example, German families use 67% ‘less’ services than UK families.

- *Price effect*—if UK families were to face German charges, they would incur €103 in terms of current account fees. The ratio between €103 and €13 is due to a price effect—ie, it shows that German families pay substantially higher average prices than UK families.

Table 2.2 Price comparison taking German prices and profiles as the base (%)

Ratio of German fees to UK fees (69:13)	531
Volume effect: assume German low-income family behaves like a UK low-income family, valued at German fees (69:103)	67
Price effect: assume UK family faces German fees (103:13)	792

Source: Oxera.

Thus, German low-income families consume 67% of the level of UK low-income families (valued at German prices), and pay on average eight times of the UK cost of these services. Therefore, the headline figure shows that German low-income families pay more than five times the UK charges.

Table 2.3 shows the effect when UK prices and demand profiles are assumed to be the base.

Table 2.3 Price comparison taking UK prices and profiles as the base (%)

Ratio of German fees to UK fees (69:13)	531
Volume effect: assume UK low-income family behaves like a German low-income family, valued at German fees (10:13)	77
Price effect: assume UK low-income family faces German fees (69:10)	690

Source: Oxera.

When valued at UK prices, German low-income families consume 77% of the level of services of UK low-income families and pay on average seven times the level paid by UK low-income families. Again, the product of these gives the headline ratio that German low-income families pay more than five times the amount paid by UK low-income families.

In this example, it can be seen that the headline finding that German banking is more expensive for low-income families than UK banking masks the fact that this holds even though German low-income families demand ‘fewer’ services. Whether UK or German prices and profiles are taken as the base, the ‘headline’ price comparison that German banking costs 5.31 times as much as UK banking underestimates the price effect: German families demand fewer chargeable services, yet pay more for those services than UK families (on UK accounts).

A similar analysis can be undertaken for the other consumer profiles.

2.7 Information sources

The international price comparison is based on a variety of information sources, including the following.

- *Websites of banks and telephone calls to banks in the UK and abroad*—where available, information about prices and charges of the banking products was obtained from the websites of the banks in the countries included in this study. Where no or insufficient

information was available, further details were obtained by telephone or email. In a number of cases, ‘mystery shopping’ exercises were conducted—researchers visited banks to understand more about the products available and to attempt to find additional pricing information where this was not made available on the Internet or by telephone.

- *Government and statistical websites*—these were used in researching aspects of consumer behaviour in all countries covered in this study.
- *Public domain reports*—various reports containing statistical information about the banking sector published by national central banks (including the European Central Bank and the Bank for International Settlements), bankers' associations and market research companies were used.
- *A large number of interviews with bankers' associations and central banks*—these enabled the research team to gain a better understanding of the products available in each country, the charges applied, and any differences in the nature of retail banking, compared with the UK. The interviews with the bankers' associations enabled the research team to devise representative samples of banks for each of the countries covered in this study. In a number of cases, the bankers' associations were also able to suggest useful sources of data.
- *UK banks*—the four largest UK high-street banks provided data on UK consumer behaviour patterns.

The information was collected in the year 2005. Table 2.4 provides a breakdown of the main sources of information used in the course of the research for this project.

Table 2.4 Breakdown of sources of information used for research

	Number consulted
Bank websites	113
Bankers' associations	21
Government and statistical websites	28
Public domain reports	41
UK high-street banks	4
Other	15

Source: Oxera.

2.8 Sample of banks

The sample of banks includes those that together form a representative picture of the market in all product segments. As a minimum, the four largest banks have been chosen for most countries, and, where possible, a number of new entrants, Internet and telephone banks have been included. In countries with highly fragmented banking systems, such as Germany and the USA (and in particular with respect to the mutual/credit union sector), a full representation of the large number of banks has not been possible.¹⁴

The sample of UK banks was agreed with the BBA Retail Team and Steering Committee. Oxera checked with the relevant national bankers' associations, central banks or local industry experts the representativeness of the sample of banks in foreign countries. For each country included in the study, the sample of banks used is shown in each of the country reports (sections 8–18).

¹⁴ Even if it were feasible to collect price data from such a large number of institutions, in most cases such data is not available.

2.9 Availability of credit

The costs of loans have been compared on the basis of published charges only. While this gives an indication of the amounts that consumers would pay for loans across the countries in this study, it does not convey any information about the ease with which consumers can borrow money in the first place. For example, in some countries the relatively low interest rates on loans may be a reflection of the limited availability of credit—credit is only offered to consumers with good credit ratings. In other countries, the high interest rates may be a reflection of the widespread availability of credit—ie, credit is also offered to consumers with impaired credit ratings, but at higher interest rates, resulting in higher average interest rates in those countries.

The issue of the availability of credit may be particularly relevant to countries in which the price of loans is subject to government regulation (ie, prices are held below what they would be in the absence of regulation). An assessment of the regulations on loans to consumers across all countries is beyond the scope of this study.

2.10 Previous international price comparisons of banking

There have been a number of international price comparisons in the banking sector. An overview of the most notable international comparison studies in banking is given below.

- One of the first international price comparisons was undertaken in 2000 by Don Cruickshank as part of his review of the UK banking sector.¹⁵ A few years later, the BBA published the results of its own first international price comparison. This study compared current accounts in terms of the cost to consumers, based on one consumer profile applied across all the countries included in the study.¹⁶
- The Irish Bankers Federation undertook a comparison of banking charges in a number of European countries, covering current accounts, personal loans, credit cards and mortgages.¹⁷ This comparison used a questionnaire that was completed by 53 European banks, each of which provided details of the cost of operating the range of accounts under an agreed consumer profile (which was constant across all countries). The study used one hypothetical global profile for the different products, which was applied across all the countries covered in the study.
- In 2006, CapGemini, ING and the European Financial Management and Marketing Association (EFMA) published an international price comparison of banking products,¹⁸ updating their earlier 2003 and 2005 studies.¹⁹ The 2005 and 2006 studies improved on the methodology of the 2003 study by applying, in addition to a global consumer profile, a series of local consumer profiles, based on aggregate international data. However, the study looked at current accounts and limited the analysis to the payment facilities offered by this product (ie, it did not analyse the credit facilities offered by current accounts, and did not consider the relative costs of the other main retail banking products, such as credit cards, savings accounts and personal loans). Furthermore, only one ‘consumer type’ was profiled, which, given the variations in consumer behaviour, limits the cross-country comparison to only those consumers with similar transaction behaviour. In the 2006 study, the results for individual countries are considered confidential and are therefore not presented in the report.

¹⁵ Cruickshank, D. (2000), ‘Competition in UK Banking: A Report to the Chancellor of the Exchequer’, HM Treasury, Annex E.

¹⁶ The study was carried out in-house, with the results validated by Oliver, Wyman & Company (2002), ‘British Bankers’ Association: International Price Comparison—Current Accounts’, September 23rd.

¹⁷ Irish Bankers’ Federation (2003), ‘Comparative Survey of European Bank Charges’.

¹⁸ CapGemini, ING, EFMA (2006), ‘World Banking Report 2006’.

¹⁹ CapGemini, ING, EFMA (2003), ‘World Banking Report 2003’ and (2005), ‘World Banking Report 2005’.

3 Current accounts

Current accounts consist of a range of services (eg, different forms of payment, access to cash at home and abroad, and possibly a lending facility). Across the countries in the study, various charging structures have developed and consumers use the services in different ways.

To gain a clearer understanding of the relative costs of using current accounts across the 11 countries, three comparisons are made:

- a rate card comparison, across the countries, of the most important individual charges levied on current accounts. For example, annual fees and overdraft APRs are compared;
- using the consumer profiles, a comparison is made of the cost of using a current account in each country, based on actual usage patterns;
- using the consumer profiles, the extent to which cost differences are explained by actual underlying price differences, or by different usage patterns, is explored. This also gives an insight into the extent to which consumers alter usage in response to price incentives.

3.1 Comparing individual charges

This section compares a range of individual fees and transaction charges for current accounts. The charges are presented as averages across all relevant accounts for each bank, which are then weighted according to each bank's market share to produce an overall average.

The following charges are compared in this section:

- annual account fees and debit card fees;
- interest rates on positive and negative (overdraft) balances;
- domestic ATM charges (own bank and host bank—ie, banks other than that with which a consumer holds an account);
- foreign ATM charges (ie, outside a consumer's own currency area);
- overdraft arrangement fees;
- fees on student accounts.

3.1.1 Annual account fees

Figure 3.1 shows a comparison of the weighted annual account fees and debit card fees across all countries covered in this study. This comparison looks at universal accounts only—premium packages are excluded.²⁰ The current account(s) with the lowest annual charges were selected from each bank.

In this study, a current account is defined as one that allows:

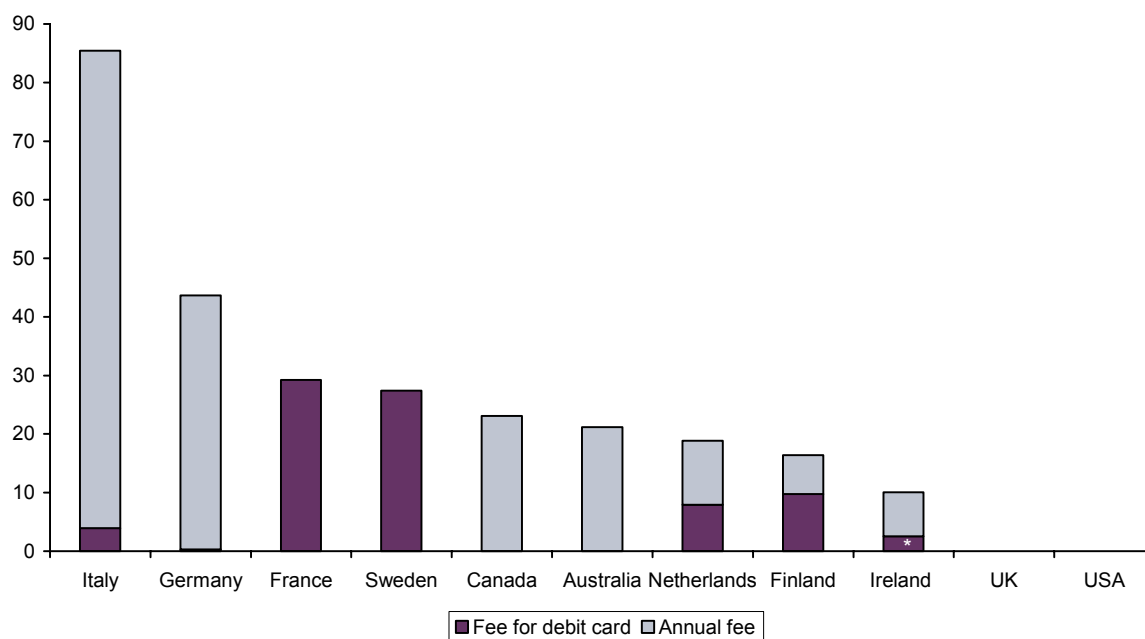
- payments into the account;
- payments out of the account by Internet, telephone or through the branch;
- payments out of the account using a debit card;

²⁰ The analysis therefore excludes accounts for particular groups of consumers, such as basic bank accounts.

- ATM cash withdrawals using a debit card (both domestic and international cash withdrawals);²¹
- automated payments out of the account such as standing orders or direct debits;
- cheque payments.

The annual account fees and debit card fees are shown together, as combined these represent the amounts that consumers would need to pay to be able to use a set of services similar to those available under the definition of a current account used in this study.

Figure 3.1 Comparison of annual account fees (€)



Note: * denotes that the assessment of charges was based on fewer than five accounts.
Source: Oxera calculations.

In some countries (eg, France), there is a wide range of annual fees (which are often charged on packaged accounts rather than basic current accounts). However, in almost all banks, accounts are available on which no annual fee is charged. For this reason, the typical annual fee on a French current account without extra services as part of a package is represented as zero. Notwithstanding this, French consumers who do not subscribe to a package account still pay annual charges to be able to access a debit card on their current account (as shown in Figure 3.1).

In this comparison, the UK and the USA stand out as the only countries in which no annual fees are charged on the accounts used by typical consumers. Accounts are available on which annual fees are charged, but these tend to be premium accounts and involve some form of insurance or benefits programme.

3.1.2 Interest rates on positive balances

Table 3.1 below shows the average interest rates applied to positive balances in current accounts. In all countries, most banks do not pay interest or only pay at a relatively low interest rate. The average interest rate is lower than, for example, average interest rates on savings accounts (see section 5).

²¹ The only exception is a current account in Finland, where consumers cannot use their (Finnish) debit cards to make ATM cash withdrawals outside of Finland. Finnish consumers can only withdraw cash from ATM machines outside Finland using a credit or charge card.

In the third column of the table, the interest rates are adjusted by subtracting the inter-bank LIBOR rate (or its equivalent) in each country. The result is the implicit charge to consumers for holding their money in current accounts at interest rates lower than underlying rates.

Table 3.1 Interest rates on positive balances (%)

Country	Interest rate	Adjusted interest rate
UK	1.31	-3.48
Australia	0.00	-5.56
Canada	0.01	-2.54
Finland	0.31	-1.78
France	0.07	-2.02
Germany	0.16	-1.93
Ireland	0.19	-1.90
Italy	0.08	-2.01
Netherlands	0.05	-2.04
Sweden	0.03	-2.07
USA	0.02	-3.04

Source: Oxera.

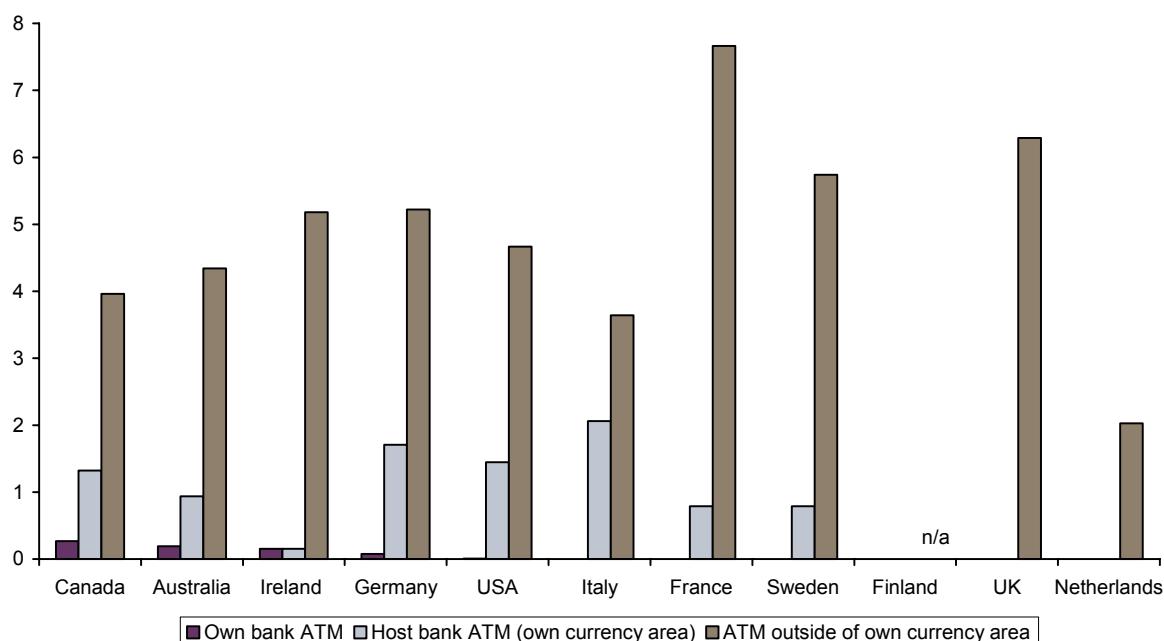
3.1.3 ATM cash withdrawal charges

Figure 3.2 below compares the cost of withdrawing the equivalent of €200 in each of the countries considered in this survey. The transactions in Figure 3.2 are labelled as follows:

- ‘*Own bank ATM*’, which covers the charges levied on cash withdrawals from the ATM machines of the account holder’s bank;
- ‘*Host bank ATM (own currency area)*’, which covers the charges levied on cash withdrawals from other banks within the same currency area as that of the account holder. For example, in the UK, this refers to all other UK banks; in Ireland (or any other country in the Euro area), this would cover all other banks within the entire Euro area;²²
- ‘*ATM outside of own currency area*’, which covers the charges levied on cash withdrawals from ATM machines outside of an account holder’s own currency area.

²² Banks within the Euro area are not permitted to charge different amounts for transactions undertaken domestically (eg, transactions within the Netherlands on a Dutch account) and cross-border transactions (eg, transactions in France on a Dutch account). Regulation (EC) No 2560/2001 on cross-border payments in euro.

Figure 3.2 Comparison of cost of a €200 ATM cash withdrawal using a debit card (€)



Note: In Finland, international cash withdrawals are not possible using a debit card. n/a denotes that it is not possible to carry out international transactions with a domestic Finnish debit card.

Source: Oxera calculations.

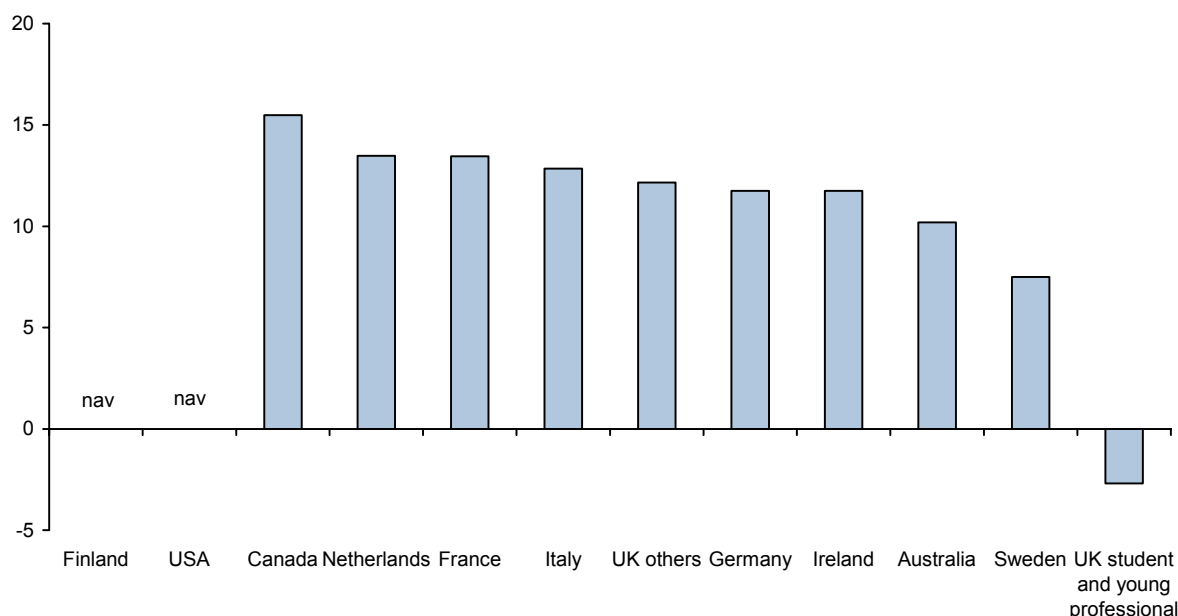
For domestic cash withdrawals, care should be taken in making comparisons. In some countries, the difference between ‘own bank’ and ‘host bank’ transactions is blurred, due to rival networks of affiliated banks—withdrawals from the cash machines of affiliated banks typically attract lower charges than those from cash machines of non-affiliated banks. Examples are outlined below.

- In Germany, those who have accounts with one of the local Sparkassen can make low-cost (often free) cash withdrawals from the ATMs of all other Sparkassen. Those who have accounts with the large, nationally based Großbanken can make low-cost cash withdrawals from the ATMs of other Großbanken.
- In Canada, there are two main networks, as follows.
 - The Exchange network is shared by National Bank of Canada, HSBC Bank Canada, Canadian Western Bank, Citizens Bank of Canada and around 60 credit unions. ATM withdrawals made from host banks (ie, banks other than that with which a consumer holds an account) over the Exchange network do not result in charges.
 - The Interac network is a linked network encompassing the proprietary networks of a large number of Canadian banks, including most members of the Exchange network. ATM withdrawals through the Interac network may result in charges on the consumer’s account if withdrawals are made from host banks.
- In the UK, Ireland, the Netherlands and Finland, all domestic cash withdrawals are free (with the exception of cash withdrawals from independently provided cash machines, for example, in pubs and petrol stations).
- Furthermore, in Finland, consumers cannot use their (Finnish) debit cards to make ATM cash withdrawals outside of Finland. Finnish consumers can only withdraw cash from ATM machines outside of Finland using a credit or charge card.

3.1.4 Overdrafts

Figure 3.3 compares the average adjusted APR on arranged overdrafts across all countries covered in the study. The average APR was calculated as the weighted average of the APRs on the accounts available from each bank. Added to the interest payable on overdrafts are arrangement and administration/management fees. The UK has two columns because students and young professionals (with graduate accounts) have access to interest-free overdrafts, while other consumers do not.

Figure 3.3 Comparison of average (adjusted) APRs on arranged overdrafts (%)



Note: nav denotes service not available (in the case of Finland, overdrafts are available for only small negative balances).

Source: Oxera calculations.

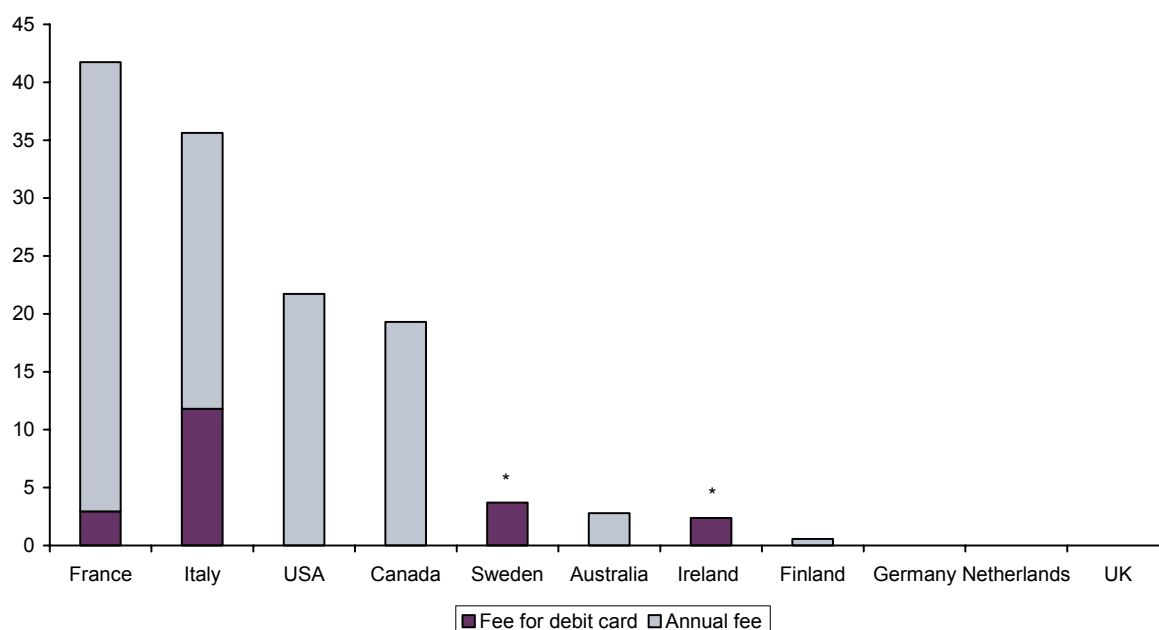
This shows that Sweden and Australia perform best, followed by Ireland, Germany and the UK. The UK performs best on overdraft facilities to students and young professionals (which are offered for free).

3.1.5 Student accounts

In most countries covered in this survey, special student accounts and packages are available at rates that are typically lower than for other consumer groups. ATM fees for student accounts tend to be the same as the average across all universal current accounts (see Figure 3.2). There are some exceptions to this—for example, in Ireland, where domestic/Euro area ATM cash withdrawals are free for students. However, there are more significant differences for other types of charge.

Figure 3.4 gives a breakdown of annual fees and charges associated with overdrafts.

Figure 3.4 Comparison of annual account fees on student accounts (€)



Note: * denotes that the assessment of charges was based on fewer than five accounts.
Source: Oxera calculations.

Comparing Figure 3.4 and Figure 3.1, it is clear that in most countries, the fees charged to students are significantly lower than those levied on standard accounts (to the extent that fees are payable on standard accounts in the first place). One exception is France, where student account packages require the payment of an annual fee. However, students can still choose to use (non-student and universally available) accounts on which no annual fee is payable. Hence with a typical student package, the current account would come with a debit card and options to access low(er)-cost insurance, an overdraft, and phone and Internet banking services.

3.2 Consumer-profile-level comparison

In this section, the costs of holding a current account are compared across the countries, based on how actual consumers typically behave. The five profiles are used: students, young professionals, low-income families, medium-income families, and pensioners.

The costs of holding a current account are shown in two ways:

- fees, consisting of annual charges and transaction charges;
- fees plus the cost of holding an overdraft for one month during the year.

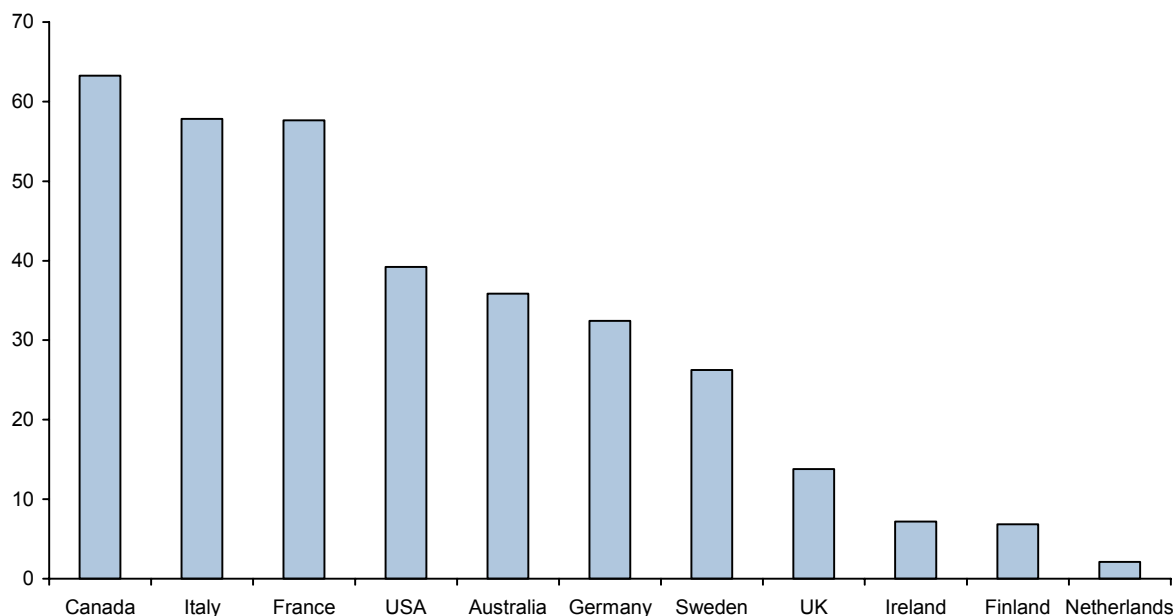
The second category depends on the negative balances held in the account, while the first relates to fees chargeable, independent of those balances.

Since most banks do not pay interest on positive balances or pay only a relatively low interest rate, the interest rates on positive balances are taken into account only in the rate card analysis in section 4.1, but not here in the consumer profile analysis. Furthermore, the amount of interest that current account holders forgo depends on their average positive balance. There is no reliable data on this in the public domain for the countries included in this study.

3.2.1 Fees paid across countries

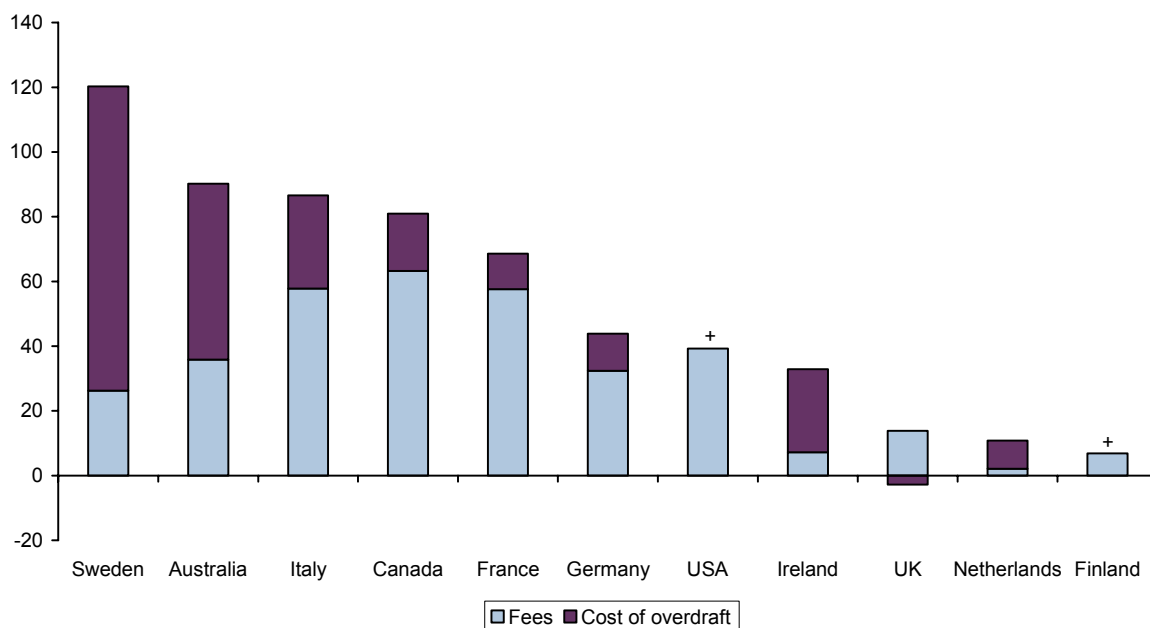
Figures 3.5 to 3.14 show the annual fees charged on current accounts according to consumer profiles. For each profile, the comparison of fees is presented first, followed by the comparison of total charges (ie, fees and costs of overdraft facilities). The comparison is based on local consumer profiles only. For instance, the costs faced by UK consumers using UK current accounts are compared with the costs of French consumers using French current accounts.

Figure 3.5 Comparison of fees on student current accounts (local profiles only, €)



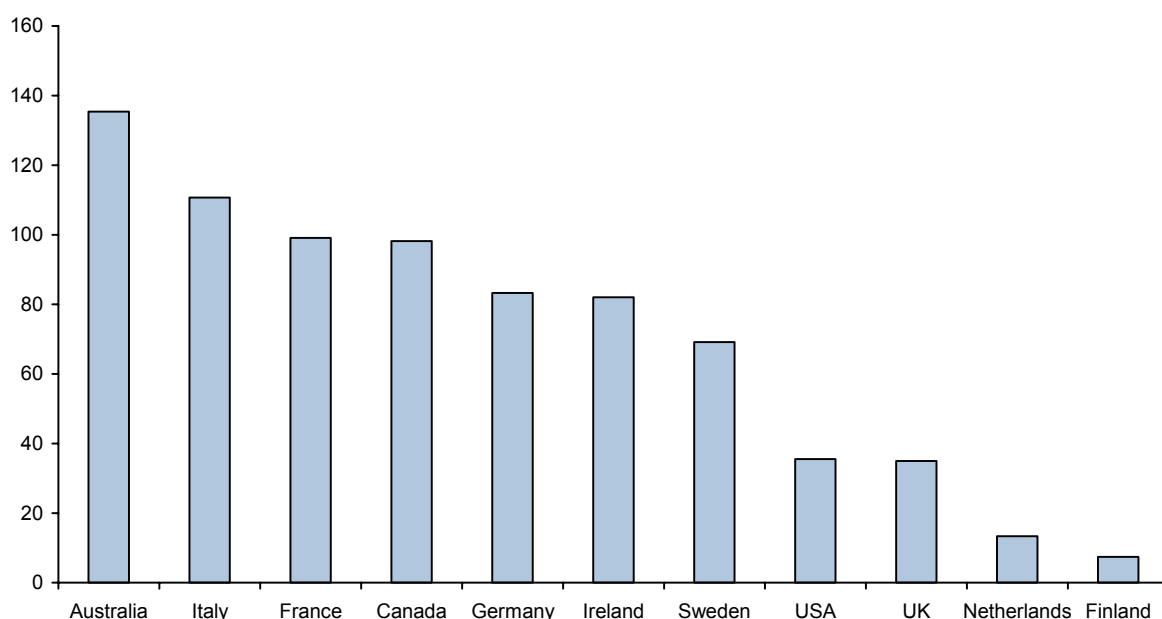
Note: International transactions are not included in the Finnish consumer profile.
Source: Oxera calculations.

Figure 3.6 Comparison of the total cost of student current accounts (local profiles only, €)



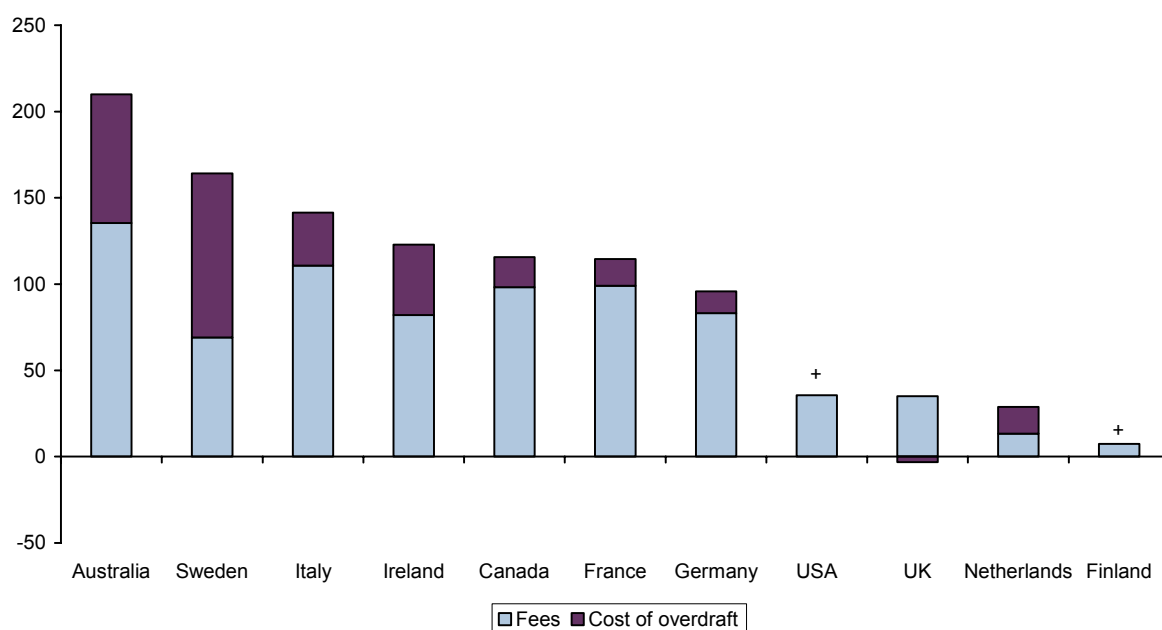
Note: + denotes that comparable/suitable overdraft facilities are not available. International transactions are not included in the Finnish consumer profile.
Source: Oxera calculations.

Figure 3.7 Comparison of fees on current accounts used by young professionals (local profiles only, €)



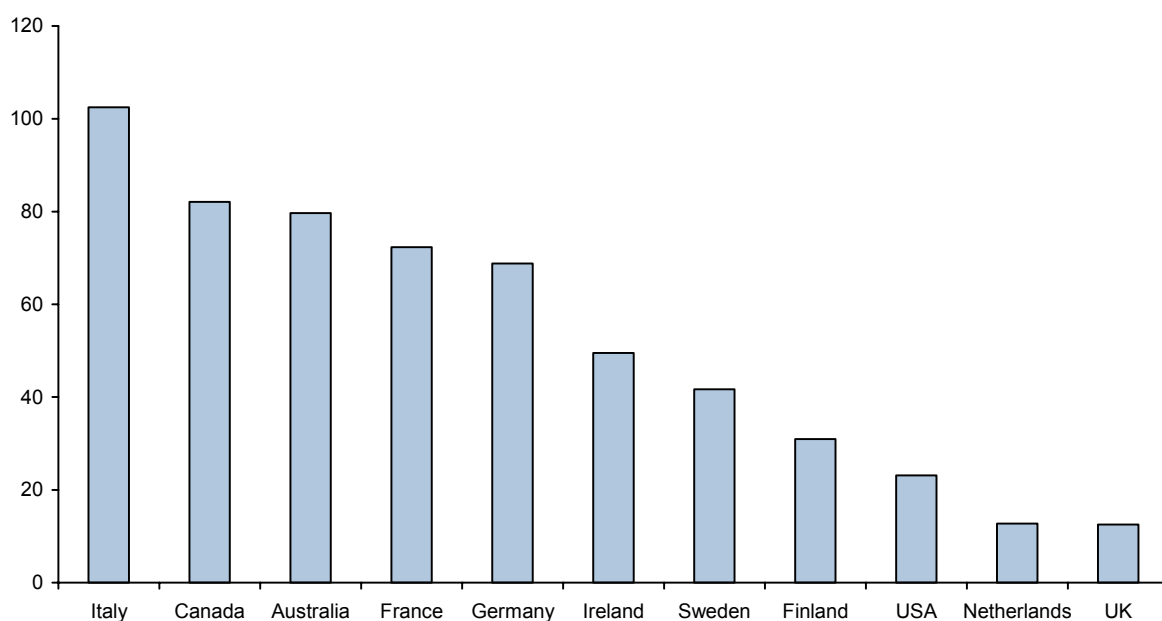
Note: International transactions are not included in the Finnish consumer profile.
Source: Oxera calculations.

Figure 3.8 Comparison of the total cost of current accounts for young professionals (local profiles only, €)



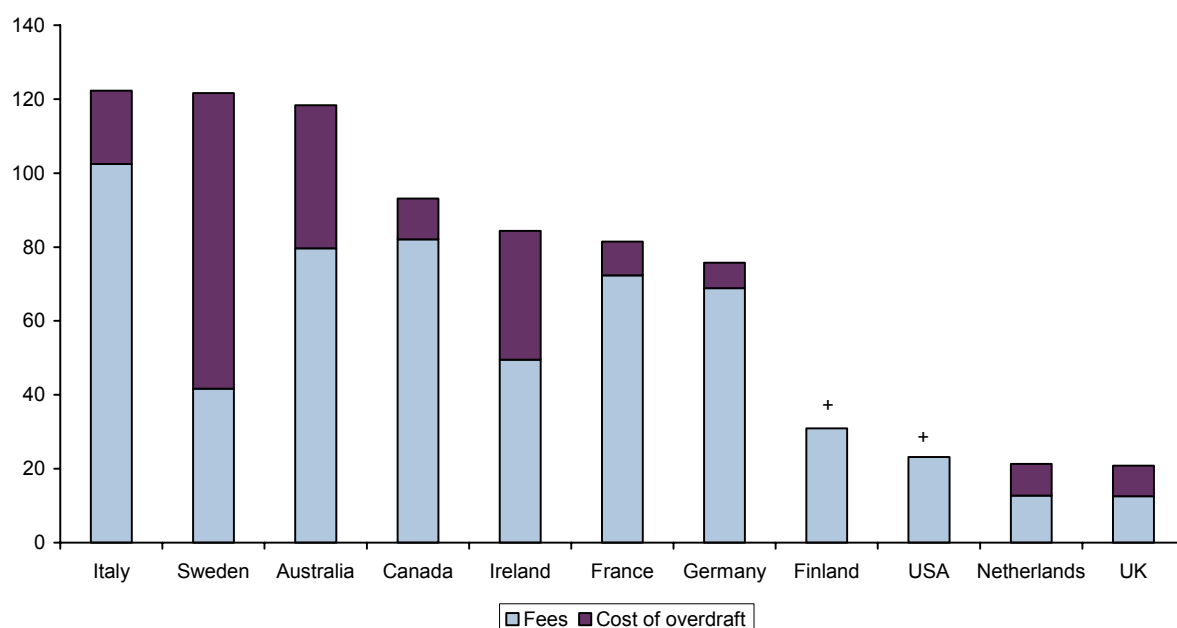
Note: + denotes that comparable/suitable overdraft facilities are not available. International transactions are not included in the Finnish consumer profile.
Source: Oxera calculations.

Figure 3.9 Comparison of fees on current accounts used by low-income families (local profiles only, €)



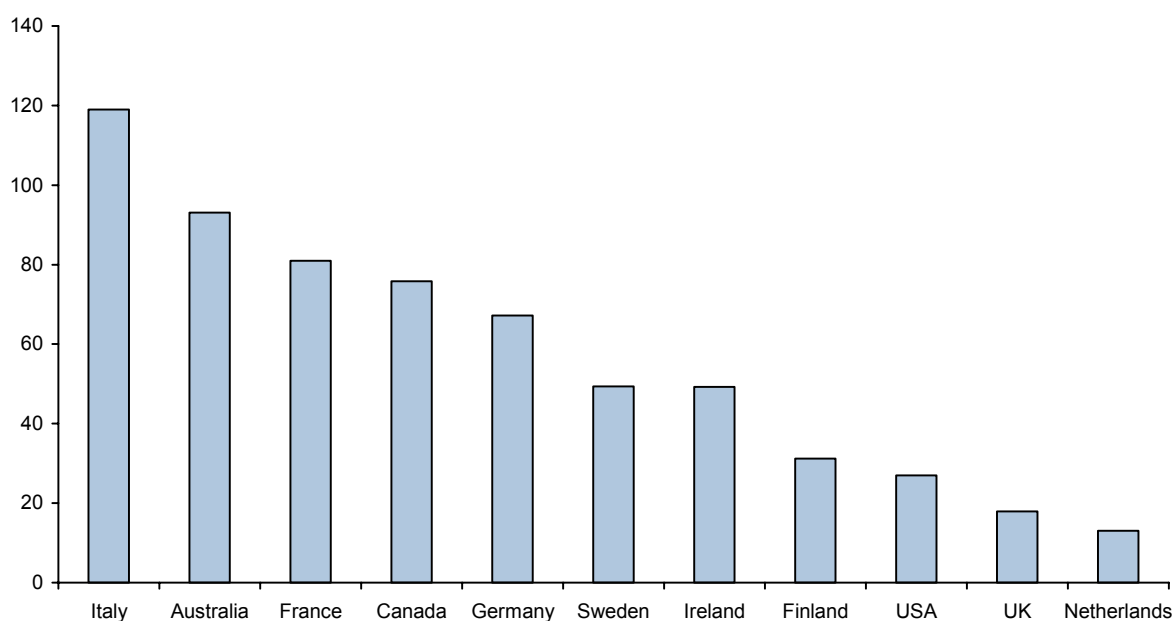
Note: International transactions are not included in the Finnish consumer profile.
Source: Oxera calculations.

Figure 3.10 Comparison of the total cost of current accounts for low-income families (local profiles only, €)



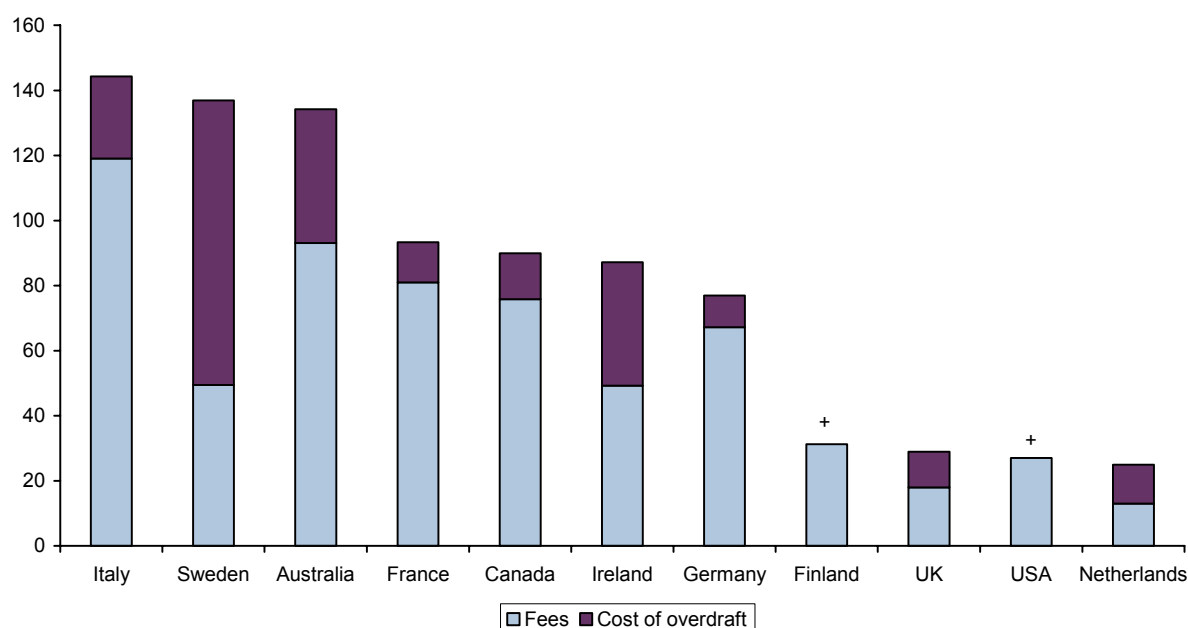
Note: + denotes that comparable/suitable overdraft facilities are not available. International transactions are not included in the Finnish consumer profile.
Source: Oxera calculations.

Figure 3.11 Comparison of fees on current accounts used by median-income families (local profiles only, €)



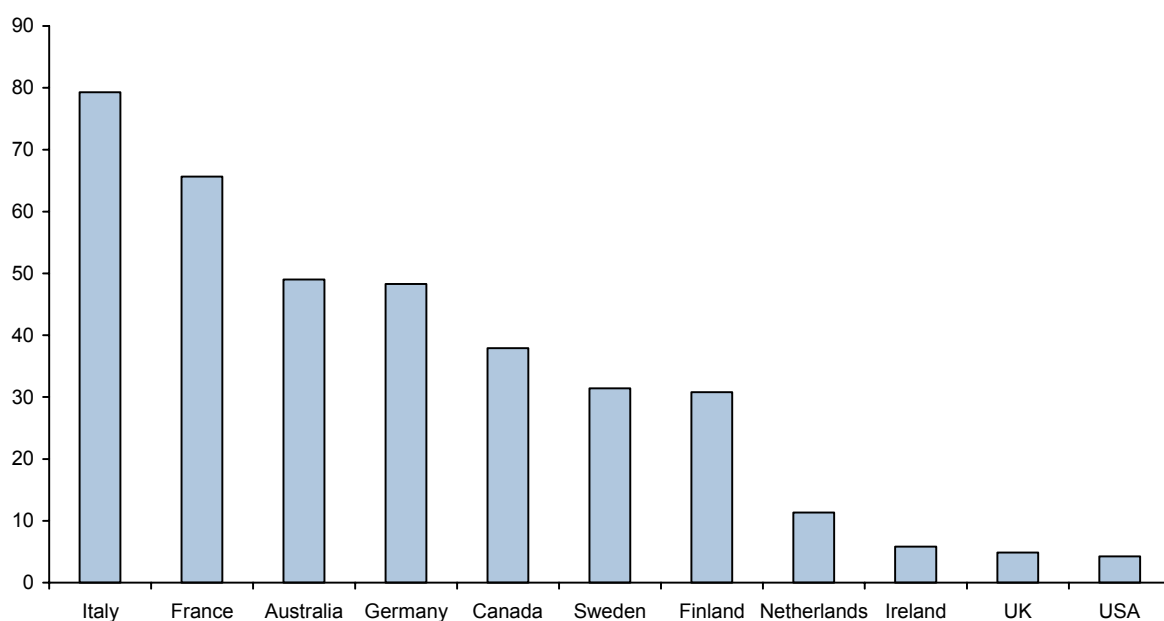
Note: n/a denotes data not available. International transactions are not included in the Finnish consumer profile.
Source: Oxera calculations.

Figure 3.12 Comparison of the total cost of current accounts for median-income families (local profiles only, €)



Note: + denotes that comparable/suitable overdraft facilities are not available. International transactions are not included in the Finnish consumer profile.
Source: Oxera calculations.

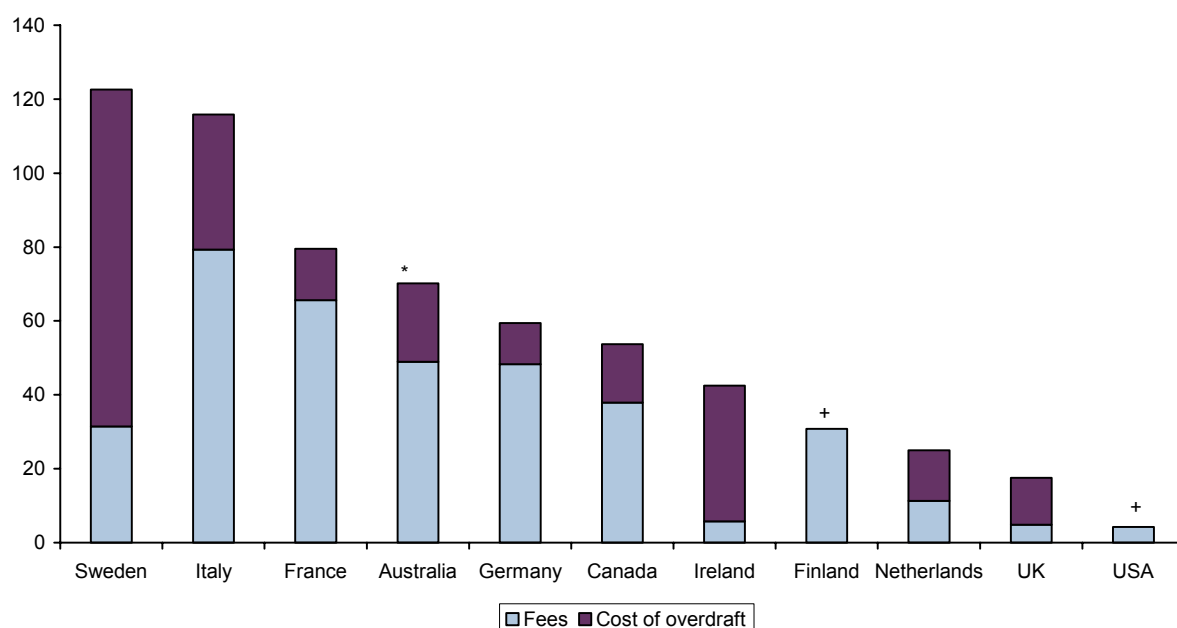
Figure 3.13 Comparison of fees on current accounts used by pensioners (local profiles only, €)



Note: International transactions are not included in the Finnish consumer profile.

Source: Oxera calculations.

Figure 3.14 Comparison of the total cost of current accounts for pensioners (local profiles only, €)



Note: * denotes that the assessment of charges was based on fewer than five accounts. + denotes that comparable/suitable overdraft facilities are not available. International transactions are not included in the Finnish consumer profile.

Source: Oxera calculations.

These figures show that the charges payable on UK current accounts are among the lowest of the countries covered in this study. For most types of consumer, the only countries that are consistently cheaper than the UK are the Netherlands and Finland. In the case of

Finland, the comparison shown does not take into account the fact that it is not possible for Finnish consumers to undertake international transactions (ATM and point-of-sale transactions) using debit cards. Hence, the relative cost of fees in Finland will tend to be understated when compared directly with the UK. A like-for-like comparison of Finnish and UK current accounts (ie, where international transactions are excluded from the UK consumer profile) is provided in full in the Finnish country report in section 11. This shows that Finnish fees are higher than UK fees for all consumer profiles.

In the analysis of total charges (including costs of overdraft facilities), UK banks emerge as top performers. In particular, students and young professionals are much better off in the UK than most other countries—in the UK, they have access to free overdraft facilities.

In the USA and Finland, overdraft facilities of the type and size used by UK consumers are not available, and therefore the costs of overdrafts are not included in the comparison. (In the USA, overdrafts are generally not available in the same form as in the UK; in Finland, while overdrafts are available, they are only provided for negative balances of up to around €500, and often only €200). A full like-for-like comparison has been undertaken in the respective country reports in sections 18 and 11. In both comparisons, the same relative results hold as shown above.

3.3 Price and volume effects

An important question that can be addressed by the analysis is to what extent higher or lower fees 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). The full set of comparisons of fees can be found in the country reports in sections 8–18.

In this section, the price and volume effects are used to illustrate two examples.

- The first looks at median-income families in the Netherlands, one of the two countries that are consistently cheaper than the UK for most types of consumer. The further analysis confirms that the Netherlands is cheaper.
- The second looks at young professionals in the USA. The headline results suggest that the USA is similar in cost to the UK. Further analysis shows that this is driven by a combination of lower volumes and higher average prices in the USA.

Example 1: The Netherlands

Table 3.2 shows the full consumer profile comparison of current accounts used by median-income families in the UK and the Netherlands.

Table 3.2 Comparison of annual fees in the UK and the Netherlands, median-income families (€)

	UK fees	Dutch fees
UK median-income family	18	14
Dutch median-income family	20	13

Source: Oxera.

The table shows that using a current account in the UK may cost a typical median-income family €18 per year in fees, while a typical median-income family in the Netherlands may pay €13 in fees. In other words, Dutch consumers are better off.

The comparison can be split into two parts:

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

Table 3.3 shows the results when the effects are calculated assuming Dutch prices and profiles as the base.

- *Volume effect*—if Dutch median-income families were to behave like UK median-income families, they would spend €14 per year on current account fees. The ratio of €13 to €14 (93%) is due to a volume effect—in this example, Dutch median-income families use 7% ‘less’ chargeable services within the Netherlands than UK median-income families.
- *Price effect*—if UK median-income families were to face Dutch charges, they would spend €14 per year on current account services. The ratio between €14 and €18 is due to a price effect—ie, it shows that Dutch median-income families pay lower average prices than UK median-income families.

Table 3.3 Price comparison taking Dutch prices and profiles as the base (%)

Ratio of Dutch fees to UK fees (13:18)	72
Volume effect: assume Dutch median-income family behaves like a UK median-income family, valued at Dutch prices (13:14)	93
Price effect: assume UK median-income family faces Dutch fees (14:18)	78

Source: Oxera.

Therefore, Dutch median-income families consume 93% of the level of chargeable services (in the Netherlands) that UK median-income families consume, and pay on average 78% of the UK cost of these services. The product of these is therefore the headline figure that Dutch median-income families pay 72% of UK fees.

Table 3.4 shows the effect when UK prices and demand profiles are assumed to be the base.

Table 3.4 Price comparison taking UK prices and profiles as the base (%)

Ratio of Dutch fees to UK fees (13:18)	72
Volume effect: assume UK median-income family behaves like a Dutch median-income family, valued at UK prices (20:18)	111
Price effect: assume UK median-income family faces Dutch fees (13:20)	65

Source: Oxera.

When valued at UK prices, Dutch median-income families consume 111% the level of chargeable services (in the UK) that UK median-income families consume, and pay on average 65% of the level paid by UK median-income families. Again, the product of these gives the headline ratio that Dutch median-income families pay 72% of the amount that UK median-income families pay.

In this example, the price effect dominates the assessment of the relative costs. Using either Dutch or UK prices as the base, Dutch consumers' level of demand is similar to that of UK consumers (93% and 111% respectively), yet the price they pay overall is significantly lower (78% and 65% respectively). It also shows that consumers are matching their choices to the price signals sent by the banking service providers. Given that the chargeable services differ across the two countries, it is not surprising that UK customers consume fewer UK

chargeable services, but more services that are chargeable in the Netherlands and vice versa.

Example 2: USA

Table 3.5 shows the full consumer profile comparison of current accounts used by young professionals in the UK and the USA.

Table 3.5 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).

Table 3.6 shows the results when the effects are calculated assuming US prices and profiles as the base.

- *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 within 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.

Table 3.6 Price comparison of total charges taking US prices and profiles as the base (%)

Ratio of US charges to UK charges (36:35)	103
Volume effect: assume US young professionals behave like UK young professionals, valued at US prices (36:67)	54
Price effect: assume UK young professionals face US fees (67:35)	191

Source: Oxera.

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 valuing at UK charges. 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.

4 Personal loans

Two cross-country comparisons are made for personal loans:

- a rate card comparison across the countries showing the actual prices paid for the key product features;
- a comparison of the effective interest rate paid by each type of customer, given the typical amount borrowed and any fees likely to be incurred.

The loan product compared is a simple two-year unsecured loan, repayable in equal instalments over two years. To maintain comparability between the loans on offer, loans for specific purposes, such as cars and holidays, have been excluded from the analysis.²³

4.1 Rate card-level analysis

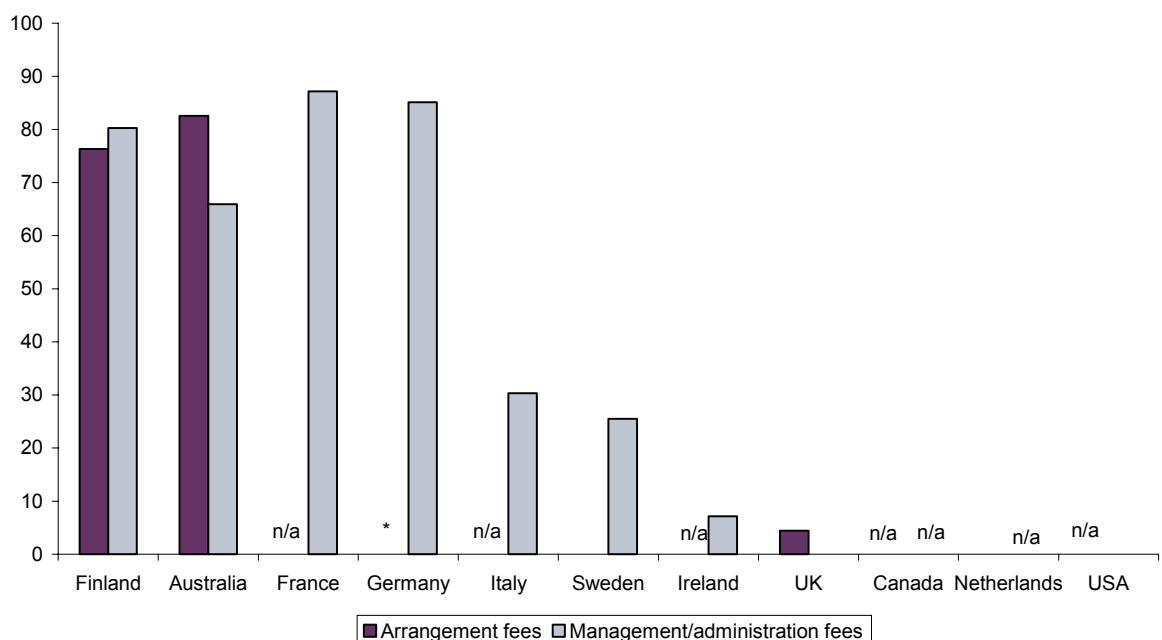
The following charges are covered in this sub-section:

- arrangement fees;
- management/administration fees.

In some countries (such as the UK), the level of the interest rate on a personal loan often depends on the amount of the loan. Interest rate costs are not therefore included in this rate card analysis but in the consumer profile analysis in section 4.2.

Figure 4.1 compares fees across the countries in which this information is available.

Figure 4.1 Comparison of arrangement fees and administration/management fees (two-year loans)



Note: n/a denotes data not available. * denotes that the assessment of charges was based on fewer than five accounts.

Source: Oxera calculations.

²³ Furthermore, other products that are sometimes offered in addition to a loan (such as personal protection insurance) are also not included in the analysis. These products are priced separately. This analysis examines only the cost of borrowing.

The UK is shown to have possibly the lowest fees on personal loans (information from the USA on arrangement fees is not available). Elsewhere, Australian and Finnish banks charge relatively high flat fees.

4.2 Consumer profile analysis

As with current accounts, the consumer profile analysis is based on data from UK banks on the behavioural patterns of their customers. The profiles used consist of the average amounts borrowed in the UK across each of the consumer profiles, and are held constant across all countries included in this study.

Table 4.1 shows effective interest rates on a two-year loan across all countries in this study. As set out above, the value of the loan varies by consumer profile and is based on UK consumer patterns. The comparison presents the APR on the loan as the annual equivalent rate of all interest payments and flat charges (set-up fees and management/administration fees) on the loan. In the UK, the proportion of students and pensioners with a personal loan is relatively small, at around 5%.

Table 4.1 Comparison of effective APR (adjusted) on a two-year personal loan across all countries and consumer profiles (%)

APR (% , adjusted)	Student	Young professional	Low-income family	Median-income family	Pensioner
UK	12.1	6.0	6.7	6.0	6.0
USA	10.4	10.4	10.4	10.4	10.4
Netherlands	9.9	9.4	9.4	9.3	9.3
Ireland	11.0	10.9	10.9	10.9	10.9
Germany	8.8	8.6	8.6	8.6	8.6
Finland	11.7	10.5	10.7	10.4	10.4
Italy	9.3	9.2	10.5	10.5	10.5
Sweden	7.5	6.9	7.2	6.9	6.9
Australia	12.0	10.2	10.4	10.1	10.1
France	7.4	7.4	7.4	7.4	7.4
Canada	10.1	9.5	9.5	9.5	9.5

Source: Oxera calculations.

It is notable that, across all countries, the average interest rate on loans for students is higher than for other consumer profiles. However, the proportion of students with a standard bank personal loan is relatively small, at around 5%. Furthermore, in some countries, such as the UK, Australia and Canada, students can make use of government-provided loans at interest rates substantially below those available from commercial lenders. In the UK, students also have access to interest-free overdraft facilities.

Comparing the adjusted interest rates across countries (which take into account the difference in underlying interest rates), UK banks provide the lowest rates of interest across most consumer categories, with the exception of students, where the average effective interest rate is higher than for all other countries. This is largely due to tiered interest rates on personal loans, which result in interest rates on relatively large loans being low. Because the typical student only takes out a small loan (possibly due to the availability of low-interest student loans and interest-free overdrafts in the UK), the APR on such small loans (as advertised by banks) is relatively high.

At the other end of the scale, Ireland charges the highest effective interest rates across all consumer profiles except students.

5 Savings accounts

To identify savings products most alike across the 11 countries, the first step is to identify the core characteristics of these types of deposit account.

- *Significantly reduced scope for making payments*—there are no cheque books, debit/credit cards, and automatic payments can not be set up, unlike current accounts.
- *Accessibility of savings*—money held in savings accounts is less accessible than that held in current accounts, although the level of accessibility varies widely, from instant access with a basic ATM card and Internet transfer (to a nominated current account), to term accounts where money cannot be accessed for a fixed period of time unless a substantial charge is paid.
- *Interest rate*—in return for a lower level of access to money invested in savings accounts, and fewer payment services, interest rates are generally higher than those paid on current accounts.
- *Absence of overdraft facilities*—by their very nature, savings accounts exist for positive balances only.

The comparison of savings accounts is undertaken here using a typical balance of €5,000, held constant for each country. Given the nature of savings accounts, and the evidence from the UK banks that only a minority of consumers opt to withdraw money from savings accounts within any one year, an analysis by consumer profile will add little to the conclusions that are reached by using a single profile. This is because the returns on savings accounts for typical consumers will depend only on the amount invested and the interest rate on the account—the ranking of the returns across all countries will therefore be similar, regardless of the amount held (which would vary according to consumer profile).

There are many types of savings account available in each of the countries covered in this study, each of which provides returns on savings with minimal or zero risk. Examples of savings accounts are:

- instant-access accounts, where money can be withdrawn from the account without any requirement to give notice;
- notice accounts, where money can be deposited instantly, but cannot be accessed without applying in advance (typically giving one or three months' notice);
- term accounts, where money is invested for a fixed length of time (generally over one or more years) at a fixed interest rate;
- government bonds.

In this comparison, two types of account are considered:

- an instant-access account, which would be used by typical consumers in the UK (but not necessarily by typical consumers in countries in which the returns on instant-access accounts are low);
- a term account of three years' duration.

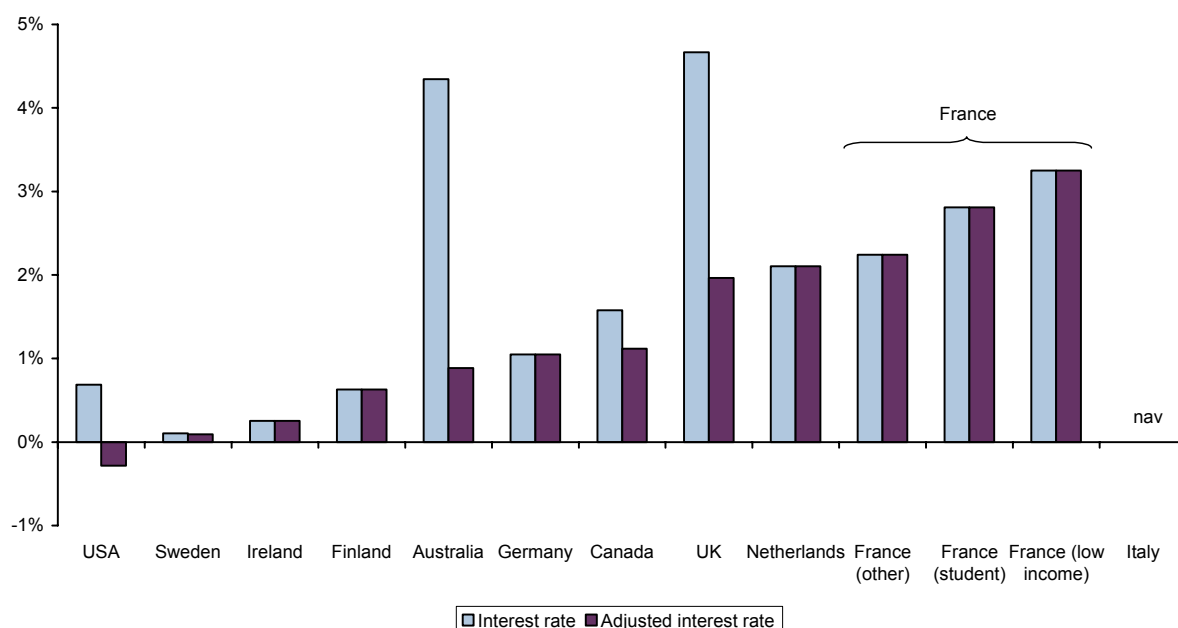
5.1 Instant-access savings accounts

For the comparison of instant-access savings accounts, the products available in most countries are generally comparable, with the following two notable exceptions.

- In Italy, savings accounts are typically no longer available (very little information could be found on publicly offered savings accounts in Italy). Rather, the main vehicle for consumers wishing to invest money at low/zero risk is government bonds (through direct purchase). This type of investment is not directly comparable with instant-access accounts and, over the one year in which the investment is assessed, transaction and management charges would be likely to cancel out any return on the investment. For this reason, Italy is not included in the comparison of instant-access savings accounts.
- In the USA, substantial minimum balances (typically, \$10,000) are often specified so that consumers can avoid substantive annual fees (payable to the customer's bank) that would take up most, if not all, interest payments. Consumers may therefore opt for alternative investments (such as Certificates of Deposit). Notwithstanding this, savings accounts in the USA are comparable with 'standard' savings accounts and have been included in the comparison, although the returns from such investments over one year are very small, and smaller than those for longer-term investments, as set out below.
- For France, the interest from savings accounts has been broken down according to consumer profile, as various special savings schemes are available, depending on age and income (more details are given in the French country report in section 12).

Figure 5.1 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, which corresponds to a typical balance on a savings account in the UK).

Figure 5.1 Comparison of interest rates (adjusted and unadjusted) on an instant-access savings account on investment of €5,000 over one year (interest rate, %)



Note: nav denotes product not available (Italy).

Source: Oxera calculations.

When comparing the interest rates, the unadjusted rates represent the average basic rate that savers can receive in each country (ie, the advertised interest rate). The adjusted interest rates take into account the differences in inter-bank rates between the countries in the study, 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 (for example, the average LIBOR rate for Australia was 5.56% in May 2005,

compared with 2.09% in the Euro area), the interest rates in these countries are adjusted downward.

Aside from accounts in Italy and the USA, there are several varying features of the savings products available in some countries.

- In France, there is a wide range of tax-free savings accounts with government-controlled interest rates. These permit consumers to save a limited amount of money with instant access without paying tax on interest earned—see the French country report in section 12 for more details.
- In the UK, cash ISA accounts are available which provide a tax-free savings vehicle for amounts up to £3,000 per year. While money invested in cash ISA accounts can be deposited up to the £3,000 annual limit, any money taken out of the account cannot be replaced (once £3,000 has been deposited into the account in any one year). Because this price comparison discounts the effects of tax on all products, cash ISA accounts have been included in the survey. The other savings accounts included in the survey are made up of non-ISA savings accounts on offer from each of the banks included in the UK sample.

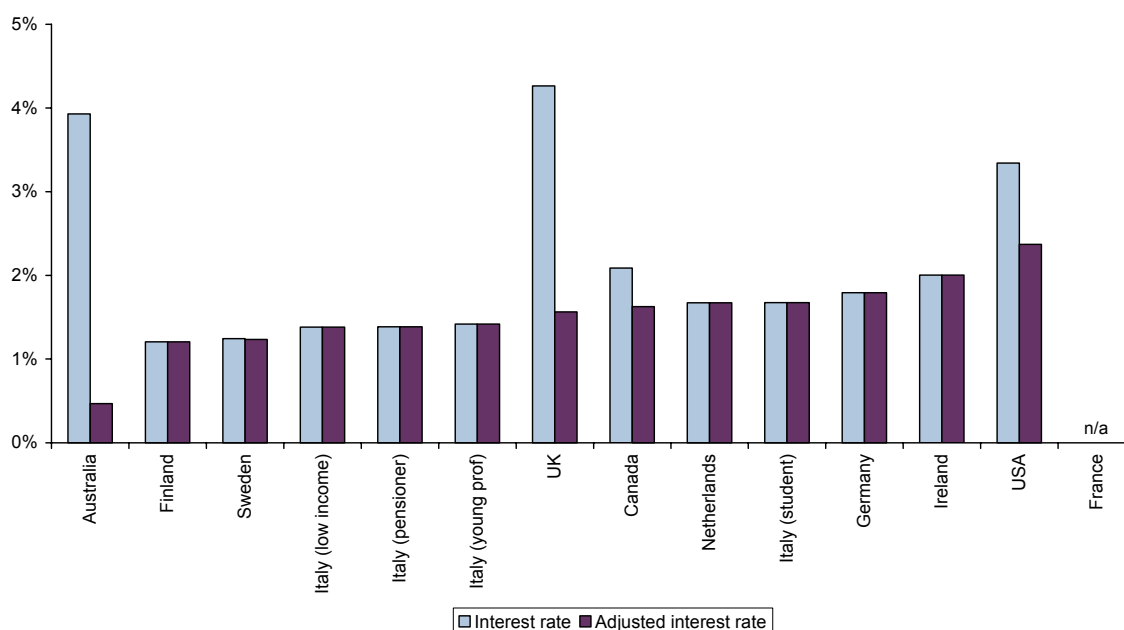
5.1.1 Three-year-term accounts

For the comparison of three-year-term savings accounts, similar accounts have been chosen across all countries, with two exceptions.

- In Italy (where there are few, if any, savings accounts available at the retail level), the three-year-term account was approximated by calculating the returns on the purchase and holding of Italian government bonds over three years. The comparison was made according to consumer profile, as the commission rate on purchases of bonds varies according to the (current) account held by a consumer. Different accounts are available for different consumer groups (for example, young persons' accounts, family accounts, pensioners' accounts); consequently, the commission rate on purchases of bonds displays considerable variation across the consumer profiles.
- In France, few details are available on the interest rates on three-year investments. Hence, France does not feature in this part of the comparison.

Figure 5.2 compares the annual equivalent interest rate on three-year-term savings accounts.

Figure 5.2 Comparison of annual interest rate (adjusted and unadjusted) on investment of €5,000 in three-year-term savings accounts (interest rate %)



Note: n/a denotes data not available.

Source: Oxera calculations.

Comparisons between Figures 5.1 and 5.2 show that, for the majority of countries, average interest rates on three-year-term savings accounts are higher than on instant-access savings accounts (on an annual basis). Exceptions to this are the UK, Australia and the Netherlands. Indeed, for the UK and the Netherlands, the returns available on instant-access accounts are higher than for all three-year-term accounts on offer, except for those on offer in the USA and Ireland. Given that a saver will prefer a higher interest rate and easier access, this suggests that savers in the UK and the Netherlands are receiving a comparatively high level of service.

5.2 Other relevant observations on the results of the savings account comparison

There is a considerable variation in the returns on savings accounts when compared across the countries in this study.

- The highest interest rate on instant-access savings accounts (when compared on an adjusted basis) can be obtained in France, the Netherlands and the UK. However, the interest rates on the French accounts are set by the government and the amounts that can be held in such accounts are limited (although they are sufficiently high that the ‘typical’ consumer would still be able to use them for a substantial proportion of savings).
- In most countries, the interest rates are higher on three-year-term accounts than on instant-access accounts. This is to be expected, given that consumers may need to be ‘compensated’ through higher interest rates for the lower level of accessibility of funds.
- However, in the UK, the Netherlands and Australia, the opposite holds: the average interest rate on instant-access accounts is slightly higher than that on three-year-term accounts. One reason for this may be that banks in these countries offer most of their savings accounts on an instant-access basis, and therefore compete most vigorously for such savings.

- Finland and Sweden provide some of the lowest returns on both types of savings account, while Ireland provides low returns on instant-access savings accounts, but significantly higher returns on three-year-term accounts.

6 Credit cards

How a consumer uses their credit card has a significant effect on the costs incurred. Here, two comparisons are made: a rate card price comparison of the key product features across the 11 countries; and a comparison of costs based on the typical usage patterns of the five consumer profiles. Each profile is further distinguished between transactors and revolvers.

In Germany and the Netherlands, credit cards that offer the possibility of extended credit are not common. Thus, any comparison of the credit aspect of the credit card offering covers nine countries only, excluding Germany and the Netherlands.

6.1 Rate card comparison

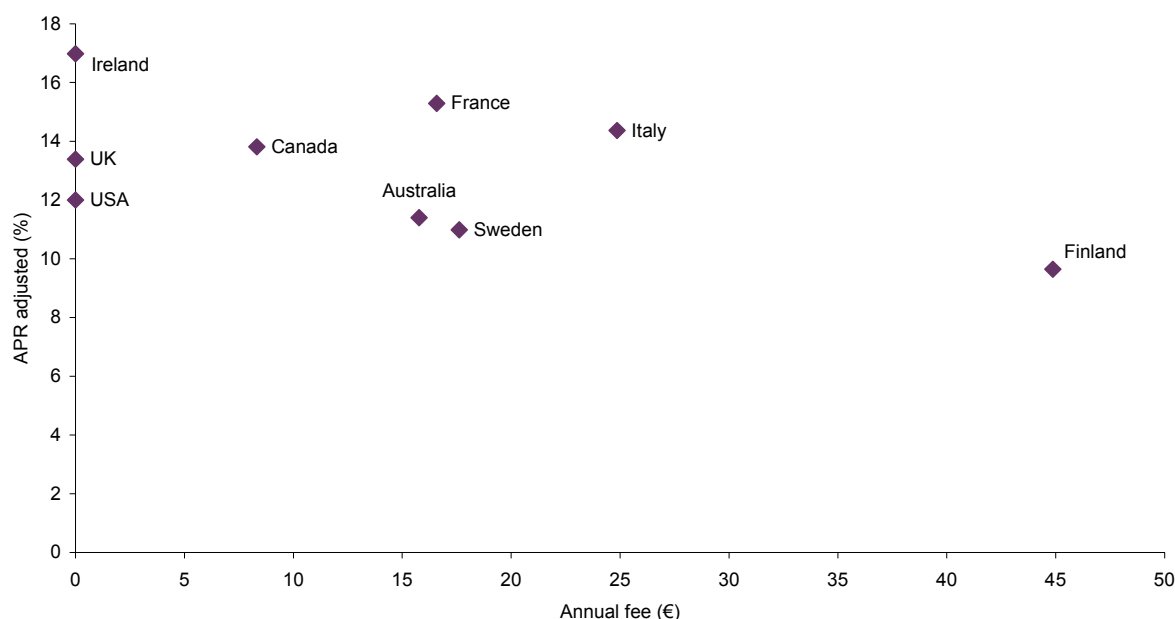
The following charges are covered in this sub-section:

- average APRs on credit balances;²⁴
- interest-free periods (represented as a negative charge);
- annual fees;
- ATM charges for cash withdrawal in and outside of a consumer's own currency area.

Figure 6.1 shows a scatter plot of the average (base-rate-adjusted) APRs and annual fees charged on credit cards across the countries covered in this study.

²⁴ The APRs used in this report are those advertised by the banks. In the UK, according to the Consumer Credit (Advertisements) Regulations 2004, the advertised 'typical APR' must be 'at or below which an advertiser reasonably expects, at the date on which an advertisement is published, that credit would be provided under at least 66% of the agreements he will enter into as a result of the advertisement' (OFT (2005), 'Consumer Credit (Advertisements) Regulations 2004 Frequently Asked Questions', September). There may be differences in the calculation of typical APRs in other countries, but these are likely to be small and have not been taken into account.

Figure 6.1 Comparison of average APRs and average annual fees on credit cards



Note: Germany and the Netherlands are not included in this comparison since the majority of credit cards on offer in these countries are charge cards, which, in most cases, are linked to a current account. The interest rates quoted on revolved balances in these countries correspond to the interest rates on current account overdrafts. Consequently, this does not allow for a consistent comparison against credit cards held in other countries. Source: Oxera calculations.

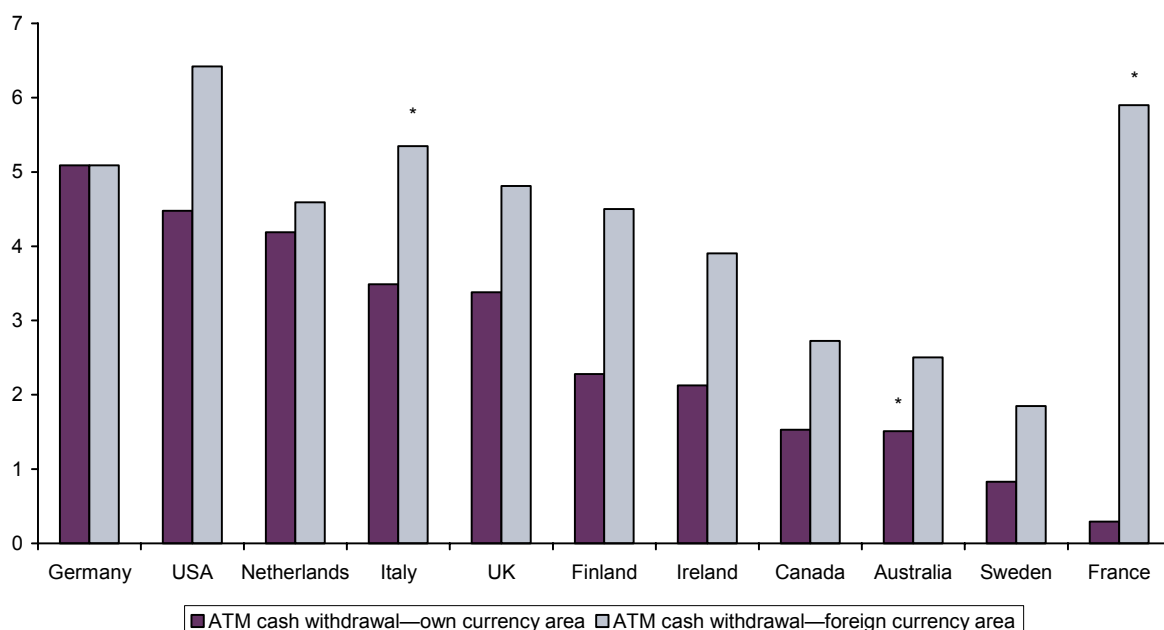
Figure 6.1 is particularly relevant for consumers who regularly revolve the balance on their credit cards, as they stand to pay both the annual fee on the card, as well as interest on any revolved balances. Cardholders who regularly revolve their monthly balances benefit most in the UK and the USA, due to their combination of low/zero annual fees and low APRs.

Most Canadian banks offer two types of credit card: the first has no annual fee, but relatively high APRs, and tends to be used by transactors; for the second type, an annual fee is payable, but the APR tends to be lower. Figure 6.1 shows an overall average of both types of card (implying that a significant number of cards are available against which no annual fee is payable, placing it alongside the UK, the USA and Ireland). Similarly, in Australia, along with cards with an annual fee and an interest-free period, several banks offer credit cards with no annual fee, a slightly lower APR, but no interest-free period.

There appear to be three 'models' of credit card charging: the first, which involves low or zero annual fees, covers the UK, Ireland, the USA and Canada; the second appears to involve annual fees of around €20 (eg, France, Australia and Sweden); while the third (Finland) involves a large annual fee in combination with a relatively low average APR.

Figure 6.2 shows ATM charges for cash withdrawals within a cardholder's own currency area and those outside the currency area (ie, 'foreign ATM charges').

Figure 6.2 Comparison of ATM charges on credit card cash withdrawals of €100 (€)

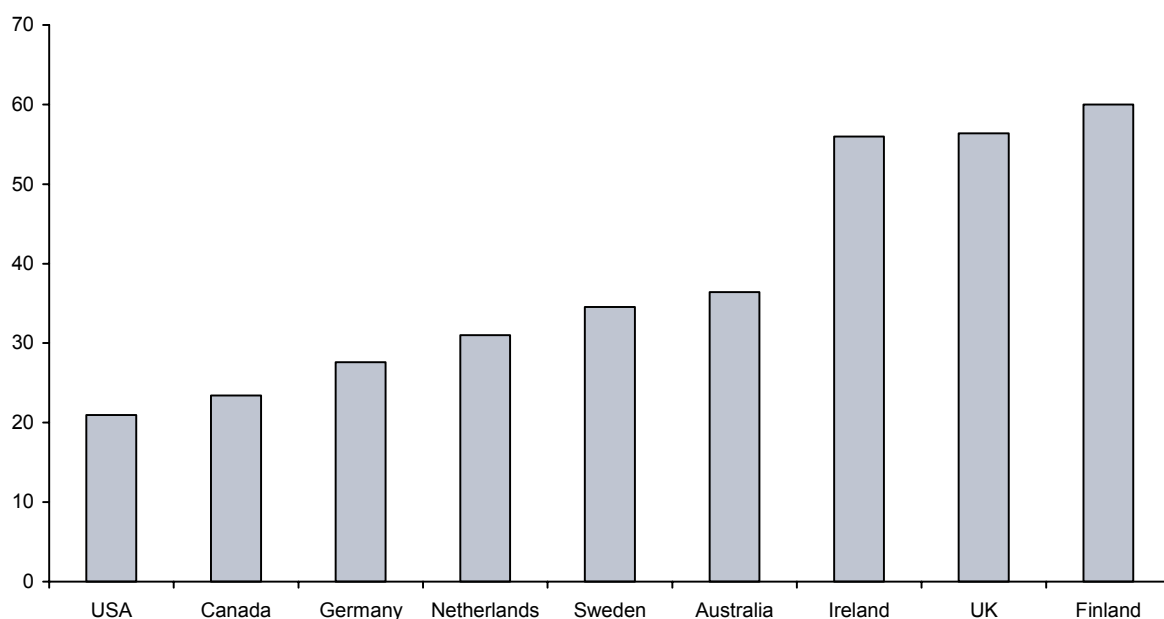


Note: For countries within the Euro area, domestic ATM charges are applicable to all other countries within the Euro area. * denotes that the assessment of charges was based on fewer than five accounts.
Source: Oxera calculations.

Figure 6.3 compares the length of the interest-free period. This varies substantially across countries, with the longest in the UK, Finland and Ireland. The longer the interest-free period, the more consumers can benefit from interest-free balances.

Italy and France are not included in Figure 6.3 because for most credit cards, interest is charged as soon as a purchase is made, and as such there is no interest-free period.

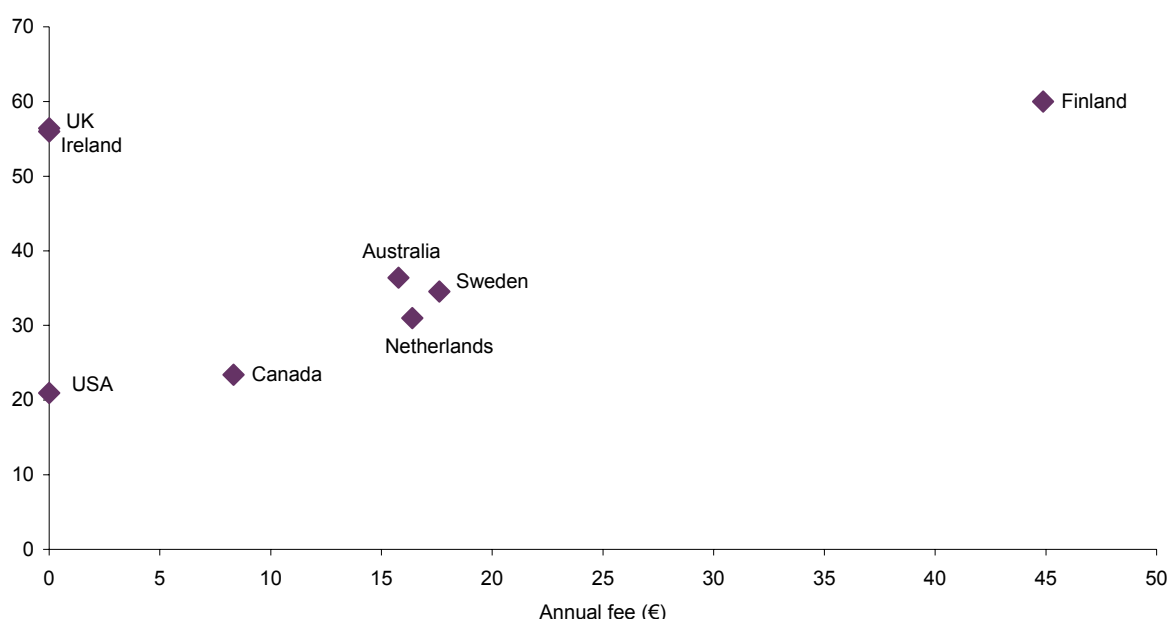
Figure 6.3 Comparison of the (maximum) interest-free period (days)



Source: Oxera calculations.

As with Figure 6.1, Figure 6.4 shows a scatter plot of the maximum interest-free period against the average annual fees on credit cards in each country.

Figure 6.4 Comparison of average annual fees and maximum interest-free periods (days)



Source: Oxera calculations.

Figure 6.4 is of particular relevance to those who pay off the balance of their credit cards every month. In this case, they only stand to pay the annual fee on the card, and benefit from the interest-free period—the longer the interest-free period, the greater the benefit. It shows that consumers in the UK and Ireland who pay off the balance on their credit cards every month benefit the most from holding (and using) credit cards.

6.2 Consumer profile comparison

The consumer profiles of credit card users are set out in Appendix 1. For each profile, a distinction is drawn between two consumer types, depending on their credit card borrowing habits:

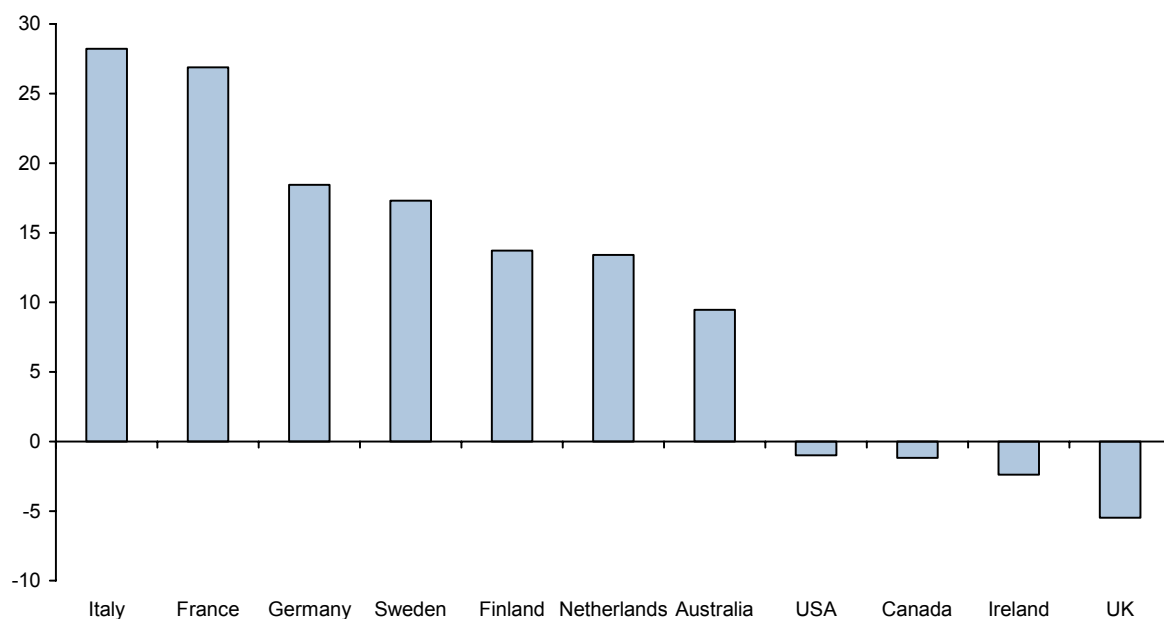
- *transactors*, who always pays off the full balance on the card every month (and therefore never make use of the revolving credit facility);
- *revolvers*, who often make only the minimum payments on the card, and therefore over the course of a year borrow money on the credit card.

The consumer profiles consist only of total purchase transactions and revolved balances ('revolvers' only) and exclude international purchase transactions. The analysis of the consumer behaviour data revealed that, on average, only a small minority of consumers undertook international purchase transactions using their credit cards. The consumer profiles used in the comparison are held constant, and based on UK usage patterns, because an accurate representation of foreign consumers was hampered by a lack of consistent international data.

In particular, there is little information available from countries outside of the UK on the use of credit cards for international purchases. This limits the extent to which it is possible to represent the relative use of credit cards for international transactions.

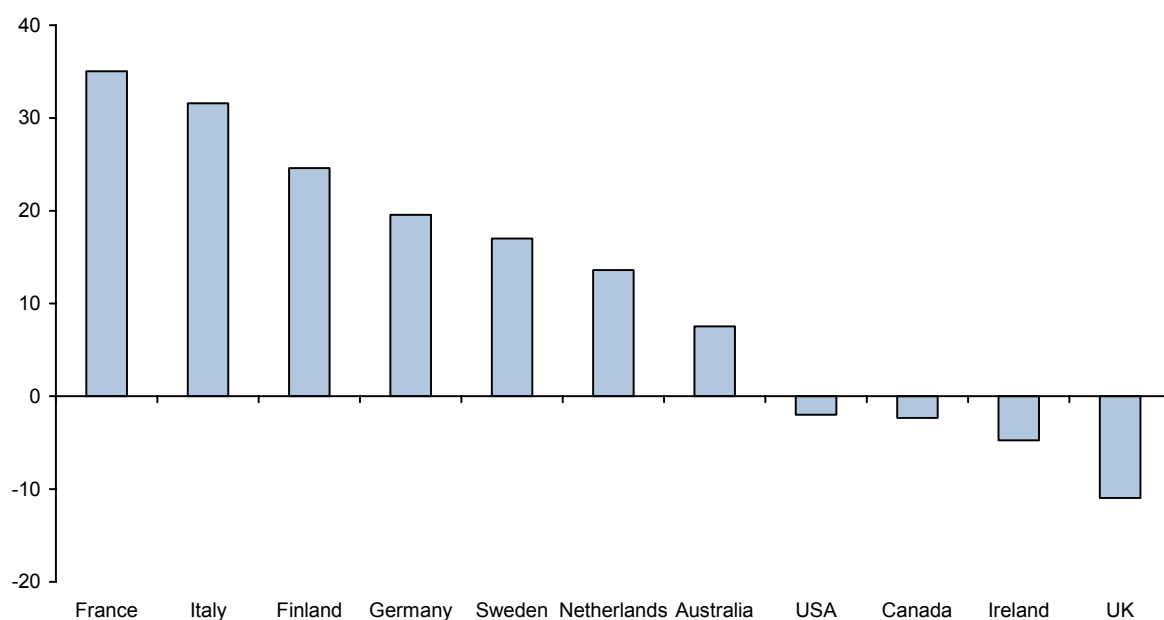
Figures 6.5 to 6.9 show the average annual cost for a transactor consumer profile across all countries, for each profile.

Figure 6.5 Comparison of average annual cost (adjusted) for a student transactor credit card user (€)



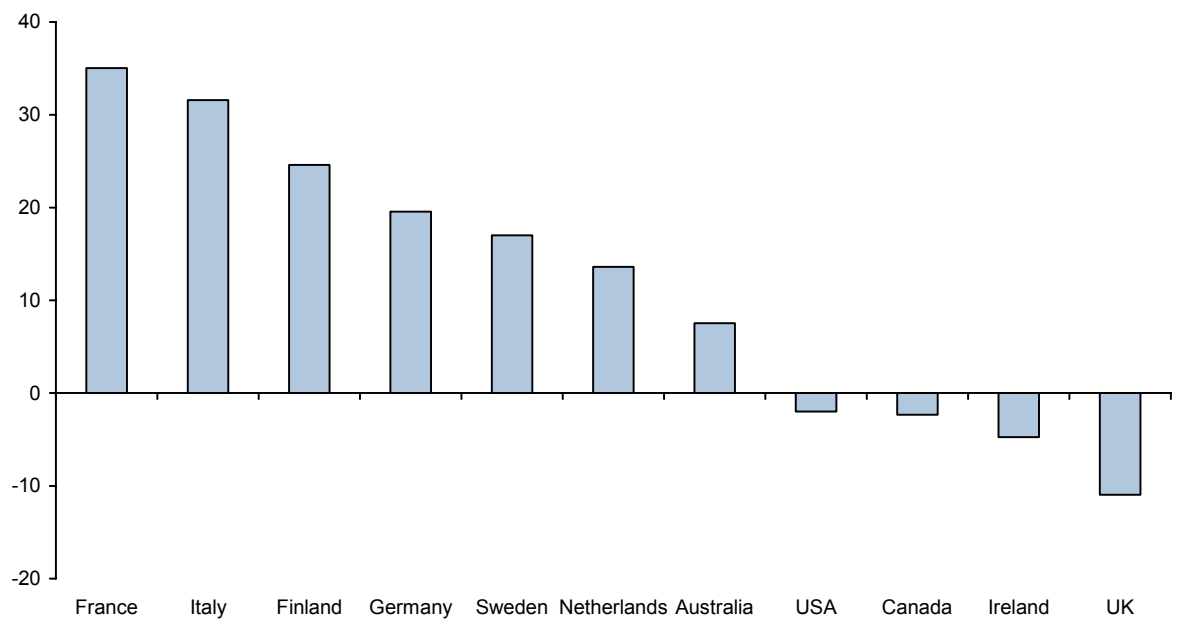
Source: Oxera calculations.

Figure 6.6 Comparison of average annual cost (adjusted) for a young professional transactor credit card user (€)



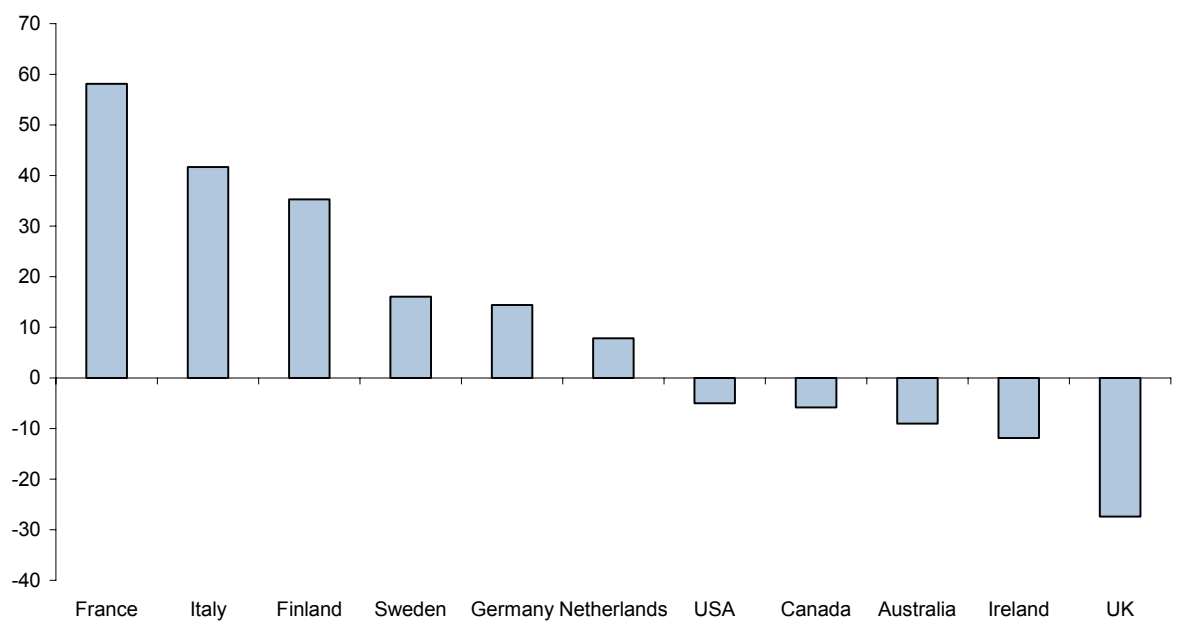
Source: Oxera calculations.

Figure 6.7 Comparison of average annual cost (adjusted) for a low-income family transactor credit card user (€)



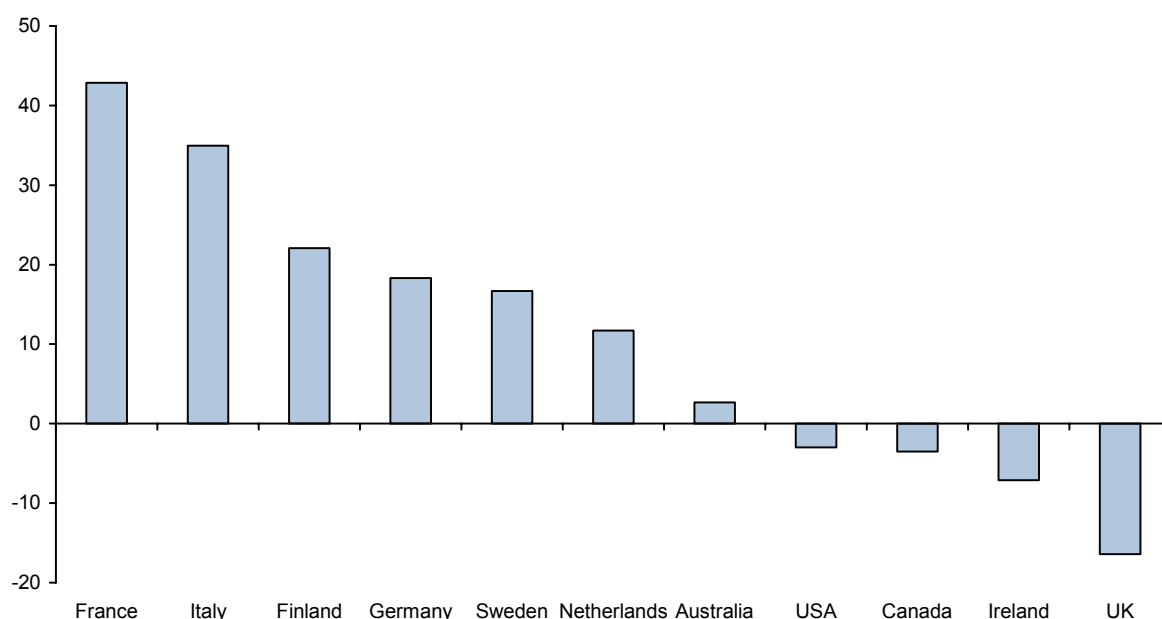
Source: Oxera calculations.

Figure 6.8 Comparison of average annual cost (adjusted) for a median-income family transactor credit card user (€)



Source: Oxera calculations.

Figure 6.9 Comparison of average annual cost (adjusted) for a pensioner transactor credit card user (€)



Source: Oxera calculations.

The amount paid by consumers in each country varies considerably. Given that domestic purchase transactions by credit card are free in all countries covered in this study, the costs shown are made up of two components:

- the annual fee on the credit card (greater than or equal to zero);
- the benefit to the consumer derived from the interest-free period, valued using the local inter-bank interest rate (a negative amount).²⁵ For any given interest rate, the longer the interest-free period, the greater the benefit from using a credit card.

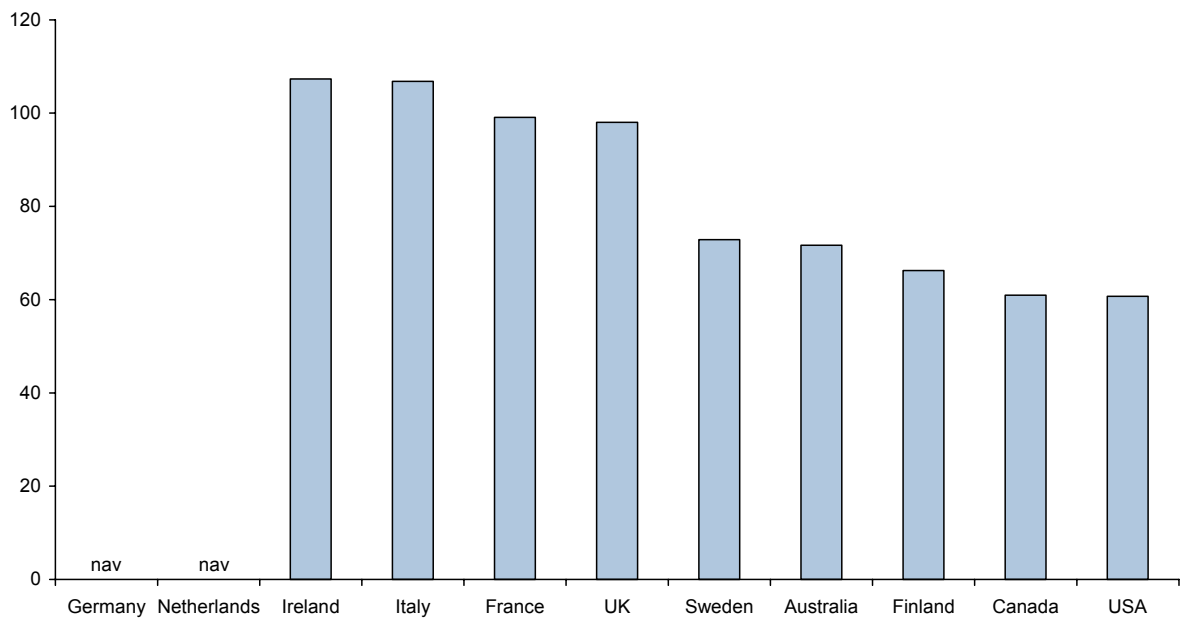
Hence, in those countries with negative costs (the UK, USA, Canada and Ireland), transactors are able to use credit cards without annual fees. UK transactors benefit the most from using credit cards due to the relatively long interest-free period in the UK and the absence of annual fees.

Italian, French and Finnish transactors pay the most for using credit cards as a consequence of banks in those countries charging annual fees on a large majority of credit cards.

Figures 6.10 to 6.14 show the average annual cost for a revolver consumer profile across all countries, for each profile. Germany and the Netherlands are not included in this comparison since the majority of credit cards on offer in these countries are charge cards linked to a current account. The interest rates quoted on revolved balances in these countries correspond to the interest rates on current account overdrafts. Consequently, this does not allow for a consistent comparison against credit cards held in other countries.

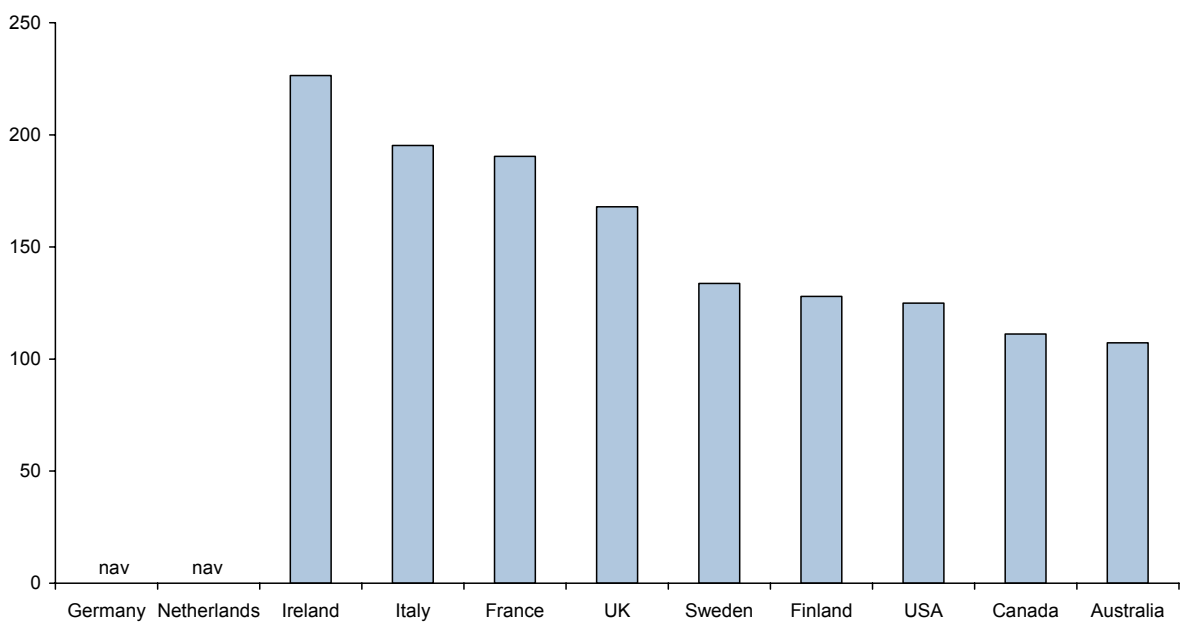
²⁵ This means that, in the calculations of the costs of using a credit card, the fact that underlying base interest rates are higher in the UK than in many other countries in this study (eg, Sweden, the USA and the Euro area countries) increases the benefits of the interest-free period to consumers.

Figure 6.10 Comparison of average annual cost (adjusted) for a student revolver credit card user (€)



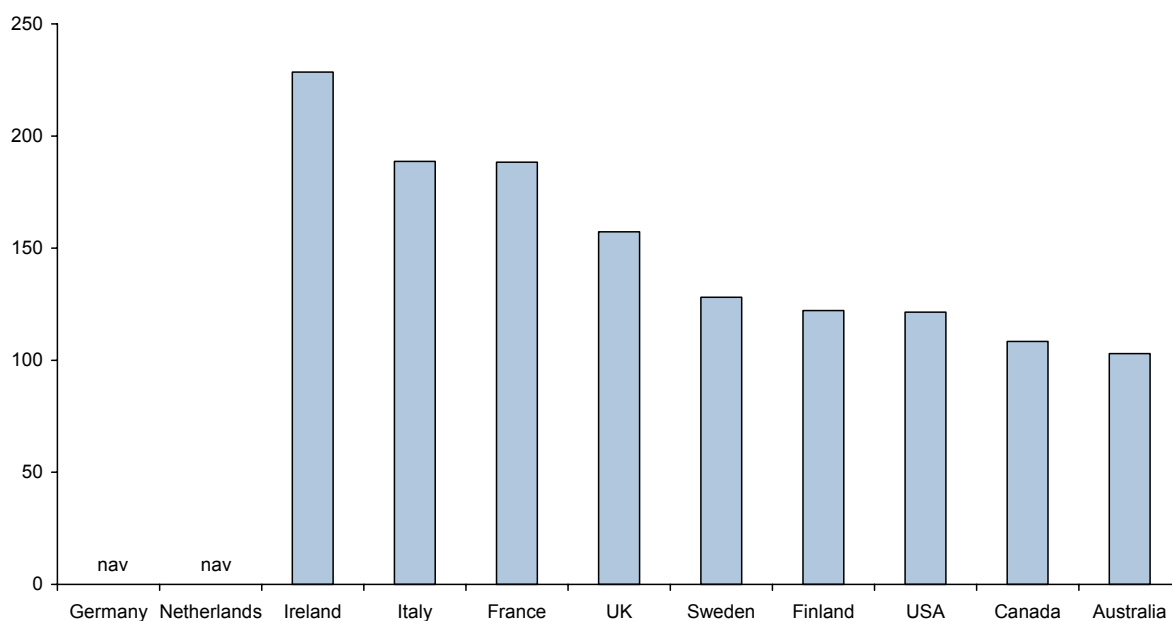
Note: nav denotes service not available.
Source: Oxera calculations.

Figure 6.11 Comparison of average annual cost (adjusted) for a young professional revolver credit card user (€)



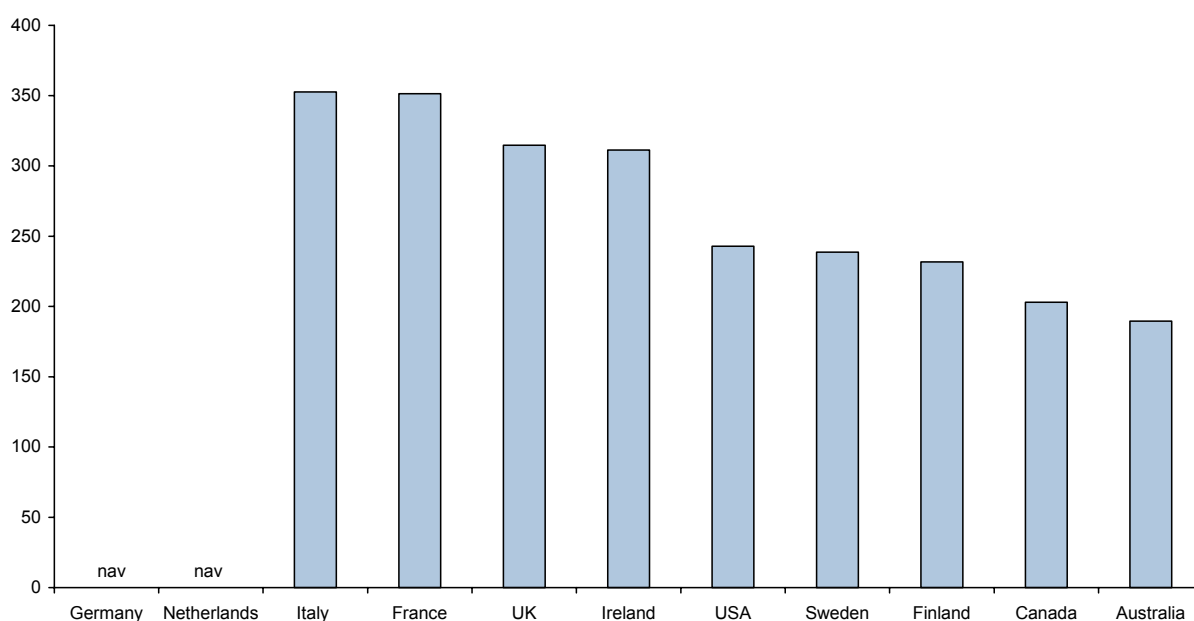
Note: nav denotes service not available.
Source: Oxera calculations.

Figure 6.12 Comparison of average annual cost (adjusted) for a low-income family revolver credit card user (€)



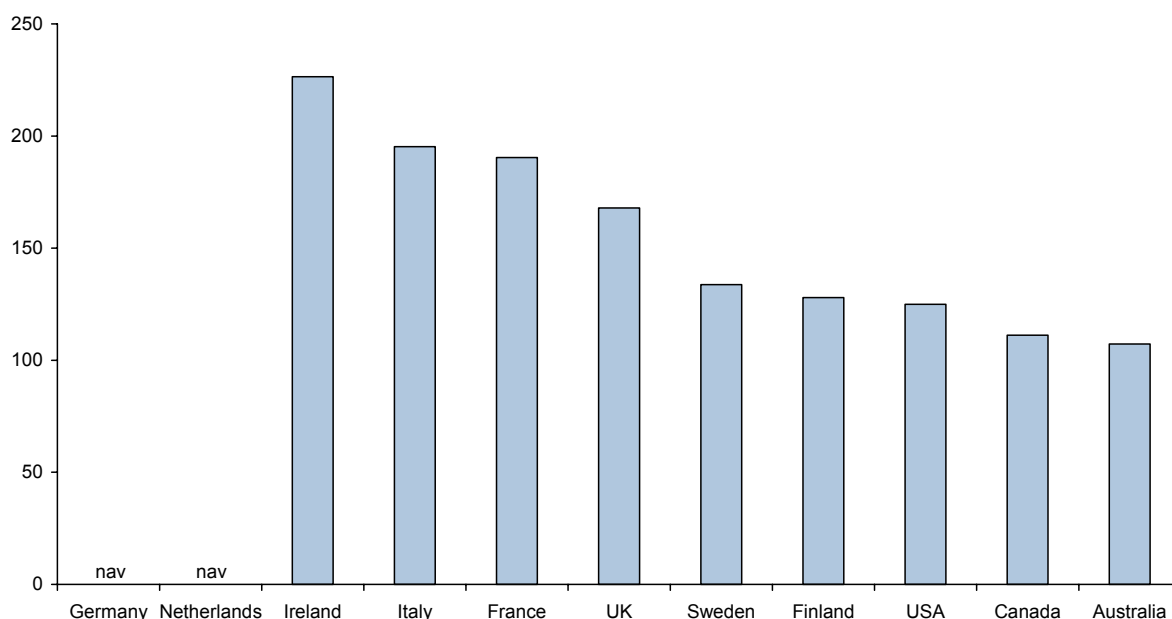
Note: nav denotes service not available.
Source: Oxera calculations.

Figure 6.13 Comparison of average annual cost (adjusted) for a median-income family revolver credit card user (€)



Note: nav denotes service not available.
Source: Oxera calculations.

Figure 6.14 Comparison of average annual cost (adjusted) for a pensioner revolver credit card user (€)



Note: nav denotes service not available.
Source: Oxera calculations.

In this comparison, the UK is mid-ranking, due to the relatively high (adjusted) interest rates. France, Ireland and Italy are more expensive countries for using revolving credit for most profiles. The cheapest countries—USA, Canada, Finland and Australia—all have relatively low APR rates, as shown in Figure 6.1. In the case of Finland, where annual fees are relatively high, the fact that it has the lowest average APR rate of all the countries covered in this study means that overall costs are still low despite the annual fees.

It should be noted that this analysis does not take into account the effects of the availability of credit. In some countries, the relatively low interest rates on loans may be a reflection of the limited availability of credit—credit is only offered to consumers with good credit ratings. In other countries, the high interest rates may be a reflection of the widespread availability of credit—ie, credit is also offered to consumers with impaired credit ratings, but at higher interest rates, resulting in higher average interest rates in those countries. In the UK, risk-based pricing is common and availability of credit is widespread.

In addition, in the case of Ireland, the credit cards used by all (revolving) consumer profiles are more expensive than their UK equivalents with the exception of median-income families. This is because of income restrictions on certain types of credit card in Ireland that offer lower interest rates than those offered to all consumers. The inclusion of these cards for median-income families (who would be the only profile likely to qualify to use them, given the income restriction) has the effect that credit cards in Ireland are cheaper than those used in the UK for this consumer profile.

7 Main findings of this report

The main findings of this report are as follows.

Overall assessment

- This study shows that a typical UK customer using a range of banking services is able to benefit from some of the cheapest services of all the countries in this study. This finding generally holds across the different consumer profiles. Finland and the Netherlands are also notable as countries with low-cost banking services.
- Credit card credit is the only product where the UK is mid-ranking. This may reflect the higher usage of credit in the UK—interest rates for consumers with higher risk profiles are likely to be higher than for consumers with lower risks, resulting in higher average interest rates.
- In addition, the UK has among the broadest range of services, with easy and cheap overdraft access from a current account (not available in Finland); access to cash overseas using debit card products (not available in Finland); instant-access savings products (not available, or less common, in Italy and the USA); and credit card products that allow extended borrowing (not available, or less common, in Germany and the Netherlands).
- Banks in the UK are among the most transparent of all the countries covered in this study. Fees and charges are disclosed by all banks and are easily understandable. Other countries where banks are similarly transparent include the Netherlands and Finland.

Usage of banking services by different types of consumer

- The consumer profile analysis 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 in using current account services are higher than those incurred by students and pensioners. This is mainly driven by a higher number of international ATM withdrawals and debit card transactions.
- Furthermore, some types of consumer are offered special deals. For example, in the UK, young professionals and students have access to free overdraft facilities. In France, there is a wide range of savings accounts with government-controlled interest rates—for example, for students and low-income families. In Ireland, median-income consumers receive credit cards with lower interest rates than those offered to all consumers.

Products

- The fees on UK current accounts, and the total costs of using current accounts (ie, including the costs of overdrafts), are consistently among the lowest in all of the countries covered in this study. Only current accounts in the Netherlands charge consistently lower fees than in the UK for most types of consumer.
- The difference in the level of costs of current accounts between the UK and other countries can be due to a price effect (for example, 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 more detailed price–volume analysis of current accounts shows that, for most of the comparisons of current accounts, higher or lower costs are simply a reflection of higher or lower prices rather than of a significant difference in usage of particular services. However, in some countries, the volume effect is more important: for example, in the USA, where some types of consumer appear to

incur similar or lower costs in using current account services than consumers in the UK. This masks a reduction in the levels of service—ie, consumers use fewer current account services than their UK counterparts and pay a higher price for these services. 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.

- For consumers who pay off the entire balance on their credit cards on time and every month, UK credit cards are the most competitive across all of the countries. This is due to the rarity of annual fees and the relatively long interest-free period in the UK.
- For consumers who regularly revolve the balances on their credit cards, the UK is mid-ranking in terms of its competitiveness. Italy, France and Ireland are consistently more expensive.²⁶
- When adjusted for underlying interest rates, personal loans in the UK are, for most profiles, cheaper than loans in all other countries covered in the study. The exception is loans for students, who nonetheless have access to government-sponsored student loans and interest-free overdrafts. The UK also has some of the lowest arrangement fees and administration/management fees.
- The returns on instant-access savings accounts in the UK are among the most competitive of all the countries covered in this study. In most countries, the interest rates are higher on three-year-term accounts than on instant-access accounts. It could be argued that this is to be expected, given that consumers may need to be ‘compensated’ through higher interest rates for the lower level of accessibility of funds. However, in the UK, the Netherlands and Australia, the opposite holds: the average interest rate on instant-access accounts is slightly higher than that on three-year-term accounts. One reason for this may be that banks in these countries offer most of their savings accounts on an instant-access basis, and therefore compete most vigorously for such savings.

²⁶ Except for median-income families in Ireland.

Table 8.1 Sample of banks in the UK

Current accounts	
Barclays	Abbey
Royal Bank of Scotland/NatWest	Alliance & Leicester
Halifax/Bank of Scotland	The Co-operative Bank
LloydsTSB	Nationwide
HSBC	First Direct
Credit cards	
Barclaycard	Halifax
Royal Bank of Scotland/NatWest	Bank of Scotland
LloydsTSB	Goldfish
HSBC	Egg
MBNA	Marks & Spencer
Capital One	AMEX
Personal loans	
Barclays	Abbey
Royal Bank of Scotland/NatWest	Northern Rock
Halifax	Alliance & Leicester
Bank of Scotland	Nationwide
LloydsTSB	Egg
HSBC	MBNA
Savings accounts	
Barclays	Abbey
Royal Bank of Scotland/NatWest	Bradford & Bingley
Halifax	Alliance & Leicester
Bank of Scotland	ING
LloydsTSB	Egg
HSBC	Nationwide

Privately owned banks dominate the retail banking sector in the UK, with the largest being HSBC, Barclays, LloydsTSB, RBS/NatWest and HBOS. In recent years, Internet banks have also been developed (eg, Egg, Cahoot and Smile). UK supermarkets have entered the market for retail financial services, and some specialised monoliners (eg, Capital One and MBNA) have entered the credit card market. A few monoliners and Internet banks are included in the sample used for this study.

Next to the wide choice of privately owned providers of financial services are a large number of mutually owned building societies. The largest of these is Nationwide, which is included in the sample of banks to ensure that building societies are represented.

8.1 Observations on product offerings

The UK retail banking market can be characterised as well developed and transparent, with a wide variety of products available to consumers in most income ranges. Recent government initiatives aimed at reducing financial exclusion have encouraged banks to introduce basic bank accounts to the market, enabling consumers with low income and/or a poor credit rating to have current accounts and access to payment facilities.

There are two main types of ownership of retail financial services provider: privately owned banks and mutually owned building societies.

The credit market in the UK is highly developed, as reflected in the variety of credit products available from a large number of providers, and in the relatively high levels of borrowing. In 2005, the value of outstanding consumer credit in the entire Euro area was equal to around £360 billion—by comparison, the equivalent in the UK amounts to around £190 billion.²⁷

Data on approximate market shares was provided by the BBA. Together, the UK banks included in this study account for at least 80% of the UK deposit and lending market.

8.2 Transparency

There is a relatively high level of transparency of banking charges in the UK. Banks routinely publish interest rates for all their accounts, as well as transaction charges, and other service charges.

In addition to the details made available by UK banks, the following alternative sources provide information:

- consumer magazines, such as *Which?*, periodically compare bank charges for products, including current accounts, credit cards, loans and savings accounts;
- newspapers commonly compare interest rates on savings accounts, although they typically do not cover the costs of retail financial products in much detail;
- specialist websites such as Interactive Investor (www.iii.co.uk) routinely look at and compare financial products on offer in the UK.

²⁷ European Central Bank (National Components 1.1.3.2.1) and Bank of England series LPQVZRI.

9 Australia

Table 9.1 Sample of banks in Australia

National Australia Bank	St George Bank
Australia and New Zealand Banking Group	Bank of Western Australia
Westpac Banking Corporation	ING Australia (for savings accounts only)
Commonwealth Bank of Australia	

Information on market shares was derived from the Australian Prudential Regulatory Authority's statistics on bank deposits and lending activities to households. Together, the Australian banks covered in this survey have a market share of 87% in both household deposits and household loans.

9.1 Observations on product offering

The majority of retail banking services in Australia are provided by privately owned banks; the mutual sector is relatively small.

Although annual fees are payable on a large number of the bank accounts advertised by banks, most banks provide basic functionality accounts with limited free transactions. According to the Australian Bankers' Association, 40–60% of consumers pay no annual account fees (the exact proportion varies according to the bank in question).²⁸ These basic functionality accounts have been included in the products covered in this study and may be used by certain consumer profiles, depending on the total cost of running the account, given the behaviour of each representative consumer type.

9.2 Transparency

The level of transparency in Australia is mixed. While most fees are disclosed by all of the Australian banks covered in this study, the complexity of their products and charging structures is not matched by clear explanations of when certain charges apply. This was found to be the case particularly for current accounts and personal loans, where there were also several significant gaps in the availability of information on charges and interest rates.

²⁸ Australian Bankers' Association Fact Sheets, 'Affordability of Banking' and 'Fee Free and Low Cost Banking'.

9.3 Consumer profile price comparisons—current accounts

Table 9.2 Consumer profile: comparing the UK and Australia (€)

	Total charges		Fees only	
	UK charges	Australian charges	UK fees	Australian fees
Student				
UK	11	115	14	60
Australian	9	90	12	36
Young professional				
UK	32	263	35	188
Australian	28	210	31	135
Low-income family				
UK	21	149	13	111
Australian	19	118	11	80
Median-income family				
UK	29	170	18	129
Australian	27	134	16	93
Pensioner				
UK	18	95	5	74
Australian	17	70	5	49

Source: Oxera calculations.

Table 10.1 Sample of banks in Canada

Bank of Montreal	Royal Bank of Canada
Canadian Imperial Bank of Canada	Scotia Bank
Desjardins Bank	TD Canada Trust

Retail banking in Canada is mainly provided by a number of large privately owned banks, and around 1,100 credit unions/caisses populaires.

The largest privately owned banks (Royal Bank of Canada, Scotia Bank, Bank of Montreal, Canadian Imperial Bank of Canada, National Bank of Canada and TD Canada Trust) together have a market share of 66% in deposits and 65% in loans.²⁹ The largest credit union, DesJardins, has branches concentrated in Quebec, although its services can be accessed nationally. Together, credit unions have a market share of around 24% in savings and 8% in loans.

10.1 Observations on product offering

Banking products in Canada are highly differentiated—in particular, banks offer a widely varying selection of current accounts, depending on the services required and the age/profile of the consumer. Often, there are trade-offs between annual fees and transaction charges. There is also a wide range of fees for transactions and enquiries, reflecting complex charging structures.

Overall, the types of service available from Canadian banks are similar to those available from banks in the UK, including extensive availability of Internet and telephone banking services.

10.2 Transparency

Despite the complexity of the product offerings from some banks, there is a high level of transparency of fees and charges, enabling consumers to work out in advance what type of account may be optimal for them.

²⁹ Canadian Bankers Association, <http://www.cba.ca/en/content/general/Section2.pdf>.

10.3 Consumer profile price comparisons—current accounts

Table 10.2 Consumer profile: comparing the UK and Canada (€)

	Total charges		Fees only	
	UK charges	Canadian charges	UK fees	Canadian fees
Student				
UK	11	68	14	50
Canadian	13	81	15	63
Young professional				
UK	32	123	35	106
Canadian	36	116	39	98
Low-income family				
UK	21	86	13	75
Canadian	23	93	14	82
Median-income family				
UK	29	88	18	74
Canadian	32	90	21	76
Pensioner				
UK	18	57	5	41
Canadian	19	54	6	38

Source: Oxera calculations.

11 Finland

Table 11.1 Sample of banks in Finland

Nordea	Osuuspankki Group
Sampo Bank	Aktia Savings Bank

The largest banks in Finland cover the vast majority of the market, and, as such, formed the focus of the study of retailing banking in Finland. Nordea is the largest bank in Scandinavia, with a large share of the market in all Scandinavian countries. Together, Nordea, Osuuspankki Group and Sampo bank account for around 85% of the market for both retail deposits and loans,³⁰ and Aktia Savings Bank accounts for around 2% of the market. There are also a number of small regional banks, but, even when considered together, their market share amounts to only around 8.5%.³¹

11.1 Observations on product offering

The range of retail banking products available in Finland is very similar to that in the UK, with some noticeable differences in their usage. Overdrafts appear to be less common in Finland than in the UK, while banking services via mobile phones are commonly provided in Finland.

An unusual feature of Finnish banking is the presence of offshore-type banking on the island of Åland, which is part of Finnish territory, but lies outside the EU. However, offshore banking is not covered in this study; rather the emphasis is on the products and banks that would be used by typical consumers in mainland Finland.

11.2 Transparency

On the consumer banking side, the Finnish retail banking industry is characterised by a high degree of transparency. Banks make available extensive information over the Internet on a wide range of charges for all consumer retail products covered in this study. In addition to the information provided by the banks, the consumer organisation, Kuluttajat-Konsumenterna, publishes comparisons of financial products.³²

³⁰ Market share figures are available from the Finnish Bankers' Association. www.suomenpankkiyhdistys.fi.

³¹ Finnish Savings Bank. www.säästöpankki.fi.

³² <http://www.kuluttajat-konsumenterna.fi/pankkipalvelu/pankkipalvelut.htm>.

11.3 Consumer profile price comparisons—current accounts

Table 11.2 Consumer profile: comparing the UK and Finland (€)

	Fees only	
	UK fees	Finnish fees
Student		
UK	1	7
Finnish	1	7
Young professional		
UK	4	7
Finnish	8	7
Low-income family		
UK	1	31
Finnish	3	31
Median-income family		
UK	2	31
Finnish	4	31
Pensioner		
UK	1	31
Finnish	2	31

Note: Since the Finnish banks do not offer an overdraft equivalent, only the current account fees are compared rather than overall charges including overdrafts.
Source: Oxera calculations.

Table 12.1 Sample of banks in France

BNP Paribas	Crédit Agricole (Ile de France)
Société Générale	Crédit Lyonnais
Caisse d'Epargne (Ile de France)	Banque Populaire (Ile de France)
Crédit Mutuel (Ile de France)	

There were around 1,000 banks in France in 1998, most of them relatively small. It is estimated that the banks used in this study cover around 80% of the market.³³ However, the former savings banks (Caisse d'Epargne), mutual banks (Crédit Mutuel), agricultural banks (Crédit Agricole) and Banque Populaire operate on a regional basis. Consequently, there is scope for regional variations in charges. The regional banks in the Ile de France/Paris region were therefore chosen for the purposes of this study as representative of the mutual sector.

Market share information for current and savings accounts was derived from data on the value of deposits (taken from Bankscope), and for credit cards and loans from data on the value of loans (also taken from Bankscope).

12.1 Observations on product offering

12.1.1 Current accounts

In France, it is possible to have current accounts with no annual fee, although the banks, which mainly advertise packaged accounts, do not specifically market these. For an annual fee, these packaged accounts may offer a free or reduced-price debit card, a number of free ATM transactions from host banks (ATM transactions with the bank offering the packaged account are free), and other optional extras, such as better rates on overdrafts, insurance products (eg, on credit and debit card loss), and free or discounted Internet and phone banking. Accounts with and without annual fees have been included in the survey to ensure that the coverage is as representative as possible of the products on offer in the market.

By law, until 2005, banks were not allowed to pay interest on current accounts; however, some have since started to do so.

12.1.2 Savings accounts

Savings schemes are available in various forms in France, many of which are tax-free. Several tax-free accounts have interest rates that are set by the French government (although the amount that can be invested in these accounts is limited). All of these accounts are instant-access. Table 12.2 presents a summary of the main tax-free savings schemes available in 2005.

³³ Association Française des Banques, www.afb.fr.

Table 12.2 Overview of state-sponsored saving schemes in France

	Livret A	Livret bleu	Codévi	LEP	Livret Jeune
Bank where accounts are available	Caisse d'Epargne and La Poste	Crédit Mutuel	All main banks	All main banks	All main banks
Basis of account holding	Cannot hold both a Livret A and a Livret bleu	Cannot hold both a Livret A and a Livret bleu		Low income (based on income tax payments)	Young people aged 12–25
Balance limit excluding interest (€)	15,300	15,300	4,600	7,700	1,600
Interest rate (%)	2.25%	2.25	2.25	3.25	Minimum 2 (usually 4)

Source: Testé Pour Vous, Association Française des Banques.

As in Germany, there are tax-free savings accounts linked to mortgages (eg, a higher interest rate is paid if the money in the account is used to buy a house). While such accounts may be widely used by certain sections of the French population, they are not included in the analysis because the return on this investment is not only a function of interest rates, but also a result of government contributions to these accounts.

Due to the existence of several tax-free savings accounts, the banks' own offerings of savings products are fairly limited.

12.2 Transparency

Most banks publish a list of their charges on current accounts, although it is not always clear when certain charges are incurred. This is particularly the case for charges such as those for bounced payments. Often, more than one charge is cited for these, and it is unclear whether both or either charge will be imposed. The French Bankers' Association informed Oxera that the French regulatory authorities were addressing this lack of clarity. By the end of 2005, banks were legally required to use an official list of charges, which is likely to be more readily comparable between the banks.

Consumer associations, such as Que Choisir, and specialised websites, such as Testé Pour Vous, have undertaken comparisons of the costs of banking. However, these studies usually look at a small sample of charges, or are not explicit about the assumptions they make with respect to consumer behaviour.

The information on interest rates on loans is limited, as these are often negotiated individually. Therefore, for the cross-country comparison, the average APR on loans for Q3 2003 was used (Banque de France provided this data).

The credit card offer is limited and charge cards are more common. As in Italy, because credit cards are not widespread, they are seen primarily as a credit product. While it is possible to pay off the whole balance every month, it is Oxera's understanding that interest is incurred as soon as a purchase is made on most credit cards. There is therefore no interest-free period on revolving credit cards.

Information from Cartes Bancaires indicates that the split between revolving credit cards and charge cards is 1:7 (ie, there are seven times as many charge cards as credit cards). Nevertheless, lending on credit cards accounted for 22.1% of consumer credit in 2003.³⁴ To

³⁴ Banque de France.

ensure consistency across the comparison, only revolving credit cards have been considered.

12.3 Consumer profile price comparisons—current accounts

Table 12.3 Consumer profile: comparing the UK and France (€)

	Total charges		Fees only	
	UK charges	French charges	UK fees	French fees
Student				
UK	11	73	14	62
French	10	69	13	58
Young professional				
UK	32	128	35	112
French	34	115	37	99
Low-income family				
UK	21	86	13	76
French	22	81	14	72
Median-income family				
UK	29	94	18	82
French	33	93	22	81
Pensioner				
UK	18	78	5	65
French	20	80	8	66

Source: Oxera calculations.

Table 13.1 Sample of banks in Germany

National banks	
Deutsche Bank	Commerzbank
Dresdner Bank	HypoVereinsbank
Postal savings bank	
Postbank	
Regional banks	
Landesbank Baden-Württemberg	Deutsche Kreditbank DKB (Tochterunternehmen der BayernLB)
Norddeutsche Landesbank (NordLB)	
Savings banks	
Sparkasse Chemnitz	Kreissparkasse Sangerhausen
Kreissparkasse Köln	Sparkasse Nördlingen
'Volksbanken'	
Berliner Volksbank	

The structure of the retail banking industry in Germany is radically different from that in the UK. There are also differences in the provision of certain products, particularly credit cards.

In Germany, there are at least four different types of bank, as outlined below.

- *Banks with national coverage* ('Großbanken': Deutsche Bank, HypoVereinsbank, Dresdner Bank, and Commerzbank) have a relatively small share of the retail market, even though they provide branch-based services in major towns throughout the country.
- *Postbank*—based in branches of the German post office, this bank has an extensive network and provides an array of retail banking services.
- *Regional banks* ('Landesbanken', eg, WestLB and Landesbank Baden-Württemberg)—based primarily in each of the German Länder, regional banks often provide retail banking services, as well as corporate banking services.
- *Local banks*—an unusual feature of German retail banking is the widespread use of local banks. There are several hundred such banks in Germany, most of which are limited to the county (ie, Landkreis) in which they are based. While some are based in the large cities, thereby providing retail banking services to relatively large numbers of consumers, others are based in small, sparsely populated areas and serve relatively few consumers. The majority of local banks belong to one of two networks of banks (although the banks themselves have a large degree of autonomy): Sparkassen, or Volksbanken/Raiffeisenbanken (derived from agricultural banking).

With so many banks in Germany, it is difficult to select a representative sample. The sample chosen was intended to represent as broadly as possible the different types of bank in Germany, while also covering as great a proportion of the market as possible.

Market share data in Germany is limited. In terms of private retail deposits, the Großbanken together have a market share of around 42%, while the Landesbanken and Sparkassen have a market share of around 38%.³⁵

13.1 Observations on product offering

13.1.1 ATM charges

Given the fragmented nature of retail banking in Germany, the groupings of banks often differentiate between ATM charges *within* the network of banks to which a particular bank belongs (typically free cash withdrawals from a bank's own ATM machines, as well as the machines of other members of its network), and ATM charges outside of that network (which in general attract a charge). For example, the Großbanken often belong to one network for the purpose of ATM withdrawals. The same applies for Sparkassen and Volksbanken/Raiffeisenbanken: a consumer who holds an account with one Sparkasse or Volksbank can typically withdraw money from all other Sparkassen or Volksbanken (even though each local bank is run separately).

13.1.2 Credit cards and charge cards

A further significant difference in the product offering in Germany is the availability and use of credit cards. While credit cards are available for German consumers, most cards in use are charge cards (which carry Visa or MasterCard signs). These cards are typically linked to a current account so that the balance on the card is paid off automatically from the funds in a consumer's current account. Rather than borrowing on a credit card, if a consumer has insufficient funds to cover the balance to be paid on the card, their current account goes into overdraft.

In this study, the representation of a typical German consumer therefore differs significantly from that in the UK. While, in the UK, the typical consumer holds a credit card (and some use significant amounts of revolving credit on those cards), in Germany this is not possible; as such, it is not possible to make a comparison with UK credit card usage.

13.1.3 Savings accounts

Another significant difference is the existence in Germany of 'Bausparen' accounts. Consumers use these to save money to finance the construction of their houses. Bausparen accounts are also subsidised by the German government (through direct contributions into the account). While such accounts may be widely used by certain sections of the German population, they are not included in this analysis, as the return on the investment by consumers is not only a function of the interest rate, but also a result of government contributions to such accounts.

13.1.4 Current accounts

The annual fees and transaction charges for German accounts show an unusually high level of variation, reflecting the diversity of the German retail banking system.

Prices vary substantially between the large Großbanken. Even though the Sparkassen share the same logo and branding, prices between individual local Sparkassen may also vary. As such, the prices shown for German banking services are a weighted average of the listed prices (weighted according to market share), although there is considerable variation around this.

³⁵ Deutsche Bundesbank, 'Statistiken zum Zahlungsverkehr in Deutschland, 1999–2003'.

13.2 Transparency

The degree of transparency of German bank charges is more limited than, for example, in the UK and the Netherlands. Information on charges is often not available on banks' websites, and there is no single source of information on charges.

In line with this observation, where information is available on banks' websites, the level of detail varies, with only the basic charges typically being given. Even within bank branches, only basic information is often available, although in some cases information on the full set of charges was available in leaflets.

Surveys of bank charges on current accounts are undertaken and published by the German consumer organisation, Stiftung Warentest (Finanztest), and private publications such as *Forium*.³⁶ These surveys provide thorough coverage of basic bank charges, and base the calculation of charges on their own consumer profile. However, little or no information is included on detailed charges such as international transaction fees.

13.3 Consumer profile price comparisons—current accounts

Table 13.2 Consumer profile: comparing the UK and Germany (€)

	Total charges		Fees only	
	UK charges	German charges	UK fees	German fees
Student				
UK	11	70	14	58
German	8	44	11	32
Young professional				
UK	32	142	35	129
German	24	96	27	83
Low-income family				
UK	21	110	13	103
German	18	76	10	69
Median-income family				
UK	29	98	18	88
German	23	77	13	67
Pensioner				
UK	18	65	5	54
German	16	59	4	48

Source: Oxera calculations.

³⁶ Finanztest: www.finanztest.de; Forium: www.forium.de

Table 14.1 Sample of banks in Ireland

Current accounts	
AIB	National Irish Bank
Bank of Ireland	Permanent TSB
Ulster Bank	
Savings accounts	
AIB	EBS
Bank of Ireland	Northern Rock
Permanent TSB	Rabobank Direct
National Irish Bank	Ulster Bank
Anglo Irish Bank	
Loans	
AIB	National Irish Bank
Bank of Ireland	Tesco Personal Finance
Permanent TSB	Premier Direct
Ulster Bank	
Credit cards	
AIB	EBS
Bank of Ireland	National Irish Bank
Permanent TSB	Ulster Bank
Barclays	Tesco Personal Finance
MBNA	One Direct

The Irish market for retail banking is concentrated in the hands of the four largest banks. According to the most up-to-date publicly available information, an approximate breakdown of the market shares of the largest banks is as follows.

Table 14.2 Approximate breakdown of market shares of largest banks in Ireland (%)

AIB	30–35
Bank of Ireland	20–25
National Irish Bank	10–15
Permanent TSB	10–15
Smaller banks	2.5

Source: Irish Competition Authority (2003), 'Study of Competition in the (Non-investment) Banking Sector', (four largest banks) and Oxera estimate (smaller banks).

14.1 Observations on product offering

Overall, the product offering in Ireland is similar to that in the UK, with some notable differences, in particular regarding the taxation of retail financial services.

- The Irish government levies an annual stamp duty tax on payment and transaction cards, with the level of tax varying depending on the type of card.

Table 14.3 Level of tax on payment and transaction cases—Ireland (€)

Credit card	40 per account
Charge card	40 per card
Cash/ATM cards, and debit cards (single purpose)	10 per card
Combined cash/ATM and debit cards	20 per card

Source: Irish Tax and Customs.

- A stamp duty is also levied on cheques—in 2005, this was €0.15 per cheque.
- Banks in Ireland are required by law to gain approval from the Irish Financial Services Regulatory Authority before changing their charges; however, they are free to change their interest rates.

14.2 Transparency

Internet and telephone research of banking charges in Ireland conducted by Oxera indicated that, overall, there is a high degree of transparency of banking charges. In particular, the majority of interest rates and charges for a wide range of accounts are available on the banks' websites.

Transparency is also provided through regular surveys conducted by the Irish Financial Services Regulatory Authority, which cover charges for current accounts (a separate survey is undertaken for student accounts), credit cards, and personal loans. The surveys also cover several products that fall outside the scope of this study (eg, hire purchase products and various forms of insurance).

14.3 Consumer profile price comparisons—current accounts

Table 14.4 Consumer profile: comparing the UK and Ireland (€)

	Total charges		Fees only	
	UK charges	Irish charges	UK fees	Irish fees
Student				
UK	11	33	14	7
Irish	12	33	14	7
Young professional				
UK	32	128	35	88
Irish	31	123	34	82
Low-income family				
UK	21	88	13	53
Irish	21	84	12	50
Median-income family				
UK	29	93	18	55
Irish	28	87	17	49
Pensioner				
UK	18	44	5	8
Irish	16	43	4	6

Source: Oxera calculations.

Table 15.1 Sample of banks in Italy

Banca di Roma	SanPaolo IMI
Banca Nazionale di Lavoro	Banca Monte dei Pasche di Siena
UniCredit	Banca Intesa

The Italian Bankers' Association provided market share information. Together, the sample of banks covers 51.3% of retail deposits and 55.2% of retail loans in Italy.

15.1 Observations on product offering

15.1.1 Services

There are a number of significant differences between Italy and the UK in the types of retail banking service and their usage.

- There are few, if any, savings accounts available with the main Italian retail banks (ie, those that constitute the sample of banks in this study). Instead, Italian consumers who wish to save money in low-risk investments generally buy government bonds, with their banks acting as brokers. Purchasing bonds attracts management, custody and commission fees. This study therefore includes bonds as the main savings product in Italy.
- The use of charge cards is significantly more widespread in Italy than in the UK. Credit cards are also widely available from most banks. They tend to be marketed by individual banks, but issued by large credit card firms, such as Carta Sí, which issues Visa and MasterCard credit cards on behalf of a larger number of Italian banks. Capitalia also issues credit cards on behalf of banks within the Capitalia group (Banca di Roma, Banca di Sicilia and Bipop Carire).
- Italian banking organisations informed Oxera that it is common for couples and families (ie, including those with teenage children and dependent students) to share one account to reduce the level of annual fees payable. This is likely to be the result of the relatively high levels of annual fees in Italy. However, in this study, shared accounts (other than those shared between couples in the low- to mid-income families and pensioner consumer profiles) are not considered explicitly as a means of reducing charges. By looking at accounts held either by individual consumers or by couples, a like-for-like comparison of the level of services provided can be achieved.

Since the data on Italian credit cards was collected, it is understood that a number of other credit card products have been introduced by the major banks. However, as it is desirable for the purposes of the study to keep the comparison within as consistent a timeframe as possible, these new cards have not been included in the comparison.

15.1.2 Taxation

There are some significant differences between the taxation of consumer financial services in the UK and in Italy, specifically stamp duty charges (*imposta di bollo*) on the current accounts (charged at €34.20 per annum), and savings accounts (also charged at €34.20 per annum).

These taxes have been excluded from the analysis of charges, as explained in section 2.5.

15.2 Transparency

For retail banking, there is a stark contrast between the level of transparency of the individual banks and that of organisations that produce comparative data on banking charges.

- Most banks provide little information on any of their charges. Of all the products considered in this study, the information provided by banks on credit card charges was the most extensive. However, even here, details were only provided on basic charges in most cases.
- PattiChiari³⁷ collects extensive information on the charges for personal retail banking services from a large number of banks (including all of the largest banks in Italy, and all those included in the study sample). The information made available by PattiChiari is considerably more extensive than that provided by any of the individual banks, covering not only basic account charges, but also the charges for savings accounts, loans and credit cards. The information is set out in a common template for comparison on an account-by-account basis.
- While PattiChiari presents clear and extensive data on product/transaction charges for personal banking services in Italy, the way in which certain charges are incurred is often unclear. An example of this is a charge levied 'per line of statement' on certain accounts: even though consumers pay for a range of transactions, in some cases they pay an extra charge for each transaction listed on their statements. This is further complicated by a lack of explanation about which transactions attract such additional charges, as well as by the provision of a number of 'free transactions', on which only the transaction-specific fee is payable.
- PattiChiari focuses predominantly on personal retail banking services, and, by providing such in-depth information, considerably improves the transparency of Italian personal retail banking.

³⁷ As noted in section 2, PattiChiari was set up in conjunction with the Italian Bankers' Association to improve the transparency of Italian retail banking products, in particular current accounts.

15.3 Consumer profile price comparisons—current accounts

Table 15.2 Consumer profile: comparing the UK and Italy (€)

	Total charges		Fees only	
	UK charges	Italian charges	UK fees	Italian fees
Student				
UK	11	219	14	190
Italian	–3	87	0	58
Young professional				
UK	32	319	35	289
Italian	7	142	10	111
Low-income family				
UK	21	248	13	228
Italian	8	122	0	103
Median-income family				
UK	29	240	18	215
Italian	11	144	0	119
Pensioner				
UK	18	152	5	115
Italian	13	116	0	79

Source: Oxera calculations.

16 The Netherlands

Table 16.1 Sample of banks in the Netherlands

ABN AMRO	Postbank
Rabobank	SNS Bank
ING	Fortis Bank

The Dutch retail banking industry is dominated by a few established players. Of these, Rabobank existed originally as an agricultural bank, along similar lines to the Raiffeisenbanken in Germany. Postbank was started as a postal savings bank, before being privatised in 1986. Later, it merged with ING, but continues to exist as a separate brand.

Market share data, obtained from the Dutch Competition Authority, was used to weight the price data from the banks. Together, the Dutch banks included in this survey have a market share of almost 100% for current accounts, 85% for consumer credit, and 90% for savings accounts.³⁸

16.1 Observations on product offering

The financial products available in the Netherlands are similar to those in the UK, with a few exceptions:

- chip cards/cash cards are used fairly commonly in the Netherlands. These are effectively electronic purses that consumers can load up with credit and use instead of cash;
- credit cards are less commonly used in the Netherlands than in the UK. Rather, Dutch consumers tend to use charge cards linked to their current accounts. The balance on the card is automatically subtracted from the current account balance, and any credit extended takes place via an overdraft on the current account.

16.2 Transparency

There is a relatively high degree of transparency of banking charges in the Netherlands. Some banks, such as ABN AMRO, publish on their websites a detailed table showing all their charges. Others, such as Postbank, do not publish all charges on their websites, but make them easily obtainable in paper format from branches. For example, customers are advised to consult the leaflet 'Kostenoverzicht particuliere Girorekening' (overview of private giro account costs) at their branches.

³⁸ Nederlandse Mededingingsautoriteit, 'Monitor Financiële Sector 2004'.

16.3 Consumer profile price comparisons—current accounts

Table 16.2 Consumer profile: comparing the UK and the Netherlands (€)

	Total charges		Fees only	
	UK charges	Dutch charges	UK fees	Dutch fees
Student				
UK	11	12	14	3
Dutch	10	11	13	2
Young professional				
UK	32	30	35	15
Dutch	34	29	38	13
Low-income family				
UK	21	22	13	13
Dutch	22	21	14	13
Median-income family				
UK	30	26	18	14
Dutch	31	25	20	13
Pensioner				
UK	18	25	5	11
Dutch	20	25	7	11

Source: Oxera calculations.

17 Sweden

Table 17.1 Sample of banks in Sweden

Nordea	Ikanobanken
FöreningsSparbanken	Danske Bank (credit cards only)
Svenska Handelsbanken	ScandiaBanken
SEB	

Retail banking in Sweden is dominated by four large banks: FöreningsSparbanken, Nordea, Svenska Handelsbanken and SEB, which together had a market share of 78% in deposits, and 67% in lending, as at June 2005.³⁹ Competing with these are smaller national banks, such as Danske Bank and SkandiaBanken. There are also around 75 small local banks, which together have a market share of around 16–18%.

17.1 Observations on product offering

The financial products and services available in Sweden are broadly similar to those in the UK, although, in common with other Continental European countries, charge cards are widely available. Notwithstanding this, a wide range of credit cards is also available and these have been included in the credit card comparisons.

17.2 Transparency

There is a high level of transparency of banking charges and interest rates in Sweden. Banks publish an extensive range of charges on their websites, and organisations, such as Finansportalen, provide basic comparative information on a variety of financial services.⁴⁰

³⁹ Statistics Sweden, as set out in 'Banks in Sweden', Swedish Bankers' Association, 2005.

⁴⁰ Finansportalen: www.finansportalen.se.

17.3 Consumer profile price comparisons—current accounts

Table 17.2 Consumer profile: comparing the UK and Sweden (€)

	Total charges		Fees only	
	UK charges	Swedish charges	UK fees	Swedish fees
Student				
UK	11	161	14	67
Swedish	15	120	18	26
Young professional				
UK	32	219	35	124
Swedish	46	164	50	69
Low-income family				
UK	21	167	13	87
Swedish	27	122	18	42
Median-income family				
UK	29	172	18	85
Swedish	39	137	28	49
Pensioner				
UK	18	150	5	58
Swedish	22	123	9	31

Source: Oxera calculations.

Table 18.1 Sample of banks in the USA

Current accounts	
Wells Fargo	Bank One
HSBC	Pentagon Federal Credit Union
Bank of America	Coca-Cola Federal Credit Union
US Bancorp	First National Bank and Trust of Iron Mountain
Credit cards	
Wells Fargo	Capital One
HSBC	Pentagon Federal Credit Union
Bank of America	Coca-Cola Federal Credit Union
US Bancorp	MBNA
AMEX	Citizens Bank
Personal loans	
US Bancorp	Pentagon Federal Credit Union
Wells Fargo	Coca-Cola Federal Credit Union
Citizens Bank	
Savings accounts	
Wells Fargo	JPMorgan Chase
HSBC	US Bancorp
Bank of America	

The US retail banking market is complex and fragmented, with several types of ownership structure and regulatory regime.

- ‘National’ commercial banks are regulated by the Federal Reserve. This enables them to operate nationally.
- Commercial banks can also choose a state charter, under which they are regulated on a state-by-state basis. Regulations vary between states, so the products on offer may differ in specification and price, according to the state in which the bank provides its services. (In many cases, the same bank offers differing prices depending on which state the customer lives in.)
- There is also a large not-for-profit mutual sector, which concentrates on providing retail banking services. This sector comprises a large number of savings and loan associations and credit unions (also known as ‘thrift institutions’).
- Credit unions are run by and on behalf of their members. In many cases, they are organised at corporate level and are referred to as Special Employee Group credit unions (eg, the Coca-Cola credit union, the Navy credit union and the Pentagon credit union). Others are designed at the community/local level. Credit unions operate under a different regulatory regime to commercial providers of financial services. Federally insured credit unions are subject to regulation by the National

Credit Union Association. State-chartered credit unions are also subject to regulation by the Federal Trade Commission.

- Savings banks and savings and loan associations are regulated by the Office of Thrift Supervision.

Altogether across the USA, at the end of 2004, there were 9,014 federally insured credit unions (representing 83.6m consumers),⁴¹ 7,630 commercial banks,⁴² and 1,345 thrift institutions,⁴³ indicating a highly fragmented market.

As a result of this complexity, the US retail banking market shows variations in:

- charges and interest rates across states, reflecting differing regulations by state;
- availability of banking services from different types of bank. Many thrift institutions and credit unions are founded to serve local communities, so are only accessible by consumers in a certain area, or within a particular organisation. Moreover, although many nationally chartered banks provide services in more than one state, they will not always provide services in all states and, as described above, their charges may vary by state.

To give a reasonably representative view of the US retail banking market and to avoid a comparison of charges in those states with atypical forms of financial regulation, institutions were included from both the commercial and mutual/credit union sectors. Because of the variation in regulations between states (and to ensure consistency), the information collected from commercial banks relates to the north Midwest (Illinois, Michigan and Ohio). For credit unions, the Pentagon and Coca-Cola credit unions were taken as representative of the mutual sector, so that as full a reflection as possible could be provided of the retail banking industry in the USA.

Little information is available about the market share of the individual banks covered in this study. In calculating the average interest rates and charges on the range of products in this study, data on total deposits was used to provide appropriate weightings.

Data quoted in a recent paper on retail banking indicates that, within the market for deposits of less than \$100,000, credit unions have a 24% market share.⁴⁴ To reflect this, weightings were attached to the weighted averages of interest rates and charges from the commercial banks and the credit unions. Other data on the market shares of commercial banks was sourced from the Federal Reserve.

18.1 Observations on product offering

While the majority of retail financial services in the USA are easily comparable with those available in the UK, there are small but significant differences in the design and usage of certain products.

- Overdrafts are typically not available in the USA in the same form as in the UK (ie, in effect, a flexible loan where interest is payable on the overdrawn balance). Due to regulations on lending (usury laws), many US banks prefer to make overdrafts available without interest being payable, charging a fixed amount per agreed advance. This service is known as 'Courtesy Pay'.

⁴¹ National Credit Union Administration.

⁴² Federal Deposit Insurance Corporation.

⁴³ Office of Thrift Supervision.

⁴⁴ Critchfield, T., Davis, T., Davison, L., Gratton, H., Hanc, G. and Samolyk, K. (2004) 'The Future of Banking in America', *FDIC Banking Review*, 16:3. Also see Keeton, W., Harvey, J. and Willis, P. (2003) 'The Role of Community Banks in the US Economy', Federal Reserve Bank of Kansas City *Economic Review*, Quarter 2.

- BIS data shows that the levels of possession and use of credit cards by US consumers are significantly higher than in the other countries in this study. (The BIS Red Book cites for 2003 an average of 4.4 credit cards per inhabitant in the USA, compared with only 1.2 credit cards per head in the UK. There were also 63.0 annual credit card payments per head in the USA and only 34.8 credit card payments per head in the UK.) The range of credit cards available in the USA is very broad, including standard cards, affinity cards, low APR for annual fee cards, charity cards, and cashback cards. For this reason, the comparison in this study focuses on standard credit cards. Such cards are available in all countries included in this study, whereas other, more complex, cards are not.
- According to anecdotal evidence, Internet banking has not been taken up to the same extent as in many European countries. By contrast, cheques are used more prevalently in the USA than in European countries.

18.2 Transparency

The degree of transparency of US retail banking services is less than that of the UK, the Netherlands and Finland. Limited price data is available from the websites of banks and credit unions, although this is often made available by telephone when requested. It is understood that details of charges can be identified through the branches of most providers of retail banking services, possibly reflecting a model of branch-centred community banking in parts of the US retail banking market.

A number of commercially run websites also provide details of interest rates and basic transaction charges for retail financial services (eg, Bankrate.com and Creditcards.com).

18.3 Consumer profile price comparisons—current accounts

Table 18.2 Consumer profile: comparing the UK and the USA (€)

	Fees only	
	UK fees	US fees
Student		
UK	14	66
US	14	39
Young professional		
UK	35	67
US	35	36
Low-income family		
UK	13	48
US	13	23
Median-income family		
UK	18	42
US	19	27
Pensioner		
UK	5	20
US	5	4

Note: Since the US banks do not offer an overdraft equivalent, only the current account fees are compared, rather than overall charges including overdrafts.

Source: Oxera calculations.

Appendix 1 Consumer profile background information

The UK consumer profiles were based on data received from the four largest UK banks and APACS. As explained in section 2, the consumer profiles represent ‘typical’ consumers and include universal transactions and less common transactions. Exceptional transactions—ie, those that are undertaken by only a small minority of people—are not included. The prices of these transactions are, however, included in the rate card analysis.

It should be noted that only a certain proportion of consumers use credit card credit or a personal loan. Survey evidence indicates that 13% of consumers have a personal loan and 15% use credit card credit.⁴⁵ The percentage of consumers who use particular types of credit varies to some extent according to consumer profile.

Some consumers may have more than one type of debt. However, to keep the analysis simple, in the profiles below, the loan amounts are based on the assumption that consumers have either a personal loan or credit card credit.

It is useful to see how the loan amounts (for personal loans and credit cards) and implied interest payments compare with other sources.

- *Loan amount*—the loan amounts in Tables A1.3 and A1.4 may be higher than that which is indicated by survey data available in the public domain. For example, a survey from the Bank of England shows that consumers with an annual income of around £17,500 have on average an outstanding debt of around £4,800 (personal loan). However, it is widely accepted that surveys generally underestimate the total amount of outstanding debt.⁴⁶ The loan amounts in Tables A1.3 and A1.4 are directly based on industry data and are therefore more reliable.
- *Interest payments*—assuming that a low-income family pays off its personal loan of £7,000 in two years’ time, it would pay around £500 on average per year in interest. This is less than 3% of its annual income. Data from the Bank of England and ONS shows that, on average, consumers spend 2.5% of their annual income on interest payments (unsecured debt).⁴⁷ This estimate refers to all adults in the UK while, in practice, not all people have unsecured credit. This means that consumers with credit commitments are likely to spend more than 2.5% of their income on interest payments (unsecured debt).

A1.1 UK consumer profiles—current accounts

Table A1.1 shows the composition of each of the UK consumer profiles.

⁴⁵ See Bank of England (2003), ‘The Distribution of Unsecured Debt in the United Kingdom: Survey Evidence’, December.

⁴⁶ See Oxera (2004), ‘Are UK Households Over-indebted?’, April, section 4.3, pp. 25–26. Available at www.oxera.com.

⁴⁷ For a summary of data on borrowing by consumers, see Oxera (2004), op. cit. (see in particular Table 5.8).

Table A1.1 UK consumer profiles

	Student	Young professional	Low-income family	Median-income family	Pensioners
Account balances					
Average (authorised) overdraft (£)	800	900	500	700	800
ATM transactions					
Number of cash withdrawals					
in own-currency area					
own bank	18	24	25	24	14
host bank	55	65	46	35	10
outside own-currency area	2	3	1	1	0
Average value per cash withdrawal outside own-currency area (£)	65	88	100	123	-
Payment transactions					
Number of debit card payments					
within own-currency area	136	141	114	120	76
outside own-currency area	2	5	2	3	1
Average value per debit card payment outside own-currency area (£)	42	56	57	70	78
Number of direct debit payments	29	121	60	74	45
Number of standing order payments	4	21	9	12	8
Number of telephone payments	1	2	2	2	0
Number of Internet payments	1	5	2	4	1
Number of payments by cheque	16	34	25	33	41
Transactions set up					
Number of direct debits set up	2	4	4	4	3
Number of standing orders set up	0	1	0	0	0

Source: Oxera calculations.

A1.2 Foreign macro-level transaction data

Table A1.2 shows the macro-level transaction data for each country covered in this study. As explained in section 2, this data was used to construct the non-UK consumer profiles.

Table A1.2 International macro-level transaction data, 2003

	Australia	Canada	Finland	France	Germany	Ireland	Italy	Netherlands	Sweden	UK	USA
ATM cash withdrawals											
Number of ATM transactions per inhabitant	35.8	43	44	20	40	43	11	30	37	40	37.1
Debit card payments											
Number of cards per 1,000 inhabitants	1,030	n/a	793	722	1,097	273	484	1,336	622	1,059	902.3
Number of payment transactions per debit card	47.3	n/a	100.3	97.8	18.5	55.6	21.7	53.3	119.8	53.5	70.2
Credit card payments											
Number of cards per 1,000 inhabitants	925	1,671.4	952	n/a	394	467	441	351	409	1,200	4,384.1
Number of payment transactions per credit card	55.8	30.9	27.4	n/a	17.9	48.1	14.6	7.7	24.2	29	14.4
Number of payment transactions by credit/ debit card per inhabitant	n/a	133.3	106	71	27	38	17	74	84	87	126.3
Credit transfers											
Number of transactions per inhabitant	47.2	23	109	42	69	10	18	78	48	37	14.4
Cheques											
Number of transactions per inhabitant	28.7	45.7	0.2	64	1.6	18.7	8.7	neg	0	37.9	126.1
Direct debits											
Number of transactions per inhabitant	17.8	17.7	12	38	64	10	12	61	15	41	11.5

Note: n/a, not available.

Source: BIS Red Book, ECB Blue Book. Australian data was sourced from several organisations. Data on cheques and credit transfers: Reserve Bank of Australia, table C03 'Cheques and Direct Entry Payments', Series CCDEPCTN and CCDEPDEPCTN; data on credit cards: Australian Payment Clearing Association; data on ATM withdrawals: Reserve Bank of Australia, table C02, 'Debit Card Statistics', Series CDCACTN; data on direct debits: Australian Payments Clearing Association.

A1.3 UK consumer profiles—personal loans

Table A1.3 shows the consumer profiles for those taking out personal loans, based on data from the four largest UK retail banks.

Table A1.3 Consumer profiles for personal loans (£)

	Student	Young professional	Low-income family	Median-income family	Pensioners
Amount borrowed	4,000 ¹	8,000	7,000	9,000	9,000 ¹

Note: ¹ Only a very small proportion of students and pensioners (around 5%) have a standard personal loan. Students often have government-sponsored student loans.
Source: Oxera.

A1.4 UK consumer profiles—savings accounts

For savings accounts, a constant value of €5,000 (around £3,500) was assumed for all consumer profiles.

A1.5 UK consumer profiles—credit cards

Tables A1.4 and A1.5 show the consumer profiles for transactors and revolvers. The profiles are based on data from the four largest UK retail banks.

Table A1.4 Consumer profile—account balances for transactors and revolvers (£)

	Student	Young professional	Low-income family	Median-income family	Pensioners
Transactors					
Total value of domestic purchases during the year	1,000	2,000	2,000	5,000	3,000
Average value of revolved credit over the year	–	–	–	–	–
Revolvers					
Total value of domestic purchases during the year	1,000	3,000	2,000	4,000	3,000
Average value of revolved credit over the year	500	1,000	1,000	2,000	1,000

Source: Oxera.

Appendix 2 List of organisations contacted

Table A2.1 Associations and central banks consulted during the study

Country	Organisation
Australia	Australian Bankers' Association
	Australian Payments Clearing Association
Canada	Canadian Bankers' Association
France	Fédération Bancaire Française (French Bankers' Association)
	Cartes Bancaires (French Bank Card Association)
Finland	Suomen Pankkiyhdistys (Finnish Bankers' Association)
Germany	Deutscher Sparkassen- und Giroverband (Savings Unions Association)
	Bundesverband Deutscher Banken (German Bankers' Association)
	Deutsche Bundesbank (German Central Bank)
Ireland	Irish Bankers' Federation
Italy	Associazione Bancaria Italiana (Italian Bankers' Association)
Netherlands	Nederlandse Vereniging van Banken (Dutch Bankers' Association)
Spain	Asociación Española de Banca (Spanish Bankers' Association)
	Banco de España (Spanish Central Bank)
	Confederación Española de Cajas de Ahorros
	ADICAE (Spanish consumers' association)
UK	British Bankers' Association
	Association for Payment Clearing Services
USA	American Bankers' Association

Table A2.2 Official and statistical websites consulted during the study

Country	Organisation name and description	Website
Australia	The Australian Prudential Regulation Authority	www.apra.gov.au
	Australian Bureau of Statistics	www.abs.gov.au
Canada	Canadian Payments Association	www.cdnpay.ca
	Statcan (Statistics Canada)	www.statcan.ca
Finland	Kuluttajat-Konsumenterna (consumers' association)	www.kuluttajat-konsumenterna.fi
	Suomen Pankki (Finnish Central Bank)	www.bof.fi
	Säästöpankki (savings banks)	www.savings-banks.fi
France	Insee (Statistics France)	www.insee.fr
	Banque de France (French Central Bank)	www.banque-france.fr
	Statistics on credit	www.cofidis.fr
	UFC QueChoisir (French Consumer Association)	www.quechoisir.fr
	Association Française des Sociétés Financières (French Association of Financial Firms)	www.asf-france.com
	Guide du Crédit (French comparator site)	www.guideducredit.com
	123immo (French comparator site)	www.123immo.fr
	L'internaute (French comparator site)	www.linternaute.com
Germany	Destatis (Statistics Germany)	www.destatis.de
	Creditreform (German market intelligence on credit)	www.creditreform.de
Ireland	Irish Financial Services Regulatory Authority (IFSRA)	www.ifsra.ie
	Irish Payment Services Organisation (IPSO)	www.chipandpin.ie
Italy	Comparison of Italian current accounts	www.pattichiari.it
	Banca d'Italia (Italian Central Bank)	www.bancaditalia.it
	Istat (Statistics Italy)	www.istat.it
	Adusbef (Italian consumers' association)	www.adusbef.it
	Italian Treasury	www.dt.tesoro.it
Netherlands	Nederlandsche Bank (Dutch Central Bank)	www.dnb.nl
	Nederlandse Mededingingsautoriteit (Dutch Competition Authority)	www.nmanet.nl
Spain	INE (Statistics Spain)	www.ine.es
Sweden	Svenska Bankföreningen (Swedish Bankers' Association)	www.bankforeningen.se
	Statistika Centralbyrån (Statistics Sweden)	www.scb.se
	Finansportalen (comparator site)	www.finansportalen.se
	Sveriges Riksbank (Swedish Central Bank)	www.riksbank.se
UK	Office of National Statistics	www.statistics.gov.uk
	Bank of England	www.bankofengland.co.uk
	Moneyfacts (comparator site)	www.moneyfacts.co.uk
USA	US comparator site	www.bankrate.com
	Consumer Federation of America	www.consumerfed.org
	Federal Reserve	www.federalreserve.gov
	National Credit Union Administration	www.ncua.gov

Country	Organisation name and description	Website
	Credit Union National Association	www.cuna.org
	Center for Responsible Lending	www.responsiblelending.org
	Federal Deposit Insurance Corporation	www.fdic.gov
	National Credit Union Administration	www.ncua.gov
International	Eurostat	europa.eu.int/comm/eurostat/
	Bank for International Settlements	www.bis.org
	European Central Bank	www.ecb.int

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