Competition in the (non-investment) banking sector in Ireland

September 2005

The Competition Authority
An tÚdarás Iomaíochta

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Glossary of Terms

ACH **Automated Clearing House**
A system whereby electronic clearing of monetary transactions is conducted through a central clearing house, or hub, rather than bilaterally between each financial institution.

ATM **Automated Teller Machine**
A remote means of withdrawing cash or accessing certain other banking services from one's bank account.

BIS **Bank for International Settlements**
The BIS is an international organisation which fosters cooperation among central banks and other agencies in pursuit of monetary and financial stability. Its banking services are provided exclusively to central banks and international organisations.

CBFSAI **Central Bank and Financial Services Authority of Ireland**
The corporate entity established under the Central Bank and Financial Services Authority of Ireland Act, 2003. The CBFSAI is composed of two constituent but independent entities, the Central Bank and the Financial Regulator.

DCA **Director of Consumer Affairs**
The Director of Consumer Affairs is an independent statutory officer responsible for providing advice and information to consumers, the regulation of credit intermediaries, the licensing of pawnbrokers and the enforcement of a wide range of consumer protection legislation.

ECB **European Central Bank**
The ECB is the central bank for Europe's single currency, the euro. The ECB's main task is to maintain the euro's purchasing power and thus price stability in the euro area. The euro area comprises the 12 European Union countries that have introduced the euro since 1999.

EPC **European Payments Council**
The EPC is the decision-making and coordination body of the European banking industry in relation to payments. Its purpose is to support and promote the creation of the Single European Payments Area (SEPA).

FATF **Financial Action Task Force on Money Laundering**
The FATF is an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing.

The Financial Regulator
Established under the Central Bank and Financial Services Authority of Ireland Act, 2003, the Financial Regulator is responsible for the regulation of financial services providers, promoting consumer awareness and looking after the best interests of users of financial products and services. Although its legal title will remain as IFSRA, the body is being re-branded as "The Financial Regulator" during 2005.

FSA **Financial Services Authority**
The FSA is the regulator of the financial services industry in the UK.

GCCNI **General Consumer Council of Northern Ireland**
The GCCNI is a statutory body whose aims are to promote and safeguard the interests of all consumers in Northern Ireland.

IBF **Irish Bankers Federation**
The IBF is the representative body for the banking industry in Ireland.

ICB **Irish Credit Bureau**
The ICB is the largest credit referencing bureau in Ireland. It is owned and operated by its constituent members, all of whom are financial institutions.

IFSRA **Irish Financial Services Regulatory Authority**
See "The Financial Regulator"

IMC **Irish Mortgage Council**
The IMC is the representative body for mortgage lenders in the Republic of Ireland. Membership comprises eleven financial institutions.

IPCC **Irish Paper Clearing Company**
The IPCC is the clearing company responsible for overseeing and setting standards for the exchange between financial institutions of paper items, such as cheques.

IPSO **Irish Payment Services Organisation**
IPSO is the representative, strategic and technical support body for the Irish financial payments industry. The Clearing Companies operate under the umbrella of IPSO, each of which is responsible for its own operating rules, settlement procedures, standards and access criteria.

IRECC Irish Retail Electronic Clearing Company
IRECC is the clearing company responsible for overseeing and setting standards for the exchange between financial institutions of lower-value electronic transactions.

MLSC Money Laundering Steering Committee
The MLSC is the national consultative body for issues arising from anti-money laundering legislation, in particular the Criminal Justice Act, 1994. The MLSC issues Guidance Notes to the financial industry which are designed to assist in clarifying industry responsibilities under anti-money laundering legislation. The members of the MLSC are the Department of Finance (Chair), the Department of Justice, the Department of Enterprise, Trade and Employment, the CBFSAI, the Financial Regulator, An Garda Síochána, the Revenue Commissioners, An Post, the IBF, the Irish Mortgage Council, the Irish Finance Houses Association, the Irish Insurance Federation, the Registrar of Friendly Societies, the Law Society, the Irish Stock Exchange, the Consultative Committee of Accountancy Bodies, the Irish Auctioneers and Valuers Institute, and the Institute of Professional Auctioneers and Valuers.

NPS National Payments Strategy
The NPS is a strategy designed to modernise the conduct of payments in Ireland, especially by migrating to faster, more efficient forms of electronic payment. The genesis of the NPS lay in a report written by Accenture for the Department of An Taoiseach's Information Society Commission in 2003 entitled A National ePayments Strategy. IPSO currently facilitates a forum for issues raised in this field.

OFT Office of Fair Trading
The OFT is the statutory body responsible for consumer protection and promotion of competition in the UK.

PCAs Personal Current Accounts
PCAs are accounts that enable the account holder to make and receive payments for bills, wages, and purchases. These are known as money transmission services. PCAs can also be used to store funds or to obtain credit, for instance, through an overdraft.

PE-ACH Pan-European Automated Clearing House
PE-ACH is an ACH capable of processing payments both within and across European borders. There may be one PE-ACH (such as STEP2, developed by SIA, an Italian banking technology provider), or multiple competing PE-ACHs. The development of cross-border functionality is considered necessary for the development of SEPA.

PEDD Pan-European Direct Debit
The PEDD is a European payment scheme designed to facilitate cross-border payment of direct debits. It is scheduled to be operational in 2008.

Plastic cards
This is the generic term for the various cards used to facilitate payments, generally in lieu of cash or cheques. They include credit cards, debit cards, ATM cards, charge cards and combined cards (e.g. Laser/ATM cards).

Regulating Better is the title of the Government White Paper designed to improve national competitiveness and policy implementation by ensuring that new regulations and legislation are more rigorously assessed in terms of their impacts, more accessible to all and better understood.

RFI Request For Information
A request to suitably qualified parties to submit detailed information on a particular proposal, prior to a potential RFP.

RFP Request For Proposal
A request to suitably qualified parties to submit tender bids for a particular proposal.

SEPA Single European Payments Area
SEPA is an EU scheme designed to deliver a single market for payment services by 2008. SEPA is supported and endorsed by the EU Commission, the European Central Bank (ECB) and the European Payments Council (EPC), the representative body for the European payments industry.

SMEs Small and Medium Enterprises
According to the European Commission, SMEs are enterprises which employ under 250 staff and have an annual turnover not exceeding €50 million, and/or an annual balance sheet total not exceeding €43 million. A Small Enterprise is defined as an enterprise which employs under 50 staff whose annual turnover and/or annual balance sheet total does not exceed €10 million.

Competition in the (non-investment) banking sector in Ireland

Executive Summary

Executive Summary

Banks in Ireland do not compete aggressively for customers. As an example of how customer "lock-in" and failure to attract new banks can affect the bottom line, small businesses lost out on interest rate reductions worth approximately €255 million between January 2001 and January 2004. This situation will continue unless there is more competition.

The Competition Authority's objective is to make financial institutions more responsive to the needs of Irish customers. This report identifies particular anti-competitive problems in the sectors examined. The recommendations provide a detailed roadmap for action which will mitigate these problems and make the banking industry more competitive.

This report focusses on three specific areas; personal current accounts, lending to small business and the crucial role of the payments clearing system. The Competition Authority has concentrated on these sectors for a number of reasons. Firstly, these areas are very important. Almost everyone has a current account, and small businesses are vital to the Irish economy. Secondly, in-depth analysis of these important sectors has produced recommendations that will have a wider impact in the banking industry and for consumers of banking services. Finally, concentrating on these areas allowed The Competition Authority to complete its report in a timely manner.

Since the commencement of the Study, numerous changes have taken place within the Irish banking sector. Some of these changes have anticipated The Competition Authority's recommendations. During 2004, the Irish Bankers Federation (IBF), the Irish Payments Services Organisation (IPSO) and the Department of Finance all announced their intentions to remove some of the more troublesome restrictions on competition in banking. The Minister for Finance endorsed the ending of the double-taxation of stamp duty on customers who switch banks. Entry barriers to the Payments Clearing System, which inhibit entry into the Irish banking market, have been reduced by the clearing organisations. The Irish Bankers Federation has promulgated a switching code that will facilitate bank rivalry and make switching banks easier for Irish consumers. Clearly there is still a great deal more to be done.

While The Competition Authority cannot force competition to happen (absent a breach in competition law, which was not found here), it has identified those areas where competition is not allowed to develop freely and unencumbered, and makes recommendations accordingly.

The Report on Competition in the (non-investment) banking sector in Ireland delivers a total of 25 recommendations, addressed to the Financial Regulator, the clearing companies, Government and the banks themselves. These recommendations will make a significant impact, and will have pro-competitive knock-on effects in other areas of banking.

PERSONAL CURRENT ACCOUNTS

Consumers with personal current accounts are effectively locked in to their existing service because it is so difficult to change banks. This problem arises from structural arrangements within the banking sector, the behaviour of the banks themselves, and unintended consequences of Government regulation. The result is that banks don't compete for existing account holders but fight aggressively for customers who are opening accounts for the first time (for example college students).

The personal current account market in Ireland is highly concentrated (see Table 1 below), with two firms sharing well over 70% of the market between them. This is a preliminary indicator of a lack of competition.

TABLE 1: PERSONAL CURRENT ACCOUNTS (MARKET SHARES, 2003[1])

BANK	MARKET SHARE RANGE
Allied Irish Banks	35% - 50%
Bank of Ireland	30% - 40%
National Irish Bank	0% - 5%
permanent tsb	5% - 20%
Ulster Bank	5% - 10%

1 Figures in Table 1 are based on figures from LECG Consultants' *"Study of Competition in the Provision of Non-investment Banking Services in Ireland: Report and Recommendations"*, pp.26-27. Appendix B of this report, hereinafter "LECG Report".

Current accounts are a vital service to almost every household. The role of personal current accounts for bank customers includes bill payments, access to cash, savings, money transmission, and access to short-term credit in the form of overdrafts. The importance of personal current accounts for banks lies in their "gateway" role. Banks tend to use current accounts as a means of cross-selling other, more profitable, products such as loans. Consumers will be more likely to purchase a bank's products and services if they already have a current account with that particular bank.

The Competition Authority's recommendations focus on promoting competition by enabling consumers to switch between banks. This will be achieved by concentrating on three crucial areas;

- Making it easier to switch a current account to a different bank;
- Equipping consumers with full account histories;
- Equipping consumers with the information they need to make reasoned decisions about their current account provider.

Once barriers to switching have been tackled, rivalry between existing banks and entry by new banks will be encouraged and facilitated. Reforming the regulation of bank charges will further facilitate rivalry, entry and innovation in personal current accounts. However, this should not be implemented until other recommendations to promote switching and market entry have been implemented.

LOANS TO SMALL BUSINESS

Small businesses are not benefiting from competition, particularly in the vital area of working capital lending. Banks are not passing on interest rate decreases to their Small and Medium Enterprise (SME) lending customers. This problem is costing small businesses an estimated €85 million a year.

Problems in the areas of business current accounts and loan security must be addressed in order to promote competition for small business banking. Because it is difficult to move a current account from one bank to another, small businesses have fewer options when seeking banking services. Also, when a business loan is secured by a mortgage on a property it is unnecessarily complex to move the loan to another bank offering a better deal.

The Competition Authority has focussed on working capital loans because they are particularly suited to small businesses and are not readily substitutable with other forms of lending, such as term loans. Recommendations and reforms are designed to improve competition in the SME lending market. Three areas have been identified as critical to achieving this goal;

- Making it easier for small businesses to move loans and current accounts to a different bank;
- Giving small businesses access to accurate, reliable and understandable information on alternative banking products;
- Facilitating the transfer of security to another bank in order to facilitate switching loans.

PAYMENT CLEARING SYSTEM

The Competition Authority is concerned that the structure of the payment clearing system has inhibited new banks offering services in Ireland. The payment clearing system performs a crucial role in the Irish banking system. Financial institutions who want to offer a broad range of banking services need access to the payment clearing system to process the transactions their customers conduct with customers of other banks.

Clearing company governance structures and application procedures can discourage new banks from joining the clearing system. In addition Ireland's continued high reliance on paper transactions, such as cheques, means that new banks need to invest in expensive paper sorting technology which raises costs and reduces competitiveness.

Since the commencement of The Competition Authority's study, IPSO has acted to remove some of the more egregious barriers to entry and restrictions on competition in clearing systems.[2] IPSO is engaged in further reforms of the organisational structure of the clearing companies. These initiatives are to be welcomed, and, in tandem with The Competition Authority's recommendations, should lead to a more open and flexible payment clearing system. Recommendations focus on the following objectives;

- Facilitating new members joining the payment clearing system;
- Improving the corporate governance structure of the payment system;
- Increasing the transparency of the payment system;
- Promoting a more efficient payment system.

2 These are detailed in LECG's Report at Section 4.11.

LIST OF RECOMMENDATIONS

Recommendation 1: Implement a switching code for personal current accounts

Details of recommendation	Action by
a. Implement a switching code for personal current accounts	Commenced January 2005
b. The Switching Code launched by the Irish Bankers Federation (IBF) should be reviewed by the IBF and the Financial Regulator to determine whether it can be improved upon. In particular, it should be updated with a view to increasing the speed of the switching process.	Financial Regulator January 2006
c. The IBF should make clear that participation in the Switching Code is open to all financial institutions, regardless of whether or not they are IBF members.[3]	IBF October 2005
d. If the Financial Regulator is not satisfied that a voluntary code is sufficient to encourage switching, then it should implement a statutory code, monitored, implemented and sanctioned by itself.	Financial Regulator
e. The Financial Regulator should publicise its findings regarding the Switching Code's effectiveness. Its report should include the performance of individual banks in completing their functions under the Switching Code in an accurate and timely manner.	Financial Regulator February 2006

Recommendation 2: Develop a transferable direct debit

Details of recommendation	Action By
a. The Irish Payment Services Organisation (IPSO) should, within the framework of the Irish Bankers Federation (IBF) Switching Code, develop standardised direct debit mandate agreements that will allow a customer's direct debit instructions to be transferred to a new bank when switching account providers without the need for new agreements between originators and the customer.	IPSO December 2005
b. This scheme should be designed so as not to hinder the European Payments Council Pan-European Direct Debit (EPC PEDD) Payment Scheme for direct debits.	

Recommendation 3: End double taxation of plastic cards

Details of Recommendation	Action By
The Minister for Finance should ensure that stamp duty is not applied twice in the same year on plastic cards such as Laser and ATM cards.	Implemented December 2004

3 At a meeting in July 2005, the IBF confirmed that non-IBF members would be allowed to use its Switching Code, and that the IBF website would reflect this fact in the near future.

Recommendation 4: Assess the distortionary costs of the current level of stamp duty

Details of Recommendation	Action By
a. The Minister for Finance should prepare an analysis of the costs of distorting competition (in terms of account closures and reduced account openings) imposed by the stamp duty levy on electronic cards, charge cards, and credit card accounts. b. If the distortions induced by stamp duty are large, the Minister for Finance should consider whether some or all of the revenues raised should be raised through other, less distortionary, means. The Department's analysis should be published.	Minister for Finance April 2006

Recommendation 5: Standardise acceptable forms of identification

Details of Recommendation	Action By
a. The Irish Bankers Federation (IBF) should compile a list of documents acceptable to all financial institutions for the purpose of establishing proof of identity and proof of address at the account opening stage. b. This compilation should also indicate how many different types of personal ID and proof of residence should be furnished.	IBF December 2005

Recommendation 6: Remove price regulation once competition improves

Details of Recommendation	Action By
The Minister for Finance should bring forward legislation to end the economic regulation of the level of fees and charges, once all other recommendations to facilitate and improve market entry and switching have been successfully implemented and are working in practice.	Minister for Finance Following implementation of Recommendations 1, 2, 5, 7, 8 and 9

Recommendation 7: Provide free 12-month current account records

Details of recommendation	Action By
Customers should have free access to their own account records, held by their bank, for at least the previous 12 months. Where such records are not freely available electronically, each bank should provide up to one hard copy statement of records for the previous 12 months on at least an annual basis, free of charge, where requested by the customer.	Banks January 2006

Recommendation 8: Provide personal current account interest rate information

Details of Recommendation	Action By
a. As part of its consumer protection function, the Financial Regulator should require banks to provide interest rate and interest rate margin information for Personal Current Accounts (PCAs) to their actual and potential customers. This includes posting PCA interest rate information on bank websites. b. Institutions should also be required to provide the PCA interest rate on each statement issued to a customer. The Financial Regulator should ensure that this information is made available in a simple and easily understandable format.	Financial Regulator March 2006

Recommendation 9: Promote personal current account interest rate awareness

Details of Recommendation	Action By
The Financial Regulator should promote personal current account interest rate and interest rate margin awareness, for example by including interest earnings in its representative consumer profiles. The Financial Regulator should also provide in its comparison tables the prices charged by non-banks, if these entities provide money transmission services.	Financial Regulator March 2006

Recommendation 10: Implement a switching code for small businesses

Details of Recommendation	Action By
a. The Irish Bankers Federation (IBF) should expand its Switching Code to include Small and Medium Enterprise (SME) customers. The IBF should make clear that participation in the Switching Code is open to all financial institutions, regardless of whether they are IBF members.[4]	IBF June 2006
b. If the Financial Regulator is not satisfied that a voluntary SME code is sufficient to encourage switching, then it should implement a statutory switching code for SMES, monitored, implemented and sanctioned by itself.	Financial Regulator
c. The Financial Regulator should make public its findings regarding the expanded Switching Code's effectiveness. Its report should include an assessment of the accuracy and timeliness of indiviudal banks in completing their functions under the Switching Code.	Financial Regulator June 2007

Recommendation 11: Make it easy to compare business current accounts

Details of Recommendation	Action By
The Financial Regulator should prepare and publish business current account comparisons targeted to Small and Medium Enterprises (SMEs). These comparisons should consider both fees and interest rates.	Financial Regulator June 2006

4 At a meeting in July 2005, the IBF confirmed that non-IBF members would be allowed to use its Switching Code, and that the IBF website would reflect this fact in the near future.

Recommendation 12: Provide free 3-year account history

Details of Recommendation	Action By
Business customers should have free access to their own business loan, deposit or current account records, held by their bank, for at least 36 months. Where such records are not freely available electronically, each bank should provide up to one hard copy statement of records for the previous 36 months on at least an annual basis free of charge, where requested by the customer.	Banks January 2006

Recommendation 13: Develop a standard mortgage document

Details of Recommendation	Action By
a. The Irish Bankers Federation (IBF) should develop and promote the use of a standard form of mortgage document[5] and ancillary security documents in consultation with relevant parties.[6]	IBF December 2006
b. Legislative changes required to permit implementation of this recommendation should be identified by the Department of Finance, and appropriate amendments introduced.	Minister for Finance June 2007
c. The implementation of this recommendation should be designed so as not to create a barrier to the development of a cross-border market in mortgages, as envisaged in the European Commission Green Paper on cross-border mortgages.[7]	

Recommendation 14: Facilitate easier transfer of mortgages

Details of Recommendation	Action By
a. Following consultation with relevant parties, the Minister for Finance should bring forward legislation allowing the transfer of a mortgage to a new loan provider without any change in the mortgage's validity or priority over other mortgages. The Department of Finance should also prepare other legislative changes as necessary to facilitate the transfer of mortgage security among financial institutions.	Minister for Finance June 2007
b. The implementation of this recommendation should be designed so as not to create a barrier to the development of a cross-border market in mortgages as envisaged in the European Commission Green Paper on cross-border mortgages.	

5 The term "mortgage" specifically refers here to the document assigning ownership of a property to a lender in return for a loan, and not the lending, interest and repayment terms.
6 For example, the Law Society, the Land Registry, the Registrar of Deeds, the Department of Finance, the Financial Regulator and the Irish Mortgage Council.
7 "Mortgage Credit in the EU". Available online at http://europa.eu.int/comm/internal_market/finservices-retail/home-loans/index_en.htm#greenpaper.

Recommendation 15: Create a single Board of Directors for the Payment System

Details of Recommendation	Action By
The management and operation of all payment systems and payment schemes under the Irish Payment Services Organisation (IPSO) umbrella should be combined into one entity having a single unified Board of Directors. The foregoing should not prohibit the continuation of payment systems or schemes in their existing legal form. Committees under the new Board should be appointed to handle specific technical matters requiring specialised skills.	IPSO, IPCC, IRECC January 2006

Recommendation 16: Expand the membership of the Irish Payment Services Organisation

Details of Recommendation	Action By
The Board of Directors of the Irish Payment Services Organisation (IPSO) should be expanded to include other stakeholders, particularly volume users of money transmission services, such as utility companies, and consumer representatives.	IPSO January 2006

Recommendation 17: Publish decisions and actions of the payments industry

Details of Recommendation	Action By
A paper briefly detailing items discussed and actions taken at Irish Payment Services Organisation (IPSO) Board meetings should be published, for example, by posting on the IPSO website.	IPSO November 2005

Recommendation 18: Clarify status of An Post and credit unions in the payments industry

Details of Recommendation	Action By
a. The Board of Directors of the Irish Payment Services Organisation (IPSO) should clarify that credit unions and An Post are eligible for both ordinary and associate membership of the paper and retail electronic payment systems run by IPSO.	IPSO January 2006
b. The Articles of Association, Rules for Membership, Outline Guide to Membership, and any other relevant documents should be modified to reflect this fact. These changes should be subject to Central Bank and Financial Services Authority of Ireland (CBFSAI) approval.	IPSO CBFSAI February 2006

Recommendation 19: Make key non-confidential payments industry documents available

Details of Recommendation	Action By
The Irish Payment Services Organisation (IPSO) should publish (for example by posting on its website) the Articles of Association, Rules for Membership, Outline Guide to Membership, and Fair and Equitable Principles regarding impact costs for the clearing companies. Any other documents regarding membership criteria and procedures should similarly be made public.	IPSO October 2006

Recommendation 20: Analyse new technology for clearing electronic copies of cheques

Details of Recommendation	Action By
a. The Irish Payment Services Organisation (IPSO) should prepare a cost/benefit analysis of the various options for the use of truncation technology. The analysis should identify what legislation needs to be amended to allow for truncation technology. This analysis should be published, any commercially sensitive information having been redacted.	IPSO March 2006
b. A decision on the way forward with regard to truncation should be taken by the IPSO Board on the advice of the Committee which takes over the role of the Irish Paper Clearing Company (IPCC), giving consideration to the cost/benefit analysis. This decision should be made in consultation with the Central Bank and Financial Services Authority of Ireland (CBFSAI) and the Minister for Finance.	IPSO, CBFSAI, Minister for Finance May 2006
c. The decisions of the IPSO Board in this regard need not be unanimous but instead should be based upon the voting procedures set out in the IPSO Articles of Association.	

Recommendation 21: Implement legislation to recognise electronic copies of cheques

Details of Recommendation	Action By
The Minister for Finance should bring forward legislation expanding section 45(A) of the Bills of Exchange Act, 1882 (as amended by section 132 of the Central Bank Act, 1989) to allow for the electronic re-presentation of items unpaid upon first presentation.	Minister for Finance September 2006

Recommendation 22: Implement legislation to re-assign ownership of cheques

Details of Recommendation	Action By
The Minister for Finance should bring forward legislation that: a. Assigns ownership of an original paper cheque to the institution that first receives it into the banking system; b. Overrides the right of customers or the paying bank to demand the return of cheques; c. Allows the bank with ownership of the paper cheque to provide an image of the cheque instead of the paper original to anyone requiring it; and d. Gives the imaged cheque the same legal and evidential status as the original document.	Minister for Finance September 2006

Recommendation 23: Update clearing rules to facilitate electronic copies of cheques

Details of Recommendation	Action By
The Irish Payment Services Organisation (IPSO) Board should update the clearing rules, procedures, and standards to reflect truncated items. In particular, standards and procedures for the creation, transfer, management and storage of imaged files should be developed.	IPSO March 2006

Recommendation 24: Investigate the establishment of an Automated Clearing House

Details of Recommendation	Action By
a. The Board of Directors of the Irish Payment Services Organisation (IPSO) should, with the oversight of the Central Bank and Financial Services Authority of Ireland (CBFSAI), prepare and publish Requests for Information (RFIs), and subsequently, if appropriate, Requests for Proposals (RFPs) for the provision of Automated Clearing House (ACH) functionality for Ireland.	IPSO CBFSAI February 2006
b. These RFIs and RFPs should include the possibility of handling truncated cheques and of interacting with a Pan-European ACH (PE-ACH). All analysis and decisions should be in the context of both the development of the Single European Payments Area (SEPA) and future moves towards a PE-ACH framework. Proposals should be in accordance with the ten Bank for International Settlements (BIS) "*Core Principles for Systemically Important Payment Systems*". The RFIs should be issued by February 2006, and the RFPs by May 2006.	IPSO May 2006
c. The Board of Directors of IPSO should prepare a cost/benefit analysis of the various options for ACH functionality derived from the RFPs. Both private costs and benefits, such as the cost of the technology and reductions or increases in processing costs and public benefits, such as ease of entry and the impact on the safety and soundness of the clearing system, should be considered.	IPSO September 2006

Recommendation 25: Devise an action plan for implementing an Automated Clearing House

Details of Recommendation	Action By
a. A decision on the way forward on the provision of ACH functionality in Ireland should be taken by the Board of the Irish Payment Services Organisation (IPSO), based upon the cost/benefit analysis mentioned in the previous recommendation, in consultation with the Central Bank and Financial Services Authority of Ireland (CBFSAI), the Department of Finance, and The Competition Authority. b. The decisions of the IPSO Board in this regard need not be unanimous but instead should be based upon the voting procedures set out in IPSO's Articles of Association. c. The Board's analysis should be published, any commercially sensitive information having been redacted. All analysis and decisions should be in the context of the development of the Single European Payments Area (SEPA) and future moves towards a PE-ACH framework, as well as in accordance with the ten Bank for International Settlements (BIS) *"Core Principles for Systemically Important Payment Systems"*.	IPSO, CBFSAI, Department of Finance, The Competition Authority December 2006

Competition in the (non-investment) banking sector in Ireland

1. Introduction

1 Introduction

1.1 This is the final report of The Competition Authority's Study of Competition in the Provision of (non-investment) banking services in Ireland. It focusses on the areas of personal current accounts (PCAs), lending to small and medium enterprises (SMEs) and access to payment clearing systems.

1.2 The Competition Authority makes 25 recommendations designed to promote a culture of more vigorous competition which will ensure that retail banking works better for both personal and small business consumers. The recommendations are supported by extensive analysis of documentation submitted by financial institutions, international comparisons, research by consultants, as well as meetings and interviews with financial institutions, regulators, industry associations, user groups and Government, along with a wide variety of submissions received in the course of the study.

1.3 The Competition Authority's recommendations are based on, but distinct from, the *Study of Competition in the Provision of Non-investment Banking Services in Ireland: Report and Recommendations*[8] completed by LECG, consultants to The Competition Authority, issued in December 2004. The Competition Authority developed and refined its recommendations following a public consultation on LECG's Report and in the light of changing market conditions. In addition, a number of recommendations have been amalgamated in the interests of clarity. The consultation process yielded 22 submissions, which are available for inspection online at www.tca.ie/banking.html.

1.4 Having completed its analysis, The Competition Authority now presents this final report and urges the bodies addressed to implement the recommendations which are their responsibility. One report will not, of itself, improve competition for the benefit of consumers. Banks, regulators, industry representatives and Government must all play their part to ensure successful and comprehensive implementation of these recommendations.

THE ROLE OF COMPETITION IN BANKING

1.5 The role of The Competition Authority in banking is to promote competition within an appropriate framework of prudential regulation. The objective is to provide consumers and businesses with lower prices, better service and greater choice. This requires reform of the banking sector by its participants, with the assistance of Government and regulators, where appropriate.

1.6 Competition works well in banking when rival banks vigorously seek and win one another's customers with innovative products, lower prices, and better service. This is more likely to be the case when other banks and financial institutions can enter financial markets exhibiting above normal profits. Evidence of the benefits of competition can be seen in sectors of the financial services industry where competition has taken hold, in particular, residential mortgages. The entry of Bank of Scotland (Ireland) into the residential mortgage market in 1999, for example, led to an increase in competition, effectively leading to a fall of one percentage point in mortgage rates.[9]

1.7 Competition brings gains to the economy as a whole. Ireland is a small open economy which is heavily dependent on the SME export sector for its continued success. The cost competitiveness of Irish small business is contingent on the cost of inputs, such as staff wages, raw materials, energy and financing. Small businesses with access to cheaper finance will be able to compete more effectively in international markets.

1.8 Competition does not imply a threat to the stability of the financial system. Prudential regulation, which in Ireland is carried out by the Central Bank and Financial Services Authority of Ireland (CBFSAI), ensures that banks act responsibly and prudently, such that the continued stability of the market is maintained. Competition and prudential regulation can coexist comfortably; ensuring a stable banking system that serves consumers, businesses and the economy well.

1.9 During the course of its investigations, The Competition Authority examined over 100 boxes of banking documentation submitted under summons. Interviews were also conducted with senior bank personnel under summons.[10] Following in-depth investigation of these materials, The Competition Authority found no grounds to initiate proceedings under section 4 or section 5 of the Competition Act, 2002. The Competition Authority has found, however, that rivalry between existing banks could be increased and other banks could more easily offer current accounts if a number of industry initiatives and regulatory reforms were undertaken.

8 Attached as Appendix B of this report. Hereinafter "LECG Report".
9 *"Department of Finance Progress Report on Reforming Product and Capital Markets in Ireland"*. http://www.finance.gov.ie/viewdoc.asp?DocID=828&CatID=45&StartDate=01+January+1999&m=
10 Section 31 of the Competition Act, 2002 gives The Competition Authority the power to summons witnesses to attend before it; and to require any witness to produce documents in their control to the Authority.

CURRENT CONTEXT OF THE COMPETITION AUTHORITY'S REPORT ON BANKING

1.10 The Competition Authority decided to conduct a study of competition in banking in Ireland at a time when there was a perceived lack of competition in the Irish banking sector. The retail banking sector is concentrated, highly regulated and a significant contributor to the economy. The Competition Authority launched its study of competition in (non-investment) banking in September 2002. Since then, a number of events have served to change the environment in which banks operate in Ireland.

1.11 First, two reports were published in relation to violation of laws by two financial institutions; AIB and National Irish Bank. Second, the financial institutions have initiated some structural changes. These include reform of the rules for access to the payment clearing system and the introduction of a switching code of conduct for banks to make it easier for consumers to move their current account from one bank to another. Third, the Irish banking sector saw new entry in a number of different ways:

- Bank of Scotland (Ireland), a business bank, made a decision to enter retail banking and purchased a chain of retail stores for this purpose;
- Ireland's first internet-only bank, RaboDirect, was launched;
- National Irish Bank was acquired by Danske Bank.

1.12 At the same time, interest in competition in retail banking intensified; this has manifested itself in a number of other studies at both national and cross-border levels.

1.13 In June 2005 the Joint Oireachtas Committee on Finance and the Public Service issued its *Interim Report on the Policy of Commercial Banks concerning Customer Charges and Interest Rates*.[11] Following a number of banking irregularities which came to public prominence in recent years, the Joint Committee commenced an investigation into competition, charging and compliance by Irish retail banks, during the course of which it requested a number of senior banking and regulatory personnel to appear before it. The Joint Committee issued a total of 35 recommendations, grouped under the following headings:

- Recommendations with respect to interest rate margins;
- Recommendations with respect to bank charges;
- Recommendations with respect to switching and reducing costs;
- Recommendations with respect to clearing;
- Recommendations with regard to compliance;
- Other recommendations.

1.14 In its report, the Joint Oireachtas Committee makes two recommendations directed to The Competition Authority. One, referring to the payment of interest on current accounts, is addressed later in section 2 of this Report. The other, referring to alleged collusion in the provision of banking services to Cork County Council, has been addressed by The Competition Authority in separate correspondence to the Joint Oireachtas Committee.

1.15 The EU Commission announced on June 13th, 2005, a sectoral inquiry into financial services. Competitive financial markets are a key component of a cross-border market in banking and other financial services. The inquiry will focus on two areas, insurance and retail banking. The Commission will publish the main results of its inquiry in 2006. In its Decision, the Commission stated that:

"There are a number of indications of market fragmentation and entry barriers as well as a lack of effective choice on the demand side in retail banking, which suggest that Community markets are not yet integrated and competition may be distorted or restricted within the common market, in particular in relation to the provision of financial services and products to consumers and small and medium enterprises....It is therefore appropriate to initiate a sector inquiry in the retail banking sector within the Community to allow the Commission to use its powers of investigation with respect to financial institutions, providers of infrastructure and upstream services, financial services intermediaries, users of financial services and Member States' authorities."[12]

1.16 In May 2005 in Northern Ireland, the UK Office of Fair Trading (OFT) referred the market for personal current account banking services in Northern Ireland to the Competition Commission for further investigation, following a "super complaint" from the UK consumer advocacy magazine, 'Which?' submitted in conjunction with the General Consumer Council of Northern Ireland (GCCNI). According to the OFT, there is a high level of concentration among Northern Ireland's four largest banks, all of which offer retail banking services in the Republic of Ireland. In particular, the OFT found evidence of low levels of switching by customers, substantially higher charges than in Great Britain, and evidence of a lack of active competition for custom by banks.[13]

11 *"Joint Committee on Finance and the Public Service – Interim Report on the Policy of Commercial Banks concerning Customer Charges and Interest Rates"*. Available online at http://www.oireachtas.ie/documents/committees29thdail/committeereports2005/Interim%20Report%20on%20Commercial_Banks_6th_Report.pdf

12 *"Commission Decision of 13/06/2005 initiating an inquiry into the retail banking sector pursuant to Article 17 of Council Regulation (EC) No 1/2003"*. Available online at http://europa.eu.int/comm/competition/antitrust/others/sector_inquiries/financial_services/decision_retailbanking_en.pdf

13 *"OFT refers Northern Irish personal banking market to CC"*. Available online at http://www.oft.gov.uk/News/Press+releases/2005/100-05.htm

1.17 There are numerous similarities between The Competition Authority's study and the Competition Commission's investigation. Personal Current Accounts are the focus of each study, and a number of banks operate in both jurisdictions. A number of differences also emerge. The characteristics of the Northern Ireland banking market are different to those in the Republic of Ireland. The Northern Ireland market is a small regional market which forms part of, while remaining distinct from, the UK banking market. It is subject to different competitive pressures than the Republic of Ireland market. The powers of the Competition Commission also differ markedly from those of The Competition Authority. When it conducts a study, The Competition Authority is empowered only to make recommendations to third parties to facilitate competition.[14] The Competition Commission, however, can make legally-binding rulings which relevant parties are obliged to implement.

14 Under Section 30 of the Competition Act, 2002.

2 Personal Current Accounts

2 Personal Current Accounts

2.1 Personal current account holders find it difficult to change banks and are effectively being locked in to their existing service. This problem comes from structural arrangements within the banking sector, the behaviour of the banks themselves, and unintended consequences of Government regulation.

2.2 Current accounts are a vital service to almost every household. The role of personal current accounts for bank customers include bill payments, access to cash, savings, money transmission, and access to short-term credit in the form of overdrafts. The importance of personal current accounts (PCAs) for banks lies in their "gateway" role. Banks tend to use current accounts as a means of attracting customers, who can then be cross-sold other more profitable products such as loans. Consumers will be more likely to purchase a bank's products and services if they already have a current account with that particular bank.

2.3 The personal current account market in Ireland is highly concentrated (see Table 1 below), with two firms sharing well over 70% of the market between them. This is a preliminary indicator of a lack of competition in the market.

2.4 A lack of significant new entry into this market means that competition is dependent on rivalry among existing banks. Thus the ability of consumers to switch their current account provider is crucially important.

2.5 Barriers to switching personal current accounts are a feature of the Irish market. Banks compete intensely for custom new to the marketplace since existing customers are considered to be "locked in" to their provider. These barriers tend to have disproportionately severe effects on competition in banking.They inhibit rivalry between existing current account providers, make it difficult for a new current account provider to attract customers; and, through their gateway role, dampen competition in other banking products.

2.6 Since The Competition Authority commenced its study, a number of changes in the Irish banking market have occurred which have the potential to increase competition in the PCA market. In December 2004, Danske Bank announced the purchase of National Irish Bank. The Irish Bankers Federation (IBF) launched a PCA Switching Code in January 2005. This code is designed to facilitate personal customers who wish to move their current account to another bank. Finally, in March 2005, the ESB, the state-owned electricity company, agreed to sell its network of 54 branches to Bank of Scotland (Ireland).

2.7 Empowering customers to more easily compare current accounts and to switch between banks will encourage competition in this market. It will also reduce consumers' dependency on their current account provider when interacting with the financial services sector. This will be achieved by concentrating on three crucial areas:

- Making the process of switching current account providers easier;
- Equipping consumers with full account histories;
- Equipping consumers with the information they need to make reasoned decisions about their current account provider.

2.8 Once barriers to switching have been tackled, rivalry between existing banks and entry by new banks will be encouraged and facilitated. Reforming the regulation of bank charges will further facilitate rivalry, entry and innovation in

TABLE 1: PERSONAL CURRENT ACCOUNT MARKET SHARES, 2003[15]

BANK	MARKET SHARE RANGE
Allied Irish Banks	35% - 50%
Bank of Ireland	30% - 40%
National Irish Bank	0% - 5%
permanent tsb	5% - 20%
Ulster Bank	5% - 10%

15 Figures in Table 1 are based on figures from LECG Consultants' "Study of Competition in the Provision of Non-investment Banking Services in Ireland: Report and Recommendations", pp.26-27. Appendix B of this report.

personal current accounts. The ending of the regulation of the price levels of fees and charges will also stimulate competition and innovation. However, this should not be implemented until other recommendations to promote switching and market entry have been implemented.

HELPING CONSUMERS TO SWITCH BANKS

2.9 Presently, moving a current account is difficult, which encourages customers to stay with their existing bank. Making it easier to switch banks will give consumers more choice and encourage banks to compete more aggressively for customers. A number of barriers to switching current account provider were identified in the course of the study. The difficulty of the switching process, a lack of price transparency, the method of collecting stamp duties on plastic cards and the fear of losing a credit history have all contributed to raising and maintaining barriers to switching. Since the publication of The Competition Authority's preliminary report (LECG Report), a number of positive steps have been taken by Government and industry to lower barriers to switching, although much work remains to be done.

2.10 The Competition Authority's recommendations relate, therefore, to:

- Increasing the ease and speed with which customers can switch;
- Making pricing information more available and easier to understand;
- Ensuring that consumers will not lose their credit histories if they move banks;
- Altering the way in which stamp duty is levied.[16]

A SWITCHING CODE FOR PERSONAL CURRENT ACCOUNTS

2.11 Most customers are locked-in to their bank because moving their personal current account is unnecessarily difficult. The result is that banks don't compete for existing account holders but fight aggressively for customers who are opening accounts for the first time (for example college students). The Competition Authority is proposing a number of reforms to make it easier for customers to move their current accounts. A properly functioning 'switching code' must streamline procedures, be transparent and compliance by the banks should be monitored by the Financial Regulator. These reforms will stimulate more competition among existing banks, make it easier for new banks to win customers, and give consumers more options.

2.12 Consumers find it difficult to move their Personal Current Accounts (PCAs) to other banks. Switching is seen to be awkward, difficult, time-consuming and fraught with risks that bills will go unpaid during the switching process. A switching code can reduce many of these concerns by simplifying the account moving procedure and giving guarantees that the new account, as well as any standing orders or direct debits, will be set up within a defined time period. Since the commencement of The Competition Authority's study, the Irish Bankers Federation (IBF) has introduced a switching code for personal current accounts.

2.13 With the exception of submissions received from banks, the consultation process revealed a broad view that a switching code backed by regulatory administrative sanctions is likely to be the best way of encouraging prompt, speedy and effective switching of accounts. There was little support for the view that relying on reputational effects, expecting a provider to respond to a 'name-and-shame' policy, would be effective. Industry interests have not shown themselves quick to implement switching measures – the UK banking sector initiated a voluntary switching code over ten years ago - and the current IBF Code has only materialised following the unprecedented attention the sector has received in recent times from regulators and other consumer advocates.[17]

2.14 The benefits of a regulatory code above a voluntary code (in terms of effectiveness, transparency, consistency and accountability) need to be weighed up against any additional costs before such a step is taken. The Financial Regulator is best placed to make this assessment.

2.15 In section 3.9 of its report, LECG compared the timeframes for transferring direct debit information where customers switch PCAs under both the Irish and UK Switching Codes. It has been brought to the attention of The Competition Authority that this comparison is not accurate, as the Irish Switching Code sets out three additional commitments:

- Setting up Direct Debits and Standing Orders on the customer's new account;
- Provision of the Direct Debit and Standing Order information to the customer by their old bank;
- The transfer of funds and closure of the old account.

2.16 Furthermore, the Irish Switching Code sets out a 7-working day period for switching, which includes the complete process of transfer of information, setting up of direct debits and standing orders, closure of the old account and transfer of the balance. The 3-day commitment in the UK Switching Code to which LECG referred concerns only the transfer of information.

2.17 It is nonetheless appropriate that switching timescales be reviewed.

16 LECG analysed this topic in greater detail in Section 3 of its Report.
17 "Submission to the Irish Financial Services Regulatory Authority: Consultation on Consumer Protection Code (CP10) April 2005". Available online at http://www.tca.ie/decisions/submissions/s_05_003.pdf

Recommendation 1: Implement a switching code for personal current accounts

Details of Recommendation	Action By
a. Implement a switching code for personal current accounts	Commenced January 2005
b. The Switching code launched by the Irish Bankers Federation (IBF) should be reviewed by the IBF and the Financial Regulator to determine whether it can be improved upon. In particular, it should be updated with a view to increasing the speed of the switching process.	Financial Regulator January 2006
c. The IBF should make clear that participation in the Switching Code is open to all financial institutions, regardless of whether or not they are IBF members.[18]	IBF October 2005
d. If the Financial Regulator is not satisfied that a voluntary code is sufficient to encourage switching, then it should implement a statutory code, monitored, implemented and sanctioned by itself.	Financial Regulator
e. The Financial Regulator should publicise its findings regarding the Switching Code's effectiveness. Its report should include the performance of individual banks in completing their functions under the Switching Code in an accurate and timely manner.	Financial Regulator February 2006

TRANSFER OF DIRECT DEBIT INFORMATION

2.18 'Direct Debit' agreements are non-transferable between banks. Concern about missing payments on important matters such as a mortgage or utility bills prevents customers moving their bank account. Consumer inertia in turn reduces the incentives of banks to compete against each other and makes it harder for new banks to win customers. A new form of Direct Debit is required which will be transferable from one bank account to another quickly and without fear of interruption in payments. This reform will help build consumer confidence in moving bank accounts and facilitate competition.

2.19 The need to set up new direct debits makes switching more time-consuming and cumbersome for consumers. While the Switching Code may relieve some of these difficulties it should be possible to further simplify matters. This would involve developing a form of mandate which would allow for the exchange of direct debit information between financial institutions, obviating the need to set up new direct debits each time a customer switches.

2.20 The Competition Authority understands that, as part of the Single European Payments Area (SEPA) initiative, a Pan-European Direct Debit (PEDD) will be launched in 2008. Accordingly, the implementation of this recommendation should in no way hinder the launch of PEDD.

18 At a meeting in July 2005, the IBF confirmed that non-IBF members would be allowed to use its Switching Code, and that the IBF website would reflect this fact in the near future.

Recommendation 2: Develop a transferable direct debit

Details of Recommendation	Action By
a. The Irish Payment Services Organisation (IPSO) should, within the framework of the Irish Bankers Federation (IBF) Switching Code, develop standardised direct debit mandate agreements that will allow a customer's direct debit instructions to be transferred to a new bank when switching account providers without the need for new agreements between originators and the customer. b. This scheme should be designed so as not to hinder the European Payments Council Pan-European Direct Debit (EPC PEDD) Payment Scheme for direct debits.	IPSO December 2005

Recommendation 3: End double taxation of plastic cards

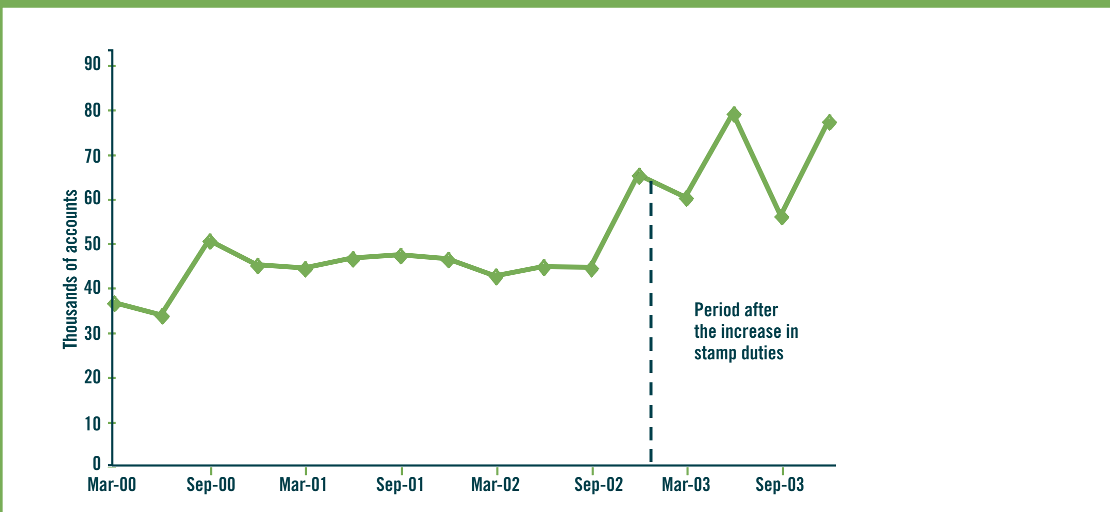
Details of Recommendation	Action By
The Minister for Finance should ensure that stamp duty is not applied twice in the same year on plastic cards such as Laser and ATM cards.	Implemented December 2004

STAMP DUTY ON PLASTIC CARDS

2.21 The method of taxing Laser and ATM cards has had a noticeable and negative impact on competition. Large numbers of bank accounts were closed in the immediate aftermath of higher tax being applied in the 2003 Budget **(see Fig. 1)**. One, possibly unforeseen, consequence of this is that customers have been punished for having more than one bank account. Specifically this is a problem when moving bank as it will be necessary to have an overlapping period when two accounts are open in different banks. This reduces the likelihood of customers switching to a new bank and lowers the incentives for banks to compete against each other. Welcome reform in this area has already begun with the announcement of the end of double taxation of account switchers in December 2004. Reducing the level of taxation will also reduce the cost of having more than one account. This will help banks attract new customers but also give consumers greater opportunity to choose between different banks.

2.22 Stamp duty on plastic cards inhibited switching since customers who switched bank accounts

FIGURE 1: NUMBER OF PERSONAL CURRENT ACCOUNTS CLOSED PER QUARTER Q1 2000 - Q4 2003



Recommendation 4: Assess the distortionary costs of the current level of stamp duty

Details of Recommendation	Action By
a. The Minister for Finance should prepare an analysis of the costs of distorting competition (in terms of account closures and reduced account openings) imposed by the stamp duty levy on electronic cards, charge cards, and credit card accounts. b. If the distortions induced by stamp duty are large, the Minister for Finance should consider whether some or all of the revenues raised should be raised through other, less distortionary, means. The Department's analysis should be published.	Minister for Finance April 2006

with services such as ATM or Laser cards effectively paid stamp duty twice. Data showed that account openings fell and account closures increased substantially following the increase in stamp duty announced in December 2002.[19] LECG found that increases in the level of stamp duty had two effects. First, it reduced switching between current account providers. Second, it led to a reduction in the number of consumers holding two current accounts in order to switch deposits more easily between banks.

2.23 The Minister for Finance announced in his December 2004 Budget Speech that the structure of stamp duty levies on plastic cards would be altered. Section 128 of the Finance Act 2005 provides that consumers who choose to switch accounts, or upgrade within an account, or add a second card to an account, will no longer be subject to double taxation. In other words, if a consumer switches account during the course of the year, (s)he will not be required to pay stamp duty for the cards on both accounts in that particular year.

2.24 The current level of stamp duty on plastic cards acts to distort competition by discouraging consumers from holding multiple accounts, which they may use in switching their main supplier of banking services. For example, a consumer who holds two current accounts with two different banks, and alternates between the two accounts as the banks' offerings change, has to pay stamp duties on both accounts, rendering a second current account an expensive facility. The stamp duty levy serves to dampen competition by inhibiting switching by means of holding multiple accounts. The effects of this distortion need to be quantified.

SWITCHING AND ANTI-MONEY LAUNDERING REQUIREMENTS

2.25 Personal identification requirements to open a new bank account, under anti-money laundering laws, are inconsistent across different banks. This creates uncertainty and confusion making it more difficult than necessary to open and move bank accounts. Personal identification requirements should be standardised to eliminate uncertainty, facilitate opening new accounts and make it easier for customers to change bank.

2.26 The banking industry and the State must safeguard against the use of banks to launder the proceeds of terrorist, fraudulent and criminal activity. The Criminal Justice Act 1994 requires that banks verify the identity and residence of individuals wishing to open bank accounts. Individuals must present themselves in person at bank branches in order to open accounts. Laudable and necessary though the goal of preventing money laundering is, anti-money laundering requirements confer an advantage on banks with extensive branch networks, who find it easier to compete for customers than banks with smaller networks, or no network at all. For this reason, anti-money laundering requirements constitute a barrier to switching. This could be mitigated by standardising procedures for accepting and transferring personal identity information.[20]

2.27 A more standardised approach to anti-money laundering requires a risk-based approach to customer identification which tailors the degree of certainty required to the perceived risk a customer represents to the bank. Any move to a risk-based approach needs to take account of international best practice, e.g.:
- Basel Committee standards[21];
- Wolfsberg Group Principles[22];
- Revised FATF 49 Recommendations[23];
- The FSA's August 2003 discussion paper, "Reducing Money Laundering Risk: Know Your Customer and Anti-Money Laundering Monitoring"[24];

19 LECG Report, p.43
20 LECG Report, pp.63-69
21 Basel Committee publications relating to risk management and risk control. Available online at http://www.bis.org/bcbs/publ_11.htm
22 Wolfsberg Standards. Available online at http://www.wolfsberg-principles.com/standards.html
23 FATF Standards. Available online at http://www.fatf-gafi.org/pages/0,2966,en_32250379_32236920_1_1_1_1_1,00.html
24 Available online at http://www.fsa.gov.uk/pubs/discussion/dp22.pdf

Recommendation 5: Standardise acceptable forms of identification

Details of Recommendation	Action By
a. The Irish Bankers Federation (IBF) should compile a list of documents acceptable to all financial institutions for the purpose of establishing proof of identity and proof of address at the account opening stage. b. This compilation should also indicate how many different types of personal ID and proof of residence should be furnished.	IBF December 2005

- UK Joint Money Laundering Steering Group[25];
- The proposed 3rd EU Money Laundering Directive.[26]

2.28 Anti-money laundering legislation deters switching by creating uncertainty as to what forms of identity will be acceptable to banks. The Money Laundering Steering Committee (MLSC) has issued Guidance Notes for Credit Institutions,[27] which indicate the types of identification banks should deem acceptable while leaving the final decision with the institutions themselves. Some uncertainty faced by consumers could be mitigated if banks agreed a core set of documents which would be acceptable as proof of identification and residence, as well as the number of each category of document required to open an account. According to the MLSC, it is open to the banks to do this within the terms of the governing legislation.

2.29 A number of submissions to The Competition Authority queried the wisdom of altering anti-money laundering procedures in order to facilitate switching. Strict anti-money laundering requirements and competition need not be mutually exclusive goals, and The Competition Authority's recommendations seek to reconcile the ability of the consumer to exercise choice with the requirement to ensure that funds and individuals can be identified to the satisfaction of the relevant authorities.

2.30 Following LECG's recommendation [P19] relating to remote account opening, numerous submissions indicated that this recommendation was already made operational when the MLSC Guidance Notes were updated in June 2003. The MLSC confirmed that this was the case in a meeting with The Competition Authority in June 2005. Paragraphs 48-53 of the Guidance Notes give guidance on business conducted by post, telephone, or electronically. Accordingly, LECG's recommendation [P19] is redundant.

2.31 The Competition Authority has decided not to retain LECG's recommendation [P18] allowing for accounts to be opened and funds deposited prior to customer identification. Numerous respondents to the public consultation had strong reservations about the need for, and efficacy of, this recommendation. Although it would lead to greater ease of account opening, the costs in terms of security could exceed the benefits in terms of increased ease of switching. This recommendation [P18] fails the proportionality test established in Regulating Better.

2.32 Ideally, following the implementation of recommendation 5, the Irish Bankers Federation (IBF), with the oversight of the Financial Regulator, should consider the modification of the Switching Code to include the transfer of copies of the identification information necessary for anti-money laundering requirements held by the old institution to the new institution. The Financial Regulator is best placed to assess the relative costs and benefits of such a proposal.

2.33 If the IBF and the Financial Regulator give consideration to this course of action, they should be mindful of how useful the provision of address information is in combating money laundering, and how to address pre-1995 accounts. The issue of whether legislative change would be required should be considered in consultation with the Money Laundering Steering Committee and the Departments of Justice, Equality and Law Reform and Finance.

REGULATION OF BANK FEES AND CHARGES

2.34 Ireland is the only country, other than Kenya, that attempts to regulate the price of banking services. However, even this attempt is flawed and it cannot protect consumers for a number of reasons. Primarily, price regulation is a poor means of promoting competition and pushes banks towards a common set of prices. In addition, current regulations only cover one element of the price of banking services (bank charges) and do not cover interest rates. Price regulation should be a last resort because, at best, it can only approximate the result of a

25 Joint Money Laundering Steering Group (JMLSG). Available online at http://www.jmlsg.org.uk/bba/jsp/polopoly.jsp;jsessionid=a9A1QlqcXyRa?d=362&a=3424
26 Available online at http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/com/2004/com2004_0448en01.pdf
27 Available online at http://www.ifsra.ie/data/in_aml_files/Credit_Institutions.pdf

Recommendation 6: Remove price regulation once competition improves

Details of Recommendation	Action By
The Minister for Finance should bring forward legislation to end the economic regulation of the level of fees and charges, once all other recommendations to facilitate and improve market entry and switching have been successfully implemented and are working in practice.	Minister for Finance Following implementation of Recommendations 1, 2, 5, 7, 8 and 9

competitive market, it is expensive and it adds red tape. All of this discourages banks from developing new products and updating existing services.

2.35 However, the Irish banking sector is not yet a competitive market. Consumers are locked in to their existing bank and it is not easy for customers to switch their accounts or for new banks to offer services. In these circumstances the current price regulations can protect consumers from the power of their bank to increase charges. The Competition Authority recommends delaying the removal of price regulation until there is a more competitive landscape in Irish banking.

2.36 Bank charges are regulated in Ireland, both in terms of notifying customers and the level of charges allowed.[28] The Director of Consumer Affairs was originally responsible for carrying out fee and charge regulation, while more recently, the Financial Regulator has taken on this role. Price regulation in current account markets is not international practice – The Competition Authority is aware of only one other country, Kenya, which practises this type of regulation.

2.37 For a number of reasons price regulation imposes substantial costs on consumers and on taxpayers and, because it is ineffective, it has few benefits. Price regulation suppresses competition and restricts consumer choice, not just by forcing a common set of prices on all banks, but more importantly by reducing incentives for new entry. In other words, price regulation deters entry by obscuring the market reality; in normal markets, prices act as signals to potential entrants.

2.38 Price regulation also discourages banks from developing new products and updating existing services. This is especially the case if the regulatory system is not sufficiently responsive to new products, and there is evidence that the current Irish system is not. This is a consequence of the difficulties of applying price regulation to bank charges, and not of the way in which it has been implemented by the Director of Consumer Affairs and latterly the Financial Regulator, who have discharged their responsibilities with professionalism.[29]

2.39 In addition price regulation is expensive, both in terms of the direct costs to the Financial Regulator (and thus the taxpayer) of regulation and enforcement, and the indirect costs of compliance which are borne by banks but likely passed on to customers.

2.40 On top of these costs, the current Irish regulations are not fully effective because they cover only one element of the price of banking services (bank charges) and do not cover interest rate margins, which are at least as important. If a bank wishes to make more money, it could, in effect, by-pass the regulation by increasing the margin it makes on the interest rate side.

2.41 On this basis LECG, in its Report to The Competition Authority, concluded that the regulation of bank charges should focus solely on ensuring that changes to bank charges are notified to customers in a timely fashion and that the notified charges correspond correctly to the charges actually applied.

2.42 While these arguments are compelling, there remains a question over whether competition in the Irish market is, at this point, sufficient to protect consumers and drive efficient cost-based pricing of both bank charges and interest rate margins. Specifically, the evidence is that customers are locked into their existing bank and that there are significant barriers facing new banks wishing to offer current account services. For this reason, the current conditions of competition seem unlikely to be sufficient to guarantee equivalent short term protection to consumers when compared with the regulation. While the reform of Section 149 might further encourage such competition, it seems appropriate that other measures to promote competition should be enhanced before Section 149 is reformed.

28 Under the terms of section 149 of the Consumer Credit Act, 1995

29 The Competition Authority received correspondence from the Director of Consumer Affairs (DCA) taking issue with the examples adduced by LECG in support of its Recommendation [P9]. The DCA provided evidence that, contrary to LECG's statement at paragraph 3.39, approved fees and prices do not necessarily act as price ceilings for a new entrant. The example quoted by LECG at Footnote 71 was based on incomplete information and the regulatory approval mechanism was not fully to blame for the delay in this particular institution entering the market. While LECG's analysis, though rigorous, was based on incomplete data, the essential point remains that section 149 price regulation inhibits innovation, entry and rivalry.

Recommendation 7: Provide free 12-month current account records

Details of Recommendation	Action By
Customers should have free access to their own account records, held by their bank, for at least the previous 12 months. Where such records are not freely available electronically, each bank should provide up to one hard copy statement of records for the previous 12 months on at least an annual basis, free of charge, where requested by the customer.	Banks January 2006

2.43 On reform of this legislation, the Financial Regulator should require entities that will no longer be covered by fee and charge regulation to notify customers that this regulation will end, provide the date it will end, and provide a listing of all current fees and charges applicable to their accounts. The Financial Regulator should also require that customers be notified of any changes in fees and charges two months prior to the imposition of these changes so as to give customers sufficient time to switch providers if they wish to do so. These additional customer fee notification requirements should continue for six months following the ending of fee and charge regulation, after which time normal customer notification requirements would again apply.

CONSUMER ACCOUNT HISTORY

2.44 Banks are not obliged to provide customers with a full account history, which is vital information, especially for loan applications. Account history is particularly important in assessing the creditworthiness of first time loan applicants. Fear of losing access to this information keeps consumers tied to their current bank. Banks should be required to give 12 month account records to their customers on request. This service should be free of charge in order to avoid another key barrier for customers looking to change their current account from one bank to another. As this reform will reduce the gateway role of current accounts it will also help stimulate greater competition between banks.

2.45 The fear of losing a credit history and the consequent difficulty of demonstrating creditworthiness constitute a barrier to switching.[30] Switching would be encouraged if consumers had greater confidence that the integrity of their credit histories would be maintained during the switching process. In addition, the provision of credit history information facilitates market entry, as new entrants face reduced risks and costs and are less likely to be burdened with customers with disproportionately bad credit records, who have been refused service by the established banks.

2.46 Such account information should be freely available to customers at least once a year. Each individual bank has little incentive to provide information to its customers that might enable them to switch away; thus banks will tend to price this service at an excessive rate in order to keep customers locked-in to their current account provider. Furthermore, customers own their own account information, and should not be made to pay for their own property. Moreover, given the vital role of account switching, even a cost-related price would be bad. In economic terms, the free provision of this information is known as a "positive externality". A positive externality is a social benefit which the market mechanism cannot properly value, such as the provision of education and healthcare, or research and development of new technologies.

2.47 To take an analogy, insurance companies do not charge their customers for providing a letter indicating whether a customer has a no claims bonus, and the length of this bonus. This letter serves the same function in facilitating switching in motor insurance as an account history in banking. It is reasonable to expect the insurance precedent to be followed in banking. In order to avoid frivolous or excessive information requests, banks should have the discretion to charge where account information is requested more than once in any twelve-month period.

PRICE TRANSPARENCY

2.48 Information provided to consumers about their current accounts is inadequate and complex in its presentation. This makes it difficult to compare products and choose between banks. For example banks provide insufficient information on interest rates on current accounts. This reduces transparency and makes it more difficult to assess the value a customer is getting from their existing current account. In order to make direct comparisons information should be made available in a clear and comprehensive manner.

2.49 The prices consumers pay for current accounts are composed of a number of elements, two of which are fees and interest rates. While information on fees is readily accessible to

30 LECG Report, pp.61-62

Recommendation 8: Provide personal current account interest rate information

Details of Recommendation	Action By
a. As part of its consumer protection function, the Financial Regulator should require banks to provide interest rate and interest rate margin information for Personal Current Accounts (PCAs) to their actual and potential customers. This includes posting PCA interest rate information on bank websites. b. Institutions should also be required to provide the account's current interest rate on each statement issued to a customer. The Financial Regulator should ensure that this information is made available in a simple and easily understandable format.	Financial Regulator March 2006

Recommendation 9: Promote personal current account interest rate awareness

Details of Recommendation	Action By
The Financial Regulator should promote personal current account interest rate and interest rate margin awareness, for example by including interest earnings in its representative consumer profiles. The Financial Regulator should also provide in its comparison tables the prices charged by non-banks if, these entities provide money transmission services.	Financial Regulator March 2006

those willing to seek it out, information on current account interest rates and interest rate margins is not easy to come by. Consumers are not able to make fully-informed pricing decisions, because they do not know the interest rates on different current account products. Without adequate pricing information, consumers will be less likely to switch current accounts efficiently, as they will be unable to assess the real costs and benefits of other banks' offerings. While this may be an esoteric argument in the current low interest rate environment, it will become more significant if interest rates rise in future, particularly for overdrafts.

2.50 LECG recommended [P11, P12 and P13] that banks provide interest rate information on current accounts to actual and potential customers, that the Financial Regulator promote interest rate awareness and publicise the prices charged by non-banks if they provide money transmission services. It was expected that these recommendations would turn current account interest rates into a competitive tool, and would make consumers better informed, and better able to assess the costs and benefits of competing products.

2.51 The Competition Authority agrees with this assessment and rejects criticisms that the provision of such information could confuse consumers. Properly presented, such information will allow consumers to make reasoned, informed choices about their banking services.

NON-BANK FINANCIAL INSTITUTIONS

2.52 No competition concerns currently arise from the regulation of Credit Unions. The Financial Regulator is assessing the regulatory framework for Credit Unions to enable the role of these organisations to evolve.

2.53 Submissions from Bishopstown Credit Union, the Irish League of Credit Unions (ILCU) and the Credit Union Development Association (CUDA) all expressed discontent about the regulatory and legislative structures governing credit unions in Ireland. In particular, the requirement for credit unions to receive regulatory approval before launching new services prevented credit unions from competing on an even footing with banks.

2.54 Legislation regulates the way in which a credit union can do business, as well as the lines of business in which it can engage.[31] Legislation also recognises that credit unions play a specific role in access to financial services, in particular by enshrining the "common bond" in law.

2.55 Although credit unions fall within the definition of a credit institution,[32] they are granted certain exemptions, such as the requirement to hold a banking licence.[33] The ramifications of this are dealt with in the section on access to the payment clearing system below. Similarly, An Post falls within the definition of a credit institution but is exempted from the requirement to hold a banking licence.[34]

2.56 Where credit unions wish to offer services to their members beyond standard deposit-taking and lending, they must apply to the Registrar of Credit Unions to be granted permission to offer such a service.[35] However, a number of these so-called "additional services" may be offered by credit unions without approval from the Registrar of Credit Unions.[36] These services include inter alia telephone and internet banking; submission of loan applications by fax; third party payments; ATM services; insurance; money transmission; standing orders and direct debits.

2.57 The Competition Authority refrains from making a recommendation with respect to credit unions or the Credit Union Act, 1997. The Competition Authority notes that High Level Goal 3 of the Financial Regulator's Strategic Plan 2004-2006 is "*Developing an appropriate regulatory system for credit unions"*. Consequently the Financial Regulator is best placed to address these issues.

31 Credit Unions are not-for-profit institutions which are governed by the Credit Union Act, 1997, and regulated by the Registrar of Credit Unions, a constituent office of the Financial Regulator.
32 Under the terms of section 7 of the Central Bank Act, 1971 (as amended by section 30 of the Central Bank Act, 1989).
33 Under Directive 2000/12/EC of the European Commission.
34 Under section 7 of the Central Bank Act, 1971 (as amended by section 30 of the Central Bank Act, 1989).
35 Under sections 48 to 52 of the Credit Union Act, 1997.
36 Under S.I. 223 of 2004 (Credit Union Act 1997 (Exemption from Additional Services Requirements) Regulations).

3 Lending to Small and Medium Enterprises

3 Lending to Small and Medium Enterprises

3.1 Small businesses face significant problems when trying to access reasonably priced finance. Specifically, small businesses are not benefiting from competition in the vital area of working capital lending. Banks do not fully pass through interest rate decreases to their Small and Medium Enterprise (SME) lending customers. Small businesses need access to these funds in order to grow and to innovate. As a result SMEs are losing competitiveness due to the failure of banks to pass through interest rate decreases as quickly as they pass through interest rate increases. This problem is costing small businesses an estimated €85 million a year.

3.2 Problems in the areas of business current accounts and loan security must be addressed in order to promote competition in lending. Because it is difficult to move their current account from one bank to another, small businesses have fewer options when seeking banking services, especially working capital loans. Also, when a business loan is secured by a mortgage on a property it is unnecessarily complex to move the loan to another bank offering a better deal.

3.3 The Competition Authority has focussed on working capital loans, which are particularly suited to the funding requirements of small businesses and are not readily substitutable with other forms of lending such as term loans. The recommendations and reforms are designed to improve competition in the SME lending market.[37] Three areas have been identified as critical to achieving this goal;

- Small businesses must find it easier to switch their loan and current account providers;
- In order to make informed switching decisions, small businesses must be able to access accurate, reliable and understandable information on alternative banking products of interest to them;
- In order to facilitate switching loans, small businesses must be able to easily transfer the security provided against the loan.

SWITCHING BUSINESS CURRENT ACCOUNTS

3.4 Small businesses have similar problems to personal current account customers, and similar solutions are required. It is even more difficult for small businesses to move their current account from one bank to another than it is for personal customers. This is due to the volume of transactions and use of a current account to monitor on-going credit status of the business. The impact of this problem has been demonstrated in working capital loans where the lack of competition has cost small businesses an estimated €85 million a year. There is an urgent need for a switching code for businesses, for transparent current account comparisons, and for free account histories. These and other reforms will give small businesses more options when seeking banking services, especially working capital loans.

3.5 Business current accounts are characterised by rigidities which make it difficult for business customers to switch their account provider. The supply of working capital loans is closely linked to that of business current accounts because banks are able to closely monitor the financial performance of working capital borrowers by referring to their current account histories. Because this allows lenders to reduce their default risk, they will often be unwilling to establish an unsecured lending relationship without a current account relationship.

3.6 Banks which provide small and medium enterprises with their current accounts, therefore, have a huge information advantage over other banks, which makes it difficult for competition to emerge. Competition in SME banking can develop in two ways:

- Facilitating SME current account switching;
- Making SME account information more easily available to level out the information disparity between banks.

3.7 The Irish Bankers Federation (IBF) announced in June 2005 that it is developing an SME Switching Code, following on from the introduction of its PCA Switching Code in January 2005. The IBF has committed to implementing its SME Switching Code by November 2005.

3.8 Competition does not take place in a vacuum. Rather, it is encouraged by empowering customers to make effective choices based on informed decision-making. For this reason, improved information will augment competition.

3.9 Detailed account information should be provided free of charge to small businesses at least once a year. Each individual bank has little incentive to provide information to its customers that might enable them to switch away; thus, banks will tend to price this service at an excessive rate in order to keep SMEs locked-in to their current account provider. Furthermore, SMEs own their own account information, and should not be made to pay for their own property. Moreover, given the vital role of account information for SME working capital lending, even a cost-related price would be bad for

37 The Competition Authority received one submission which argued that the term loan market does not work well for SMEs, and that banks fail to pass on interest rate cuts in term loans. The Competition Authority focussed on working capital loans because this is the most important form of lending for small businesses and also the area LECG found to be the least competitive. The Competition Authority's focus on working capital loans should in no way be construed as implying that the term loan market is, by comparison, perfectly competitive. This report's recommendations are designed to improve competition in a particular market (working capital loans) and are characterised by its close linkage with the business current account market.

Recommendation 10: Implement a switching code for small businesses

Details of Recommendation	Action By
a. The Irish Bankers Federation (IBF) should expand its Switching Code to include Small and Medium Enterprise (SME) customers. The IBF should make clear that participation in the Switching Code is open to all financial institutions, regardless of whether they are IBF members.[38]	IBF June 2006
b. If the Financial Regulator is not satisfied that a voluntary SME codes is sufficient to encourage switching, then it should implement a statutory switching code for SMEs, monitored, implemented and sanctioned by itself.	Financial Regulator
c. The expanded Financial Regulator should make public its findings regarding the expanded Switching Code's effectiveness. Its report should include an assessment of the accuracy and timeliness of individual banks in completing their functions under the Switching Code.	Financial Regulator June 2007

competition. In economic terms, the free provision of this information is known as a "positive externality". A positive externality is a social benefit which the market mechanism cannot properly value, such as the provision of education and healthcare or research and development of new technologies.

3.10 To take an analogy, insurance companies do not charge their customers for providing a letter indicating whether a customer has a no claims bonus, and the length of this bonus. This letter serves the same function in facilitating switching in motor insurance as an account history would serve in banking. It is reasonable to expect the insurance precedent to be followed in banking. In order to avoid frivolous or excessive information requests, banks should have the discretion to charge where account information is requested more than once in any twelve-month period.

TRANSFER OF MORTGAGE SECURITY

3.11 If a business loan is secured by a mortgage on a property it is more difficult to move the loan to another bank offering a better deal. The mortgage causes a specific problem because of unnecessary complexities in the legal documentation and process. This locks in small businesses to their existing bank. The Competition Authority is proposing a standard form of mortgage document in order to ease the transfer of a mortgage to a new bank. This change will make it easier for small businesses to move loans to banks when better deals are on offer.

Recommendation 11: Make it easy to compare business current accounts

Details of Recommendation	Action By
The Financial Regulator should prepare and publish business current account comparisons targeted to Small and Medium Enterprises (SMEs). These comparisons should consider both fees and interest rates.	Financial Regulator June 2006

Recommendation 12: Provide free 3-year account history

Details of Recommendation	Action By
Business customers should have free access to their own business loan, deposit or current account records, held by their bank, for at least 36 months. Where such records are not freely available electronically, each bank should provide up to one hard copy statement of records for the previous 36 months on at least an annual basis free of charge, where requested by the customer.	Banks January 2006

38 At a meeting in July 2005, the IBF confirmed that non-IBF members would be allowed to use its Switching Code, and that the IBF website would reflect this fact in the near future.

3.12 SMEs frequently use property as security for a loan. Any restrictions on switching mortgages will reduce competition in SME lending. In order for small businesses to take advantage of beneficial loan offers, they must be empowered to easily switch the property which will act as collateral against any new loan.

3.13 Changes of this nature will require consultation with a range of interested parties across the fields of banking, business, law and land registration. The Competition Authority has made other proposals with respect to legal involvement in conveyancing of property transactions in its *Preliminary Report on Legal Services*[39]. In combination, the recommendations made in this Study and in The Competition Authority's Legal Services Study will facilitate the speedy and effective transfer of mortgage security by SMEs.

3.14 The existing range and complexity of mortgages does not present a barrier to the development of a standard mortgage. While the terms of individual mortgages may differ, the underlying premise of any mortgage is a secured commitment to pay the principal advanced in addition to any interest payment. This premise is founded on both common law and statute.

3.15 The commitment given by the IBF to explore recommendations on switching of secured loans in consultation with its sister body, the Irish Mortgage Council (IMC) is welcome.

Recommendation 13: Develop a standard mortgage document

Details of Recommendation	Action By
a. The Irish Bankers Federation (IBF) should develop and promote the use of a standard form of mortgage document[40] and ancillary security documents in consultation with relevant parties.[41]	IBF December 2006
b. Legislative changes required to permit implementation of this recommendation should be identified by the Department of Finance, and appropriate amendments introduced.	Minister for Finance June 2007
c. The implementation of this recommendation should be designed so as not to create a barrier to the development of a cross-border market in mortgages, as envisaged in the European Commission Green Paper on cross-border mortgages.[42]	

Recommendation 14: Facilitate easier transfer of mortgages

Details of Recommendation	Action By
a. Following consultation with relevant parties, the Minister for Finance should bring forward legislation allowing the transfer of a mortgage to a new loan provider without any change in the mortgage's validity or priority over other mortgages. The Department of Finance should also prepare other legislative changes as necessary to facilitate the transfer of mortgage security among financial institutions.	Minister for Finance June 2007
b. The implementation of this recommendation should be designed so as not to create a barrier to the development of a cross-border market in mortgages as envisaged in the European Commission Green Paper on cross-border mortgages.	

39 *"Study of Competition in Legal Services"*. Available online at http://www.tca.ie/professions/legal_preliminary_report.pdf.
40 The term "mortgage" specifically refers here to the document assigning ownership of a property to a lender in return for a loan, and not the lending, interest and repayment terms.
41 For example, the Law Society, the Land Registry, the Registrar of Deeds, the Department of Finance, the Financial Regulator and the Irish Mortgage Council.
42 *"Mortgage Credit in the EU"*. Available online at http://europa.eu.int/comm/internal_market/finservices-retail/home-loans/index_en.htm#greenpaper.

PAYMENT OF INTEREST ON CURRENT ACCOUNTS

3.16 The Competition Authority has received a number of submissions suggesting that banks should pay interest on business current accounts. In the present low-interest rate environment, imposing compulsory interest payments on business current accounts would be a theoretical exercise only and have no practical effect. The more substantive issue is, that following the fall of interest rates, small businesses have failed to see the benefits on their working capital loans.

3.17 In its recent report, the Joint Oireachtas Committee on Finance and Public Service recommends that The Competition Authority consider whether or not a recommendation on business current account interest, similar to that made by the UK Competition Commission in 2002,[43] should apply in Ireland. Specifically, the UK Competition Commission recommended that the four largest UK clearing banks[44] be required to offer all small and medium-sized businesses operating current accounts in England or Wales, either an account that pays interest at the Bank of England base rate minus 2.5%, or a current account free of money transmission charges. The Competition Commission made this recommendation due to a concern that SME current accounts were characterised by excessive pricing.

3.18 Circumstances differ significantly in Ireland.

- Interest rates on SME current accounts are not the central issue for competition in the provision of small business banking services. They are a distraction from the much more important issue of access to lending for SMEs on competitive terms, such that lending interest rate decreases are passed through to customers as quickly as interest rate increases. The correct approach to addressing lack of pass-through is to increase competition in the market, and not to regulate interest rate margins. For this reason, this report looks at facilitating other potential providers of working capital lending and facilitating switching secured lending between banks.
- The UK recommendation is only applied in practice to accounts with balances greater than Stg£50,000. It is likely that many Irish small enterprises would hold balances of considerably less than €72,000 in their current accounts and so would not benefit from a similar recommendation.
- Given Ireland's current low interest rate environment, applying an equivalent to the UK recommendation would render interest rates on SME current accounts negative, and would end up costing small businesses money. Low European Central Bank (ECB) rates mean that the lack of pass-through in Ireland is on the lending, not the deposit, side of the market.
- It is not certain that any regulatory body is empowered to implement such a recommendation. Unlike the UK Competition Commission, The Competition Authority does not have this power, and section 149 of the Consumer Credit Act, 1995, does not grant such a power to the Financial Regulator. New legislation would be required to implement such a law in Ireland. Although the final decision on such a matter would rest with the Minister for Finance, The Competition Authority advises against the introduction of such a recommendation, which would not be the most effective means of promoting competition in the interests of SMEs.

LECG WORKING CAPITAL METHODOLOGY

3.19 In its Report of November 2004, LECG consultants calculated that Irish small and medium enterprises (SMEs) paid estimated excess interest payments of circa €85 million on working capital loans due to the failure of banks to fully pass on European Central Bank (ECB) interest rate reductions to their SME customers. Some submissions criticised the methodology employed by LECG to determine an estimate of the cost to SMEs of lack of interest rate pass-through, illustrated in graphic form below.

3.20 Following a review, The Competition Authority is satisfied the LECG analysis and conclusions are robust. LECG's methodology was intended to provide an indicative figure, rather than a precise calculation, of the degree to which banks fail to pass interest rate reductions onto small businesses. Evidence of interest rate smoothing[45] does not invalidate LECG's, conclusion that full interest-rate pass-through is absent, and that market power is being exerted in the working capital loan market.

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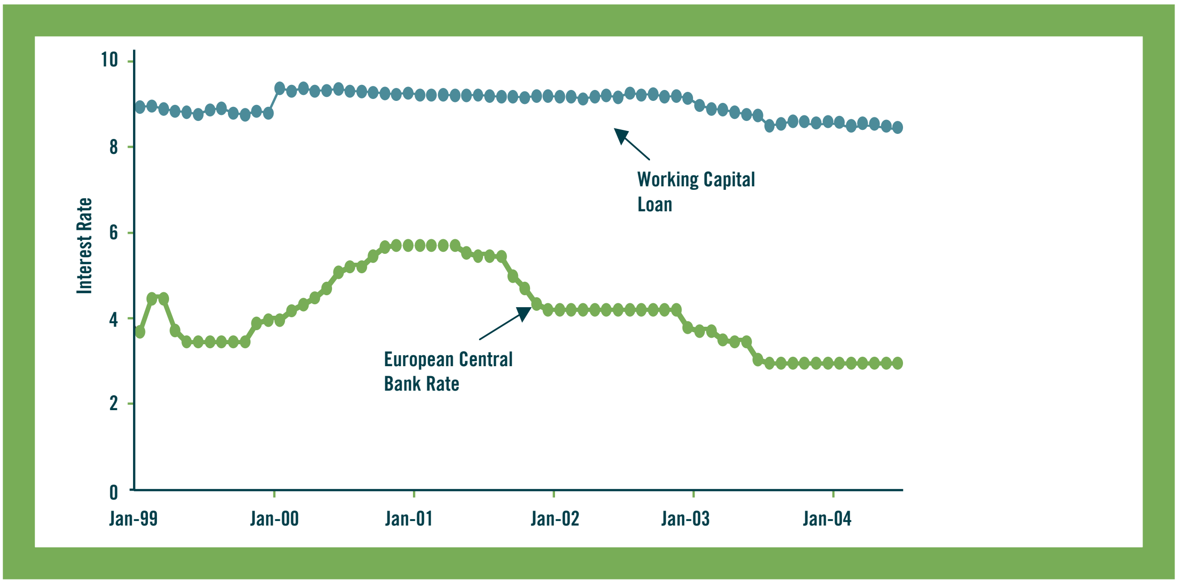
43 *"A report on the supply of banking services by clearing banks to small and medium-sized enterprises within the UK"*. Available online at http://www.competition-commission.org.uk/rep_pub/reports/2002/462banks.htm#full.

44 Barclays, HSBC, Lloyds TSB and the Royal Bank of Scotland Group.

45 Interest rate smoothing occurs where trends in interest rates, rather than the precise interest rates themselves, are passed onto customers.

FIGURE 2: AVERAGE MONTHLY INTEREST RATES
JANUARY 1999 – JUNE 2004[46]



46 Reproduced from LECG Report, p.128

4 The Payment Clearing System

4 The Payment Clearing System

4.1 The payment clearing system performs a crucial role in the Irish banking system. Financial institutions who want to offer a broad range of banking services need access to the payment clearing system to process the transactions their customers conduct with customers of other banks.

4.2 The Competition Authority is concerned that the structure of the payment clearing system has inhibited new banks offering services in Ireland. Clearing company governance structures and application procedures can discourage new banks from joining the clearing system[47]. In addition, Ireland's continued high reliance on paper transactions, such as cheques, means that potential entrants need to invest in expensive paper sorting technology that raises costs and reduces the competitiveness of new entrants.

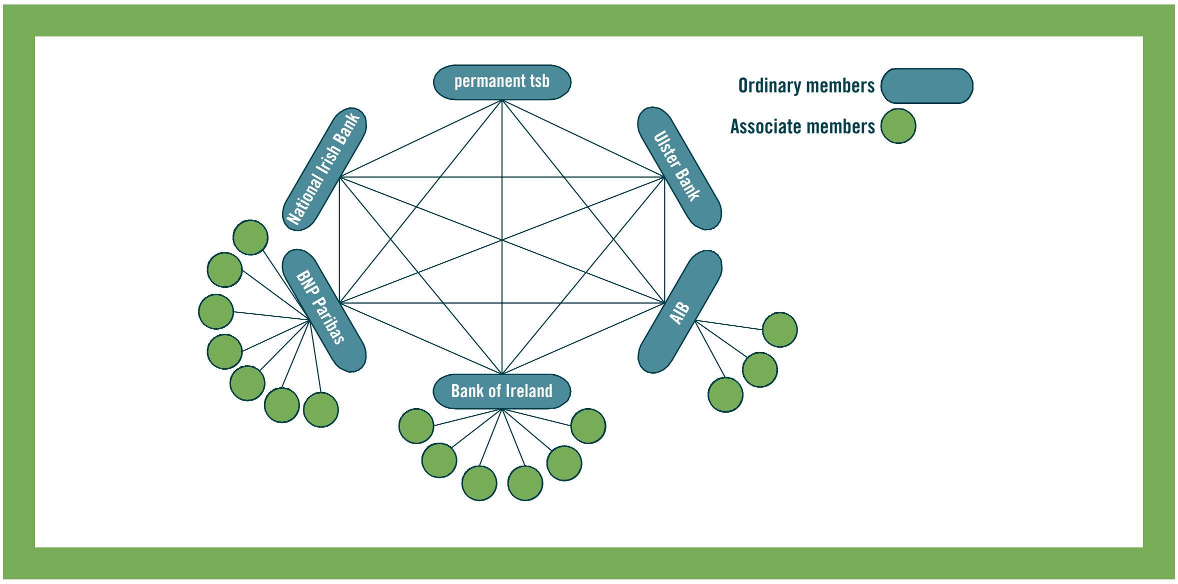
4.3 A payment clearing system is a series of arrangements whereby both paper and electronic payments are transferred between accounts and institutions. Payments can be cleared either bilaterally between each participating institution, or through a centralised hub arrangement, known as an Automated Clearing House (ACH). Automated Clearing Houses operate in numerous EU member states,[48] while in Ireland payment schemes are operated on a bilateral basis. This results in each participating institution having to agree terms with every other participating institution. The Irish Payment Services Organisation (IPSO) is the umbrella body responsible for giving overall strategic direction to the Irish payments industry. IPSO is composed of four separate clearing companies:

a) The Irish Real-Time Interbank Settlement Company (IRIS) clears large-value, low-volume electronic transactions;
b) Laser Card Services Ltd. clears laser card transactions;
c) The Irish Paper Clearing Company (IPCC) clears all paper transactions;
d) The Irish Retail Electronic Clearing Company (IRECC) clears low-value, large-volume electronic transactions.

4.4 The Central Bank and Financial Services Authority of Ireland (CBFSAI) has oversight of the clearing systems, although it does not engage in detailed or intensive regulation. Figure 3 illustrates the configuration of the IPCC and IRECC.

4.5 No competition concerns have arisen with respect to IRIS and Laser. However, competition concerns do arise with how both IRECC and the IPCC are organised. Financial institutions can join the IPCC or IRECC either as full members or as associate members. As an associate member, clearing would be done on their behalf by a full member. Concerns relate to the difficulties that new banks would encounter in joining the payment clearing system as full members.

FIGURE 3: PAPER AND RETAIL ELECTRONIC CLEARING STRUCTURES[49]



47 Since The Competition Authority's study commenced, IPSO has worked to remove a number of clearing company rules which serve to restrict competition.
48 Examples include Voca (UK), SIA (Italy), CEC/UGV (Belgium), SIT (France), EMZ (Germany), Interpay (the Netherlands), SICOI (Portugal) and SNCE (Spain).
49 Reproduced from LECG Report, p.71.

4.6 Since the commencement of The Competition Authority's study, IPSO has acted to remove some of the more egregious barriers to entry and restrictions on competition in clearing systems.[50] IPSO is engaged in further reforms to the organisational structure of the clearing companies. These initiatives are to be welcomed, and, in tandem with The Competition Authority's recommendations, should lead to a more open and flexible payment clearing system.

FACILITATING ENTRY TO THE PAYMENT CLEARING SYSTEM

4.7 Unnecessary obstacles to joining the Irish payment clearing system discourage new banks from offering services to Irish consumers. The payment clearing system is a vital piece of infrastructure for the banking industry and is central to providing current account services. Rules such as only being able to join in the last month of the year give the appearance of a closed shop. A modern corporate governance structure is needed for the payment clearing system and more information on its operation should be provided publicly. Clarity is also required on who can join the system, specifically for Credit Unions and An Post. These changes will facilitate banks who may wish to offer new services in Ireland and give greater choice to consumers.

4.8 The current governance of clearing systems and the difficulties involved in having the clearing companies develop strategic directions for the industry without the wider business strategies of participating institutions becoming coordinated raise competition concerns. The way to resolve these concerns involves three steps:

a. To have just one Board for IPSO and its constituent committees;
b. To expand stakeholder representation on IPSO's board;
c. To make publicly available summaries of the proceedings of IPSO meetings.

The purpose of these recommendations is to facilitate entry into the clearing system by encouraging transparency of decision-making, facilitating greater stakeholder involvement, and focussing IPSO's operations more clearly on overall payments industry strategic direction.

4.9 Recommendations 15, 16 and 17 are designed to ensure that potential entrants have confidence in IPSO's governance systems and in the way participants conduct their activities. Two independent members currently sit on the IPSO Board. Recommendation 16 advocates the widening of the IPSO Board to include non-financial stakeholders, such as utility companies which would be large-volume users of paper clearing services. This will make IPSO a more representative body while allowing for the cooperation needed among industry participants to move the payments industry forward in line with technological and strategic developments.

4.10 Brief details of items discussed and actions taken at clearing company meetings should be published. This follows recommendations previously published by LECG, that summaries of IPSO, IPCC and IRECC meeting minutes be made publicly available. This would achieve the goal of keeping board meeting discussions focussed on industry strategic issues, without running the risk of distorting the expression of members' views.

Recommendation 15: Create a single Board of Directors for the Payments System

Details of Recommendation	Action By
The management and operation of all payment systems and payment schemes under the Irish Payment Services Organisation (IPSO) umbrella should be combined into one entity having a single unified Board of Directors. The foregoing should not prohibit the continuation of payment systems or schemes in their existing legal form. Committees under the new Board should be appointed to handle specific technical matters requiring specialised skills.	IPSO, IPCC, IRECC January 2006

Recommendation 16: Expand the membership of the Irish Payments Service Organisation

Details of Recommendation	Action By
The Board of Directors of the Irish Payment Services Organisation (IPSO) should be expanded to include other stakeholders, particularly volume users of money transmission services, such as utility companies, and consumer representatives.	IPSO January 2006

50 These are detailed in LECG's Report at Section 4.11.

Recommendation 17: Publish decisions and actions of the payments industry

Details of Recommendation	Action By
A paper briefly detailing items discussed and actions taken at Irish Payment Services Organisation (IPSO) Board meetings should be published, for example, by posting on the IPSO website.	IPSO November 2005

Recommendation 18: Clarify status of An Post and credit unions in the payments industry

Details of Recommendation	Action By
a. The Board of Directors of the Irish Payment Services Organisation (IPSO) should clarify that credit unions and An Post are eligible for both ordinary and associate membership of the paper and retail electronic payment systems run by IPSO.	IPSO January 2006
b. The Articles of Association, Rules for Membership, Outline Guide to Membership, and any other relevant documents should be modified to reflect this fact. These changes should be subject to Central Bank and Financial Services Authority of Ireland (CBFSAI) approval.	IPSO CBFSAI February 2006

Recommendation 19: Make key non-confidential payments industry documents available

Details of Recommendation	Action By
The Irish Payment Services Organisation (IPSO) should publish (for example by posting on its website) the Articles of Association, Rules for Membership, Outline Guide to Membership, and Fair and Equitable Principles regarding impact costs for the clearing companies. Any other documents regarding membership criteria and procedures should similarly be made public.	IPSO October 2006

4.11 While clearing system participants have traditionally been drawn from the ranks of banks, non-bank entities, such as An Post or credit unions, may wish to join the clearing system, either as full or associate members. There is currently some confusion as to whether such entities are permitted to join the clearing systems, this revolves around whether credit unions (and An Post) can rightfully be considered to be credit institutions.[51] Recommendations 18 and 19 are designed to clarify the IPSO membership criteria and the rights and obligations which are thereby conferred on potential members.

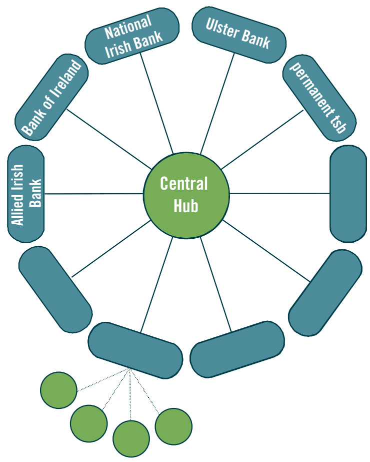
4.12 Recommendation 18 is based on advice received from the CBFSAI and the Financial Regulator, which states that credit unions fall within the definition of a credit institution, but under Directive 2000/12/EC of the European Commission, they are exempted both from inclusion under the description of credit institution and the requirement to hold a banking licence. It should be made clear by IPSO that credit unions are eligible for membership of the clearing system, subject to them meeting the other criteria for membership. Similarly, it should be made clear that An Post is eligible for membership.

PROMOTING A MORE EFFICIENT PAYMENT SYSTEM

4.13 For a bank considering offering current account services, getting involved in the current payment clearing system is complex and expensive. This discourages new banks from offering current accounts (new entrants such as Rabodirect, Northern Rock and Bank of Scotland do not offer personal current accounts). The biggest problem relates to paper based payments, e.g. cheques. New technology needs to be brought into the banking system in order to encourage more banks to compete for business in Ireland.

51 As defined under section 7 of the Central Bank Act, 1971, as amended by section 30 of the Central Bank Act, 1989.

FIGURE 4: STRUCTURE OF A POTENTIAL ACH[52]



4.14 In order to be a full range provider of current account services, a financial institution needs to provide both paper and electronic money transfer services. Clearing paper items is considerably more expensive per item than clearing electronic items, and significant sunk costs must be invested in acquiring sorting machines and other paper clearing technology. New banks face a different competitive landscape than those already providing current accounts. They would be encouraged to offer such services if paper transactions became less frequent, and easier and less expensive to process.

4.15 Both Automated Clearing House (ACH) and truncation technology[53] have the potential to bring significant benefits to clearing in Ireland. They can do so by allowing for greater potential market entry by reducing the complexity and cost of joining the clearing system, and by increasing the speed of clearing cycles.[54] The costs and trade-offs imposed by new technology will also need to be considered. Two issues are of particular importance:

- A move towards truncation may prolong the usage of paper payment instruments at a time when the international trend is towards the elimination of paper instruments;

- Any move towards an Irish ACH may be rendered redundant by moves towards a Pan-European ACH (PE-ACH).

4.16 The recommendations address these issues by having the payments industry address the direct and indirect costs and benefits of different ways of improving efficiency in clearing. This will identify the best way of reconciling technological advances in clearing with facilitating market entry into money transmission services.

4.17 Figure 4 shows how an Automated Clearing House (ACH) arrangement would reduce the network of bilateral arrangements necessary to operate an inclusive clearing system.

4.18 Improving competition in clearing will require action not only by the payments industry, but also by Government. Moves towards truncation will require the amendment of legislation governing the presentation of cheques by the Oireachtas.[55] In particular, electronic copies of cheques will need to be acceptable as proof of payment, and the ownership status of cheques will need to be altered. There was broad, though not unanimous, support for these proposed actions in the consultation period.

52 Reproduced from LECG Report, p.85
53 Truncation technology allows for images of cheques to be transferred between banks, thereby dispensing with the need to transfer the physical cheques themselves from bank to bank.
54 Banks in the UK agreed in May 2005 to speed up clearing of electronic payments, but not of cheques. "OFT criticised over failure to speed up clearing of cheques" Financial Times, May 25th 2005
55 As LECG identified in Recommendations [C8] and [C9].

Recommendation 20: Analyse new technology for clearing electronic copies of cheques

Details of Recommendation	Action By
a. The Irish Payment Services Organisation (IPSO) should prepare a cost/benefit analysis of the various options for the use of truncation technology. The analysis should identify what legislation needs to be amended to allow for truncation technology. This analysis should be published, any commercially sensitive information having been redacted.	IPSO March 2006
b. A decision on the way forward with regard to truncation should be taken by the IPSO Board on the advice of the Committee which takes over the role of the Irish Paper Clearing Company (IPCC), giving consideration to the cost/benefit analysis. This decision should be made in consultation with the Central Bank and Financial Services Authority of Ireland (CBFSAI) and the Minister for Finance.	IPSO, CBFSAI, Minister for Finance May 2006
c. The decisions of the IPSO Board in this regard need not be unanimous but instead should be based upon the voting procedures set out in the IPSO Articles of Association.	

Recommendation 21: Implement legislation to recognise electronic copies of cheques

Details of Recommendation	Action By
The Minister for Finance should bring forward legislation expanding section 45(A) of the Bills of Exchange Act, 1882 (as amended by section 132 of the Central Bank Act, 1989) to allow for the electronic re-presentation of items unpaid upon first presentation.	Minister Finance September 2006

Recommendation 22: Implement legislation to re-assign ownership of cheques

Details of Recommendation	Action By
The Minister for Finance should bring forward legislation that: a. Assigns ownership of an original paper cheque to the institution that first receives it into the banking system; b. Overrides the right of customers or the paying bank to demand the return of cheques; c. Allows the bank with ownership of the paper cheque to provide an image of the cheque instead of the paper original to anyone requiring it; and d. Gives the imaged cheque the same legal and evidential status as the original document.	Minister for Finance September 2006

Recommendation 23: Update clearing rules to facilitate electronic copies of cheques

Details of Recommendation	Action By
The Irish Payment Services Organisation (IPSO) Board should update the clearing rules, procedures, and standards to reflect truncated items. In particular, standards and procedures for the creation, transfer, management and storage of imaged files should be developed.	IPSO March 2006

4.19 The implementation of Recommendations 21 to 23 is contingent on the decision reached in Recommendation 20.

ADVANCING A CENTRAL HUB FOR CLEARING PAYMENTS

4.20 Ireland has a very complex and cumbersome payment clearing system based on a web of bilateral arrangements between individual banks (see Fig 3, page 29). This model makes it difficult for new banks to join the system and works to the benefit of existing current account providers. The clearing system needs to be streamlined to make it easier for more banks to offer current accounts.

4.21 Some submissions queried statements relating to the payment clearing system made in the LECG Report. For the sake of avoiding doubt, these statements will now be clarified.

4.22 Paragraph 5.32 of the LECG Report stated that one of the potential benefits of an ACH was shorter clearing cycles. One respondent noted that this was not necessarily the case, and adduced in support of this contention BACS, the UK ACH, which operates a 3-day clearing cycle. BACS is currently upgrading its clearing service, utilising a new web-based functionality called BACSTEL-IP, which will allow for speedier payment confirmation.[56] Statements from bank executives quoted by LECG at paragraph 4.25 indicated that banks believed that IRECC clearing cycles could be shortened, and that an ACH could facilitate this. Overall, an ACH could lead to shorter clearing cycles.

4.23 With regard to clearing by associate members of clearing systems, BNP Paribas, which clears payments on behalf of a number of associate member banks, took exception to the statement by LECG in paragraph 4.21 that clearing via direct access led to faster clearing cycles. BNP Paribas stated that *"Banks clearing through BNP Paribas clear within the same clearing cycle and do not suffer any delays either through the paper or electronic clearing systems. Cheques which are presented by the agency banks are settled on Day 2 on exactly the same terms as if they were being presented by a full and direct member."*

4.24 LECG's statement which was based on sworn testimony from one associate member bank, quoted at section 4.21 of LECG's Report, indicates that delays in clearing do occur for associate members. This institution may not conduct its clearing through BNP Paribas.

4.25 The establishment of an Ireland-only ACH may risk redundancy, given movement at European level towards pan-European functionality. So, while an ACH may bring benefits in terms of likely shorter clearing cycles, greater access and reduced clearing costs, the particular way in which an ACH solution for Ireland is implemented requires serious thought, bearing in mind the cross-border nature of clearing, European initiatives, particularly SEPA, and international best practice.

56 *"BACSTEL-IP"*. Available online at http://www.bacs.co.uk/BPSL/bacstelip/generalinfo/WhatisBACSTEL-IP/.

Recommendation 24: Investigate the establishment of an Automated Clearing House

Details of Recommendation	Action By
a. The Board of Directors of the Irish Payment Services Organisation (IPSO) should, with the oversight of the Central Bank and Financial Services Authority of Ireland (CBFSAI), prepare and publish Requests for Information (RFIs), and subsequently, if appropriate, Requests for Proposals (RFPs) for the provision of Automated Clearing House (ACH) functionality for Ireland.	IPSO CBFSAI February 2006
b. These RFIs and RFPs should include the possibility of handling truncated cheques and of interacting with a Pan-European ACH (PE-ACH). All analysis and decisions should be in the context of both the development of the Single European Payments Area (SEPA) and future moves towards a PE-ACH framework. Proposals should be in accordance with the ten Bank for International Settlements (BIS) *"Core Principles for Systemically Important Payment Systems"*. The RFIs should be issued by February 2006, and the RFPs by May 2006.	IPSO May 2006
c. The Board of Directors of IPSO should prepare a cost/benefit analysis of the various options for ACH functionality derived from the RFPs. Both private costs and benefits, such as the cost of the technology and reductions or increases in processing costs and public benefits, such as ease of entry and the impact on the safety and soundness of the clearing system, should be considered.	IPSO September 2006

Recommendation 25: Devise an action plan for implementing an Automated Clearing House

Details of Recommendation	Action By
a. A decision on the way forward on the provision of ACH functionality in Ireland should be taken by the Board of the Irish Payment Services Organisation (IPSO), based upon the cost/benefit analysis mentioned in the previous recommendation, in consultation with the Central Bank and Financial Services Authority of Ireland (CBFSAI), the Department of Finance, and The Competition Authority. b. The decisions of the IPSO Board in this regard need not be unanimous but instead should be based upon the voting procedures set out in IPSO's Articles of Association. c. The Board's analysis should be published, any commercially sensitive information having been redacted. All analysis and decisions should be in the context of the development of the Single European Payments Area (SEPA) and future moves towards a PE-ACH framework, as well as in accordance with the ten Bank for International Settlements (BIS) *"Core Principles for Systemically Important Payment Systems"*.	IPSO, CBFSAI, Department of Finance, The Competition Authority December 2006

SEPA – THE SINGLE EUROPEAN PAYMENTS AREA

4.26 Developments in the Irish payments model will be influenced by changes in the wider European system. In December 2004 the European Payments Council (EPC) published its Roadmap 2004-2010 including a timeframe for the development of a Single European Payments Area. Any changes to the Irish system should be made in parallel with the European model otherwise they risk going out of date quickly.

4.27 The Single European Payments Area (SEPA) is an EU-wide development supported by both the EU and the payments industry. SEPA's aim is to simplify the process of making cross-border payments. Payments can take place across borders as well as within them. Historically, it has cost more for consumers to process transactions internationally, compared to nationally. The explicit objective of SEPA is *".....a Single Payment Area, in which citizens and businesses can make cross-border payments as easily, safely and efficiently as they can within their own countries and subject to identical charges."*[57] Along with the European Commission and the European Central Bank (ECB), the European Payments Council (EPC) is responsible for promoting SEPA. The EPC is the payment coordinating body for the European banking industry. The Irish Payment Services Organisation (IPSO) is the Irish representative on the EPC.

4.28 SEPA will have ramifications for the development of clearing in Ireland by integrating it into an EU-wide payments system. The most likely approach to implementing SEPA is by means of one or more pan-European Automated Clearing Houses, known as PE-ACH for short, which would clear payments through a central hub, rather than on a bilateral basis, as is the case in Ireland.

4.29 EU harmonisation raises a number of complex issues. For example, Ireland has unusually high levels of cheque usage compared to most of its EU neighbours. Any moves towards pan-European clearing will need to consider both the costs and benefits of the continued usage of cheque payment in an international context. Similarly, any decision to implement an Automated Clearing House (ACH) solution in Ireland can only be taken having considered the various options which are available to the Irish payments industry.[58]

4.30 The EPC is responsible for implementing a Pan-European Direct Debit (PEDD). It is intended that this payment instrument will eventually replace all national forms of direct debit. The EPC conception of a Direct Debit is broader than the Irish conception, and encompasses telephone and internet payments, as well as paper-based payments. PEDD is due to commence operation in 2008. Accordingly, any national developments with respect to Direct Debits in the intervening period should not inhibit the development of PEDD.

ATM NETWORKS

4.31 The present structure of the Automated Teller Machine (ATM) network does not raise competition concerns. In fact, moving to a central hub system, as some have suggested, is likely to reduce competition and consumers would lose the benefit of access to cash in variety of convenient locations.

4.32 One respondent to the consultation process advocated the establishment of a centralised hub for automated teller machines (ATMs). ATMs are currently operated on a bilateral basis in Ireland. This respondent claimed that bilateral ATM arrangements constituted a barrier to entry to the current account market. Competition would not be best served by establishing a centralised hub arrangement for ATMs.

4.33 The ATM network is not directly comparable to paper and electronic clearing. This is because ATMs are used as competitive tools by financial institutions. In particular, ATMs contribute to brand awareness. Decisions regarding the location and functionality of ATMs form part of the commercial competitive strategies of banks, leading to greater choice and innovation, to the ultimate benefit of consumers. For example: consumers can top up their mobile phone call credit or check their balances from ATMs, while in-store merchant-replenished ATMs afford consumers greater convenience.

4.35 Paper and electronic clearing, on the other hand, is best conducted on a cooperative basis by the participating banks. Clearing of this type offers individual banks no opportunities to gain competitive advantage by means of branding, positioning or ancillary services.

4.36 The imposition of just one interchange fee for ATMs could eliminate competition for ATM locations, as banks would lose their incentive to situate ATMs in certain areas. Therefore, it is likely that competitive pressures would be reduced if ATMs were turned into industry utilities, rather than competitive tools. Furthermore, there is no evidence to suggest that monopoly pricing of ATM interchange fees would be more conducive to promoting competition than the current bilateral system. There is no guarantee that any putative efficiency gains would outweigh the competitive concerns which would arise from such a course of action. The Competition Authority therefore advises against a centralised hub for ATM interchanges.

57 *"Payment Services – Towards a Single Payments Area"*. Available online at http://europa.eu.int/comm/internal_market/payments/index_en.htm

58 LECG discussed these issues in greater detail at paragraphs 5.30 and 5.31 of its Report.

NATIONAL PAYMENTS STRATEGY

4.37 The National Payments Strategy is not yet developed and therefore The Competition Authority is not in a position to make any comment or recommendations.

4.38 While there was near-unanimous support for the idea of a National Payments Strategy (NPS) implementation plan, concerns were expressed regarding the development of a NPS and what role, if any, the State should play in this strategy.

4.39 LECG neither endorsed nor rejected the NPS concept. It recommended that an implementation plan should be released, including a statement on which parts are being adopted, which parts are being rejected, and detailing any changes.

4.40 The NPS is not a Government-led initiative, nor does it have, at this stage, clear, specific and well-defined goals, objectives, resources or direction. Instead, the NPS is at an early stage of development which is characterised by discussion among a large number of stakeholders. A forum for discussion (the "National Payments Forum") of issues arising in relation to the NPS has been established under the auspices of IPSO. This Forum, which had its inaugural meeting in May 2005, is currently in its early stages and has not yet formulated any set of policies. In the absence of agreed policies, LECG's recommendation referring to the NPS is irrelevant.

Competition in the (non-investment) banking sector in Ireland

5 Conclusion

5 CONCLUSION

5.1 Competition has been ill-served by retail banks in the past. Consumers have not reaped the benefits of better services, prices, products and innovation. The Competition Authority is confident that its recommendations will give a significant and lasting boost to competition in banking in Ireland. The recommendations are sensible, pragmatic and considered responses to those areas of banking which, due to precedent, private restrictions, public regulation, or unintended consequence, impede competition. When implemented, they will provide a greater selection of customer friendly, innovative banking services at competitive prices. Accordingly, The Competition Authority urges all the parties addressed in this report to implement the recommendations within the timeframes specified.

5.2 For competition to work, consumers need to critically examine the products and services offered by their own and alternative providers of banking services. However, consumers find it difficult to shop around, which makes the seeming inertia of bank customers more understandable. This is because consumers tend not to be equipped with the information they need to make reasoned decisions about who can best provide for their individual banking needs. These recommendations are designed to assist consumers in making these decisions, by making more information available to them in an understandable and comparable format.

5.3 The publication of this Report does not mean that The Competition Authority's work with respect to banking is at an end. Having set out 25 remedies to improve competition, The Competition Authority will maintain an ongoing involvement in analysing competition in the banking industry, and it will take such action as is necessary in order to enforce and ensure compliance with competition law, and to promote adherence to a pro-competitive culture in the sector as a whole.

5.4 Finally, The Competition Authority wishes to express its gratitude to the various financial institutions, State bodies, regulators, consumer advocates and other interested parties who gave of their time and expertise to assist The Competition Authority in its work to date, and without whose cooperation this report could not have been completed.