



## NEWS RELEASE

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### **Irish banking sector is not working well for small business or personal customers according to The Competition Authority**

The Competition Authority today (22<sup>nd</sup> September) published its report *Competition in the (non-investment) banking sector in Ireland*. The report points out that banks in Ireland do not compete aggressively for customers.

The Report has identified anti-competitive problems in the three sectors examined, which were personal current accounts, lending to small business and the crucial role of the payments clearing system. The Competition Authority makes 25 recommendations intended to mitigate these problems and make the banking industry more competitive. Specifically The Competition Authority recommends that regulation of bank charges should not be removed until competition improves. The Competition Authority's recommendations are intended to;

- **make it easier for personal customers & businesses to move their bank accounts;**
- **make it cheaper for small business to access working capital; and,**
- **make it easier for new banks to offer services to Irish customers.**

According to John Fingleton, Chair of The Competition Authority; "Competition should make financial institutions more responsive to the needs of Irish customers. The Competition Authority has identified a number of areas where competition is not allowed to develop freely and unencumbered and we have made appropriate recommendations. These recommendations will have a significant impact, and will have knock-on effects in other areas of banking."

Since the commencement of The Competition Authority's 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 has endorsed the removal of the double-taxation stamp duties on customers who switch banks. Entry barriers to the Payments Clearing System, which inhibit entry into the Irish banking market, have been substantially reduced by the clearing organisations. The Bankers' Federation has also introduced a switching code that will facilitate bank rivalry and make switching banks easier for Irish consumers.

The Competition Authority's report outlines what remains to be done in the Irish banking sector. *Competition in the (non-investment) banking sector in Ireland* delivers a total of 25 recommendations, addressed to the government, the Financial Regulator, the clearing companies, and the banks under the following headings.

- **Personal Current Accounts**
- **Loans to small business**
- **The Payments Clearing System**

## **Personal Current Accounts**

Customers with personal current account are effectively locked in to their existing service because it so difficult to change banks. This problem comes 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).

### Recommendations on Personal Current Accounts

1. Improve the switching code for personal current accounts (*partly implemented*)
2. Develop a transferable direct debit
3. End double taxation of plastic cards (*partly implemented*)
4. Assess the distortionary costs of the current level of stamp duty
5. Standardise acceptable forms of identification
6. Remove Price Regulation once competition improves
7. Provide free 12-month credit account records
8. Provide personal current account interest rate information
9. Promote personal current account interest rate awareness

## **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 Enterprises (SME) lending customers. This problem is costing small businesses and estimated €85 million a year.

### Recommendations on Loans to Small Business

10. Implement an Effective Switching Code for Small businesses
11. Make it easy to compare current accounts
12. Provide free 3-year account history
13. Develop standard mortgage document
14. Facilitate easier transfer of mortgages

## **Payments Clearing System**

The Competition Authority is concerned that the structure of the payment clearing system has inhibited new banks offering services in Ireland. The payments 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 transactions which their customers conduct with customers of other banks.

### *Recommendations on the Payments Clearing System*

15. Create a single Board of Directors for the Payments System
16. Expand the membership of IPSO
17. Publicise decisions and actions of the payments industry
18. Clarify status of An Post and credit unions in the payments industry
19. Make key non-confidential IPSO documents available
20. Analyse new technology for clearing electronic copies of cheques
21. Implement legislation to recognise electronic copies of cheques
22. Implement legislation to re-assign ownership of cheques
23. Update clearing rules to facilitate electronic copies of cheques
24. Investigate the establishment of an Automated Clearing House
25. Devise an action plan for implementing an Automated Clearing House

The Competition Authority's report *Competition in the (non-investment) banking sector in Ireland* is available from the Authority's website [www.tca.ie/banking.html](http://www.tca.ie/banking.html).

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