



GAZDASÁGI
VERSENYHIVATAL

Final report of the sector inquiry on customer mobility in retail banking

The GVH (Hungarian Competition Authority) has recently closed its sector inquiry on customer mobility in retail banking. Most importantly, the GVH has established that financial service providers tend to enjoy asymmetric benefits in long term contractual relationships, which has harmful effects on competition. The authority considers that effective competition requires a new, stricter regulation of unilateral modification of contracts, a ceiling for early repayment fees, comparable price information and portability of state subsidies.

Freedom of choice is essential for consumers to obtain the product that is really best for them. In long term business relationships the benefits of competition are restricted if the freedom of choice prevails only when the contracts are concluded. In such situations service providers are made to compete only when the contract is signed, and the benefits of competition may evaporate as the market situation and circumstances change. Efficient operation of markets require that if better services emerge, consumers could review their earlier decisions and switch to the product that is best for them.

Long term contractual relationships are widespread in financial services: consumers usually opt for a certain service provider's product in a single decision, while committing itself to use that product on the long run. Based on market information and information obtained from its proceedings, the GVH saw it necessary to investigate the markets for household and small enterprise current accounts, personal loans, personal mortgage loans, housing mortgage loans, to see whether customer mobility and thus effective competition were hindered.

In its inquiry the GVH established that shortcomings in the regulation of switching might seriously distort consumers' choice. Consequently competition did not always prevail on the investigated markets as it should.

Household loan markets

Due to barriers to consumer mobility, lenders enjoy asymmetric benefits on household loan markets. The GVH identified four factors that distort competition:

- The current practice of unilateral modification of contract terms wholly undermines the natural restraints that could hinder the exploitation of contract asymmetry. Currently, unilateral modifications are applied too broadly, and they do not allow an opportunity for consumers to react to the modifications these consumers may see as unacceptable. To remedy this situation, the GVH proposes to create regulations that

would allow unilateral modification of contract terms in certain contracts only in cases where objectively verifiable events –that are external to the operation of the financial institution– make such modification necessary.

- Switching providers currently impose significant direct expenses on the consumers. According to the calculations of the GVH, these expenses are overtly high; they amount to at least 4-10 % of the net present value of the loans under investigation. The GVH proposes that, in line with the European regulatory initiatives, a ceiling be set to one of the most important cost factor of switching, the early repayment fee.
- Lack of price transparency makes it cumbersome for consumers to compare products. To remedy this, the GVH proposes the creation of an independent, verifiable product-comparison website. The GVH also proposes that foreign currency risk be computed into the Annual Percentage Rate (THM).
- The non-portability of state subsidies for mortgage loans enhances contract asymmetry for the benefit of lenders, as switching loans may require giving up the state subsidy. The GVH proposes to make the state subsidies portable so that consumers with state-subsidized loans get in a better position.

Market of current accounts for households and small enterprises

The inquiry established that direct expenses related to switching are substantial neither on the household nor on the small enterprise current account market. However, switching may be made difficult by the lack of transparency of offers and cumbersome administration. Consumers are not provided with comparable information that an average consumer would understand and upon which rational decisions could be made. This suggests that by increasing price transparency, efficiency could be enhanced.

In its report the GVH proposes to extend the operation of the webpage mentioned as regards to loans also to current accounts. In order to reduce the administrative burden, in case when a consumer switches current accounts, an automatic redirection of group collections and incoming payments should be in place for the old account.

The executive summary, the proposals of the GVH and the whole text of the inquiry report are available in Hungarian on the webpage of the GVH: http://www.gvh.hu/gvh/alpha?do=2&st=1&pg=71&m5_doc=5674&m81_act=10

Budapest, 9 February 2009

Hungarian Competition Authority
Communication Group

Further information:

András Mihálovits

Hungarian Competition Authority

Address: 1054 Budapest, V., Alkotmány u.5.

Postal address: 1245 Budapest, 5. POB. 1036

Tel: +36-30 618-6618

Email: Mihalovits.Andras@gvh.hu

<http://www.gvh.hu>