



KONKURRENCE- OG FORBRUGERSTYRELSEN

**Competition in the Danish retail banking
market**

2013

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Summary, main conclusions and recommendations

The retail banking market has a special role in the Danish economy and to the individual consumer and firm.

A retail banking sector that functions well ensures available and easily distributed liquidity and capital to firms and consumers that need it. This is essential to ensure growth in the economy. It is therefore important that the retail banking market is allocating resources effectively and that competition is intense.

The retail banking market differs in its structure from most other markets. One reason is that banks take on risks when they sell loans to consumers and firms. Information about the borrower thus becomes important and necessary to minimize the risk and to offer the best price on the loan. In general, the consumers' or firms' current bank holds all relevant information which cannot smoothly be transferred to another bank.

Information asymmetries enhance search- and switching costs on the banking markets. Thus, competition in the banking market is inherently more imperfect than in markets with no information asymmetries or markets where such asymmetries have no effect on search- and switching costs.

It is the Danish Competition and Consumer Authority's opinion that there is room for improvement of price competition on the Danish retail banking market. Banks are not sufficiently challenged on prices – neither by other banks nor by the consumers.

In general, firms use a variety of parameters when they compete on the market, eg. price, quality, service, advising/consultancy, options etc. The Danish banks, however, focus on other parameters than price when competing. Nearly four out of five Danish banks say that *'the relationship between the customer and the banking consultant'* is an important parameter, and more than half the banks find *'consulting'* and *'image'* to be important parameters.

If competition is effective, price is one of the most important means of competition. Intensive price competition will force the bank to keep costs low in order to be able to maintain or attract new customers by offering them a favourable deal at a low price.

'Relationship', *'consulting'* and *'image'* are usually high-cost parameters if the bank wants to differ from other banks on the market. When price competition is weak there is no direct pressure to keep costs low. This means that costs and prices will be higher compared with a situation where price competition is effective.

Consumers that focus on price and quality and who are active on the retail banking market (i.e. they are searching the market, comparing offers, negotiating with the banks and are willing to switch to another bank), put pressure on the banks to offer favourable deals at low prices. This is likely to increase welfare for all consumers and encourage innovation and growth in the economy.

However, only few consumers are active on the retail banking market. When purchasing a loan from the bank, nearly four out of five Danish consumers only contact one bank – the one they normally use – to get an offer. Nevertheless, three out of four consumers are sure that they got the best deal. Furthermore, most consumers do not negotiate prices or terms with the bank before accepting the offer on a loan.

Especially the relationship with the bank consultant is important for the consumers' behaviour and choice on the retail banking market

The Danish Competition- and Consumer Authority recommends initiatives in five different areas to improve consumer activity and price competition on the retail banking market.

Box 1.1**Recommendations and initiatives to increase consumer activity and price competition on the Danish retail banking market.****The Danish Competition and Consumer Authority recommends:****1. That all consumers increase their level of activity on the retail banking market and challenge the banks to offer better prices and terms of their banking transactions.**

The consumers are recommended to

- » Search the market, compare offers and negotiate with different banks on prices and terms of their banking transactions.
- » Explore the possibility of doing business with more than one bank.
- » Explore the possibility of saving money by seeking counselling from an independent financial consultant.

2. That initiatives are implemented, which make it easier for the consumers to be more active on the retail banking market.

The initiatives are:

- » Development of online learning sessions that enables the consumers to improve their knowledge and financial qualifications in order to make it easier for them to approach the retail banking market.
- » Analyse the level of qualifications regarding private economy and financial issues that children and young people achieve in the Danish school system, and decide if there is room for improvement.
- » Explore the possibility of developing a digital solution for consumers to be able to put up new loans for online auction.
- » The banks and public authorities should develop a solution that makes it possible for the consumers to switch banks online.

The initiatives will ensure that the consumers can easily and quickly take more active and enlightened decisions without having to rely on the bank or bank consultant.

3. That information from the banks to the consumers is easy to read and understand.

The banks are recommended to

- » Present information to their costumers in a simpel and straight forward manner and to emphasize the most important messages at the top of the documents, espically in the case of information regarding direct offers eg. on loans.
- » Develop and send out a standard outline that includes the cost of costumers' banking transactions presented in a simpel and straight forward manner, and to emphasize the most important messages at the top of the documents.

4. That the banks extend or change their opening hours to make it easier for the

consumers to find the time to get to the bank for meetings ect.

The banks can eg. extend opening hours to Saturday or Sunday.

5. That rules on Good Business Practice should oblige banks to expose to consumers that banking consultants act in the interest of the bank .

Banks should point out to customers that guidance from the bank is only related to products sold by the bank itself. This information should be given every time the bank offers guidance and recommendations to the customer.

Box 1.2

Main conclusions

- » There is room for improving price competition on the Danish retail banking market. Banks are not sufficiently challenged on prices – neither by other banks nor by the consumers.
- » Only 16 per cent of the Danish banks find that '*fees*' and '*interest rates*' are important parameters when competing in the retail banking market.
- » When purchasing a loan from the bank, nearly four out of five Danish consumers only contact one bank – the one they normally use – to get an offer. Nevertheless, three out of four consumers are sure that they got the best deal. Furthermore, most consumers do not negotiate prices or terms with the bank before accepting the offer on the loan.
- » The Danish banks focus on other parameters than price when competing. Nearly four out of five Danish banks say that '*the relationship between the customer and the banking consultant*' is an important parameter, and more than half the banks find '*consulting*' and '*image*' to be important parameters.
- » '*Relationship*', '*consulting*' and '*image*' are usually high-cost parameters if the bank wants to differ from other banks on the market. When price competition is weak there is no direct pressure to keep costs low. This means that costs and prices will be higher compared with a situation where price competition is effective.
- » There is a large number of banks on the Danish retail banking market. The number of employees in the sector is large as well. This is also the case when compared to other minor EU-countries, and it indicates that production costs are high.
- » At the same time Danish consumers are among the Europeans that use internet banking the most.
- » Almost 110 banks are active on the Danish retail banking market. 'Danske Bank' and 'Nordea Bank' has a significant larger share of the market than other banks.
- » Only eight banks operate enough branches to cover the national retail banking market. All other banks are located in the local or regional areas only. The market structure implies that the consumers have only a limited number of different banks within a shorter distance from their home or work.
- » Nine out of ten Danish consumers prefer a bank close to home or work.
- » Switching bank can be worth the effort. A typical family including two adults, two children, with minor loans and a gross income between 500.000 and 700.000 DKR (approximately 67.000 to 94.000 EURO) can save up to 24.000 DKR (approximately 3.200 EURO) per year by

switching from the most expensive to the cheapest bank on the market.

- » In a periode of two years one out of ten Danish consumers switched from one bank to another. This share is lower than in most European countries.
- » The relationship with the bank consultant is important for the consumers' behaviour and choice on the retail banking market – also when it comes to change of supplier. This posts a barrier towards increasing consumer activity in the market place.
- » Nearly three out of five consumers see the bank consultants' advice as '*unbiased and genuine*'.