beuc

Switching Bank Account

Why it does not happen in the EU

FACTSHEET

1. Why bother if people switch their bank accounts?

People need bank accounts. Without a bank account, we would not be able to deposit money, receive our salary, benefits or pensions or make withdrawals. A bank account is necessary to live a normal life in society. As for any other product or service, a bank account must meet consumer needs in terms of price and quality of services provided. When a consumer is dissatisfied with their bank or wants to make a better deal, they should be able to switch to another bank easily. Customer mobility is also a key factor to boost competition. Barriers to switching are barriers to competition. Extremely high account costs in some countries (up to 295 Euro per year according to a European Commission study of 2009) clearly show what consumers can profit by changing their bank.

Switching: Not often, not easy

Only few people in Europe switch bank accounts. In average, 9% of EU consumers changed their account providers during 2007-2008 while 25% and 22% of consumers changed their car insurance provider or internet company[2] Consumers who want to switch have to face several obstacles:

- unawareness of how much they are charged by their bank;
- opaque (unclear terminology) and incomparable (different names for similar services; big differences between – often oversized – product packages) information makes it difficult to shop around;
- the switching process can be burdensome and complicated;
- some banks ask for transfer fees;
- tying and other similar commercial practices unfairly tie customers to their bank.

[2] European Commission study of 2009

2. A voluntary banking code. A good idea?

In 2007, the European Commission asked the European banking community (EBIC) to develop rules to facilitate transferring current bank accounts between banks at national level. This voluntary banking code was developed in 2008 and entered into force in all EU Member States and Norway in November 2009. It provides that consumers can choose to select the 'new' bank as the 'Primary Contact Point' for switching their account in order to perform the following tasks:

- provide the consumer with a switching guide;
- open a new bank account for the consumer;
- request the 'former' bank to provide information on standing orders for credit transfers and direct debit mandates on the 'former' account;
- request the 'former' bank to close standing orders for credit transfers and stop direct debits, upon explicit authorisation of the consumer;
- help the consumer to provide the new account details to third parties;
- establish, with consent of the consumer, existing standing orders for credit transfers and accept direct debits on the new account.
- Switching must occur within 14 banking working days[1].

3. The voluntary code of conduct. Does it work?

Telling figures

In 25% of cases, bank website information on switching was not available or difficult to find. In the recent Members States, 45% of websites did not provide the necessary information.

In 2010, BEUC and its member associations monitored banks' compliance with this bank code in a selected number of countries. The monitoring consisted of an examination of bank websites, collecting consumer testimonies about their recent switching experience and mystery shopping exercises. Non-compliance by banks with the code of conduct was found in many countries with regard to:

- availability of consumer information on bank websites and

[1] Seven banking working days for the 'former' bank to provide all the available information to identify standing orders for credit transfers and to identify direct debit mandates on the old account; and 7 banking working days for the 'new' bank to set up standing orders and to accept direct debits on the new bank account and notify, where applicable, creditors of direct debits about the change of bank account.

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- bank staff preparedness to inform and help consumers with the switching service;
- transfer of direct debit mandates between banks;
- switching delays.

4. The voluntary code of conduct. How to improve?

BEUC's monitoring exercise brought to light that many banks do not comply with their own rules. Improvements are urgently needed.

- **Banks need to train their staff better.** Consumer experience in relation to bank account switching depends on the quality of bank staff. Better trained staff would help improve the quality of advice for consumers wanting to switch.
- **Put in place an automatic re-routing system.** The remedy of the problem of transferring direct debit mandates from the 'former' bank to the 'new' bank could be a model adopted in the Netherlands: during 13 months all direct debits and credit transfers destined for the old account are automatically re-routed to the new account. Such a system would prevent the occurrence of errors during the switch.
- **Set up account number portability.** A portable account number would be a logical next step towards facilitating account switching. An important aspect that may deter consumers from switching is the necessity to communicate the new account details to third parties. Even though the 'new' bank can handle this task instead of the consumer, errors take place quite often. Setting up account number portability would be a long-term, sustainable solution.
- **Set a deadline for the closure of the 'former' account.** A binding deadline should be set to oblige the 'former' bank to rapidly close the account and to transfer any available positive account balance to the 'new' account.
- **Adopt binding legislation on switching.** Self-regulation, when not properly designed, suffers a crucial shortcoming compared to binding legislation: Non-binding rules cannot be claimed. Given the fact that non-compliance with legislation would not be tolerated as is the case with non-binding codes of conduct, legislation is the most appropriate way of addressing the issue of bank account switching[3].

5. Recommendations to increase bank mobility?

Facilitating switching is only one remedy to increase customer mobility. More needs to be done:

- **Ensure proper understanding and comparability of bank fees.** Clear and comparable bank fees are a pre-condition for consumers to compare bank fees and to opt for better deals.
- **Address the issue of unfair commercial practices.** Tying and other similar practices are an important obstacle to personal current account switching because they can raise the switching costs or make switching impossible (e.g. bank account linked to a mortgage credit). The more ties that people have with their bank, the less likely it will be that they try to switch for a better deal.

[3] BEUC demands that its recommendations, especially on binding legislation, should be implemented if the European Commission's own monitoring report on the voluntary switching code (expected by the end of 2011) confirms the results of the BEUC monitoring report.

For further information, contact our experts of the Financial Services Team: financialservices@beuc.eu.
On our website, www.beuc.eu, you can find the complete BEUC Monitoring Report of the 'Common Principles for Bank Account Switching'
