

# The CC: the low consumer mobility does not facilitate competition among banks in attracting new customers

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The Competition Council of Latvia (the CC) has concluded during the bank customers mobility market study, that majority of Latvian consumers consider switching of banks an expensive, complicated and time-consuming procedure. Therefore, consumers are not looking for more attractive offers in terms of price and quality. Whereas the low consumer mobility does not facilitate competition among banks in attracting new customers.

More than half – 52 % – of 500 respondents of the survey, conducted by the CC during the market study, admitted that they hold accounts in several banks and do not want to carry out the necessary measures to completely switch to one bank. Only 26 % of respondents in the last 5 years have switched their bank, in which they use daily services. Also, the yearly dynamics of customers of the banks does not indicate to significant activity of consumers in terms of switching the provider of banking services.

Respondents indicated that, when considering switching of bank, as the main obstacles they see existence of loans, switching costs, special offers of banks, physical availability of branches and ATMs, as well as time for preparation of necessary documents. The CC gained approval, that the service provider is switched more actively by customers who do not have long-term liabilities to the bank. While analysing standard agreement of bank loans, the CC did not detect conditions, which directly hinder customer mobility.

The surveyed customers admitted, that in case of concluded long-term loan agreements switching to another bank can be hindered by conditions concerning rates and additional services on the basis of individual agreements with customers, for example, regarding the 3rd pillar pension savings. The CC found out, that acquisition of service packages, especially in case of long-term liabilities, may encumber fast and easy switching to another bank by customers. In addition, these packages differ among banks and they can be individualised, as a result of which consumers may not have complete understanding of the actual costs of each particular service.

The calculation of benefits in case of switching a bank is also made difficult by lack of information on costs in relation to other services. After doing calculations, the CC concluded, that when a customer without credit liabilities switches to a cheaper bank in terms of costs, the fee for minimum services – current account, online banking, debit card and money transfers in euro currency – would decrease by even up to 38.5% per year. The CC holds a view, that banks should ensure the possibility for customers to find out the total amount of payments for services used and receive detailed information on specific services, for example, by ensuring a calculation option in online banking or providing such information upon a customer's request.

Since 2009, common principles exist in the European Union, incl. Latvia, which facilitate the procedure of transfer of customer payment relations. At the same time, the CC detected, that banks are not promoting the option of customers to switch their service provider following a facilitated procedure. It is one of the reasons, why customers think, that switching a bank is a complicated process. To promote consumer mobility and competition among banks, the CC calls the Finance Latvia Association and banks to educate the society and promote the facilitated account switching procedure and its benefits.

Customers mention the time necessary for switching a bank as one of the main factors that hinder mobility. The CC observes, that increasingly more various opportunities emerge for secure identification of customers also remotely; however, the existing regulations restrict the use of such opportunities. In order to change it and respectively reduce the resources required in case of switching a bank, the CC suggests to the Financial and Capital Market Commission to update the regulatory enactments. Also, it would be necessary to extend the account switching possibilities for customers who have credit liabilities, incl. the new bank taking a more active role in coordination of the customer's transfer with the previous credit institution.

The CC also considers, that consumer mobility would be promoted by a possibility to keep the existing account number after switching a bank, similar as in case with switching a mobile communications operator. Such procedure would reduce inconvenience and would save time required for updating of information regarding change of bank account, for example, for the employer.

The CC indicates, that consumer mobility is a significant element of competition, which can influence both the range of services offered by credit institutions, and prices, and the authority calls consumers to be more demanding and active when selecting the most suitable provider of banking services.

The CC commenced the bank customers mobility market inquiry in 2017, and it was aimed to find out the most significant factors that influence mobility of bank customers and assess their impact on the customers desire to switch to another provider of banking services.

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