



June 2012
AK Position Paper

Consultation on Bank Accounts

About us

The Federal Chamber of Labour is by law representing the interests of about 3.2 million employees and consumers in Austria. It acts for the interests of its members in fields of social-, educational-, economical-, and consumer issues both on the national and on the EU-level in Brussels. Furthermore the Austrian Federal Chamber of Labour is a part of the Austrian social partnership.

The AK EUROPA office in Brussels was established in 1991 to bring forward the interests of all its members directly vis-à-vis the European Institutions.

Organisation and Tasks of the Austrian Federal Chamber of Labour

The Austrian Federal Chamber of Labour is the umbrella organisation of the nine regional Chambers of Labour in Austria, which have together the statutory mandate to represent the interests of their members.

The Chambers of Labour provide their members a broad range of services, including for instance advice on matters of labour law, consumer rights, social insurance and educational matters.

Herbert Tumpel
President

More than three quarters of the 2 million member-consultations carried out each year concern labour-, social insurance- and insolvency law. Furthermore the Austrian Federal Chamber of Labour makes use of its vested right to state its opinion in the legislation process of the European Union and in Austria in order to shape the interests of the employees and consumers towards the legislator.

All Austrian employees are subject to compulsory membership. The member fee is determined by law and is amounting to 0.5% of the members' gross wages or salaries (up to the social security payroll tax cap maximum). 560.000 - amongst others unemployed, persons on maternity (paternity) leave, community- and military service - of the 3.2 million members are exempt from subscription payment, but are entitled to all services provided by the Austrian Federal Chambers of Labour.

Werner Muhm
Director

Executive Summary

The AK appreciates this opportunity to express its views on issues pertaining to bank accounts, a major financial service product, as part of this consultation process. We hope the European Commission will pick up our ideas and suggestions.

The AK explicitly welcomes the Commission's desire to improve the transparency of bank account fees.

To start with, we believe **the right to a basic account must be guaranteed in EU law** from the standpoint of consumers. The recommendation from 2011 has not noticeably changed the situation in Austria.

The AK explicitly welcomes the Commission's desire to improve the transparency of bank account fees.

We agree with the Commission that current banking practices in this area are inadequate. The experience of consumer advisors at the Austrian Chambers of Labour and current surveys indicate that there is a need for action in this area.

The AK position in detail

1. TRANSPARENCY AND COMPARABILITY OF BANK ACCOUNT FEES

Question 1: Do you consider that the information provided by banks on bank account fees is presented to consumers in a sufficiently clear manner and easy to compare between banks? What good practices could you identify? What are the persisting shortcomings? Do you think that amendments to the transparency obligations in the Payment Services Directive (2007/64/EC) could address those shortcomings?

Question 2: Do you think that standardising bank account fee terminology could help to provide more transparent and comparable information on fees? If terminology were to be standardised, should that standardisation cover all fees or only some of them? If only some of them, on the basis of which criteria should they be chosen? Should terminology be standardised at national or EU level?

Question 3: Do you think that glossaries of terms and standardised lists of bank fees would facilitate comparability? If so, what format and content should this information have? What body/forum would you consider appropriate to develop such a glossary/standardised list of fees?

Austrian banks have increasingly differentiated their account models in recent years. Basically there are current accounts for consumers based either on a package approach ("package accounts") or on an approach in which individual items are billed ("individual billing accounts").

Package accounts are based on the principle that the bank bills a flat account maintenance fee (quarterly) that covers all or most bookings. The individual billing account is guided by the principle that an individual price is billed for each transaction (the more bookings, the higher the account costs). There is a trend in product and service ranges toward package accounts, with the package accounts themselves being highly differentiated. One package account is not necessarily the same as another. Substantial differences can be observed from bank to bank as to which transactions are charged at a flat rate or the fixed account maintenance fee per quarter and which transactions (bookings or services) account holders have to pay for separately. The services included vary greatly. Many package accounts contain additional services such as one or more credit cards, insurance products (such as accident insurance, for example) or bonus points for purchases at different retailers. The fee models are subject to constant pricing changes in terms of interest rates

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and fees, the services included, and extra fees for (extra) services. A new trend can be seen at Austrian banks toward differentiation in pricing policy to the extent that banks make a (price) distinction between ATM withdrawals at their own ATMs versus other ATMs. It is difficult to obtain an overview of the terms and conditions of accounts. This is because banks generally offer not only a regular personal current account with individually billed items but also several salary account products comprising different services (from no-frills products to luxury versions with all services included).

As with all consumer contracts involving different services and fees, it is almost impossible to make a product and price comparison. After all, consumers should do more than assess the diverse product and billing versions (individual item billing versus all-inclusive billing, free accounts with basic functions versus luxury accounts with a variety of services included). They should also ask themselves whether or not they should enter into a current account contract with a direct bank (communication over the Internet or by phone) or with a full-service bank featuring branch operations. Given the information currently used by banks, AK believes that a comparison cannot be made right now in any case and that the above questions cannot be satisfactorily answered.

In July 2011, the Chamber of Labour conducted a Mystery Shopper Survey on current accounts at seven banks in Vienna. In almost all cases, the mystery shoppers were handed a price sheet when they opened the account (i.e. a circular presenting the account terms and conditions). However, these tables are not well-suited for a price comparison because the layouts used vary greatly and the prices and service components are presented in a confusing way (visually and in terms of content). Too much specialized terminology is used so that consumers basically have a hard time understanding the individual price items.

What was striking about this market study was that the customer advisors at banks usually failed altogether to ask about the needs of the consumers seeking to open an account. In their consultations with consumers, customer advisors did not delve into use patterns and no advisor conducted a detailed analysis of consumer needs.

This means the banks' customer advisors did not find out from prospective customers how many bookings they have (paper-based or non-paper-based), how many standing orders, direct debits and whether they want an ATM card and/or credit card or an overdraft facility. However, this assessment of needs is the only way an optimum account package can be selected.

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Another point that became obvious in this survey is that the information on account interest rates (especially for overdrafts but also interest on credit balances) is inadequate. But this is extremely significant price information. In particular, the materials often do not spell out whether the interest rates are fixed or variable.

In June 2012 as part of a study, the AK examined the transparency of current account prices and the availability of consumer-friendly glossaries (containing the most important terms on payment transactions) on the Internet websites of five banks that dominate the market. The subject of the examination was whether the banks made a list of the 10 most important account prices and glossaries available to website visitors so that consumers could obtain meaningful information on fees/interest rates and key terms pertaining to payments. Finally, this information was to be used for a comparison of products and terms of current accounts for consumers among different banks. In summary, it can be said that the examined banks did make available price lists for current accounts for consumers on their homepages. However, the way this information was presented was less than useful for consumers and hardly suitable at all for making a comparison of prices and products. The transactions or price items are too different, particularly with regard to the terminology used, the number of items listed (ranging from less than 10 to as many as 27) and the visual presenta-

tion. Some banks list the services with individual prices in euros while others use verbal descriptions such as "included" or "free of charge" to present prices. This latter approach is effective advertising because it shows that a listed service is included in the account maintenance fee instead of being billed separately.

Generally speaking, information from banks is inadequate in that important transactions (e.g. payment with an ATM card at a store, POS payment) are simply missing and important price differences between electronic bookings and manual paper-based bookings (that exist in actual practice) are simply not listed. The price lists characteristically include items that have little or nothing to do with the core services of the account. For instance, one major bank indicates that the processing fee for a new loan is lower if the customer has this account (as opposed to not having the account). There was no information on interest (for credit balances, overdrafts) in three of five cases. The transparency and information about current accounts must be classified as inadequate merely on the grounds that not a single one of the banks in the study provided a consumer-friendly glossary on payments on their homepage - glossaries were not found on any of the websites of the banks examined.

The two Chamber of Labour studies from 2011 and 2012 mentioned above draw the following conclusion: When

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one looks at the information consumers are given in the consultations at bank branches when opening current accounts and on the Internet, the overall picture that emerges is one of information that is confusing and thus marginally useful for the selection of account products. There is an urgent need for a common standard in the form of a product and cost sheet for current accounts for consumers. It would be desirable, for example, to create standard European information for current accounts for consumers (analogous to pre-contractual information for consumer loans akin to the Standard European Consumer Credit Information). Besides giving information on the bank involved, its address and the product names, this sheet would provide tables with prices for major types of transactions and the (terms and conditions) for interest rates (on credit balances, for overdrafts).

Question 4: In order to further increase bank account fee transparency and comparability, which of the following tools should be considered:

i) comparison websites managed by public authorities

Price portals run by private service providers usually have the systematic disadvantage that they are often dependent on advertising. Service providers (banks, insurance carriers, etc.) are sometimes charged listing fees to have the product or the terms and conditions appear on the comparison

portal. This practice can distort the presentation of products or terms and conditions.

ii) standardised cost simulations to be provided by banks

In recent years, several banks in Austria have actively tried to persuade existing account customers to shift to a different account model. The banks changed the account model if the customers did not object. There were complaints filed with Austrian consumer organisations back then and much confusion on the part of customers, especially regarding the new account models that were supposedly so much more favourable. It would definitely have been helpful back then for the consumers involved if the banks had made available credible cost simulations.

From the standpoint of consumers, it is helpful if the costs of account overdrafts are also included in these cost simulations in any case. Consumers are often not aware of how expensive overdrafts actually are.

iii) standardised representative examples to be provided by banks

Meaningful use can be made of a representative example of a current account for consumers only if the assumptions of what constitutes representative are precisely stipulated.

A common European standard on terminology is urgently needed; otherwise a (cross-border) comparison cannot be made.

Without binding stipulations, Bank A will assume a user model with 240 bookings a year (20% of the transactions over the Internet) while its rival Bank B will operate with completely different assumptions for its model (288 bookings a year, primarily over the Internet) arguing that this data is representative of the types of customers it serves.

iv) surveys by consumer organisations/financial ombudsman

v) any other tools you consider relevant?

Should any of them be made compulsory? What would be the likely costs?

We believe that price transparency in the meaning addressed in this consultation can only be achieved if the following conditions are satisfied:

- The selected measures must be obligatory for all banks.
- The user models and standards for comparisons and account price information must apply across the entire EU.
- At the same time, it is essential to “translate” commonly used technical terms into language consum-

ers can readily understand (using glossaries, etc).

Analyses conducted by the AK indicate that an almost endless diversity of terms is used for describing payment transactions. The fee sheets also typically have a host of exceptions and references in fine print, some of which are located only in footnotes. For instance, one major Austrian bank uses the phrase “generous number of transfers” in its price and product sheet (as of June 2012). This term is completely confusing for average consumers, as are many other terms in use. Another major market-leading bank uses the term “non-electronic debit bookings” in all its product and price sheets, noting that these items are not covered by the flat account maintenance fee and therefore incur extra charges, namely 23 eurocents per transaction. The bank does not indicate what exactly this term means and to which transactions it refers. Another central problem in our view is that consumers generally do not receive understandable information on the price differences between paper-based and non-paper-based transactions, between manual bookings (conducted at branches) and electronic bookings (conducted at home over the Internet), between automated (i.e. transactions periodically conducted at certain times (e.g. direct debits) and non-automated transactions (e.g. transfers). A common European standard on terminology is urgently needed; otherwise a (cross-border) comparison cannot be made.

As the EU Directive on Payment Services contains no standard duties to inform, the AK feels it is only logical that the necessary regulations be anchored directly in the directive - similar to the EU Consumer Credit Directive.

Standard precontractual information on account fees should be introduced. It should be handed out to prospective customers free of charge in ample time before the conclusion of the contract or should be required to be posted on the banks' homepages.

Question 5: What level of detail should the information on actual fees paid have and how frequently should it be provided to the account holder? Would having comparable information on the fees actually paid encourage consumer mobility, including on a crossborder basis?

Austrian law requires that consumers be sent a yearly statement on consumer credits. Similarly, it would be desirable if current account holders received an annual statement showing all transactions conducted the previous year, listed by categories, and the fees charged for them. It is especially important to include the high costs of account overdrafts, also itemised; consumers are often unaware of these high costs. This list of all relevant fees - account maintenance fees per quarter, prices of individual transactions, interest for overdrafts - allows bank customers to compare and contrast cost elements with each

other and subsequently act more cost efficiently (e.g. by avoiding expensive transactions).

This type of itemized account information on an annual basis is what makes it possible in the first place for consumers to conduct effective and competent cost simulations (refer to Question 4 ii). The totalled or aggregated booking data in the annual statement is a prerequisite for price comparisons of this kind. The banks should be required to provide this type of annual information free of charge.

Question 6: What other measures/instruments should be considered in order to improve the transparency and comparability of bank fees? Please describe and indicate at which level (national or EU) you consider they should be taken.

In our view, advertising for account and payment products requires a certain degree of regulation at EU level. The lack of transparency we observed in account fees is also reflected in advertising. One major Austrian bank is currently advertising for its current accounts with the slogan "Free Account Maintenance for One Year". The ads have a barely noticeable reference to a footnote with fine print stating "with the exception of paper-based debit bookings, which are EUR 0.23 apiece." The AK is in favour of prohibiting these kinds of presentations of prices or free services.

It would be desirable if current account holders received an annual statement showing all transactions conducted the previous year, listed by categories, and the fees charged for them.

2. SWITCHING BETWEEN PAYMENTS ACCOUNT PROVIDERS

Question 7: Do banks in the Member State where you have a bank account offer a switching service? If yes, is it in line with the Common Principles on bank account switching described above? Is information on the conditions of switching presented in a consumer friendly manner?

All seven Austrian banks surveyed satisfactorily performed the switch from the old account to the new one.

In recent years, the Chamber of Labour has repeatedly checked the terms and conditions for switching accounts and published its findings as part of studies (most recently in September 2011: Switching Accounts, Vienna Chamber of Labour (AK Wien)). The study conducted in 2011 involved mystery shoppers who actually opened accounts or switched accounts from Bank A to Bank B. In summary, the major finding is that customers can switch accounts (current accounts or salary accounts) in Austria without any trouble. All seven Austrian banks surveyed satisfactorily performed the switch from the old account to the new one. Shortcomings were detected in the banks' information policy and the quality of their advice. These shortcomings pertained mostly to the lack of written information on interest rates on debit balances and credit balances and on borrowed amounts (account overdraft). There was only one bank that provided clear written information on the type of interest rate (fixed interest rate) and the level of the interest rate. Four of the banks provided

incomplete information or information that was confusing for consumers. Two of the banks gave the mystery shoppers no written information on interest rates at all. In addition, the homepages contained only sparse information on account switching. Just three of the seven banks provided thorough information on the Internet on the subject of account switching.

Question 11: According to you, how important is the risk of having receipts, bills and payments mis-directed when switching bank accounts? What measures could be considered to make the switching process safer?

According to the above study conducted by the Vienna Chamber of Labour, it took a median of six banking days for the seven newly opened accounts before the old account was closed and the new account was up and running, i.e. before the credit balance from the old bank was transferred to the new bank. The final balancing of the "old" accounts was also fully correct. All banks charged the incurred fees for account maintenance on a proportional basis only (daily basis) as required in the Austrian Act on Payment Services, in other words, customers were only charged for the period for which they actually used the account. The standing orders were transferred properly, i.e. no problems were observed that standing orders were not executed, for example.

The six responses revealed that three of the banks continue to reject customers on economic grounds.

3. ACCESS TO A BASIC PAYMENT ACCOUNT

Question 14: Do you dispose of information on consumers encountering difficulties in access to a basic bank account? What types of obstacles are signalled by the consumers preventing them from having access to a basic bank account?

Question 15: Are you aware of any measures taken by banks or other institutions in the Member State where you have your residence to facilitate access to a basic payment account? Have these initiatives been successfully enforced?

In May 2012, the AK conducted a survey in Vienna among the eight leading banks in the market to determine the current status of access to a basic bank account. The six responses revealed that three of the banks continue to reject customers on economic grounds. Grounds named are insufficient credit rating, appearance on a list of the Gläubigerschutzverband (association for the protection of creditors), non-compliance with agreements, late repayment of loan or failure to repay loan, unapproved account overdrafts, pending judicial proceedings regarding personal bankruptcy. One bank also cites the nationality status "stateless" or "person granted political asylum" as reasons for rejection. Unsettled debts in own institution is also cited as grounds for exclusion based on the regulations of the Austrian Financial Market Authority.

It is noteworthy that one of the three banks that reject new accounts mainly because of credit ratings is the bank that has offered the cheapest current account in Austria for years now according to surveys by the Chambers of Labour. That means the economically weakest customers are excluded from the cheapest account available in Austria.

One of the three banks that say they reject new accounts opened its own bank in 2006 run strictly by voluntary employees (Zweite Sparkasse) to combat the lack of access to payment services. Accounts at Zweite Sparkasse are granted exclusively at the recommendation and in collaboration with social agencies. Zweite Bank serves the clients referred by the social institutions with the intent of having them switch back to a "regular" bank after bankruptcy/debt arrangements are made. The AK welcomes this initiative of Zweite Sparkasse. This intensive customer care for clients from social institutions cannot replace a fundamental easing of access to bank services based on a legal entitlement. Zweite Sparkasse is known in Austria as a social project. This fact is also problematic because one can assume a degree of stigmatisation for clients. Of course it is easy for someone with a non-neutral account to be tagged as "socially deprived" or as a client of a social agency or a debt counselling service.

Under certain circumstances, this label can be counterproductive for reintegration because it might render certain

jobs or service contracts or even housing leases impossible.

Two major banks also offer special current accounts to the target group in Austria. These products are unknown to many people without accounts, however, judging from the experience of consumer advisors at the Chambers of Labour and a current survey by ASB (the umbrella organisation of state-recognised debt advice services in Austria) from May 2012 among staff at social institutions in Austria. The banks have a highly restrained information policy regarding information on these products. There is no advertising on these special account products as far as the AK knows or has observed. There are also gaps when it comes to a full-coverage range of special accounts.

There is a massive impact on jobseekers if they have no current account.

According to the ASB survey, 36% of the employees surveyed at social institutions reported that not all individuals were able to get one of these special accounts at one of the three banks. The banks cited the same grounds as they did for refusing to open a "regular" current account, in other words, bad credit rating and debt in particular.

There is a massive impact on jobseekers if they have no current account. This fact has been pointed out time and again in recent years. We would like to focus on a further situation, a further finding in the ASB survey, which we believe has received too little at-

tention thus far in the evaluation of political measures: the psychological burdens on clients of social agencies and the effects these burdens have on these people's personal lives. These individuals experience a type of negative spiral comprising stress, exclusion and family conflicts. Their feeling of hopelessness causes frustration, depression and feelings of inferiority. Many of them feel like second-class human beings and give up. Forced to use the accounts of family members or friends, these people become dependent. This reduces their autonomy and personal responsibility. Advice objectives of social institutions are more difficult to achieve if a person does not have a current account.

Question 16: Do these measures also facilitate access to a basic payment account for non-residents?

Question 17: If consumers still have difficulties in opening a bank account, what are the reasons for that?

Question 18: If more needs to be done what additional measures should be envisaged?

Should the problem be tackled at national or EU level?

We refer to the AK position paper from April 2012 on basic accounts with respect to these questions. In this paper

The AK is in favour of having all banks be required to offer a basic bank account.

we presented the essential aspects on these questions from an Austrian perspective.

http://wien.arbeiterkammer.at/bilder/d172/AK_Positionspapier_April_2012.pdf.

We would also like to cite a current report from our own advice departments on their own experiences. The report points out further difficulties that people without accounts can face. If employees without a current account have an employer who goes bankrupt, they are required in Austria to apply for recognition of insolvency payments. The amounts recognised in an official decision then have to be passed on to the employees. Employees with no account have just two options: to receive a postal money order, which involves major expenses, or to use the account of a person they trust. With this option, these people always face the risk of not receiving the money in full or on time. It also has a humiliating aspect because the people have to admit to friends or family members that the bank will not give them an account.

One finding of our current bank survey was that the banks continue to assess the situation in Austria differently than we and all social advice organisations do and continue to see no problems. According to the banks, the current voluntary products on offer are sufficient for “fully and completely covering the need for basic accounts”. The AK

assumes that no substantial changes will come about in Austria regarding the still existent gaps in access to basic bank services without the intervention of EU lawmakers.

As we mentioned in our introductory remarks, we believe EU legislation is required. The AK is in favour of having all banks be required to offer a basic bank account. This is the only way to ensure quick and low-threshold access without waits and full-coverage supply of this service. This approach would also avoid the costs otherwise associated with an allocation system.

Should you have any further questions
please do not hesitate to contact

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