Obstacles to financial institution switching

Research Project - Summary Report
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by

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The present study looks to identify, examine and measure the obstacles that stand before consumers who wish to switch between financial institutions, to see if competition within the financial market can be improved in order for consumers to really benefit from the great number of financial institutions available in Canada.

Canada's Competition Bureau considers that « the choice available to consumers is the best guaranty concerning the quality of service and product innovation ». Is it really possible for Canadian consumers to choose the financial institution they wish to do business with, and easily switch to another as their needs change?

Many studies reveal that a transfer between financial institutions is not, of course, encouraged by these institutions; actually, many obstacles would stand between a consumer's desire to switch financial institutions and their uncompromised freedom to do so. Transfer or account closure fees represent some of these obstacles. Most obstacles are financial (for example, mortgage contract cancellation, RRSP or investment transfer costs), technical or practical obstacles (proximity of an ATM, branch locations, customer service), and costs due to change (modifications to pre-authorized debit transactions, loan renegotiations and time spent comparing different provider offers).

All account closure costs, despite their many variations, have the same effect: they make the switch between financial institutions expensive and time-consuming. By becoming obstacles, they ensure client loyalty and prevent consumers from gaining benefits they might receive from competitors in the current financial market.

Many tools have been developed, notably by the Financial Consumer Agency of Canada, to assist consumers with their choice of a financial institution. Despite the availability of such tools, Canadians consider that they can't benefit from competition in the financial area, which leads us to believe that certain obstacles prevent them from bringing their decisions up to date. Nonetheless, consumers express many reasons that would incite them to change financial institutions.

After analyzing different these types of obstacles (economical, psychological and practical), it is clear that they effectively restrain financial institution switching, thus encouraging consumer inertia in the banking sector. In the long term, they also weaken competition by limiting a bank's potential customers and supporting monopolization strategies. Fee-related restraints imposed by financial institutions have raised much criticism concerning their pertinence and their effect on competition.

To ensure better protection of consumers and fair competition in this market, governments could easily justify a regulation to control account closure fees.

While it's possible to calculate certain obstacles, others, like research costs, can't possibly be accounted for. Some have proposed that these costs have an even bigger impact on consumer inertia than so-called account closure fees.

If the financial products sector is in theory a competitive market, this report's conclusion is that it is time governments intervened to ensure that consumers are free to change between financial institutions without having to overcome pricey or unjustified obstacles.

The report concludes with recommendations addressed to both federal and provincial governments, aiming for an intervention that would force financial institutions to reveal information to consumers (mainly, the fees related to account closure and the steps necessary to switch financial institutions).

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