Competition market study of Tunisia’s retail banking sector

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Retail banking services play a crucial role in fostering economic growth and financial inclusion, a role whose importance is all the more pronounced in middle-income nations such as Tunisia. Banking facilities such as current accounts are an essential means by which individuals and businesses manage their daily financial affairs, enabling them to receive and make payments, access credit and save money. Without these facilities, individuals and businesses may be unable to participate fully in the economy, leading to financial exclusion and diminished economic activity. The availability of current accounts also helps to reduce costs associated with cash transactions, such as security risks and transaction fees, further potentially supporting economic growth.

Business loans are also a key banking service that contributes to economic growth. Credit permits businesses to expand operations, invest in new technologies, and hire more employees, ushering in opportunities for increased productivity, profits and overall economic growth. Access to loans can also reduce the credit gap that small businesses face, helping them to fulfil their potential. Finally, mobile payments are a critical banking service that can help to boost financial inclusion, particularly in areas where traditional banking services are scarce.

The **OECD’s Competition Market Study of Tunisia’s Retail Banking Sector** investigates the state of competition in Tunisia’s retail banking and provides suggestions to improve it. It focuses on three broad segments of the industry:

- **current accounts for individuals and businesses**, used to store money and access it quickly, make and receive payments, and access short-term credit through overdraft facilities
- **bank finance to micro, small and medium-sized businesses (MSMEs)**, focusing on bank loans
- **mobile payments**, including the opening of payment accounts, cash payments and withdrawals, and money transfers.

The project was supported by the Delegation of the European Union in Tunisia and undertaken in close consultation with the Tunisian government, the Central Bank of Tunisia, the Competition Council, and other local stakeholders. The report takes a holistic approach by considering market practices, consumer behaviour and regulation to assess the way in which competition works in Tunisia’s retail banking sector, and identifies the areas in which market outcomes for consumers and businesses could be improved.

The full results of the analysis are presented here https://doi.org/10.1787/ab995fce-en.

KEY FINDINGS AND RECOMMENDATIONS

Customer engagement in the current account segment is low

Low customer engagement in Tunisia's retail banking industry weakens banks' incentives to compete. Surveys of consumers and MSMEs carried out as part of this study found that four in five consumers and two of three small businesses had not compared fees when opening accounts. Two in every three consumers did not know how much they paid in fees. Only 3% of consumers and 4% of small businesses had switched current accounts in the previous year, and they tended to stay with their providers for long periods. When seeking finance, businesses tended to use only their current account providers.

64%

of Tunisian consumers do not have personal current accounts

80%

of consumers do not compare fees when opening a current account

62%

of consumers do not know about the fees they pay

3%

of consumers switched banks in 2022

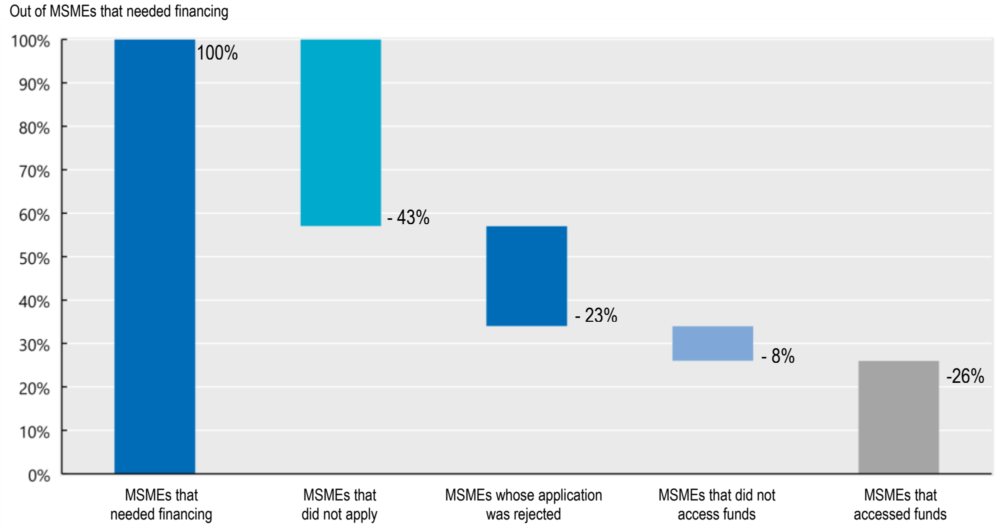
Consumers and small businesses find it costly to gather, understand and act on information about financial products. Banks in Tunisia do not make it easy for consumers to find meaningful and comparable information on fees. For example, banks create monetary and non-monetary barriers to closing accounts that ultimately reduce the ability of customers to switch providers, undermining competitive pressure on banks to lower prices and improve service levels. Low customer engagement also represents a barrier to entry and expansion by making it harder for banks to attract new customers.

Lending to MSMEs is limited

Small businesses in Tunisia struggle to access finance. The analysis identified several factors that increase barriers to shopping around for it. The lack of a private credit information bureau reduces the information available to banks to assess new borrowers' risk profiles, exacerbating the effects of banks' information advantages relating to existing customers. A cap on lending interest rates further reduces the ability of banks to assess and price credit risk accurately, which may lead them to rely disproportionately on collateral. Lengthy legal proceedings to take ownership of collateral when borrowers default and the lack of a registry for movable assets further increase banks' risk aversion.

Stakeholders interviewed by the OECD shared concerns about banks favouring borrowers with which they have corporate relationships. The 2022 OECD Peer Review of Competition Law and Policy in Tunisia found that in 2019, five industrial groups controlled more than 60% of the turnover of the country's most important private companies. These five groups also have direct links to banks. This has the potential to reduce access to credit for firms unrelated to the five groups.

Figure 1. The MSME experience of accessing finance



Source: OECD MSME survey.

Payment services face unnecessary regulatory restrictions

Several legal provisions create unnecessary barriers to entry for payment service providers and hinder competition. The licensing process for payment service providers includes minimum capital requirements that are between 12 and 76 times higher than those in other countries. Ad hoc provisions and lengthy processes reduce transparency and increase costs for applicants. In practice, the licensing process has favoured affiliates of existing banking groups and excluded all independent fintech companies.

In other jurisdictions, fintech companies have played an important role in boosting competition and financial inclusion by providing innovative and cheaper alternatives to traditional banks' services, but regulation in Tunisia deters new firms from entering the retail banking sector and reduces the ability of the country's many unbanked individuals to access payment services.

The market structure and regulatory system stifle competition

Several other factors may also weaken competition across the markets that form the focus of this report. A number of legal provisions and market practices, alongside banks' ownership structures, may facilitate the sharing of commercially sensitive information and monitoring of price strategies, increasing the risk of co-ordinated conduct. The presence of the Tunisian state in the banking sector as a majority shareholder in three of the country's largest banks further undermines competition. State-owned banks have fewer incentives than others to improve efficiency and to innovate, and management is insulated from incentives to reduce costs and increase profits.

Competition and choices of suppliers are restricted by the limited take-up of online banking and the role of branch networks. Consumer choice is limited, especially in rural areas, where branches are rarer, and building an extensive branch network represents a significant cost for banks wanting to expand their customer base. Market outcomes are consistent with weak competition. Fees and revenues on current accounts, and the overall profitability of banks, have increased steadily over the past decade, and innovation in the financial sector is low, as shown by the very low take-up of mobile payments, for example.

Key recommendations

The report identifies a suite of recommendations to improve the effectiveness of competition. It is possible to quantify the benefits for only a subset of the recommendations, but the OECD estimates that implementing even this subset would yield around EUR 325 million annually in the form of lower prices and interest rates for consumers and businesses, which corresponds to 0.8% of Tunisia's 2021 GDP. These figures are likely to underestimate the benefits because it was not possible to quantify the effects of all individual recommendations due to the limited availability of detailed data. The estimates also exclude the dynamic benefits of competition, which can be substantial, yet difficult to measure.

In summary, the OECD proposes four packages of recommendations:

- **Measures to increase customer engagement**: These include recommendations to empower consumers to access, assess and act on information, and to reform the mediation mechanism to provide consumers and businesses with an effective tool to make complaints.
- **Measures to improve competition in the market for MSME finance**: These include recommendations to increase the ability of MSMEs to make informed decisions about lending products, and to encourage the creation of a credit information bureau and a registry for movable assets.
- **Measures to eliminate unnecessary regulatory provisions stifling competition in the payment services sector**: These include recommendations to adopt a risk-based approach to lower regulatory barriers to entry.
- **Measures to strengthen incentives for banks to compete**: These include recommendations to reform the *Conseil Bancaire et Financier*, to strengthen the role of the *Conseil de la Concurrence*, to increase the independence of board members, and to reconsider the role of the state in the retail banking sector.

In addition, the OECD reiterates the recommendations it made in the 2022 OECD Peer Review of Tunisia's Competition Law and Policy, aimed at increasing co-operation between the *Conseil de la Concurrence* and the country's finance sector regulators.

Market Studies Guide for Competition Authorities

Competition market studies assess the effectiveness of competition in a given market and, if competition issues are identified, propose recommendations to address them. These recommendations vary in scope, but can include proposals for regulatory reform and for measures such as improving the provision of information to consumers. They can also include recommending the opening of antitrust investigations or further specific assessments.

Using the Market Studies Guide for Competition Authorities, the OECD reviews sectors such as electricity and banking in specific countries to promote and protect competition in their economies, supporting better outcomes for consumers in terms of quality, innovation and prices, and fostering long-lasting growth.

In addition to the Tunisia banking market study, in 2023 the OECD also conducted a review of the electricity industry in Ukraine.

Access the Market Studies Guide for Competition Authorities at **oe.cd/ms4**