

Eoghan Gavigan

Stick a fork in banking competition — it's done



The phrase “Morton’s fork” can be traced back to the time of King Henry VII in the 15th century, when John Morton, then the Archbishop of Canterbury and lord chancellor, rationalised that a tax levied by the king was just. He reasoned that those living modestly must have substantial savings, while those living extravagantly were obviously rich; both therefore were equally able to pay the tax in question.

Although Morton’s fork refers to a dilemma where both options lead to the same unpleasant conclusion, over time it has morphed into a phrase that describes a choice between two equally undesirable alternatives. It could be used to describe

the plight of the Irish banking customer in 2021.

Prior to the global financial crisis, consumers had a wide array of banking options, with no fewer than 11 institutions offering current accounts and other services to the public. Historically, clients were very loyal to their bank. However, as lesser players expanded their offerings and some foreign lenders arrived, competitive behaviour emerged and a reduction in customer loyalty became evident, a trend sometimes referred to as “customer promiscuity”.

Mergers, exits and a liquidation followed, and since Ulster Bank and KBC this year announced their plans to exit the jurisdiction in quick succession, choice

for Irish consumers has fallen further. If the customer was king, it felt as if it were only for a day. The full effects of this have yet to be felt, and are likely to be severe.

Three banks instead of 11 competing for the available customer base is a large drop in competition, but you have to dig deeper to appreciate just how severe the effect is likely to be. For a fuller understanding, you must distinguish between the act of merely offering a service and actively trying to win market share.

On a basic level you can split bank services into about 12 activities. A particular product line can be more profitable if the bank doesn’t seek to compete on price, in the knowledge that clients

will, for the most part, take the solution in front of them rather than shop around.

Banks have varying strategies for different product lines. With banks choosing which product lines where they will compete and



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which are going to be super profitable, it’s not necessarily the case that even three banks will be competing for your business on a given day.

They may all be keen to get your mortgage or current account, but what about your credit card, personal loans, money transmission, foreign exchange and so on? For a small number of services, there may be three vying for your custom, but often there are sure to be just two, and frequently there may really be only one keen to win the deal. In other words, there is no competition. This is likely to result in very poor outcomes for customers.

In order to have at least two banks competing on each of the 12 product lines, every one of our three banks

would need to be, on average, actively trying to win market share in at least eight of those product lines. It won’t happen as, with so few competitors, there will be no need to compete.

But even this doesn’t represent the jeopardy we face. Factor in also that each pair competing on a given product will not compete for every deal, simply because no bank wants the concentration risk that comes with having a 100 per cent market share in any product line.

A bank is more likely to target somewhere in the region of perhaps 40 per cent of the market, which in a fair fight with one opponent would be easily achieved just by matching its competitor’s

price, and therefore no true competition. So the real picture is bleak.

Until recently the lacklustre marketing campaigns of many providers had me convinced that our ailing banks would thrive only if they learnt to innovate. However, it appears that this may not be necessary; an ability to levy a captive client base effectively may well be their salvation.

The client may not be truly captive. We have a choice, but if we aren’t caught on one prong of Morton’s fork, we will be caught on the other.

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