



Competitiveness of the Financial Sector

September 9, 2010



Agenda

- Overview of the Financial Sector
- Perspectives on rates and fees
- Financial Sector: A key driver of economic growth and development



Industry Structure

	7	4	45	34
	COMMERCIAL BANKS	BUILDING SOCIETIES	CREDIT UNIONS	BROKERS
DEPOSITS/QUASI DEPOSITS	✓	✓	✓	✓
TRANSACTION SERVICES	✓	✓	✓	X
LENDING	✓	✓	✓	X



Industry Structure – Choice for consumers

JUNE 2010				
INSTITUTION	ASSETS (’000)	Share	LOANS (’000)	Share
Building Societies	161,321,193	20.96%	83,754,278	22.59%
Commercial Banks	579,826,863	75.34%	243,064,040	65.57%
Merchant Banks	28,478,689	3.70%	8,583,676	2.32%
Credit Unions	59,957,000	7.79%	35,319,000	9.53%
Total	769,626,745		370,720,994	
Securities Dealers*	480,937,900	* Financial Services Commission 2008/09		
Source: BOJ & Jamaica Credit Union League				

- Consumers have a wide selection of financial institutions from which financial products and transaction services can be obtained.



Selecting a Financial Institution

Why do consumers select a given FI?

- Safety & Security
- Convenience
- Customer Service
- Availability of Products
- Pricing

Consumers base decisions on perceived "***value for money***".



Rates, Fees and Capital Strength

	INTEREST RECEIVED	(Securities & Loans)
-	INTEREST PAID	(Deposits)
-	<u>LOAN LOSSES</u>	
	NET INTEREST INCOME	
+	<u>NON INTEREST INCOME</u>	(Fees etc)
	TOTAL REVENUE	
-	<u>NON INTEREST EXPENSES</u>	(Cost of Delivery)
	NET INCOME	
/	CAPITAL	
=	RETURN ON EQUITY	

Net Income = Interest Income + Non Interest Income - Non Interest Expense



What make up Operational Cost?

- Personnel
- Premises
- Technology
- Security & Fraud protection
- Back Office processing



Understanding Operational Costs

Branch		ATM		Phone		Internet	
Service	Marginal Cost	Service	Marginal Cost	Service	Marginal Cost	Service	Marginal Cost
Withdrawal	\$1.37	Withdrawal	\$0.31	Balance Inquiry	\$0.068	Balance Inquiry	\$0.042
Deposits	\$1.49	Deposits	\$0.42	Bill Payment	\$0.600	Bill Payment	\$0.560
Funds Transfer	\$1.32	Funds Transfer	\$0.26	Funds Transfer	\$0.070	Funds Transfer	\$0.050
Make Specific Inquiry	\$1.41	Make Specific Inquiry	\$0.30	Make Specific Inquiry	\$0.075	Make Specific Inquiry	\$0.070



Fee Comparisons

SAVINGS & CHECKING	Industry Average (BNS,NCB, RBTT, FCIB)	Minimum - Maximum
Cheques Returned "N.S.F."	779	403-1000
Service Charge / Chq -Personal Acs	383	152-695
Stop Payment Order	378	302-455
In-Branch Transactions - Savings Acs	105	0-200
Minimum Balance Violation Fee	120	0-180



Fee Comparisons

CREDIT CARDS - STANDARD/CLASSIC	Industry Average (BNS, NCB, RBTT, FCIB)	Minimum - Maximum
Late Payment Fee	2,011	1940-2200
Over Limit Charge	2,011	1940-2200
Cash Advance (ABM)	6.5%	5.8%-7.0%

ABMs - PROPRIETARY	Industry Average (BNS, NCB, RBTT, FCIB)	Minimum - Maximum
Withdrawal	21	10-30
Mini-Statement	n/a	0-21



Perspectives on fee/price regulation

- **Public policy objectives**

- Ensure F.I.s provide a wide range of products and services to satisfy needs
- Ensure customers have information to make informed choices
- Ensure competition
- Ensure a safe and sound banking system

- **Policy alternatives**

- Measures to increase disclosure, customer awareness, financial literacy and comparison shopping



Potential Impact of Regulation

- Pricing decision elsewhere to maintain profitability
- Reduced return on equity/investment
- Reduced investment in new product development
- Reduced ability to differentiate on “value for dollar”



How Can F.I.s Reduce Cost?

- Improve the efficiency of delivery network
- Provide incentives for use of lower cost channels
- Improve the quality of credit adjudication
- Ensure customers have information to make informed decisions.



Jamaica's # 1 Challenge

Fundamental Issue:

How do we stimulate economic growth in Jamaica?



Stimulating Economic Growth

1. A strong economy requires a strong financial system.
2. Productive sector needs access to affordable credit.
3. Government must take the lead
4. Private Sector's Role
5. Labour's Role



Questions?