Competition should be favoured over Regulation in the Banking Sector

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FAIR TRADING COMMISSION

February 2017

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Recently, Member of Parliament Fitz Jackson piloted a Private Member's Bill to tighten regulations governing the banking sector. The Bill to Amend the Banking Services Act covers three broad areas: (i) regulation of information to consumers; (ii) regulations of customer service standards; and (iii) regulation of fees charged for ancillary services. The motivation behind the Bill is to increase consumer protection. While the motivation is commendable, the consequences of the proposed measures are likely to be catastrophic for consumers.

The electronic and print media have covered an assortment of points of view regarding the efficacy of the proposed amendments. Mr. Jackson has unwittingly revived the longstanding debate on the respective roles of competition and regulation in guiding economic activity.

The FTC does not support the proposal to regulate fees charged for ancillary services because our surveillance indicates that the commercial banking sector is amenable to competition. The main impediment to encouraging more intense competition was found to be the paucity of information available to consumers. Commercial banks have less incentive to lower fees charged to uninformed consumers. This is because an uninformed consumer is unlikely to switch banks as they would be would be unaware lower fees charged by competing banks.

A December 2010 Report on the Banking Sector documents the main results of FTC's in-depth study of the viability of competition in the commercial banking sector (<u>Nature and Extent of Competition in the Commercial Banking Sector</u>, available at jftc.gov.jm). The following three measures were recommended to further enhance competition: "(a). Mechanisms should be put in place to ensure that banks provide adequate information to consumers; (b) facilities should be put in place to make it easier for consumers to access information about banking services; (c) mechanisms should be put in place to make it easier for banks to access customer information"

Regarding the improved dissemination of information, by way of example, banks should make consumers aware of the relevant fees prior to the charges being levied; further, fees charged over a given period should be itemized by service on the consumer's statement rather than aggregated under some vague heading such as "miscellaneous charges."

To understand the likely ramification of Mr. Jackson's proposals for the banking sector, it is prudent to consider Jamaica's experience in the telecommunications sector. Since 2000, consumer welfare of subscribers of telephony services has been significantly greater than the welfare prior to 2000. The increase benefits resulted from (i) more individuals gaining access to telephony services, (ii) shorter waiting time to acquire service; (iii) higher quality voice service; (iv) faster pace of introduction of new technologies; (v) greater choice of service providers; and (vi) more affordable call rates.

The remarkably swift improvement in consumer welfare since 2000 coincided with the Government's strategic infusion of competition, i.e. liberalization, in some of the telecommunication service markets which it recognized could have been subjected to competition. This was in keeping with international best practice which requires policymakers to encourage competition in markets amenable to competition and regulate only markets which were not amenable to competition. The important lesson for the current debate is that both competition and regulation had a role to play in Jamaica's telecommunication policy, but competition was allowed to take the lead role.

In light of the foregoing, the call for the regulation of banking fees and charges is premature since the commercial banking sector is amenable to competition. Policymakers should note the recent entry into the commercial banking sector and facilitate even more intense competition by implementing the recommended changes required to cultivate a more informed consumer base.

To this day, the memory of the telecommunication sector during the period in which competition was excluded leaves a bitter taste in the mouths of everyone who survived it. We are mindful of the words of Sir Winston Churchill who warned that "Those that fail to learn from history are doomed to repeat it."

Dr. Harriott is the Competition Bureau Chief at the Fair Trading Commission (FTC). The views expressed in this article are those of the author and do not necessarily reflect the views of the Chairman or other Commissioners of the FTC.

Note: This article was first published in the Gleaner on Friday, February 10, 2017.