COMPETITION MATTERS

FAIR TRADING COMMISSION

'Ensuring a competitive marketplace'

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COMPETITION BENEFITS CONSUMERS

FOOD RETAIL PRICING AND COMPETITION IN JAMAICA

IS JAMAICA'S INSURANCE SECTOR COMPETITIVE?

JAMAICA: POISED FOR MARITIME TAKEOFF

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FAIR TRADING COMMISSION

52 Grenada Crescent,
Kingston 5,
Jamaica W.I.
Tel (876) 960-0120-4
Fax (876) 960-0763
E-mail: ftc@cwjamaica.com
Website: www.jftc.gov.jm
Facebook.com/ftc.jamaica

Magazine Team

Edited, designed and coordinated by:

Ann-Marie Grant, *General Manager*
Kristina Barrett, *Research Officer*
Paul Cooper, *Complaints Officer*
Verlis Morris, *Competition Analyst*

FOREWORD

In this issue of **Competition Matters**, we explore the theme *Competition Benefits Consumers* with a view to highlighting the benefits consumers reap from competitive markets. It is fitting that as the **Fair Trading Commission** approaches its twenty year anniversary in 2013, the theme for this edition coincides with our mission to *"provide for the maintenance and encouragement of competition….with a view to providing consumers with competitive prices and product choices."*

Competition keeps prices at the most affordable levels required to efficiently allocate scarce productive resources throughout the economy. In competitive markets, while suppliers seek to be superior to their rivals, consumers are provided with a wide variety of choice of quality products. In keeping with the theme of this edition, the articles explore consumer gains as it relates to competition in several industries such as health and motor vehicle insurance, grocery and motor vehicle.

In addition to the articles, the magazine contains some of the matters we have undertaken in 2012 as we work diligently to expose and therefore deter anticompetitive business practices.

We know you will enjoy this issue of **Competition Matters** as much as we enjoyed putting it together.

Happy reading!

Kristina Barrett & Paul Cooper

Magazine Coordinators

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FTC issues guideline on the purchasing of motor vehicles

On September 28, 2012, the FTC issued a guideline on the purchasing of motor vehicles. This guideline became necessary as the FTC seeks to address the high number of complaints from owners of new and used motor vehicles regarding dealers' inability to provide satisfactory resolution to problems with their vehicles.

The guideline provides a check-list for consumers who are purchasing a motor vehicle. These are: (i) research the vehicle, (ii) confirm the vehicle's model year, (iii) investigate the fuel requirements for the vehicle, (iv) inspect the vehicle, (v) check for the availability of spare parts and (vi) understand the warranty and sale agreement. The guideline is available at www.jftc.gov.jm.

Between January and early December 2012, the FTC received 19 complaints from consumers of misleading representation by motor vehicle dealers regarding the model year of their vehicles. The Informants claim that they purchased the vehicles between September 2009 and November 2011, after the dealers represented to them that the vehicles were 2005, 2006 or 2007 models. The

Informants claim that they have been subsequently advised by valuators, the Island Traffic Authority or an authorized dealer that the vehicle were older than represented. In one instant, a car that is represented as a 2007 model was subsequently assessed to be a 2003 model.

In November 2011, the Government of Jamaica increased the age limit on imported cars from 3 years to 5 years in a bid to make cheaper cars accessible to consumers and thereby stimulate business activity in the sector.

From the complaints received, if the model year represented by the dealers is false, affected consumers could lose up to JA$500,000 in the value of their vehicle. The FTC is currently investigating these matters as a possible breach of section 37 of the Fair Competition Act, which prohibits false or misleading representation.

FTC signs consent agreement

In September 2012, the FTC entered into a Consent Agreement with the International University of the Caribbean (IUC) and recovered cost of $120,700. The FTC had received a complaint from a student who alleged that the IUC incorrectly advised her of the courses she needed to complete to earn a Degree from the institution.

Having investigated the matter, the Staff took the position that IUC's conduct was likely to contravene section 37 of the Fair Competition Act, which addresses misleading representation. The Staff's investigation revealed that the IUC's actions resulted in the original representation, upon which the student had relied, being altered in material respects, to the detriment of the student.

The FTC enters into Consent Agreements in situations where it believes that the FCA has been breached and the Respondents are amenable to settling the matter out of Court. These agreements usually require that the Respondent commit to not repeating the offensive conduct, issue a public apology, provide redress to the Informant(s) as well as pay the Commission's costs. The FCA allows for a fine of up to JA$5 million in the case of an enterprise and up to JA$1 million in the case of an individual, where the Court determines that the FCA has been breached.

FTC recognizes World Competition Day

On December 5, 2012, the FTC joined a number of Competition Agencies worldwide in recognizing World Competition Day, under the theme "Adverse Impact of Cartels". The main purpose was to raise awareness about the harmful effects of cartels and to generate leads about cartel activities which may be a source for initiation of investigation.

In recognition of World Competition Day, the FTC produced and distributed pamphlets on the dangers of cartels and on the benefits of competitive markets.

Cartels involve anti-competitive coordination among competitors to set prices, divide markets, share information or agree on business strategies. Such conduct negatively affects both consumers and the development of an economy.

13th Annual *Shirley Playfair* Lecture

The Prospects for Competition in the Electricity Sector: from generation to distribution

Verlis Morris
Competition Analyst

The concept of electricity is mystifying. While it cannot be seen or stored, electricity can be generated and distributed. Nikola Tesla has been credited for devising the technologies that generate and distribute electrical energy for use in our homes, factories, hospitals and churches. Given the high price of electricity in Jamaica, the debate is focused on not just the reduction of fuel cost, but critically on the introduction of competition in a meaningful way in the supply of electricity as the best means of driving prices down. To engage the public on this issue and to facilitate the discussions, in September 2012 the Fair Trading Commission (FTC) hosted the 13th lecture in its Shirley Playfair Lecture Series on the way forward in promoting competition in the generation and distribution of electricity in Jamaica.

In presenting this year's Lecture, Professor Evan Duggan, Dean of the Faculty of Social Science, UWI, outlined the anticipated benefits of competition in the sector. These include increased efficiency, a more attractive investment environment, and lower prices to consumers.

Professor Duggan asserted that the electricity sector is organised into four segments: generation (production), transmission, distribution and retailing. He argued that there is an urgent need to reduce the price of electricity since high electricity price is one of the main causes of Jamaica's anaemic growth, crippled productivity and low levels of global competitiveness. To stimulate productivity and economic growth, he stated that Jamaica has to tackle the seemingly insurmountable task of reducing the price of electricity. While introducing competition could provide such a solution, he highlighted the anticipated challenges and opportunities associated with it.

The primary opportunity for competition coincided with recent technological advances in production which has served to reduce the size of the plant that is required for an efficient production of electricity. This means that the sector could now profitably accommodate more producers. In support of this development, he informed the audience that the electricity sector in numerous countries was being restructured to accommodate competition -- in those segments where it is feasible.

The primary anticipated challenge for introducing competition is that Jamaica is too small for competition and that rigorous economic analysis to its feasibility is absent. Furthermore, investments would decline since profits are expected to be lower in a competitive

From left to right: Dr. Kevin Harriott, Minister Anthony Hylton, Dr. Densil Williams and Professor Evan Duggan.

Section of the audience including Dr. Marcia Forbes, Media Consultant; Mr. Fitzroy Vidal, Director of Energy in the Ministry of Science, Technology, Energy & Mining; and Mr. Bruce Levy, Attorney-at-Law, and representative of the Private Sector Organization of Jamaica.

environment. The prospects for competition to lower the price of electricity was also brought into question since approximately 80 per cent of the cost of producing electricity is attributable to the price of refined petroleum. Professor Duggan informed the audience that based on these challenges, some have argued that the electricity sector should remain a regulated monopoly since any introduction of competition which failed to reduce price to levels that can stimulate economic activity would be pointless.

Following Professor Duggan's presentation, the FTC outlined its perspective on the matter. The FTC, by way of Dr. Kevin Harriott, Competition Bureau Chief, re-asserted its view that there is a need for the introduction of competition in the electricity industry which would be facilitated by the unbundling of the sector. The Commission envisages multiple entities in the generation, distribution and retailing segments but a single entity in the transmission segment. A regulated transmission sector with open access to power producers and retailers would not only boost investors' confidence but also mitigate abuse of power. The Commission pointed out that other countries' experiences have demonstrated that this model is viable and the introduction of competition resulted in benefits, including lower prices, within six years. The Commission made the point that the challenges described during the Lecture should not serve as a hindrance to the introduction of competition but rather as a stepping stone to the careful plotting of the journey ahead.

Mr. David Miller, Executive Director of the FTC and Mr. Dervan Malcolm, host of *Both Sides of the Story* aired on Power 106FM.

Study of the Credit Union Industry in Jamaica

Kristina Barrett
Research Officer

In November 2012, the FTC published its study on the credit union sector. The study was carried out to describe the prospects for competition in the sector; and the objectives of the study were to: (i) assess the degree of competition in the credit union sector; (ii) identify factors that restrict competition; and (iii) suggest ways in which competition could be enhanced for the benefit of consumers.

It was observed that credit unions differ from other financial institutions in that they are not-for-profit financial co-operatives that supply services only to their shareholders who are also referred to as members. All members of a credit union must share a common bond such as place of employment, area of residence, professional organization or social group.

In contrast, it was observed that credit unions offer several services that commercial banks and building societies offer, and are considered to be an integral part of Jamaica's financial services landscape. In several instances, it was found that credit unions compete directly with commercial banks for customers. In recent times, some credit unions have been offering services such as credit cards, access to ATMs as well as current accounts; and in many instances at prices lower than those of the commercial banks.

Price Comparison

The key findings regarding pricing of services in the credit union sector are that: (i) there was no significant increase in the average fees for the period 2007-2010; (ii) the spread between the lowest and highest average fees widened in 2010 relative to 2007; and (iii) the average fee charged by the credit union with the least affordable services was five times as high as the average fee charged by the credit union with the most affordable services in 2010.

Structural Characteristics

In its assessment of the key structural characteristics the FTC found that the credit union sector: (i) has over forty suppliers with no individual credit union having market share exceeding 15 percent with respect to assets; and (ii) is concentrated in twelve out of thirteen geographic regions with respect to branches.

Assessment of Competition

Regarding the assessment of competition the key findings are that: (i) for seven geographic regions, the size of rival credit unions could act as a competitive constraint; (ii) consumer power is twofold in the credit union sector as consumers can engage in (albeit limited) comparison shopping for the supplier that best meet their needs and also, as shareholders in credit unions, members can raise concerns at Annual General Meetings; (iii) membership requirements impede competition as it restricts the movement of consumers between credit unions; (iv) credit unions compete with banks as they offer several similar services; and (v) the average credit union fee was lower than the average bank fee for seven selected services for the period 2007-2010.

Prospects for Competition

As far as the prospects for competition is concerned, the credit union sector has three peculiar characteristics which serve to impede competition: (i) the common bonds requirement of credit unions unduly restrict suppliers from competing for customers which their rivals are already serving; (ii) the common bonds are sometimes so specific that it is often difficult for many individuals to be eligible for membership in more than five credit unions located in either the parish they live in or work in; and (iii) consumers of credit union services enjoy some benefits from excessively high prices by virtue of owning shares in the credit unions.

Recommendations

To enhance competition in the financial sector, it is recommended that: (i) the qualifications for membership in credit unions should be adjusted to allow more persons to become eligible to join any given credit union; and (ii) members of credit unions should be encouraged to play a more active role in the operations of their credit union through participation at Annual General Meetings.

Profile of Mr. Christopher Samuda: Chairman of the FTC

Mr. Christopher Samuda, an Attorney-at-Law, was appointed Chairman of the Fair Trading Commission by the Minister of Industry, Investment & Commerce in June 2012. Mr. Samuda holds a Bachelor of Laws Degree with Upper Second Class Honours, from the University of the West Indies and a Certificate of Legal Education from the Norman Manley Law School. He was admitted to the Jamaican Bar in 1986.

He is the Chairman of the Board of Directors of the Creative Production & Training Centre Limited (CPTC) and also the Chairman of the Board of Governors of the Media Technology Institute.

Mr. Samuda is the President of Jamaica Paralympic Association, the Chairman of the Jamaica Paralympic Foundation and the President of the Jamaica Disability Cricket Federation (JDCF). He is also the Chairman of St. Khrisstopher Music Limited as well as Strategic Corporate Interventions Limited.

He is the immediate past President of both the Caribbean Confederation of Credit Unions and the Jamaica Co-Operative Credit Union League Limited. He also represented the Caribbean as its delegate to the World Council of Credit Unions during his Presidency of the Confederation. Mr. Samuda is a former President of GSB Co-Operative Credit Union Limited, one of the oldest credit unions in the Caribbean. He is a Director of GSB Co-Operative Credit Union Limited and is the lead adviser to several Jamaican commercial entities and is also a member of the Board of Wolmer's Boys' School which has a rich contribution in education for over 275 years.

He is a former Deputy Chairman of the Copyright Tribunal (Jamaica) and a former Member of the Council of the Jamaica Bar Association and Co-Chair of the Peoples' Energy Vision Programme, sponsored by the Inter-American Development Bank.

Ms. Michelle Brown: Commissioner

Ms. Michelle Brown, an Attorney-at-Law, was appointed Commissioner of the Fair Trading Commission by the Minister of Industry, Investment & Commerce in June 2012. She was admitted to the Jamaican Bar in 1996. In addition to being an attorney, she has a MBA in International Business with special emphasis on International Economic Relations from the George Washington University in Washington DC and has worked as a management consultant in Washington D.C. She also has a Masters in Law and Economics from the World Trade Institute in Switzerland.

She is a co-founding Partner of HyltonBrown, Jamaica's first boutique trade law legal practice. In this capacity she has *inter alia* been a consultant on projects for CARICOM and Canadian International Development Agency focusing on Jamaica's readiness to legislatively and administratively meet its treaty obligations under the Revised Treaty of Chaguaramas, with respect to the CARICOM Single Market. She has also worked in policy development for a number of years as a co-convener of the Trade in Legal Services Sub-Committee of the Jamaica Bar Association (JBA), and also as a member of the Jamaica Trade and Adjustment Team (JTAT), a team established by the Government of Jamaica, through the Ministry of Foreign Affairs and Foreign Trade.

She is currently an Associate Editor of the Trade Law Guide, an online research engine specializing in WTO jurisprudence located in Ottawa, Canada and is a Commissioner of the Jamaica Anti-Dumping and Subsidies Commission.

Dr. Densil Williams: Commissioner

Dr. Densil Williams was appointed Commissioner of the Fair Trading Commission by the Minister of Industry, Investment & Commerce in June 2012. He is the Deputy Executive Director of the Mona School of Business and Management and a Senior lecturer of International Business with research interests in the areas of international business with special focus on the international activities of small firms, strategy and international development. His works have appeared in major international journals in North-America and Europe. He has also presented his works at major international conferences in Europe, North- America and Asia.

In 2009, one of his papers was awarded the best empirical research paper at the International Council of Small Business World Conference in Seoul, South Korea. His book, *"Understanding exporting in the small and micro enterprise"* won the principals award for best publication in the category of Books in the faculty of Social Sciences in 2010. His most recent book is entitled "*Competitiveness of small nations: what matters?"*

Ms. Dena Davis: Commissioner

In June 2012, **Ms. Dena Davis** was appointed Commissioner of the Fair Trading Commission by the Minister of Industry, Investment & Commerce. Ms. Davis has over 20 years experience in the insurance industry and has received professional insurance training in Jamaica, United States of America and Canada where she studied the different distribution systems of insurance and their effects on client services.

She pioneered the establishment of Solid Life & General Insurance Brokers Limited, Solid Mortgage Brokers Limited and Solid Property Company Limited; and she is the major shareholder of these companies. Ms. Davis has overall responsibility for their management and is currently a Director of the Jamaica Insurance Brokers Association (JIBA), Fiscal Services Limited and Women Business Owners (WBO) where she also serves as Treasurer. She is the Chairman of Fiscal Services Pension Fund.

Ms. Davis has served as Council Member of the Private Sector Organization of Jamaica (PSOJ), President of the Small Business Association of Jamaica (SBAJ), Branch Manager of Prime Life Assurance Company and First Life Insurance Company and Unit Manager of Sagicor Life Jamaica. She has also served as spokesperson for CARICOM Single Market and Economy and Treasurer of the Rotary Club of Liguanea Plains of which she is currently a member. She has served also as mortgage supervisor of Jamaica National Building Society (JNBS); and continues to supervise the processing of mortgage applications through Solid Mortgage Brokers Limited.

Past Commissioners

Immediate Past

Dr. Derrick McKoy

Mrs. Dorothy Carter-Bradford

Mr. Jasper Burnett

Mr. Robert Collie

Mr. Emile Leiba

Mr. Christian Tavares-Finson

Dr. Peter-John Gordon

Mrs. Donna Parchment-Brown

Ms. Sanya Young

Mrs. Aloun Assamba

Mr. Philip Sutherland

Mr. Aulous Madden

Mrs. Shirley Playfair

Competition and Open Markets

By Peter-John Gordon

The goal of any society should be to deliver to its population the highest possible standard of living. All societies, no matter how rich they are, have limited resources. A mechanism must therefore be found which allocate these limited resources to the infinitely possible uses which they do have. In short, we must have a mechanism which answer the economic questions of what to produce, how to produce it and for whom it should be produced. A number of factors must be taken into account when deciding how these resources are to be allocated. Since the life of the society extends in perpetuity through successive generation of individuals, an important consideration must be expanding the wealth of the nation so that each generation might have a higher standard of living than the previous ones.

Many mechanisms have been tried over the course of human history, with varying degrees of success to answer the fundamental economic questions. One mechanism is to have a command economy in which some central authority, be it the king, the government or some bureaucrats in the planning ministry decide what should be produced, how it should be produced and how the output is to be shared among the population. Another mechanism is to use the market economy, where individual initiatives and consumer choice are paramount in deciding how the economic questions are answered.

To date, the market system has delivered the highest standard of living to the largest number of persons over the course of human history. A crucial element required of a market economy to work properly is competition and open markets. When there is competition, firms must compete for customers. This competition is three dimensional: price, quality and service. The firms which will survive are only those that are able to deliver products at prices which consumers are willing to pay and which deliver good service. The struggle for survival causes firms to be constantly looking for ways to improve their product quality, and new and more efficient ways of producing. The struggle to survive causes society's resources to be devoted to those goods and services which the population truly wants. Consumers vote directly for what they want in the democracy of the market. If firms make products which are unwanted by consumers then they will have no sales and they will be forced out of business. The constant search for value for money forces innovation, thus causing fewer of society's resources to be used in the production of a single product, thus freeing up resources which can be devoted to the production of other products. Society's limited resources are therefore able to support a larger array of goods and services thus increasing the standard of living of the population. The extent to which consumers are able to exercise their sovereignty is greatly affected by the alternatives which they face. When consumers face a monopoly they have fewer options than when there are alternative suppliers. The pressure which consumers exert on the economic questions and hence on their standard of living, not only in the present but also in the future, is greatly restricted when the competitive process is hindered.

One extreme form of blocking the competitive process is the monopolization of an industry. Here consumer choice is restricted, society's resources are not necessarily used in their most efficient manner and in addition to all those ills, the monopolist extracts from consumers more than would be required to offer the product. It should be pointed out that some markets may be classified as a natural monopoly - a situation where given the existing technology, only a single producer could operate profitably. Over time of course, technology may change and an industry which was previously a natural monopoly might lose that status as was the case with the telecommunication industry.

While monopolization is an extreme form of hindering competition, other conduct can and have been used to reduce the competitive impulses within an economy. Firms would prefer if they did not have to struggle as hard to survive, they would also like to extract as much of the surplus as they can from the consumers. Conduct such as cartelization and predatory pricing, among others, have been used to give an advantage to some firms over others and to allow these firms to extract more from consumers. Anti-trust or competition agencies around the world seek to police, prevent and punish such conduct, not primarily to protect the competitors who are being disadvantaged, or even the consumers, but rather to protect the system of competition and the benefits which it can deliver to society.

Government policy can and do affect competition in ways sometimes more profoundly than the anti-competitive conduct of firms. Government policy in a number of areas can affect the intensity of competition on the domestic market. The granting of licenses and permits to operate is an obvious way of affecting competition. Through this mechanism, the government can affect the number of alternatives which consumers face and hence the strength of their voices. The government granting multiple licenses or issuing several permits to operate in a natural monopoly market will not increase competition in that market. Where competition in the market is impractical, a second best solution is to have competition for the market, where firms compete to obtain the privilege to operate in that market.

Sometimes a government might decide to shelter domestic producers from foreign competition by erecting barriers to trade. These barriers could take the form of high tariffs, quantitative restrictions or other non-tariff barriers such as sanitary or phytosanitary restrictions. This is usually done thinking that such policies help the protected sectors and by extension the economy. It turns out that not everything which might be good for a sector is necessarily good for the wider economy. A few years ago there was a big debate about whether or not bananas from Central America should be allowed entry into Jamaica. The idea was that these Central American fruits would put too much pressure on the domestic banana sector and this would lead to loss of jobs in the banana sector. Restricting the importation of bananas would force consumers to pay higher prices for bananas. Translated, this means that consumers would have to use a larger share of their incomes on the purchase of bananas than they would if the Central American bananas were allowed in. Protection of the Jamaican banana industry therefore made Jamaican consumers poorer. Their incomes were able to buy fewer goods and services. This is true, some might say, but what about the jobs that would be protected in the banana industry? Forcing one set of firms to buy their inputs more expensively reduce their ability to compete, grow and employ more persons. If the banana chip industry is forced to pay more for bananas, it will be less competitive against foreign makers of banana chips. Foreign made banana chips could be imported more cheaply into Jamaica thus displacing the Jamaican banana chip manufacturers. The government could also impose a high tariff on the importation of banana chips thus protecting the banana chip industry from foreign competition. Again the Jamaican consumers would be made poorer. But more importantly, the Jamaican banana chip manufacturers will be unable to compete in export markets. It cannot grow beyond what could be supported by poorer consumers in the domestic market. Jobs which could have been created in the banana chip industry are lost or at least are not created. Government policy of trying to protect the jobs of banana workers in effect protected these jobs not against foreign banana producers but against the Jamaican banana chip industry – jobs in the banana chip industry were sacrificed so that jobs might exist in the banana industry. What is the basis of asserting that jobs in agriculture are more desirable than jobs in manufacturing? The Jamaican government is not strong enough to protect Jamaican jobs against foreign competition. What it has the ability to do is to protect one set of Jamaican jobs against another set of Jamaican jobs. It might very well be that the policy of protecting the banana industry caused that industry to grow but it simultaneously caused the banana chip industry to die. The wider economy might have been made worse off by such policies as the protected sector might not be a sector for the future while the sector which is harmed may have had better growth prospects. A government cannot protect all industries, since protection offered to one is really protection against other domestic industries.

Another government policy which distorts competition and the impulses for growth and higher standards of living is preferential tax treatment of selected sectors. Allowing some sectors to pay lower taxes is not really protecting them from foreign competition; rather it is protecting them from other domestic industries. It is often stated that the Jamaican tourism industry needs tax concessions to be competitive against other tourism destinations. This is not a very compelling argument. Allowing the Jamaican tourism sector to be taxed at lower rates than other sectors mean that the profitability of this sector is now increased vis-à-vis other domestic sectors. Resources therefore flow away from other industries towards tourism. The government, by its fiscal policy, has distorted the relative prices in the economy away from the market determined ones to a government determined one in favour of tourism. The net result is that the tourism industry grows but the rest of the economy stagnates. We hear of the puzzle of high investment and low growth. This comes about because growth is occurring in government favoured areas but these areas are unable to pull the other sectors of the economy along as they grow. Favouring one industry means simultaneously disadvantaging others. Those areas which are not favoured have higher relative tax rate to the favoured sectors, hence resources flow away from them to the favoured areas. It is impossible for the government to favour all sectors just as it is impossible for a mother to favour all her children. Favour, by definition, means putting one ahead of another. The call for tax reform is a call to level the economic playing field, to remove the disincentives to industries which have not been favoured. Then and only then will the economy have the capacity to grow at its fastest possible rate and the impulses from one area be able to be transmitted easily to other areas. Tax reform is not about lower taxes. It is true that tax rates in the unfavoured areas are higher than they would be if there were no preferences and tax reform would result in a lowering of those taxes. This however is not the primary objective of tax reform, merely an added benefit. The motivation for tax reform is to unshackle the economy so that it might expand at the fastest possible rate given its productive capacity.

A government picking or supporting winners is the same policy of a government picking losers. Trying to make one industry more competitive is simultaneously determining that non-selected industries will die. The government is saying that it knows better than the market what are the goods and services which should be produced. It has distorted the competitive impulses in the economy as to what products should be produced, how they should be produced and for whom these productions should take place by distorting the relative profits in industries.

Occasionally, governments might deviate from the strict economic efficiency considerations in their public policy for non-economic reasons. A military super power is unlikely to outsource its weaponry to the cheapest possible production source for obvious reasons. The fact that public policy deviates from the economic rational path does not by itself mean that the public policy is wrong or inappropriate. However policymakers should, at the very least, be aware of the economic cost of such deviations. The poorer a country is, the less room it has for suboptimal economic policy. Let us not simply look at richer countries and proclaim that they protect their people; this might be true, but their greater wealth gives them more space for bad policies. They are not richer because they have pursued bad policies.‡

Dr. Peter-John Gordon is a Lecturer at the University of the West Indies and a former Chairman of the Fair Trading Commission.

Market Liberalisation, Competition Policy and the Consumer: Telecommunications in Barbados

By Antonio Thompson

The widespread use of broadband Internet, the convenience of speaking on our cellular phones and the ability to stay in contact with our loved ones at a moment's notice is something that we take for granted in this modern era. One or two decades ago, these modern technological comforts would not have been so easily accessible in the Caribbean. These telecommunications conveniences have come about, not simply because of rapid and innovative technological advances, but also as a result of the competitive business environment fostered in the country.

In Barbados, the liberalisation of the telecommunications sector was brought about by the ratification of the General Agreement on Trade in Services (GATS) on telecommunications in 1997 and the subsequent policy by the Government of Barbados to satisfy that requirement. In December 2000, the Government issued a Green Paper on its Telecommunications policy in which it outlined the steps to reform the telecommunications sector from a monopoly in the provision of telephone services, to a competitive sector at all levels.

Subsequently, the need for a reformed regulatory authority emerged and the Fair Trading Commission (FTC) was established in January of 2001. The Commission was given the mandate of safeguarding the interest of consumers, regulating utility services, and promoting and maintaining effective competition in the economy. Under the Commission's aegis, the Fair Competition Act (FCA) came into force in January 2003 to promote, maintain and encourage competition, prohibit anti-competitive business conduct in Barbados and within the CARICOM Single Market, and to ensure that all enterprises are afforded the opportunity to participate equitably in the market place.

The establishment of the FTC and the enactment of the FCA turned out to be of major significance to consumers. These events accelerated the development of a robust business environment that is more conscious of consumers' rights and more attractive for foreign investment.

From its inception, the Commission sought to educate the business community with respect to the FCA and how it applied in Barbados. This was, and continues to be, done through its annual lectures, public presentations, information papers, newspaper articles, responses to public queries and organised training workshops. This education and awareness initiative has borne much fruit. Many entrepreneurs and smaller enterprises have approached the Commission on matters dealing with anti-competitive behaviour, not only in the instances where they may perceive that anti-competitive conduct is taking place, but also to seek clarification on any conduct in which they may be involved or may be considering. In addition to these smaller businesses, the Commission has seen the larger entities such as Cable & Wireless Barbados Ltd. (C&W), TeleBarbados and Digicel Barbados (Digicel) utilising its services to ensure that they are not in any way marginalised and can offer the best possible services to the public. Consumers in Barbados benefit directly through competitive markets, lower prices and improved product and service offerings.

One such benefit is that in the last decade the relative cost of telecommunications services has fallen appreciably. Even though per minute mobile rates for pre-paid and post-paid services have not changed numerically in any significant way, when one considers the different types of packages, the use of various methods such as roll-over minutes and the inclusion of data packages, the benefits of competition are evident. In addition, considering the prohibitively high cost of international calls before the liberalisation of the markets, compared to the rates that are now seen in residential telephone service and mobile services, the savings translated into benefits are easily discernible. These improvements have benefitted the individual, the business and the society as a whole. According to the World Bank's ICT statistics[1] mobile subscription rates in Barbados have moved from 11.3 per 100 in 2000 to 131.7 per 100 in 2009; and Internet users have moved from 4 per 100 in 2000 to 56.1 per 100 in 2009. As companies compete more vigorously for customers and as emerging technologies become easier to access and perhaps cheaper to integrate into their systems, it is hoped that further direct benefits will accrue to the end users. As noted by Schmid[2] (2005) in a case study on Barbados for the WTO

"*Barbados has experienced positive outcomes from telecommunication liberalization. At the end of 2004, in response to competition the incumbent reduced its high-speed Internet access rates by 22%. In early February 2005, the three major players in the mobile market lowered their long-distance rates by almost 50%. These changes can be attributed to new legislation and a regulatory environment that supports competition.*"

The benefits include not only a reduction in the relative costs of the services and products provided but also in the improvement in the quality of services provided. In 2006 when Digicel and Cingular approached the Commission seeking to merge their operations, it may have appeared to be an ominous event for the industry. Only three of the four mobile licensees were operating, namely, C&W, Digicel and Cingular and this merger suggested that the market would become more concentrated moving from three competitors to two. The Commission envisaged however, that there were significant potential benefits in this merger for the Barbadian consumers. At that time the incumbent C&W was the dominant provider of mobile communications. It had a very strong base from which to operate and while the two competitors provided the same types of service as C&W, the Commission recognised that Digicel was stronger in mobile voice while Cingular had an advantage in the provision of mobile data services. The merger therefore allowed more effective competition in the market for the provision of mobile communication services. Subsequently, Barbadian consumers, while not necessarily seeing substantial decreases in their mobile rates, have been the beneficiaries of non-price competition between the two mobile operators. This competition has tended to focus on service delivery, and development of new and innovative products and packages.

This competitive telecommunications environment has contributed to an ICT infrastructure that has encouraged the business community to utilise telecommunications as a tool, to expand and invest in more capital, hire more workers and of course offer reasonable prices to the end user of the service or product. Today, many international companies such as banks and wealth management companies, among others, are utilising the benefits of such infrastructure in the country[3].

The promotion of a competitive business environment has also forced many businesses to be more innovative, not only in the type of service or product offered but also in the way that product is developed, marketed and distributed to the end user. Once deemed a market that supported only natural monopolies, we have seen this view gradually being replaced by one which encourages competition.

The sector has seen many innovators enter the market. We have the example of Net2Vue which streamed live television content over the Internet, and similarly there is LIME TV which utilises the current technology by the incumbent in an effort to remain relevant in an evolving and competitive environment.

Recently, we have seen the regional mobile company Digicel enter the market for the provision of residential Internet services and wireless residential telephone lines thereby joining the likes of C&W and TeleBarbados. There are also several small Internet service providers who use various technologies to compete with the major players.

The presence of an active and effective competition policy framework gives the country a sense of credibility and stability which is attractive to large international investors. With the advent of liberalisation of the telecommunications sector, we have seen the huge capital investments made by companies such as Digicel, C&W, Karib Cable and TeleBarbados (recently acquired by Columbus Communications (FLOW)) into the market.

The Barbados FTC has had to investigate a number of cases pertaining to anti-competitive conduct within the telecommunications sector. In many of these instances the companies have complied with the Commission's findings and the issues have been resolved. However, the deterrent effects of the FCA and the Commission may far outweigh any immediately visible benefit. Judging from the number of calls received it would appear that the continued engagement with the business community has and continues to reap benefits. The educational outreach programme has produced significant benefits as more businesses appear to have become more aware of the law and have in some instances challenged their competitors for engaging in anti-competitive practices. These businesses also appear to have greater confidence that the Commission will act to rectify any anti-competitive practices in the market.

Indeed if there is one lesson that can be learnt in relation to the implementation of the competition law in Barbados, is the value of public outreach and advocacy. It is evident from the Barbados experience that greater and sustained emphasis in this area is an important factor in transforming mind-sets and stimulating more competitive markets.‡

Mr. Antonio Thompson is the Chief Economist at the Barbados Fair Trading Commission.

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Competition in Private Health Insurance Market, 2002-2011

It is a widely accepted neoclassical microeconomic theory that highly concentrated industries tend to be less competitive; consequently, these markets are more advantageous to sellers and more detrimental to customers. In such cases, the industry producers reap market power (that is, greater influence in setting prices), and often sustain high profits for long periods of time. On the other hand, customers or consumers will suffer from high prices, inefficiency and a lower pace of innovation. Therefore two of the most salient points from this economic theory are (i) high concentration within a market is typically not a desirable quality and (ii) the more competitive an industry is the more benefits derived by the consumers. Hence, we have the popular maxim ***"Competition Benefits Consumers."***

Jamaican Private Health Insurance Market

The Jamaican private health insurance industry has always been a concentrated market as demonstrated by the small number of firms and a market in which one or two firms controlled the majority of the market. For example, in 2002, while there were seven life insurance companies, only two sold health insurance. In addition to these two companies, Blue Cross of Jamaica Limited also sold health insurance[1]. Table 1 shows the common indicators of an industry's level of competition. As seen in the table, the increasing Herfindahl Hirschman Index (HHI) reveals that over the decade, the market has become more and more concentrated to the point of being a duopoly with one firm controlling 65.8 per cent of the market in 2011[2].

Table 1: Selected Indicators on Market Concentration, 2002-2011

Years	Number of firms	Herfindahl Hirschman Index (HHI)	1-firm concentration ratio
2002	3	3,440.2	40.7
2003	3	3,474.1	42.6
2004	3	3,429.3	40.6
2005	3	4,913.0	57.6
2006	3	4,374.0	54.4
2007	3	4,114.5	52.7
2008	2	6,784.5	79.9
2009	2	6,103.5	73.5
2010	2	5,899.9	71.2
2011	2	5,498.4	65.8

Market Concentration

Why has this market become so highly concentrated? Figure 1 displays changes in the companies' market share over the ten-year period[3]. As can be inferred from Figure 1, the changes in market share were derived from (i) organic or internal growth – the company has grown from its own business activities -- and (ii) inorganic or external growth; that is, the company has grown by merger and acquisition. Given the changes in market share over the period of 2008 to 2011, it can be argued that there is strong active competition between the two companies and that switching cost from one insurer to another is low. One of the strategies employed by health insurers to gain and keep market share is price undercutting.

While it cannot be denied that companies acquire other companies to, among other things, (i) gain market share, (ii) increase profits and returns for shareholders and (iii) gain economies of scale, it is also a fact that strong competition within any market can compel companies to consolidate to survive. Since insurance business involves pooling funds from many insured entities to pay for the losses that some may incur, acquiring more market share allows insurance companies to pool the premiums and spread the risk over a larger segment of the population. Mergers and acquisitions also aid regulated financial entities, including insurance companies, to meet the increasing regulatory capital requirements, which enable the financial entities to be more financially viable and sound to withstand adverse shocks.

The Insurance Act, 2001 does not permit the mergers and acquisition of insurance companies without the approval of the Financial Services Commission (FSC)[4]. The Act mandates the FSC to publish in a widely circulated newspaper the intended merger and acquisition to enable anyone who believes that he or she will be adversely affected by the proposed merger to inform the FSC. The FSC is also obliged to furnish additional information to anyone who so requests. The Act clearly stipulates that the FSC should facilitate a hearing and the conditions under which the FSC must not approve the merger. One such condition is where the FSC,

Figure 1: Percentage Market Share, 2002 -2011

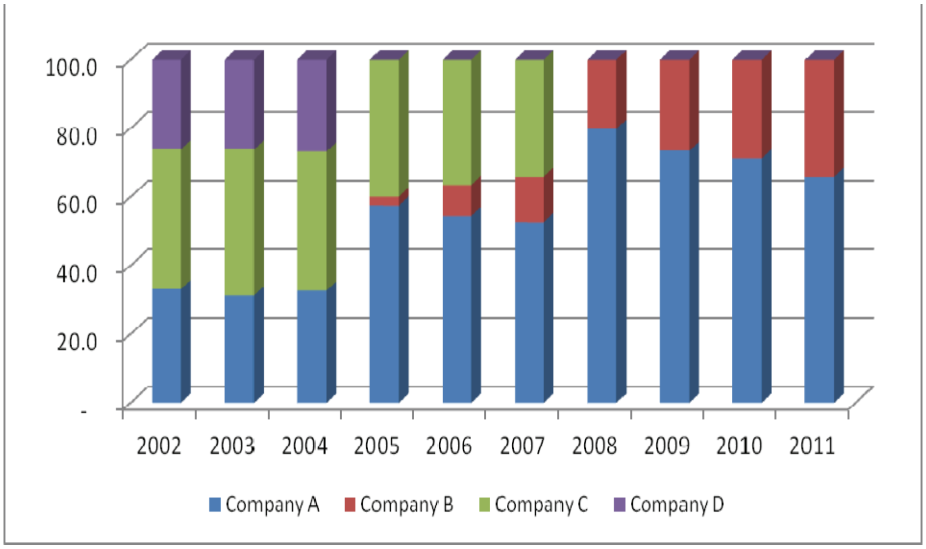


Figure 2: Income & Expense Categories, 2002-2011

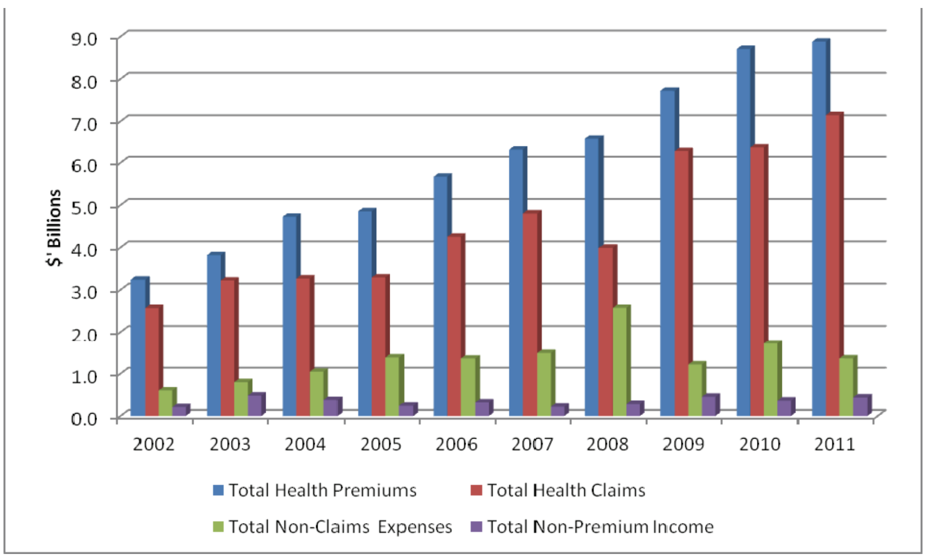
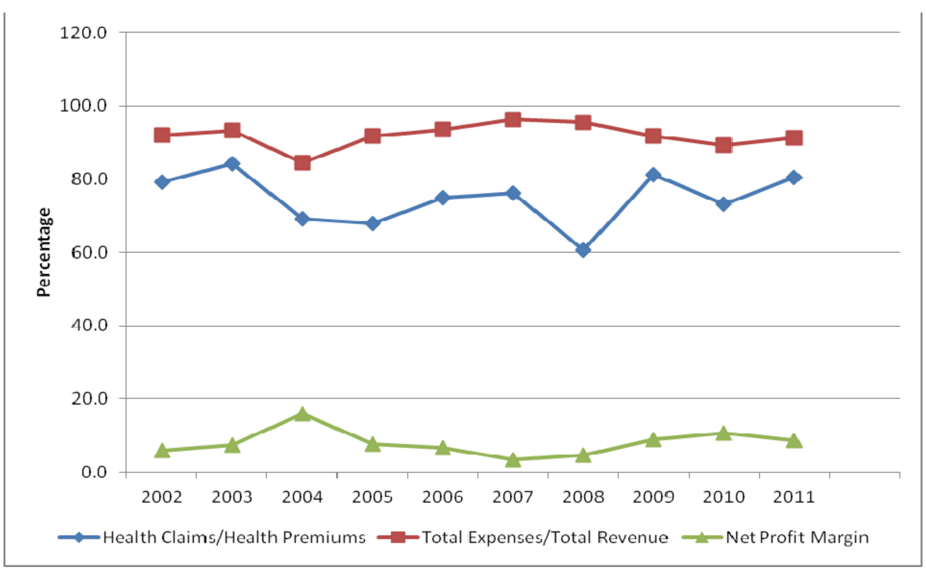


Figure 3: Selected Earnings Ratios, 2002-2011



based on the evidence provided, deems that such merger would be detrimental to policyholders.

Low Profitability

The theory also states that a highly concentrated market is conducive to high profits for a sustained period of time; however, this has not been the experience for the firms in the local health insurance markets. Figure 2 illustrates the corresponding levels and types of income expenses generated in the health industry for the review period while Figure 3 displays selected profitability ratios. From Figure 3, it can be observed that claims have consistently consumed at least 60 per cent of premiums and that expenses incurred in the industry account for over 80 per cent of revenue. Subsequently, net profit margin (NPM) is low indicating that from every dollar of premium very little goes to profit. In fact, only for two years did NPM go above 10 per cent; namely, in 2004 NPM was 16 per cent and in 2010, it was 10.8 per cent. It can be also seen from the diagram that with the entry of a new firm in 2005, the profitability for the health industry fell until in 2008, when it increased.

Besides regulatory requirements, there is freedom to enter and to exit the health insurance industry. These regulatory requirements are the same for all life insurers regardless of which line of business the life insurer pursues. Therefore, the other life insurers are free to enter the health insurance industry. The thin profit margin could be a justification for the small number of firms in the industry. That is, the profit margin does not entice a new entry in the industry. Other reasons why health insurance may not be as attractive as the other lines of business to existing and new insurers include, but are not limited to, the following:

i. While the health insurance premiums accounted for 48 per cent of life insurance premiums in 2002, since 2006 health insurance amounts to only 35 per cent of all premiums for life insurers.

ii. Health insurance premiums over the period have grown at an annual compound rate of 10.6 per cent while combined premiums for other lines of business in the life insurance industry grew at a 17 per cent annual compound rate.

iii. Over the 2002-2011 period, net income from the health insurance line of business as a percentage of combined net income for all lines of business for life insurers falls in the range of six to ten per cent.

iv. While the net profit margin for the health insurance business is thin, the combined net profit margin for the other lines of business ranges from 25 to 40 per cent.

Emerging Schools of Thought

Financial markets around the world are becoming more and more concentrated, given the worldwide trend of (i) consolidation of financial entities through mergers and acquisitions, (ii) increasing number of financial conglomerates spanning the full range of financial services, and (iii) the blurring of the boundaries between financial products. While many have seen this development as a loss to competition, there are those who have questioned this view. These persons argue that traditional measures such as the number of institutions, concentration ratio, the HHI and net profit margin are limited and that one should also examine the actual behavior of firms[5]. Another school of thought is that unlike other sectors, vigorous competition is not unambiguously good for the financial sector. For example a study done by the National Bureau of Economic Research of the United States of America found that high concentration leads to high stability in the banking industry[6].

Conclusion

While the Jamaican health insurance market is concentrated, there are factors that enable the market to be competitive. Two of these factors are the absence of barriers to enter and exit as well as low search and switching cost. Concentration of the market is driven by low profit margins, the risky nature of business as it relates to claims and high medical inflation.‡

Article contributed by the Financial Services Commission.

Endnotes

[1]It was under the new Insurance Act (2001) that Blue Cross of Jamaica Limited was registered as a life insurance company.

[2]Generally markets with an HHI less than 1,000 are not considered to be unconcentrated while markets with an HHI between 1,000 and 1,800 are said to be moderately concentrated. Markets with an HHI above 1,800 are deemed to be highly concentrated.

[3]The percentage market share displayed in Figure 1 is based on gross premium written (GPW).

[4]Sections 31 to 35.

[5]2008, StijnClaessens, IMF, ***Competition in the Financial Sector: Overview of Competition Policies*** Online: http://www.imf.org/external/pubs/ft/wp/2009/wp0945.pdf

[6]See ***Concentration in the Banking Industry***. Online: http://are.berkeley.edu/~sberto/Banks07.pdf

Jamaica: Poised for Maritime Takeoff

Jamaica has long been the hub of Caribbean maritime transportation due to its unique geographical position and developmental policies that have over the years given rise to a broad-based maritime infrastructure. Jamaica has a rich maritime heritage and enjoys an enviable strategic position on the global shipping map, being the 4th best connected port of 180 ports in the region. The potential of the maritime sector is greater now than ever before and Jamaica possesses the necessary prerequisites to have an even stronger and sustainable maritime sector over the long term.

Current trends in international shipping, as described by United Nations Conference on Trade and Development (UNCTAD) in its review of maritime transport for 2011, reveal that there is slow but gradual recovery from the economic crisis coupled by changes in traditional economic relations and emerging markets in developing countries in Asia and Latin America that will influence trade and economic relations for the future.

World seaborne trade is expanding, especially in the dry bulk and container trades fuelled by the participation of developing countries, described by UNCTAD as a catalyst for growth as a source of both supply and demand which has helped to drive the global economic recovery.

Jamaica is one such country positioned strategically in a number of ways to take advantage of shifting world trade trends. Jamaica is located astride important intersecting sea trade routes including the shipping lane for the Panama Canal set to double its capacity by 2014. Also, Jamaica's close proximity to the dominant North American market as well as the emerging markets of Latin America has increased the potential for Jamaica to become a formidable player in logistics and supply chain management.

Jamaica has, over the years, been progressively developing its maritime infrastructure as a Flag State, Port State and Coastal State. This comprises container, cruise and bulk cargo ports; maritime administration, ship registration, seafarer training, bunkering and other allied services.

With more than 90% of Jamaica's exports and imports being carried by ship, this vital trade is catered for by its growing port network which handles cargoes destined to and from North, Central and South America, Europe and Asia.

The container terminal at the Port of Kingston has undergone large expansion in capacity in recent years to handle growth both already realized as well as that which is projected in coming years. Montego Freeport in Montego Bay also handles a variety of cargo, particularly agricultural products.

On the social shipping scene, Jamaica is a preferred destination for cruise shipping. Development in cruise terminal facilities has resulted in the opening in 2011 of a new cruise pier capable of accommodating the new Genesis class of mega cruise vessels which can carry 10,000 passengers and crew.

These activities are strategic and essential not only for Jamaica in terms of employment and foreign exchange earnings, but also for other states in the region whose trade and well-being are supported through the network of feeder services offered at the Kingston Container Terminal.

Further, the establishment of the Maritime Authority of Jamaica in 1998 has consolidated Jamaica's position as a leading participant on the international shipping stage, playing an important role within the International Maritime Organization and disseminating this knowledge throughout the wider Caribbean area.

Against this backdrop of modern maritime legislation, a maritime administration which ensures Jamaica meets its international, regional and national maritime obligations; well developed and efficient port facilities; a quality maritime training institution, Jamaica is well poised to take advantage of current trends in international shipping, the most anticipated being the imminent opening of the larger Panama Canal. The next 'logical step' therefore is the establishment as a regional shipping center, promoting a comprehensive "one stop shop" concept thus satisfying the demand for global-standard logistics capacity in the Eastern Seaboard and Latin American and the Caribbean.

Further, the Government of Jamaica has pledged to create a favorable economic and regulatory framework to facilitate the growth and development of its services to the international shipping industry and thereby fulfill the nation's shipping center ambitions. The implications for the maritime sector and Jamaica are clear. Pursuit of the shipping center strategy has the potential to diversify the country's workforce and broaden its economic base by opening a whole new spectrum of maritime activities and jobs in a wide range of maritime areas. Imminent areas of development include: terminal operation; crewing; oil testing laboratory; waste reception facilities; logistics; ship registration; petroleum products and bunkering; dry docking, including floating dry dock; and surveying. These maritime sectors are both catalysts for further businesses as well as ancillaries within a successful shipping centre. Countries such as Dubai are capitalizing on its strategic location in the south of the Persian Gulf and aims to establish itself as a world class transport and logistic hub by 2015 leveraging such factors as government stability, support and partnership with private sector, infrastructure development, human capital availability and a competitive business environment.

In this region, Panama is further deepening and strengthening its position as a hub with the expansion of the canal and its free zone area and the accompanying investment in ancillary services, the development of its port facilities, entry into strategic trade agreements and the introduction of incentives to encourage business.

Jamaica will capitalize on the country's advantages in maritime matters with the implementation of the shipping and logistics hub initiative.

The potential exists for the country to become a formidable player in international shipping services, but this must first be embraced holistically. The country is currently embarking on a comprehensive review of its strengths, weaknesses, opportunities and threats in consultation with key players in the government and the private sector. Although Jamaica has a strong foundation, much more needs to be done by way of developing a more integrated transportation infrastructure linking sea, air, road and rail; development of the requisite human resources for the specific skills that will be needed; a wider regulatory framework and administrative processes among others.

This will allow the nation to benefit from increased trade derived from the expanded Panama Canal and the US$880 billion economic stimulus package by Brazil in preparation for the World Cup in 2014 and the Olympics in 2016. However the process needs to be fast tracked to ensure the benefits are realized, cognizant of what delay will mean.

Article contributed by the Maritime Authority of Jamaica.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Is Jamaica's Insurance Sector Competitive?

By Cedric E. Stephens

Many persons contact me regularly about insurance. This is because I write a weekly column, **Insurance Help-Line**, in *The Sunday Gleaner*. I have done this for the past 15 years. The questions and/or problems that consumers pose or encounter daily are the raw materials for the articles. Life, health, motor, household, liability and other kinds of insurances are the main things I write about. Researching and writing articles involves keeping in constant touch with insurers, intermediaries (brokers and agents), the industry regulator, the Financial Services Commission (FSC) and the lobby group, the Insurance Association of Jamaica (IAJ). These interactions give me a broad view of how the market operates the extent to which buyers have choices and insights into the prices of insurances.

The perspectives I have gained as a columnist plus my four decades of industry experience as an insurance professional and a consultant give me the credentials to try to answer the following questions: 1. *How competitive is Jamaica's insurance sector*? 2. *If a state of competition exists, do consumers benefit*? To provide balance to the opinions that I will express the views of an insurance buyer's representative, those of other insurance professionals and an executive of the industry lobby group will also be presented.

This article is written against the background of a recent *Guardian* newspaper report in which it was stated that the UK's Office of Fair Trading (OFT) had asked the Competition Commission to "investigate the private motor insurance market to determine whether drivers are being hit with artificially high repair and car hire charges." There are nearly 120 motor insurers in the UK. Jamaica now has nine companies that write motor insurance. Two of these companies are expected to merge their operations shortly; this will reduce the number of insurers to eight.[1]

The insurance market structure

Insurers, insurance agents and brokers - and lately, some banks - sell financial security, protection or peace of mind. These are the main contact points that consumers have. These points of contacts occur mainly when individuals seek coverage information, are about to buy products or policies that insurers sell, make claims or purchase a major asset like, for example, a house or a motor vehicle. According to the FSC website, at July 6, 2012, seventeen insurance companies held licences to trade. Six sell life, or in the regulatory jargon, ordinary long term insurance. Ten offer non-life (or general) insurance. The remaining entity, referred to in the Insurance Act as an "association of underwriters", is the London-based Lloyd's. This market can be accessed only through accredited brokers.

Insurers offer coverage under seven classes of business that are designated in the Insurance Act. Scores of products or policies are marketed under those headings. Products are also sold or claims are made through a network of 14 insurance agents, the insurers' representatives, and 24 brokers. The latter are client advocates. Unlike agents, they are expected to be independent professionals who act in the best interests of their clients, the buyers.

Who owns insurance companies in Jamaica?

Two of the six registered life insurers are Jamaican-owned. Two of the foreign-owned insurers are subsidiaries of companies that are based in CARICOM countries; and a Canadian financial institution is the ultimate parent of another. The sixth is an affiliate of a credit union. In the non -life segment, one insurer is the local subsidiary of an American insurance group, seven are owned by local interests and two are the Jamaican subsidiaries of Trinidadian interests. CARICOM-owned companies dominate the life segment which in 2010 recorded gross premiums of $26.2 billion and held total assets of $190.7 billion.[2] Locally-owned non-life insurers controlled 75 per cent of the $27.6 billion market and own about the same share of its total assets of $48.2 billion at December 31, 2011.[3]

Regulation and competition

Entry into the local insurance market requires an FSC licence. However, "the insurance industry is not a single market governed by a single regulatory regime, but a number of separately regulated, related markets."[4] The level of regulation and competition in each of the seven classes can differ markedly. For example, in the case of health insurance, there are only two companies that cover groups. The market for compulsory third party liability insurance for some public passenger vehicles has all but disappeared with only one company offering coverage.[5] Property insurance is largely unavailable for some low-lying areas in coastal regions and to occupants of certain urban areas due to perceptions of high risk. Finally, some life insurance products compete with products offered by affiliates of commercial banks.

Section 20 of the Insurance Act and Part XIII of the Insurance Regulations allow locally registered insurance entities to place insurance business with unregistered foreign insurance companies under certain specified conditions. Two of the three prerequisites for access to foreign markets are that: (a) "the insurance coverage should not be available in Jamaica"; and (b) transactions must be approved by the Financial Services Commission.[6] Are these conditions an implicit admission of market failure by the authorities?

Is the market competitive?

The Government of Jamaica (GoJ) and its many agencies/ companies are significant players in the $50-55 billion insurance market. GoJ has developed detailed policies and procedures regarding how insurance and insurance services are bought.[7] These measures were developed on the premise that the insurance market is competitive. The General Counsel of one agency, when asked about the state of competition, had this to say: *The authority has definitely benefitted from a competitive environment with respect to the placement of its insurances. Brokers and insurers have been forced to become more creative and to seek better rates … We have experienced reduced rates for the renewal periods and a more proactive approach taken … in the structuring of the portfolio … (It) has also resulted in a higher level of customer service …".* These comments have, significantly, not indicated whether the insurances have delivered on their promises to pay when the insured events have occurred.

Motor premiums represented the biggest share of the non -life market segment or 48 per cent of total premiums in 2011. Premiums for other classes of risks, which include coverage against earthquakes, floods and hurricanes, (natural disasters to which Jamaica is acutely exposed) and fire, accounted for 42 per cent of total premiums. In analyzing the state of competition in the local market, Harold Wong, Senior underwriting manager of Advantage General Insurance Company opined that; "*The motor market in general is more … competitive … The property market tends to be less competitive as rates are determined by reinsurers; the majority of insurers use the same reinsurers …".* Typically, local insurers retain more of the premiums they collect from the buyers of motor insurance. On the other hand, they cede between 80-90 per cent of property premiums to overseas reinsurers. The cost of reinsurance is therefore a key element in the retail price of property insurance.

Orville Johnson, IAJ's Executive Director, argues that, "the insurance industry has remained one of the most competitive businesses in Jamaica." Insurance companies, he says, "for the most part, are members of competing financial groups providing a wide range of financial services …(those) services/products have become commodities … any new product idea can be duplicated by the competitor within … months." He cited roadside assistance, a motor policy add-on, and critical illness insurance on life segment as evidence of the effectiveness of competition. The former is now a standard offering "on all motor policies" months after it was introduced by one insurer. Critical illness insurance was first introduced into the market as a "cancer plan." When it morphed into its present state "even bank assurance companies who were primarily involved in investment–linked insurance plans," entered the fray. This "competitive environment redounds to the benefit of consumers in the long run," he stated.

Marketing Manager of British Caribbean Insurance, Simone Foote expresses the view that "… *competition is essential for business success. It inspires businesses to keep doing better in order to increase or retain market share (and) often results in better prices, increased benefits, greater accessibility or an enhanced product selection for consumers – a classic win/win equation."* It affords us, she continues, "*the opportunity to zero in on less recognized market segments which traditionally may have been viewed as unviable within the marketplace. Hand in hand with market research, we are able to discover non-standard markets, frowned upon by competitors or categorized as unfeasible, that could create a competitive edge for consumers whilst profiting business."*

Conclusion

The extent of competition in the local insurance market varies from product to product. The inability of individual buyers to understand and compare the various terms and conditions in insurance contracts is a major obstacle to competition. Brokers, who reportedly control about 40 to 50 per cent of the market, have tended to focus on selling activities as opposed to performing advisory and support functions. The industry regulator has shown a preference to focus almost exclusively on prudential regulation – to the detriment of market conduct regulation. As a result, there are no requirements, for example, that insurance contracts should be written in clear and simple language that the average person would understand. Under these circumstances, competition between insurers for the average individual insurance buyer will not be as effective as it should be and this will continue to lead to nasty surprises when insured events occur. Insurance contracts, after all, are expected to provide a degree of certainty in the face of

Cedric E. Stephens is an insurance industry specialist, researcher, writer and consultant who is based in Kingston. He can be reached at aegis@cwjamaica.com.

Endnotes

[1]See "Guardian to Synergise Globe, WIA Operations," The Gleaner, September 12, 2012.
[2]Source: IAJ Handbook 2010.
[3]Source: IAJ 2011 non-life statistics.
[4]OECD: "**Competition and Related Regulation Issues in the Insurance Industry,**" **1998.**
[5]In Trinidad & Tobago, in contrast, five of the 18 insurers that wrote motor insurance in 2009 provided 90 per cent of third party coverage for maxi taxis and taxis, according to *The Trinidad Express* dated June 1, 2011.
[6]Source: FSC information Bulletin, *Procedure for Placing Insurance Business with unregistered Insurers, IR –GUID-03/12-0005,* August 17, 2004.
[7]See Volume IV *Second Revised Handbook of Public Sector Procurement Procedures.*

Food Retail Pricing and Competition in Jamaica: *A CAC Study*

Introduction

What makes a market competitive? Economic theory tells us that for a market to be competitive, buyers and sellers are essentially price takers and price changes are usually in response to changes in supply and demand. In perfectly competitive markets, both buyers and sellers have absolutely no effect on price due to the presence of the following factors: zero transaction cost in accessing price and product information, consumers do not view much difference within product categories (e.g. yellow yam is yellow yam regardless of where it is grown), and thirdly, there are a large number of sellers, each of whom account for a small fraction of the market supply. When all these three factors are present, consumers have many options to buy from the supplier that offers the lowest price. No firm can charge more than the price offered by other suppliers – the market price – without losing virtually all of its customers.[1] In real world markets which operate as close to the economic theory, almost all products have close substitutes, and therefore, if the price of one product increases beyond a certain tolerance, a consumer /buyer could simply choose a cheaper substitute. Consumers usually face some transaction costs (however minimal) in accessing information on prices and products; and though there may be a large number of suppliers in a country, pockets within the country may have more or less suppliers than others.

We have observed evidence that the Jamaican food market is imperfectly competitive, as suppliers have been able to differentiate products based on brands and source – local versus imported, shops /wholesales versus supermarkets, uptown versus downtown, etc. There is also the challenge of asymmetric information where there are knowledge gaps (for example, sellers have more information on product quality than buyers) and consumers' choice is influenced by persuasive marketing. Salop and Stiglitz (1977)[2] in discussing price discrimination as a factor in competitive price dispersion highlighted the difference in the behaviour of informed and uninformed consumers, the former being price conscious and therefore selecting the lowest priced stores, while the latter usually selects a shop at random. Also to be considered is the fact that consumers have varied levels of sensitivity to price changes.[3] These key factors largely impact consumer behaviour in regard to satisfying their basic need for goods and services.

In this article, we seek to highlight some of the key factors influencing the relationship between product prices and the number of supermarkets in a given geographic region. We will therefore focus specifically on two nuances of the local retail food distribution market: (i) the number and type of competing retailers in each location; (ii) the extent to which the number and type of retailers influence the pricing strategy of the players.

Methodology

The Consumer Affairs Commission's (CAC's) Grocery Price Monitoring exercises date back to the year 1978. These exercises originated from the Agency's mandate to protect Jamaican consumers from unfair business practices in the marketplace and to empower consumers to make smart and informed shopping decisions. Currently, in excess of 100 outlets are surveyed twice each month. Approximately 80 per cent of these are supermarkets and the remaining 20 per cent comprises shops.

The study includes a sample of 14 supermarkets in four major urban centers in two parishes: Spanish Town (5) and Portmore (3) in St. Catherine and Liguanea (4) and Half Way Tree (2) in St. Andrew. The study focuses on thirteen basic food items,[4] the prices of which have been tracked since 2003. The advantage of limiting our analysis to this group of food items is twofold: firstly, we have reliable, high frequency data series on retail prices of these goods as they have been continuously tracked by the CAC. Secondly, focusing on the most prominent basic food items implies that a greater cross-section of Jamaicans will benefit directly from policy interventions which seek to improve the efficiency in which the items are distributed in Jamaica.

The geographical locations identified were selected based on the fact that they shared a common characteristic, in that, each urban center had in excess of two major supermarkets located reasonably close to each other. It is assumed for each location that the supermarkets dominate the market share in spite of the number of small retail shops and wholesales located in and around each area. It is further assumed that where the supermarkets account for a large fraction of the market supply, competition is strong amongst the supermarkets themselves and that supply and price changes amongst other retailers (retail shops and wholesales) do not significantly impact the pricing strategies of the major supermarkets.

The average prices for each location were compared over a period of twelve (12) months: January - December 2011.[5]

Results and analysis

The results were very interesting. It was found that the highest prices consistently occurred (11 out of 12 months or in 92 per cent of instances observed) in the Half Way Tree (HWT) area where two supermarkets were located, both belonging to the same chain. Over the 12 month period, it was also observed that in a majority of the months (8 out of the 11 month or in 72 per cent of instances observed), the majority of the products observed (54-70 per cent) recorded no differences in prices between the two outlets. Where there were price differences, the disparity ranged between 1 and 23 per cent on average. There was therefore little competition between these two supermarkets which resulted in its high average prices.

It was also observed that Portmore (where only two of the supermarket outlets were located within 1 kilometer of each other, while the others, some 4 – 6 ½ kilometers away) consistently recorded (10 out of 12 months or in 83 per cent of instances observed) the lowest price averages across the four urban centers compared. The average disparity amongst these outlets was 9 per cent, the maximum disparity between 17 and 36 per cent.

Liguanea and Spanish Town were the locations which had the majority (9 of 14 or 64 per cent) of the outlets; the outlets in the Liguanea area are however more closely located, i.e., within 1 kilometer radius of each other while the Spanish Town outlets were located within 2 to 4 kilometer radius of each other. Within the Liguanea area, it was observed that the average price disparity amongst the products under review was 9 per cent, with maximum disparities ranging from 21 – 41% on very few items. The average price disparity recorded amongst products in the Spanish Town area was 13%, with maximum disparities ranging from 18 – 60 per cent on some products. It was however observed that the average prices in Liguanea were in some instances (2 out of 12 or 17 per cent), slightly lower than those in the HWT area, and in one instance, Liguanea actually recorded the highest price average across the four regions. The converse was true for Spanish Town where in two instances, the average prices observed were slightly below the average prices observed in Portmore.

The data suggest that supermarket prices are more competitive where the outlets are more closely located. Additionally, high prices are observed where outlets are fewer, especially where one outlet exists or more than one belonging to the same chain. It is interesting to note however, the differences in the average prices across regions. More research is needed to evaluate the reason for Portmore having the lowest price averages, and why in Liguanea, where more outlets exist within a smaller geographical location, prices are not lower but rival that of those which were recorded in HWT which had two outlets from the same chain. Market and product differentiation and consumer taste and loyalty could be factors that impact the pricing strategy of many supermarkets in the corporate area, as many Jamaican may make decisions based on the prestige of where they shop.

Conclusion

The study was restricted to observing price dispersions amongst a number of major supermarkets within and across four geographic locations. It revealed that the factors behind supermarket pricing strategies are indeed complex and are clearly not linked to the number of outlets in a given geographical region alone, but largely on the nature of the market (including culture and consumer behaviour) within which they operate. Further in-depth study is therefore needed to examine the extent to which, if any, the cost of information gathering on prices and products and the cost of doing business (rental, security, etc.) impact the pricing strategy of competing outlets. We also cannot exclude the possibility that other suppliers, for example, in Portmore, where the largely residential community has a number of large wholesales and numerous small community shops, compete with the supermarkets for customers. Additionally, some consumers will tolerate a certain level of increase within reason but may move their business elsewhere if they have the information as to where the product is available at a lower price. Also, not all consumers base their purchasing decisions solely on price, but on convenience, the shopping experience and often in Jamaica, one's social status. These other factors will need to be explored to better understand the actual influences behind food retail pricing in supermarkets in Jamaica.

The CAC believes that an informed consumer is a powerful one. Therefore, with a view to assist the consumers whose purchasing decisions are largely influenced by the price of the product within a particular location, the Commission continues to conduct and publish price surveys on various essential consumer goods. The CAC's price surveys play an important role in reducing the transaction cost of related to accessing the price of grocery items amongst competing supermarkets within and across parishes. Consumers can therefore obtain price information at little or no cost to assist them in making informed choices.

The Commission is dedicated to leading change in society, towards a population of knowledgeable, vigilant, assertive and discriminating consumers through a consumer protection framework with initiatives aimed at safeguarding the rights of consumers. This is achieved through demanding fair rules in the conduct of business which protect the interest of consumers and providers. Competition law is insufficient to generate the level of protection consumers need to operate from an empowered position while conducting business transactions. Additional consumer protection regulations are therefore necessary to strengthen the consumers' ability to demand efficient markets which produce goods and services at fair prices. Therefore, we argue that well-informed, vigilant consumers are good for the economy. The CAC will continue to play its role in leveling the playing field, as we seek to remain relevant in changing times.‡

Article contributed by the Consumer Affairs Commission.

Endnotes

[1]Bernheim, B.D, & Whinston M.D (2008).Microeconomics. McGraw-Hill Irwin

[2]Salop, S &Stiglitz, J (1977). Bargains and Ripoffs: A Model of Monopolistically Competitive Price Dispersion. Blackwell Publishing

[3]Referred to in economic theory as *Price Elasticity of Demand*. This is the degree to which consumers' quantity demanded or a product changes in response to a change in its price. Products tend to have more elastic demands when they have closer substitutes to which consumers can switch in response to a price increase.

[4]The food items are corned beef, canned mackerel; canned sardine, salted fish, whole frozen chicken, sweetened condensed milk, powdered milk, cooking oil, dark sugar, bulk rice, bulk cornmeal, bulk counter flour, and bread.

[5]Consumer Affairs Commission Grocery and Agricultural Price Surveys, January 2011 – December 2011.

Measuring Jamaica's Progress 50 years after Independence

By Kevin Harriott

On August 6, 2012, Jamaica reached a noteworthy milestone—fifty golden years of political independence. Many social commentators thought it fit to recognize this achievement by recounting the progress made by the island state during the period of independence. Jamaica has produced world leaders in music (roots, rock steady, reggae, dance hall), culture (local dialect, rastafarianism), food & beverage (jerk spice, blue mountain peak coffee) and sports (athletics, cricket).

While these are examples of individual brilliance on the part of sons and daughters of the soil, they are not useful indicia of Jamaica's systematic progress since independence. To appreciate a better indicator of our progress, we need only recall the challenge articulated by National Hero and one of the founding fathers of Jamaica, the Right Excellent Norman Manley. In the 1970s, Mr. Manley stated that his generation achieved political independence and challenged the next generation to secure economic independence. Economic independence is indeed a reasonable measure of progress since it is primarily through the acquisition of goods and services available via the economy through which the welfare of the society is enhanced.

Some commentators have attempted to measure Jamaica's economic progress by comparing the economic reality prior to Independence Day, August 6, 1962 with the economic reality post Independence Day. Others have attempted to measure Jamaica's economic progress by comparing Jamaica's economic performance with the economic performance of other Caribbean Community (CARICOM) member states. These measures of progress might seem appropriate but are nonetheless conceptually flawed. The ideal measure of Jamaica's economic progress is a comparison of Jamaica's actual economic performance with that of a hypothetical economic performance had Jamaica realized economic independence. To measure Jamaica's economic progress, therefore, we need a proper benchmark of economic independence against which to compare.

Unfortunately, Mr. Manley was silent on what constitutes economic independence. Certainly, we can think of no better definition of economic independence than follows:

> "*A nation experiences economic independence when its scarce productive resources are employed throughout the economy in a manner that maximizes the benefits generated for the society.*"

By productive resources we refer to the factors of production: natural resource, labour, capital and entrepreneurship. By natural resources, we speak of the resources such as prime agricultural land, scenic beach fronts, renewable energy sources, etc. By labour, we refer to developing a labour force of educated and therefore trainable individuals. By capital, we refer to all man-made objects, building and machinery. By entrepreneurship, we consider the business talent of Jamaicans; persons with ideas, from conception to implementation.

A watershed moment in the struggle for economic independence was observed in the 1990s when Jamaica paved the way for competition to organize the island's productive resources. In particular, during the 1990s, Jamaica liberalized most of its industries and established the Fair Trading Commission as the national competition authority. This was a significant step because it has been shown conceptually and by the documented experience of other nations that no other method of organizing economic activity has generated greater societal surplus than that generated by competition. Competition, therefore, is an ideal benchmark against which we can measure economic independence.

By allowing the forces of competition to direct production throughout the economy, and establishing an independent body to safeguard competition, Jamaica installed critical components of an institutional framework that is required to realize economic independence. At this point in our history, however, there remains a deficit in the cultural framework for competition which is impeding us from consolidating the gains made in the institutional framework.

The war for economic independence will be fought on numerous battle grounds with each battle ground coinciding with the numerous industries that are established to produce, to deliver the goods and services consumed in Jamaica. The more of these battles that we win is the closer we'll get to economic independence.

In terms of a progress report on how we are doing, we are winning the battle in a few industries – the telecommunications sector is a good example, but there are others. In terms of the minus columns, the electricity is an example where Jamaica is losing the battle for economic independence. In arriving at this position, we note the expressed dissatisfaction with the sector. This expression has come in the form of outcries - excessively high prices in the sector, poor quality of customer service or unreliable power supply. These expressions of dissatisfaction are not isolated. It has broad-based support. The consensus is among residential and business end-users. Further, it has been going on for a protracted period. We interpret these expressions as only the start of the struggle towards economic independence in this industry.

In concluding, I would argue that although Jamaica has made significant strides since 1962, we are not quite in a position to claim that we have achieved economic independence.‡

Dr. Kevin Harriott is the Competition Bureau Chief at the Fair Trading Commission.

The Effect of Competition on the Used Car Industry over the last Decade

For one to better appreciate how competition has impacted the used car industry in Jamaica over the last decade, it would be better to have an understanding as to where the industry is coming from. In 2002 there were 54 licensed used car dealers as reported by the Trade Board; and in 2012 the number stood at 172. The decade of growth for the industry was not without challenges. The 2010 through 2011 period, proved to be one of the most challenging faced by the industry.

The continuous strengthening of the yen against the US dollar, international competition, high duty structure, age limit on imports and the March 2011 earthquake and tsunami in Japan, were main factors which contributed to the industry's challenges. The new and used car industries internationally felt the impact of the disaster. The new car manufacturing plants suffered damages which led to a great shortage of new vehicles for the domestic market. This forced the consumers in Japan to either hold their used cars or purchase newer used cars. Additionally, high unemployment and economic uncertainty constrained other overseas used vehicle sales, as owners held on to their vehicles as well, instead of trading up.

The industry saw vehicle prices soaring to an unprecedented high. The scarcity of affordable used vehicles on the international market, led to increased prices. Jamaican used car dealers in some instances were selling at the same price as their new car counterpart. Consequently, used car dealers experienced significant sales decline, increased competition among themselves as well as increased competition from new car dealers. As a result, over 20 dealerships stopped operating, as smaller dealers found it difficult to find cars at competitive prices to keep their business afloat.

The first quarter of 2011 saw the industry in distress. It was saved by the government reduction in import duty in March 2011. The strong lobbying from both the Used and New Car Dealers Associations were primarily responsible for the reduction in duties. The new duty structure not only saved the industry from collapse, it transformed Jamaica from having one of the highest duty structures in the region to one of the lowest in the region.

Additionally, the significant reduction in government revenue from the used car industry and the strong lobbying from the Jamaica Used Car Dealers Association, led the government to amend the motor vehicle import policy. This was another lifeline for the industry. The motor vehicle import policy amendment, allowed for the importation of motor cars up to five years old from three years, and light commercial vehicles up to six years old from four years. This move saw the dealers importing cars that were much more competitively priced.

Consumers have benefitted from competition in the used car industry. The benefits over the last 10 years are substantial, both in terms of car prices, better quality vehicles and the overall customer service experience. In an environment where consumers have more choices and are much more demanding, meeting customer demands became of vital importance to the industry.

Current data on the automobile industry indicates that car prices are much lower than they were a few years ago. This provides opportunities for easier entrance in the market. Arguable, with more dealers in the market, covering a wider geographic area, more Jamaicans are able to shop for motor vehicles closer to home. Based on the analysis of the data provided by the Trade Board of Jamaica website, the parish of St. James had only one licensed automobile dealer between 1995 and 2005. The parish now has 14 licensed dealers with 4 being added in 2012. Westmoreland in 2000 had 2 licensed use car dealers. To date they have 7 dealers with 3 of them being added in 2012. Overall, the data revealed that 46 new licensed used car dealers entered the industry in 2012.

This augurs well for the outlook of the industry and the consumer welfare. The more dealers, the more choices consumers have when purchasing a motor vehicle. Consumers have also become more knowledgeable and more demanding about the safeguarding of their rights. They are demanding better prices and better quality vehicles. In a fierce competitive used car market, consumers know the power they possess. In many instances consumers are negotiating strongly with the dealers to obtain lower prices. Accordingly, dealers not wanting to lose the sale will sell at significantly reduced margins.

The improved car qualities as a result of increased competition and tighter regulation from the respective regulatory bodies have left the Jamaican public much safer. In the past, the purchase of a motor vehicle was a risky business. The burden on the unsuspecting consumer wanting to purchase a vehicle was great with few players in the market. This resulted in fewer choices for the consumer. Individuals were sold refurbished, damaged vehicles. Incidences of this occurrence and other customer irritants have decreased significantly as the industry grows and competition heightens.

The Fair Trading Commission data on the number of complaints made against both new and used car dealers indicated a decrease over the period under review. The number of complaints for Financial Year 2001/2002 stood at 146 while for Financial Year 2011/2012 the Commission received only 44 complaints. It is worthy of note that in 2005, there was a Ministry policy which directed that some type of complaints went to the Consumer Affairs Commission.

Consumer trends over the period under review indicate that consumers are savvier. They are not just purchasing a basic motor vehicle anymore. Automobile Dealers see customers demanding more after sale service and accessories for their vehicles. This has led to an additional income stream for those dealers who have responded to the demands. In view of that, dealers who do not want to be left behind have enhanced their service delivery to remain competitive.

New technological trends, greater accessibility to the Internet and increased focus on accessibility and security have left dealers looking for ways to constantly update themselves to compete effectively in the market and remain relevant. Owing to the increased level of competition in the market, dealers are trying to meet and surpass these customer demands and expectations.

The increased competition has also changed the perception of consumers of the industry, which was once plagued with unscrupulous characters selling out of brief cases and swindling consumers out of their hard earn money. The market is still growing and still has more room for growth. Keeping in sync with customer demands is of paramount importance to the future success of the industry along with sound government policies and strong regulators.

Article contributed by the Jamaica Used Car Dealers Association.

FTC Statistics

Number of complaints received during the period April 1, 2010 - September 30, 2012

PRODUCTS AND SERVICES	Financial Year 2010/2011	Financial Year 2011/2012	April-September 2012
Automobile	32	44	21
Business Practices	1		1
Clothing/Accessories & Textiles	-	6	1
Computer	6	4	7
Construction/Home Repair Supplies	-	5	1
Education	19	17	7
Energy	9	2	2
Financial Services	15	18	4
Food/Supplements & Beverages	2	10	3
Funeral Supplies	-	-	-
Gaming & Contest	7	8	5
Gardening Supplies/Equipment &Horticultural Products		1	-
Government Services	3	3	-
Household Appliances & Accessories	12	7	8
Household Furnishings	7	5	1
Insurance[1]	13	1	2
Leisure & Recreation	5	3	4
Medical Supplies, Services & Devices	1	2	1
Office Furnishings/Equipment & Supplies	-	1	-
Personal Care	-	-	-
Petroleum Products & Accessories	2	1	4
Professional & Specialist Services	8	4	4
Real Estate	7	3	1
Telecommunications	109	69	5
Tourism	-	1	32
Transportation Systems	5	6	1
Utilities	1	7	3
Other[2]	6	8	4
TOTAL	**270**	**236**	**122**

[1] Includes Auto, Health, Life and Peril.

[2] Includes product areas such as Agricultural Products, Funeral Services, Auto Repair Services and Industrial Machinery & Products

Brain Teasers

1. In a small cabin in the woods, two men lay dead. The cabin itself is not burned, but the forest all around is burned to cinders. How did the men die?
2. A rooster lays an egg at the very top of a slanted roof. Which side is the egg going to roll off on?
3. Two women apply for a job. They are identical and have the same mother, father and birthday. The interviewer asks, "Are you twins?" to which they honestly reply, "No". How is this possible?
4. What is special about the following sequence of numbers? 8 5 4 9 1 7 6 10 3 2 0
5. There are six glasses in a row. The first three are full of water, and the next three are empty. By moving only one glass how can you make them alternate between full and empty?
6. If you were running a race and you passed the person in 2nd place, what place would you be in now?

Crossdoubt

Y P F I R A L

Sudoku

		4	1		3	9		
6			9			3		4
	2			5			7	
1				3				2
	7		2		1		9	
2				6		1		5
	5				4		1	
4		2						7
		1	6		5	4		

Crossdoubt

Instruction: Make two four-letter words from the seven letters given, using each letter only once.

Sudoku

Instruction: Fill in the grid so that every column, row and 3x3 square includes all digits from 1 to 9.

Solutions

1. It's the cabin of a plane and the plane crashed.
2. Neither, roosters don't lay eggs.
3. They are triplets.
4. The numbers are in alphabetical order. (eight, five, four, nine, one, seven, six, ten, three, two, zero)
5. Pour the water from the 2nd glass into the 5th glass.
6. You would be in 2nd place. You passed the person in second place, not first.

	P		
	L		
F	A	I	R
	Y		

5	8	4	1	7	3	9	2	6
6	1	7	9	8	2	3	5	4
9	2	3	4	5	6	8	7	1
1	6	8	5	3	9	7	4	2
3	7	5	2	4	1	6	9	8
2	4	9	8	6	7	1	3	5
8	5	6	7	9	4	2	1	3
4	9	2	3	1	8	5	6	7
7	3	1	6	2	5	4	8	9

TRADING

FAIR

COMMISSION