Nature and Extent of Competition in the Commercial Banking Sector

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LIST OF ACRONYMS

BNS … Bank of Nova Scotia Jamaica
BOJ … Bank of Jamaica
CAC … Consumer Affairs Commission
CBNA … Citibank N.A.
CR … Concentration Ratio
FCA … Fair Competition Act
FCIB … FirstCaribbean International Bank (Jamaica) Limited
FGB … First Global Bank Jamaica Limited
FIA … Financial Institution Act
FTC … Fair Trading Commission
HHI … Herfindahl-Hirschman Index
JDIC … Jamaica Deposit Insurance Corporation
JNBS … Jamaica National Building Society
NCB … National Commercial Bank Jamaica Limited
PCB … Pan Caribbean Bank Limited
RBTT … RBTT Bank Jamaica Limited
VMBS … Victoria Mutual Building Society

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EXECUTIVE SUMMARY

1. This report summarizes the key results of our study into the nature and extent of competition in the commercial banking sector in Jamaica. The aim of the study is to assess whether any bank or group of banks could be hindering competition; and recommend measures to enhance competition in the sector.

2. Particular focus is placed on fees charged on ancillary services offered by banks. These services include transactions relating to credit and debit cards, bill payment, wire transfer, manager's cheque, standing order and chequing accounts. The study also covers charges relating to minimum balance violation, in-branch withdrawal, cash deposit and dormant account.

3. The commercial banking sector is the core of an economy's financial system, supplying numerous financial services to households and businesses. Jamaica's commercial banking sector, which accounts for over 75 percent of the deposits held by the country's deposit-taking institutions, comprises seven banks. The main source of income for the sector is interest charges, which contributes between 60 and 80 percent to net revenue, while income from fees and commission contributes between 7 and 20 percent. Revenues generated through fees and commission for services are considerably greater than the reported expenses incurred in providing those services. This suggests that there is significant room to lower fees and still cover attendant expenses.

4. The larger banks have consistently secured approximately 75 percent of the revenue generated by ancillary services despite charging, on average, the highest fees and charges. There are significant differences in the level of fees charged by the larger banks compared to those charged by the smaller banks; and over the period 2005 to 2009 the gap has widened considerably suggesting that the smaller banks exert limited competitive restraints on the larger banks.

5. Parts I and II of the report provide an overview and a description of the sector while Part III covers an assessment of the key structural characteristics. Based on deposits, assets, branches and revenue, the main finding of Part III is that the commercial banking sector is highly concentrated, in that the two largest banks, BNS and NCB, together operate 85 of the 130 branches island wide and account for over 75 percent of the sector's revenue. Other findings are that there are important differences in the services offered by banks, with respect to convenience and/or accessibility; banks must have an expansive branch network to be competitive; and consumers are not adequately informed about banking services.

6. Part IV assesses the prospects for competition in the sector. The findings from the assessment are that: (i) it is unlikely that any individual bank, without collaborating with at least one other bank, could hinder competition; (ii) if Jamaica National Building Society, the country's largest building society, entered the commercial banking sector, its entry is likely to enhance competition in the sector; and (iii) without improvement in information available to consumers, they are unlikely to mitigate attempts by any bank, or group of banks, to hinder competition.

7. Given the disparity in the level of fees, and the observed lack of information on the part of consumers, there is significant room for promoting competition within the sector, with improvement in the flow of adequate information.

8. Accordingly, to improve the availability of relevant information so as to facilitate informed choices on the part of both consumers and service providers, the following are recommended:

    a. **Mechanisms should be put in place to ensure that banks provide adequate information on their services.**

9. To facilitate consumers making informed decisions, there must be improvements in the provision of information by the banks. The information provided should be such that it is easier for consumers to do comparative shopping for financial services. Banks should

(i) make consumers aware of the relevant fees prior to the consumer approving a given transaction; (ii) inform consumers of ways in which they can avoid or minimize fees and charges; and (iii) communicate clearly to customers the related services or situations under which the fees and charges would apply.

b. Facilities should be put in place to make it easier for consumers to access information about banking services.

10. There should be a central location housing comparable current information on fees and charges of all commercial banks. To ensure that the information remains current, commercial banks should be required to submit the information in a timely manner.

c. Mechanisms should be put in place to make it easier for banks to access customer information

11. A credit bureau should be established to better facilitate services which involve an assessment of creditworthiness, and where a historical relationship with banks is an important factor when a bank is assessing its exposure to risk.

I. INTRODUCTION

1. The objective of this study is to characterize the nature and extent of competition within the commercial banking sector in Jamaica, focusing on services ancillary to the sector's core function as a financial intermediary. The goal is to enhance competition within the sector since competition, more so than other means of organizing economic activities, provides the proper incentives for suppliers to meet consumers' demand for affordable, high quality services.

2. In recent times, the commercial banking sector has been the subject of market studies in several countries including South Africa (SA), United States of America (USA) and the United Kingdom (UK). A common finding of these studies is that the lack of information on the part of consumers is undermining competition in the sector. Not surprisingly, therefore, the commonly proposed remedial action is for banks to disclose information in a manner which would allow consumers to more readily compare, on an on-going basis, the characteristics and prices of available financial products and services.

3. One of the objectives of the study conducted in SA was to increase transparency and competition. The recommendations arising from that study include (i) the implementation of measures to facilitate easier price and product comparison and consumer switching; (ii) the implementation of measures to reduce the fee-burden to lower-income customers; and (iii) the imposition of price caps on penalty fees (Competition Commission, South Africa, 2008).

4. The study in the USA was precipitated by the seemingly excessive sums consumers paid over to banks in fees associated with savings and checking accounts. Among the objectives of the study was to determine the extent to which consumers were aware of the terms and conditions of their accounts. The main recommendations arising from the study were that regulators should (i) assess the extent to which banks disclosed fee information before consumers open accounts; and (ii) take the necessary steps to ensure that information is continually disclosed to consumers while they operate accounts.

5. In the UK, one study focused on the market for personal checking accounts. It found that while there was evidence of competition in the personal checking account market, competition

was limited to transactions involving the more visible fees, while excessive margins were being earned on those involving less visible fees. As is the case in SA, the UK's report indicated that lower-income consumers were more vulnerable to paying the higher fees (Office of Fair Trading, 2008). Another study focused on assessing the impediments to entering into, expanding within and exiting from the banking sector. It concluded that the greatest threat to competition arose from difficulties in attracting customers due to low levels of switching, consumer loyalty to specific banks and a strong consumer preference for accessing services via brick and mortar branches (Office of Fair Trading, 2010).

6. In Jamaica there has been heightened concern among consumers, the business community, media and policymakers regarding the perceived lack of competition among commercial banks. Specifically, there has been concern about the seemingly coordinated manner in which banks have, for example, (i) introduced fees for services which were traditionally offered without charge; and (ii) increased fees for other services.

7. The Fair Competition Act (FCA), Jamaica's competition legislation, examines two general classes of threat to competition: (i) anti-competitive unilateral conduct by a dominant supplier; and (ii) coordination ('collusion') among rival suppliers aimed at restricting competition.

8. Anti-competitive unilateral conduct is addressed under sections 19-21 of the FCA, which deal with abuse of dominance; while collusion is examinable under sections 17, 18 and 35 of the FCA. Section 17 addresses agreements that have as their purpose or effect the substantial lessening of competition in a market; section 18 covers certain aspects of exclusionary activities which serve to restrict competition; and section 35 deals with conspiracy among rivals to unduly lessen competition.

9. Competition concerns arise in instances where suppliers unduly exercise market power. Market power is defined as the ability of a supplier, or group of suppliers, to sustain its prices above the level that would prevail in a competitive market.

10. In assessing whether a single supplier could exercise market power, emphasis is placed on identifying factors which would mitigate such power i.e. the competitive constraints on the supplier's behaviour. These constraints can emanate from current competitors, potential

competitors or consumers. In assessing whether a group of suppliers could collectively exercise market power, consideration is given to factors that would be necessary to coordinate their activities, in addition to those factors that are considered when assessing single supplier conduct.

11. By focusing on the structure of the commercial banking sector, as well as the observed conduct of banks and consumers, the study:

a. assesses whether any bank, on its own, could unduly exercise market power;

b. assesses whether any group of banks could collectively exercise market power; and

c. recommends measures to enhance competition in the sector.

12. The mission of the Fair Trading Commission (FTC) is to ensure that markets are competitive, as competitive markets provide strong incentives for suppliers to be more efficient than their rivals, reduce their costs and innovate thereby contributing to productivity growth. Competition provides significant benefits to consumers through greater choice, lower prices and better quality goods and services relative to markets in which competition is absent.

13. The remainder of the report is organized as follows. Part II provides a general overview of the commercial banking sector, by highlighting some of the main services provided, the market participants and distribution of the branch networks. The section also provides an overview of the primary sources of income of banks, together with the level of pricing disparities among banks. Part III describes the characteristics of the sector. The section shows how these characteristics, cumulatively, directly influence whether and the extent to which competition prevails. In particular, the discussion focuses on (i) market concentration; (ii) entry and expansion conditions; and (iii) consumer awareness and preferences. The nature and extent of competition is documented in Part IV where the assessment of whether the characteristics of the industry are likely to promote competition by constraining the undue exercise of market power by individual banks or group of banks. Concluding remarks are presented in Part V; and Part VI lists measures to be taken to enhance competition within the commercial banking sector.

II. DESCRIPTION OF COMMERCIAL BANKING SECTOR

1. Services

14. The commercial banking sector is the core of an economy's financial system, which supplies numerous financial services to households and businesses. As financial intermediaries, commercial banks facilitate payments and the channeling of funds between lenders and borrowers. Banks raise funds by accepting deposits from households and businesses (lenders) and make loans to households and businesses (borrowers) from the pool of deposits. The primary assets of banks are loans and bonds and their primary liabilities are deposits.

15. In addition to extending loans, banks raise funds by imposing fees and charges for numerous ancillary financial services. These services include bill payment, wire transfers, manager's cheques, standing orders, direct deposits, withdrawals, chequing accounts and debit and credit cards related transactions. Consumers access these services primarily via branches. Some of these services, however, are accessible at secondary points such as Automated Teller Machines (ATMs), telephone and the Internet.

16. Banks earn revenue also from imposing penalties on activities such as minimum balance, dormant account and credit card limit violations.

2. Suppliers

17. Commercial banks, building societies and merchants banks are the only institutions licensed to hold deposits in Jamaica, as per the Financial Institution Act (FIA). These deposit-taking institutions are the only policyholders of the Jamaica Deposit Insurance Corporation (JDIC); and therefore only their depositors have some protection from the JDIC against bank failure.[1] Funds held in other institutions, such as credit unions and money market brokers, are not covered under the JDIC. This facility therefore places commercial banks, building societies and merchant banks at a distinct advantage over non deposit-taking institutions, to the extent that consumers value the protection.

18. There are seven commercial banks, four building societies and three merchant banks operating in Jamaica. The commercial banks are: Bank of Nova Scotia Jamaica Limited (BNS);

[1] Basic coverage is up to $600,000 per depositor, per account held at deposit-taking institutions. See the JDICs web site (http://www.jdic.org/jdic_insurance_scheme.htm) for details. Last accessed November 24, 2010.

Citibank N.A. (CBNA); FirstCaribbean International Bank (Jamaica) Limited (FCIB); First Global Bank Jamaica Limited (FGB); National Commercial Bank Jamaica Limited (NCB); Pan Caribbean Bank Limited (PCB); and RBTT Bank Jamaica Limited (RBTT).

19. The building societies are: FirstCaribbean International Building Society (FCIBS), Jamaica National Building Society (JNBS), Scotia Jamaica Building Society (SJBS) and Victoria Mutual Building Society (VMBS).

20. The merchant banks are: Capital & Credit Merchant Bank; Scotia DBG Merchant Bank; and MF&G Trust & Finance Limited.

21. As at March 31, 2010 commercial banks accounted for 75.4 percent of the deposits held at deposit-taking institutions; building societies accounted for 22.2 percent and merchant banks accounted for the remaining 2.4 percent. In March 1998, the proportion of deposits held at commercial banks, building societies and merchant banks was 74 percent, 21.7 percent and 4.3 percent, respectively; and in 2000 it was 79 percent, 18.8 percent and 2.3 percent, respectively. Between the period 1998 and 2010, commercial banks consistently accounted for at least 70 percent of deposits.

22. Commercial banks are however considered distinct among deposit-taking institutions, by virtue of the wide range of banking services offered relative to the limited scope of comparable services offered by merchant banks and building societies.

3. Accessibility

23. An important aspect of service delivery is an expansive branch network, regarding the number and geographic coverage of the branches. Table 1 shows the distribution of branches of each commercial bank throughout Jamaica. There are a total of 130 branches of commercial banks. NCB and BNS with 45 and 40 branches, respectively, are the only commercial banks with branches in all fourteen parishes. RBTT, with half the number of branches as BNS, has a presence in ten parishes. FCIB, with thirteen branches, is present in nine parishes.

24. The seven banks are present in Kingston & St. Andrew. In contrast, NCB and BNS are the only commercial banks present in the parishes of St. Mary, St. Thomas, Hanover and Trelawny. It should be noted though, that JNBS, the island's largest building society, is present

in all the parishes served by only NCB and BNS; while VMBS, the second largest building society, is present in Trelawny.

25. The distribution of branch network provides NCB and BNS, unlike any of the other commercial banks, with the capacity to conveniently serve the entire Jamaica.

Table 1 Distribution of Commercial Bank Branches by Bank and by Parish

	BNS	CBNA	FCIB	FGB	NCB	PCB	RBTT	Total
Kingston & St. Andrew	12	1	6	4	15	1	7	**46**
St. James	4	--	1	1	4	1	2	**13**
St. Catherine	4	--	1	--	4	--	3	**12**
St. Ann	4	--	1	--	3	1	1	**10**
St. Elizabeth	3	--	--	--	3	1	3	**10**
Manchester	3	--	1	1	2	1	1	**9**
Clarendon	2	--	1	--	4	--	1	**8**
Westmoreland	2	--	1	--	3	--	1	**7**
Portland	1	--	1	--	1	--	1	**4**
St. Mary	2	--	--	--	2	--	--	**4**
St. Thomas	1	--	--	--	2	--	--	**3**
Hanover	1	--	--	--	1	--	--	**2**
Trelawny	1	--	--	--	1	--	--	**2**
TOTAL	**40**	**1**	**13**	**6**	**45**	**5**	**20**	**130**

Notes: -- no branch

Source: Jamaica Telephone Directory 2010

4. Profitability and pricing

26. The commercial banking sector annually generates billions of dollars in revenues from *interest charges* associated with loans disbursed for personal and business purposes; *fees and commission* from charges and ancillary services; and from other sources include *foreign currency* market activities.

27. For the Financial Year ending 2009, the gross revenue for the seven banks totaled over \$81.5 billion, with revenue from interest amounting to approximately \$63.2 billion and revenue from fees and commission amounting to \$11.9 billion (Table 2). Gross revenue for the Financial

Year 2008 totaled $73.1 billion, interest revenue and fees and commission revenue accounted for $54.9 billion and $11.4 billion respectively.

Table 2 Breakdown of Gross Revenue: Financial Year ending in 2009

Bank	Gross Revenue $'000	Interest Revenue $'000	Fees & Commission $'000	Other $'000
NCB	31,416,758	23,508,228	5,460,352	2,448,178
BNS	28,119,880	22,595,335	4,489,173	1,035,372
FCIB	5,654,393	4,624,193	596,263	433,937
CBNA	3,624,262	1,546,626	104,655	1,972,981
RBTT	8,148,514	6,378,708	899,261	870,545
PCB	1,626,808	1,315,934	58,049	252,825
FGB	2,909,773	3,226,502	279,704	(596,433)
TOTAL	**81,500,388**	**63,195,526**	**11,887,457**	**6,417,405**

Source: Audited Financial Statements for year ending 2009

28. During the period 2005-2009, the sector generated total real net revenues in excess of $50 billion annually (Figure 1).[2] There was a moderate increase in net revenues during the period 2005-2007, followed by a slight decline during the period 2007-2009. This trend in net revenue mirrors movements in the net revenue from (i) interest charges and (ii) fees and commission. Interest charges generated, on average, $38 billion annually during the period while fees and commission generated an average of $9 billion annually.

29. The proportion of revenue which comes from interest charges has remained relatively unchanged over the five-year period with interest charges earning four times the revenue earning through fees and commission. A review of performances of individual banks shows that interest charges contribute between 60 and 80 percent of net revenues (Figures 2a and 2b). Fees and commission contribute between 15 and 20 percent for BNS and NCB; and between 7 to 16 percent for the other banks.

[2] Net revenue for the period 2005-2009 is measured in 2009 dollars.

Figure 1 Industry Real Net Revenue, 2005-2009

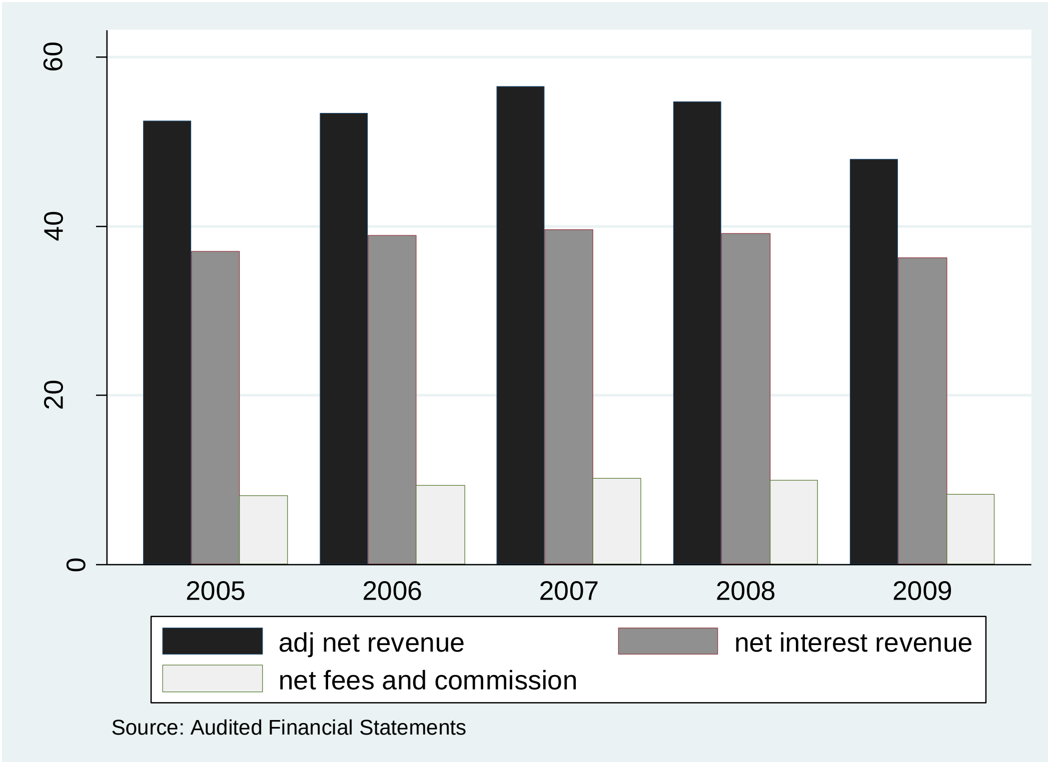


Figure 2a Real Net Revenues by Interest Charges and Fees, 2005-2009: BNS and NCB

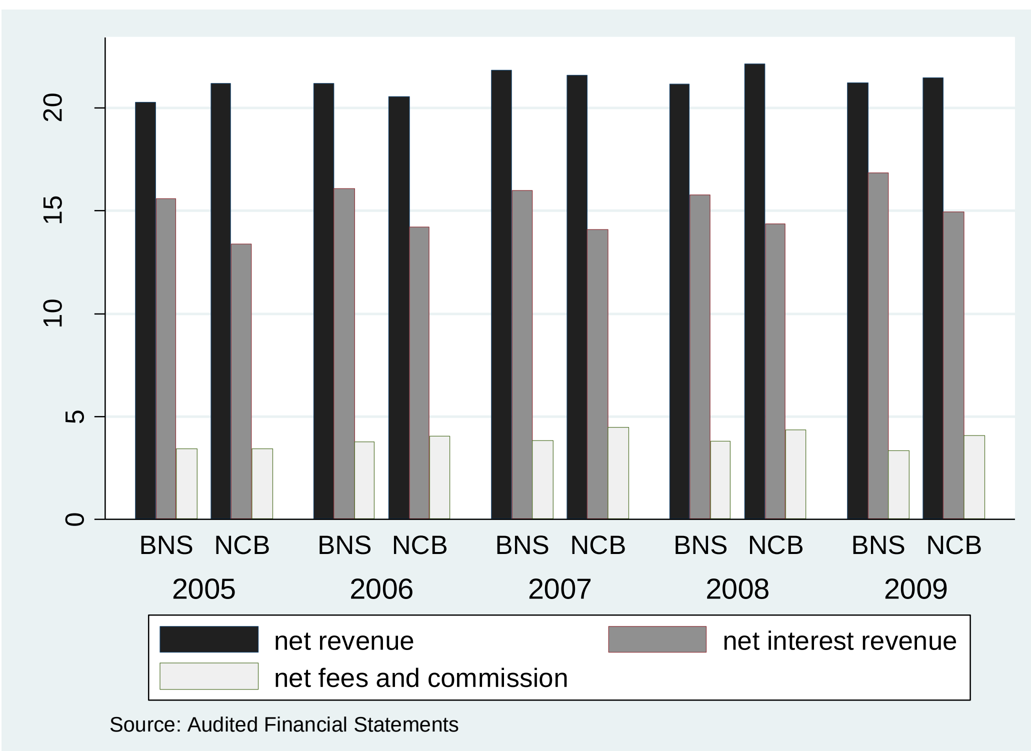
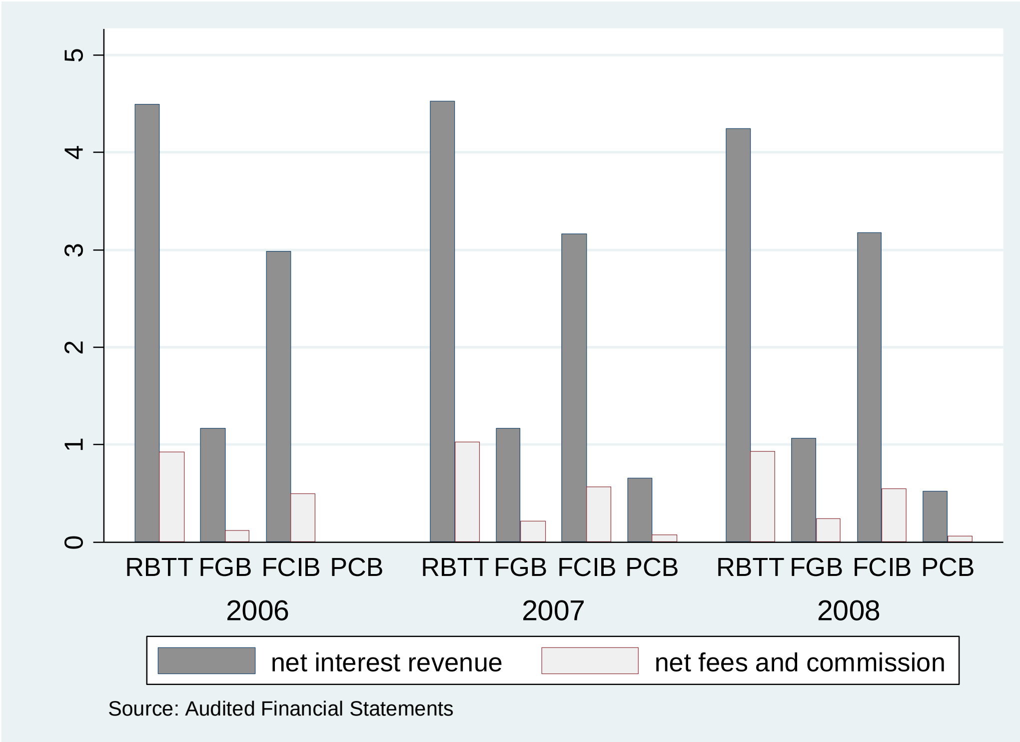


Figure 2b Real Net Revenues by Interest Charges and Fees, 2006-2008: RBTT, FGB, FCIB & PCB



30. The revenues generated by BNS and NCB through fees and commission for services are considerably greater than the reported expenses incurred in providing those services (Figure 3). For example, in 2009 BNS reported approximately $3.3 billion in fee income while reporting $1.1 billion in expenses relating to these fees. Similarly, NCB earned approximately $4.1 billion in revenues from fees and commission while incurring $1.4 billion in expenses. This suggests that BNS and NCB have significant room to lower fees and still cover attendant expenses.

Figure 3 Real Total Fee Revenue and Expenses, 2005-2009: BNS and NCB[3]

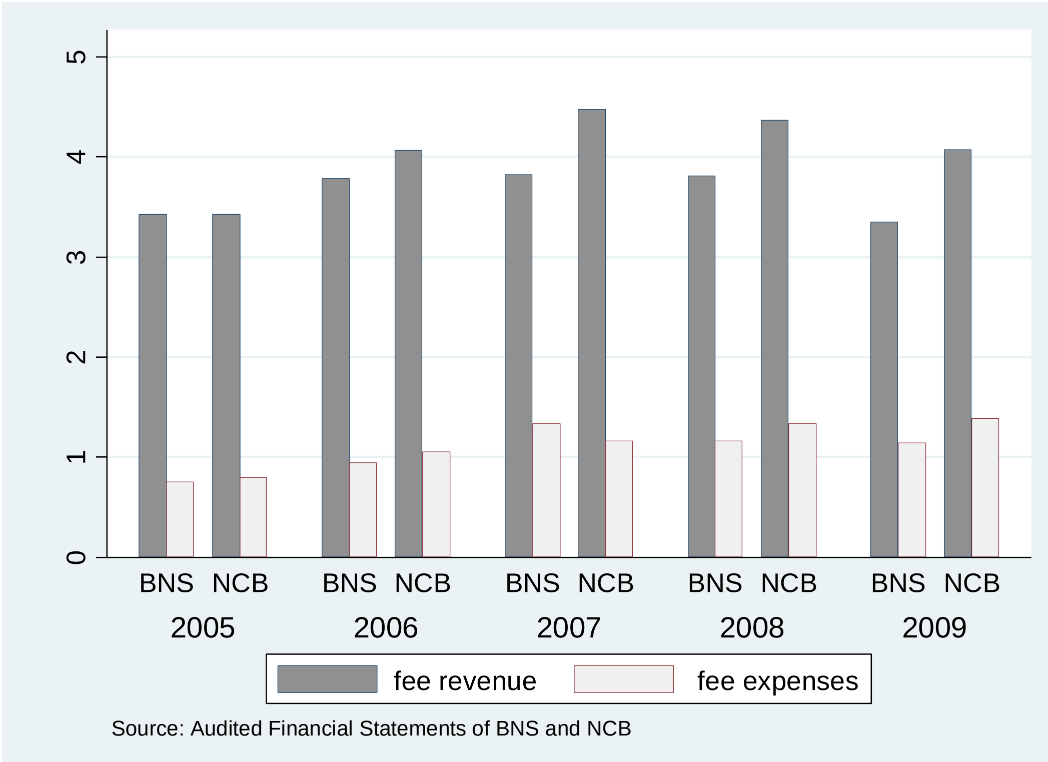


Table 3 Gross Revenue and Net Profit Margin: Financial Year ending in 2009

Bank	**Gross Revenue $'000**	**Net Profit/(Loss) $'000**	**Net Profit Margin (Percent)**
NCB	31,416,758	6,991,048	22.25
BNS	28,119,880	5,624,404	20.00
FCIB	5,654,393	769,664	13.61
CBNA	3,624,262	766,390	21.15
RBTT	8,148,514	651,181	7.99
PCB	1,626,808	318,197	19.56
FGB	2,909,773	(243,468)	

Source: Audited Financial Statements for year ending 2009

[3] Only BNS and NCB identify expenses relating to fees and commission in their audited financial reports.

31. Table 3, which outlines the net profit margin of the total operation of each bank for Financial Year ending in 2009, shows that all the banks, expect for FGB, recorded a profit in 2009. NCB records the highest net profit margin of 22.25 percent, while RBTT recorded the lowest profit margin of 7.99 percent.

32. Comparing with the previous Financial Year, with the exception of CBNA and PCB, all banks recorded moderate reductions in net profit margin in 2009. CBNA's profit margin increased from 16.62 percent in 2008 to 21.15 percent in 2009; while PCB recorded a slight increase from 19.46 to 19.56 percent.

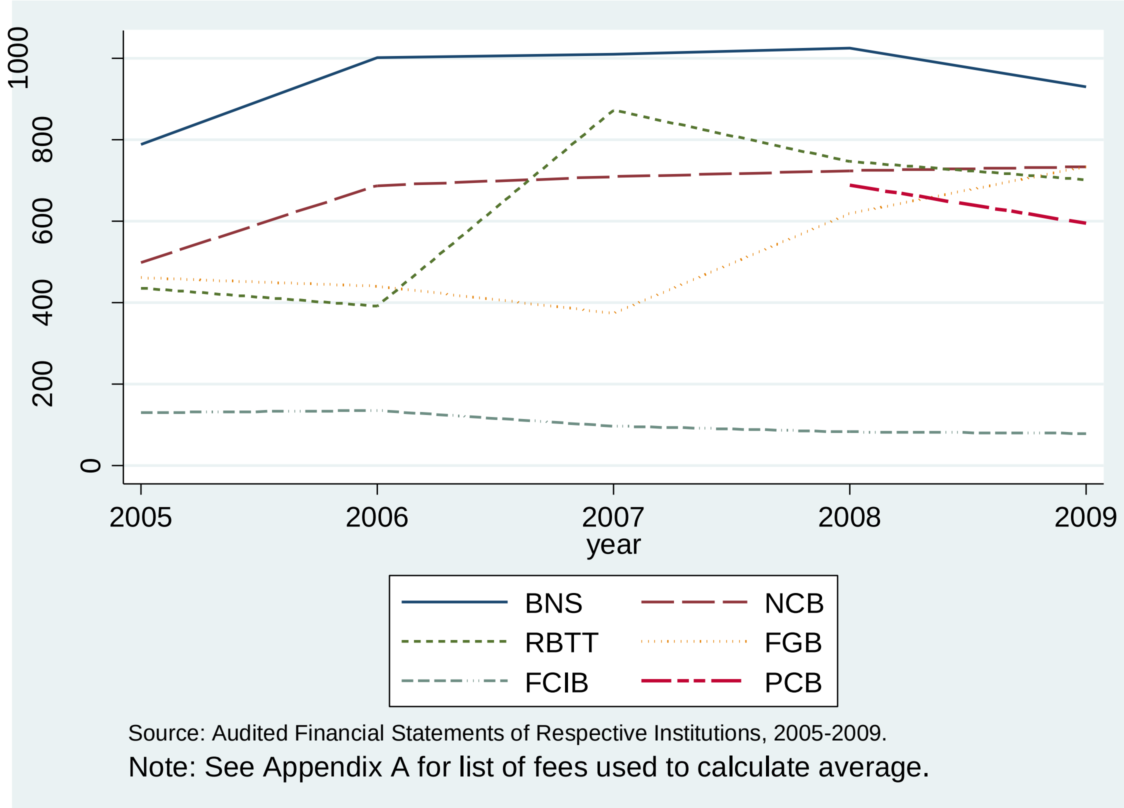
33. With respect to the numerous services they provide, commercial banks vary in the terms of the level of fees and charges, as well as, in terms of the conditions under which they offer the services. The timing and frequency of fees revisions also differ across banks. Some banks revise their fees annually while some revise less frequently.

34. During the period 2006-2009, BNS and NCB consistently revised their fee schedule annually, effective November 1 each year. The other banks have been less consistent with the timing and frequency of their revisions. For instance, RBTT revised its schedule of fees in May and October in 2005; held the fees constant throughout 2006; revised fees in May 2007 and 2008; and further revised fees in September 2009. In contrast, FCIB revised its fee schedule in June 2005; held its fees constant for two years until July 2007; and held fees for the ensuing two years until January 2009.

35. In addition to the disparities in the frequency and timing of revisions of fee schedules, there are also considerable differences in the level of the fees. Figure 4 shows that, on average, BNS consistently charged the highest fees whereas FCIB consistently charged the lowest. (See Appendix A).[4] In 2005, the highest average fee of $788 was approximately six times higher than the lowest average fee of $130. By 2009, the highest average fee increased to $929 while the lowest average fee decreased to $79. This resulted in the highest average fee being more than eleven times greater than the lowest average fee.

[4] Fees are quoted in 2009 dollars. Averages were calculated using a specific basket of services, as outlined in Appendix A. CBNA is excluded from the analysis in this section as it caters to business customers only.

Figure 4 Average Fees, by Banks (in constant 2009 dollars)



III. KEY STRUCTURAL CHARACTERISTICS

A. Analytical Framework and Overview

36. It is generally held that every supplier would exercise market power if it could, and would do so to the fullest extent possible. Disparities in the extent to which suppliers exercise market power, therefore, reflect differences only in the extent to which each supplier faces competitive constraints.

37. Economic assessment of competition is enhanced by an analysis of the structural characteristics of an industry. By structural characteristics, we refer to features such as (i) the number of buyers and suppliers; (ii) the extent of product differentiation;[5] (iii) the ease with

[5] Product differentiation refers to the extent to which consumers perceive differences in the services offered by the various suppliers.

which suppliers can enter, expand or exit the industry; and (iv) consumer awareness. Structural characteristics are important because they frame the opportunity for suppliers to exercise market power. The exercise of market power refers to the acquisition, maintenance and extension of market power. Essentially, a supplier exercises market power by profitably charging prices above competitive levels for a sustained period. Competition authorities are concerned with market power which arises from anticompetitive conduct only, since market power could arise also from procompetitive conduct.

38. A supplier could profitably increase its price only if a sufficient number of consumers continue to patronize the supplier. The extent to which consumers continue to patronize the supplier will depend on, among other things, (i) whether consumers are aware that the price has increased; (ii) whether consumers are aware of alternative services; (iii) whether consumers believe that alternative services are adequate substitutes; (iv) the capacity of alternative suppliers to accommodate additional demand; and (v) consumer loyalty to established or incumbent suppliers.

B. Main Results

39. The key findings from the assessment of the structural characteristics are that the commercial banking sector in Jamaica (i) is highly concentrated, with three banks controlling over 80 percent of the market; (ii) has elements of differentiated service with respect to convenience and accessibility; (iii) requires entrants to have an expansive branch network for effective entry; and (iv) serves consumers who are inadequately informed.

40. The primary factors underlying these findings are presented below.

1. Market share distribution

41. There is significant inequality in the distribution of market shares in the commercial banking sector with two banks sharing at least 65 percent of the market whilst the other five banks account for at most 35 percent. For example, as at March 31, 2010, BNS and NCB (henceforth, 'Big Banks') are the two largest banks in terms of assets, deposits and branches. The combined market share of CBNA, FCIB, FGB, PCB and RBTT (henceforth, 'Small Banks') in

terms of assets and deposits are, respectively, 29 percent and 25 percent and they account for approximately 35 percent of the branches held by commercial banks (Table 4).

Table 4 Market Shares (percent) in Terms of Assets, Deposits and Branches, 2010

	Assets	Deposits	Branches
NCB	37.5	35.0	34.6
BNS	33.3	40.1	30.8
RBTT	10.7	9.8	15.4
FCIB	8.6	6.9	10.0
FGB	4.7	3.7	4.6
CBNA	2.7	2.2	0.8
PCB	2.5	2.4	3.8

Sources: (i) Bank of Jamaica (2010). Unaudited Assets & Liabilities of Commercial Banks as at March 31, 2010. Retrieved June 30, 2010, from the Bank of Jamaica website: http://boj.org.jm/.

(ii) (Jamaica Telephone Directory, 2010).

42. The bank with the largest asset base, NCB, is fifteen times the size of the bank with the smallest asset base, PCB. Similarly, the bank which controls the largest pool of deposits, BNS, is eighteen times larger than the bank with the smallest pool of deposits, CBNA. Further, the bank with the most branches, NCB, has forty-four more branches than the bank with the fewest branches, CBNA.

43. The skewed distribution of market shares has persisted for a number of years, based on total net revenue and revenue from fee and commission in 2005 and 2009 (Table 5).[6] As at 2005, for example, NCB accounted for 39 percent of the total net revenue, followed closely by BNS with 37 percent. RBTT was the third largest net revenue earner with 11 percent of the market. The other three banks (CBNA, FCIB and FGB) accounted for the remaining 13 percent of the market. A similar distribution of market shares is observed in 2009.

[6] The financial year end differs from bank to bank. See notes to Table 3 for details.

Table 5 Market Share (percent) in Terms of Net Revenue and Fees & Commission, 2005 & 2009

	2005		2009	
	Market share (%) based on…		**Market share (%) based on…**	
	…Net Revenue	**…Fee & Commission**	**…Net Revenue**	**… Fee & Commission**
BNS	37.4	40.9	37.6	35.5
CBNA	3.0	3.1	--	--
FCIB	6.1	4.9	7.2	6.3
FGB	3.2	1.7	2.0	3.0
NCB	39.1	40.8	38.0	43.2
PCB	--	--	4.2	2.5
RBTT	11.2	8.6	10.9	9.5

Source: Audited Financial Statements.

Note: Financial year end for each bank is as follows: BNS-October 31; CBNA-December 31; FCIB-October 31; FGB-December 31; NCB-September 30; RBTT-March 31; and PCB-December 31.

2. Market concentration

44. Market concentration measures the extent to which market power is likely to be pronounced in a single supplier, or group of suppliers. The most widely used indicators of market concentration are the Herfindahl-Hirschman Index (HHI) and Concentration Ratio (CR).

45. The HHI is calculated by summing the squared market shares of all suppliers in the market. The index attains its maximum value of 10,000 when there is only one supplier and approaches zero when a market comprises many suppliers each with a negligible market share. The index declines with increases in the number of suppliers; and increases with greater disparities in the market share among suppliers. Markets in which the HHI is less than 1,500 points are considered to be unconcentrated. Markets in which the HHI is between 1,500 and 2,500 points are considered to be moderately concentrated; while those in which the HHI exceeds 2,500 points are considered to be highly concentrated (U.S. Department of Justice and the Federal Trade Commission, 2010, p. 19).

46. Concentration Ratios measures the combined market share of the largest suppliers in a market. For example CR3 represents the combined market share of the three largest suppliers; while CR4 represents the combined market share of the four largest suppliers.

47. Based on the information contained in Tables 4 & 5, the commercial banking sector is considered highly concentrated. This result is fairly robust as it holds irrespective of whether market share is measured using assets, deposits or branches (Table 6). As at March 2005, the sector recorded an HHI well above the 2,500 points threshold generally associated with highly concentrated markets; with an index of 2,938 points with respect to assets and 3,196 points with respect to deposits. As at March 2009, the index declined slightly but remained above the 2,500 threshold. The minimum HHI of an industry with seven equally-sized suppliers is 1,428 points; and that industry would be considered unconcentrated.

48. The trend is also observed when CR3 is used to measure concentration. As at March 2005, the CR3 was recorded at 85.5 percent with respect to assets and 86.8 percent with respect to deposits. This means that the three largest banks in the sector controlled 85.5 percent of the assets and 86.8 percent of the deposits held by commercial banks. These ratios are above the 80 percent threshold generally associated with highly concentrated markets. As at March 2009, the ratio declined to 81.5 percent with respect to assets and 84.9 percent with respect to deposits.

Table 6 Concentration Indicators – 2005 & 2009

		Assets	**Deposits**	**Branches**
2005	**HHI**	2,938	3,196	--
	CR3	85.5	86.8	--
2009	**HHI**	2,741	2,996	2,518
	CR3	81.5	84.9	80.8

Notes: HHI>2,500 points indicates that the market is highly concentrated. Similarly, CR>80% indicates that market is highly concentrated.

Source: Calculated by the FTC.

3. Differentiated services

49. The extent of product differentiation in the commercial banking sector will depend on the extent to which consumers perceive differences, whether real or imagined, in the services offered by competing banks. The range and characteristics of services offered are largely identical across banks, with the only exception being CBNA which caters to corporate customers only.

50. One notable dimension in which banks differ is the relative size of their branch network with three of the seven banks controlling 80 percent of the island's commercial branch network. Further, the two biggest banks each controls approximately one third of the island's network.

51. According to a July 2010 Consumer Survey which was conducted by the Consumer Affairs Commission in collaboration with Consumers International (Consumer Affairs Commission and Consumers International, 2010), two-thirds of consumers choose banks based on convenience and location/accessibility. Consumers are likely to perceive differences in the services offered by commercial banks, therefore, to the extent that a bank which controls a larger network is likely to offer services which are more convenient and/or accessible compared to the services offered by a bank with a smaller network.[7]

4. Entry, expansion and exit conditions

52. Entry, expansion and exit conditions measure the extent to which market conditions are likely to impede the entry or expansion of efficient suppliers; or impede the exit of inefficient suppliers. Impediments to entry, expansion or exit ('impediments') may be created or exacerbated by either non-market (henceforth, 'artificial') or market related factors. Market related factors refer to impediments arising from demand and supply; and can be created by incumbent suppliers to make it difficult for potential suppliers to enter the market or for existing ones to compete effectively. For example, supply conditions could be such that entrants need access to critical inputs, say a distribution channel. If a prospective entrant is unable to replicate or otherwise access the distribution channel, then impediments would be considered high.

53. Likely impediments in the commercial banking sector include the establishment of an expansive branch network; acquiring new customers; access to payment networks; access to customer information and regulatory requirements.

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[7] The aim of the survey was to capture "…current and potential banking customer's knowledge, experience and perspective on commercial banking services in Jamaica." The survey canvassed the views of a nationally representative sample of current and prospective customers of banking services.

54. A market related impediment in the banking industry is the establishing by an entrant of a distribution channel capable of providing the range of banking services to consumers geographically dispersed across Jamaica, given that consumers place a premium on convenience and accessibility in acquiring banking services. The value consumers place on convenience and accessibility is one of the main findings of the July 2010 Consumer Survey.

55. Consumers access banking services primarily through branches located in proximity to their home, work, vacation spot, etc.[8] A bank's network of branches, therefore, allows banks to serve geographically dispersed consumers. A distinguishing characteristic of the Big Banks is that they have at least one branch in every parish. The Big Banks, consequently, are able to offer convenient and accessible services in a manner unmatched by the Small Banks; and as such, an expansive branch network is likely to be critical in offering banking services comparable to those offered by the Big Banks.

56. Another market-related impediment is the tendency for consumers to remain with a specific supplier.[9] This tendency may arise because of, among other things, (i) high switching costs; (ii) inadequate consumer information; (iii) strong branding; and (iv) consumer loyalty. This tendency in Jamaica is evident from the results of the July 2010 Consumer Survey. The survey reveals that consumers typically do not switch providers of banking services. Specifically, 63 percent of respondents reported that they still bank with the institution with which they opened their first account. Further, 56 percent of respondents reported that they had never closed a bank account.

57. The principal activity of the banking system is the transmission of money, and therefore access to the payment network is critical for entrants. Another possible market-related impediment in the commercial banking sector is therefore access to payment systems. Specifically, in order to operate entrants need access to systems such as cheque-clearing facilities; ATMs; credit/debit cards and POS networks. Access to cheque-clearing facilities is regulated by the BOJ whilst access to ATMs, debit/credit cards and POS networks is granted via

[8] Secondary or less popular means of delivery include the telephone and Internet.

[9] Economists refer to this phenomenon as 'consumer inertia.'

access to the *Multilink* network.[10] Current membership of this multilink network includes the commercial banks, building societies, and some credit unions. Impediments relating to access to payments systems are likely to be relatively low, though dependent, to some extent, on how accommodating incumbents are.

58. One of the core and most important functions of the banking system is extending credit to households and businesses. The ability of banks to provide credit facilities effectively and efficiently depends on their access to accurate and reliable information on the creditworthiness of potential customers. This information is generally available only to the current banking service providers of those customers and therefore entrants and competing banks wishing to acquire new customers and expand their customer base may find it difficult to do so without accurate and timely information on potential customers.

59. The absence of such information is likely to result in the under-provision or over-provision of credit, as banks may use less reliable information to assess creditworthiness or may make it difficult for consumers to access credit.

60. To overcome this impediment it may be necessary to establish a credit bureau which is accessible to all providers of credit, to facilitate the exchange of information relating to borrowers, including their repayment history. This information would allow for banks to be able to make more informed credit assessments. The lack of such a bureau in Jamaica could be considered a major impediment to providing credit services.

61. The main artificial impediments are restrictions imposed by the Government and its agencies.[11] Government often imposes legal restrictions on entry to safeguard the welfare of consumers and to ensure the stability of the sector which is intrinsically connected to economic activity. For example, BOJ's oversight responsibilities for commercial banks, including capital and liquidity requirements, are designed to guard against bank failures. Bank failures, when they do occur, limit financial intermediation and reduce the level of economic activities. Other restrictions include authorization to offer commercial banking services, i.e. a commercial

[10] The Multilink network was established by leading financial institutions to allow their customers to access funds and account information from any ATM across the island (Meikle, 2006).

[11] Private enterprises my also erect artificial impediments by engaging in anticompetitive conduct.

banking license. These impediments, because they are not created by potential rivals, are likely to be low.

62. A historical review of entry to the market suggests that impediments to entry are likely to be relatively low. In May 2006, Pan Caribbean Financial Services received the necessary approval from the BOJ to operate a commercial bank; and started operations as PCB in 2008. Further, the Minister of Finance and the Public Service announced that the BOJ is reviewing an application for a licence to operate another commercial bank.[12] Subsequent to this announcement, media reports have suggested that the application has been made by JNBS (Persaud, 2010).

63. Impediment to expansion is likely to be relatively high. Indeed, the distribution of market shares has been fairly stable during the period 2005-2009 in the sense that the market shares of individual banks remain unchanged throughout the period (Table 3). The failure of the Small Banks to close the market share gap on the Big Banks is somewhat puzzling when one considers that the average fees of the Small Banks have consistently been lower than those of the Big Banks.

64. One plausible explanation for this limited expansion of the Small Banks is the smallness of their branch network. There are two dimensions to the size of a branch network: the number of branches and its geographic coverage. These dimensions have distinct effects on the bank's likelihood of growing its market share.

65. Firstly, all other things constant, it appears that the market share of banks is proportional to the number of branches in its network. For example, RBTT holds a market share 1.4 times greater than that of FCIB. This can be explained in entirety by the fact that RBTT has 1.5 as many branches as FCIB.[13]

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[12] The Honorable Minister was speaking at the 11th Annual Shirley Playfair Lecture held in Kingston, Jamaica on September 9, 2010. The theme of the lecture was "Competition and Regulation in the Commercial Banking Sector".

[13] Comparing RBTT and FCIB is ideal to isolate the effect of number of branches on market share from the effect of geographic coverage as these banks have comparable geographic coverage but differ in the number of branches. Specifically, RBTT operates 20 branches in 10 parishes whereas FCIB operates 13 branches in 9 parishes. Further RBTT is located in all the 9 parishes in which FCIB is located. As at March 2010, RBTT held 9.8 percent of deposits whereas FCIB held 6.9 percent. Market share calculations are based on deposits.

66. Secondly, all other things constant, market share increases as banks expand their geographic coverage. For example, BNS holds a market share 16 times bigger than that of PCB. This market share gap cannot be explained entirely by differences in the number of branches as BNS has only 8 times as many branches. The unexplained portion of the gap is likely attributable to differences in geographic coverage. Specifically, BNS has *national* geographic coverage, in the sense of being located in all fourteen parishes. In contrast PCB has only *local* geographic coverage, in the sense of not being located in all parishes.[14] It should be noted that this 'geographic effect' can be observed by comparing any of the Big Banks (which has national coverage) with any of the Small Banks (which has only local coverage).

67. Consistent with the hypothesis that market share distribution is explained by the number and geographic coverage of branches, it is noted that BNS and NCB hold comparable market shares, having established branch networks which are comparable with respect to both geographic coverage and number of branches.

68. The unimpeded exit of weak competitors is as important to the promotion of a competitive environment as is the unimpeded entry of strong ones. In situations in which suppliers are weak or inefficient, it should be relatively easy for those suppliers to exit the industry and make room for strong or efficient suppliers.

69. Since 1995 the commercial banking sector has undergone some amount of consolidation. At the end of 1995, there were eleven commercial banks operating in Jamaica. That number declined to nine by the end of 1998 and then to six by the end of 1999. The number of banks remained at six until 2008 when PCB entered the market.

5. Consumer awareness and preferences

70. The informed consumer is critical to the smooth functioning of competition. When consumers are informed, suppliers have the proper incentives to meet consumers' demand for affordable quality services. The July 2010 Consumer Survey provides invaluable insight into (i)consumer preferences; (ii) the level of consumer unawareness; (iii) inadequacies in the flow

[14] BNS operates 40 branches in 14 parishes whereas PCB operates 5 branches in 5 parishes. As at March 2010, BNS held 40.1 percent of deposits whereas PCB held 2.4 percent. Market share calculations are based on deposits held at the banks.

of information dissemination to consumers; and (iv) and the relative effectiveness of the various channels used by banks to communicate information to consumers.

71. Most consumers expressed satisfaction with overall banking services. According to the survey, 58 percent of consumers were either satisfied or very satisfied with overall banking services whilst only 8 percent expressed dissatisfaction. Most consumers (61 percent) in Jamaica open commercial bank accounts for the purpose of saving; and another 23 percent open accounts to facilitate payment of their salaries.

72. Regarding preferences, the results reveal that consumers value "convenience," more than any other characteristic when choosing banks. Based on the survey responses, the characteristic of a bank which appeal to consumers the most are, among others: convenience (46 percent), accessibility/location (21 percent), recommendations/[referrals] (12 percent), charges and fees (4 percent) and promotion (4 percent). It is clear, therefore, that price (i.e. fees and charges) is not the only characteristic which appeals to consumers of banking services. Indeed, 41 percent of consumers indicated that they would remain with their banks even if fees and charges were lower at other institutions.

73. Regarding consumer unawareness, only a minority of consumers are aware of the fees associated with their bank accounts. The survey reveals that only 38 percent of consumers are aware of any change in banking fees. Further, 30 percentage points became aware of changes in banking fees only after the changes were implemented with the remaining 8 percentage points being made aware prior to the changes being implemented.

74. Regarding the flow of information, evidence suggests that there are inadequacies in the timeliness of information disseminated to consumers. Specifically, the survey reveals that 73 percent of consumers who were notified of changes in bank fees expressed the opinion that the notice period was inadequate. In particular, of the 8 percent of consumers who were notified of changes in fees, 0.8 percentage point reported that they were informed less than one week before the changes were effected; 4 percentage points reported that they became aware one week prior; 1 percent point reported that they became aware two weeks in advance; 0.5 percent point reported that they became aware between three and four weeks; and 1 percentage point reported that they became aware more than four weeks in advance.

75. Regarding the methods used by banks to notify consumers, the evidence suggests that bank statements are the most effective information dissemination channel. Specifically, the survey reveals that 44 percent of consumers were informed through bank statements; 33 percent via bank transactions (including updating passbooks); 11 percent by way of telephone; 6 percent by way of the Internet; and 6 percent via ATM transactions. Further, consumers (64 percent) thought that the method of notice was inappropriate.

IV. ASSESSING COMPETITION

A. Market Power Analytical Framework and Overview

76. The assessment of competition usually begins with an examination of the characteristics of the industry. This framework for assessing competition has its roots in the Structure-Conduct-Performance (SCP) model of competition analysis. The SCP model holds that the structural characteristics of the industry (that is, number of suppliers and buyers, the degree of product differentiation, conditions of entry, consumer information, etc.) determines the conduct of suppliers (e.g. strategy regarding pricing, advertising, capacity, etc.) and this in turn determines their performance (that is, their relative efficiency).

77. The assessment of the competition is essentially an analysis of the extent to which a supplier's attempt to exercise market power is likely to be constrained by (i) current rivals; (ii) potential rivals; or (iii) consumers.

1. Competition from current rivals

78. Competition from current rivals is sufficient to limit the opportunity for suppliers to exercise market power. When a supplier has strong rivals, then price increases above competitive levels would be unprofitable since its rivals would maintain competitive prices and thereby be well-positioned to attract and accommodate additional consumers seeking to avoid the higher prices.

2. Competition from potential rivals

79. In an environment where impediments are low, attempts by a supplier to increase price above competitive level, thereby earning it excessive profits, would be frustrated by the entry of other suppliers seeking to contest these profits.

80. When assessing competitive constraints on the part of potential rivals, consideration is given to the ease with which new suppliers can enter, and the capacity of rivals to expand. Specifically, the *contestable markets theory* indicates that impediment to entry is to be considered when assessing competitive constraints. Impediment refers to factors which would make (i) entry by new suppliers difficult; or (ii) expansion by existing suppliers difficult. A supplier with a persistently large market share, therefore, may be subject to competitive pressure from outside of the market where impediments are low. Impediments are considered to be low if entry is effective in constraining anticompetitive conduct. Entry is effective if it is likely, sufficient, and timely. Entry is likely when it is profitable to enter, based on pre-entry prices; entry is sufficient when critical inputs are not controlled by existing suppliers and entrants have the capacity to accommodate additional demand; and entry is timely when it occurs within two years.

3. Consumer power

81. Consumer power is sufficient to limit the opportunity for suppliers to exercise market power. It is public knowledge that suppliers play an important role in the preservation of the competitive process. It is less recognized, however, that consumers also have an important role in this process. Specifically, *comparison shopping* by consumers is necessary to provide suppliers with the proper incentives to meet consumers' demand for affordable high quality services. By comparison shopping, we refer to the deliberate action of consumers to gather information about the characteristics and prices of competing services and select only providers which offer the best deal.

82. Consumer awareness and organization are critical factors in assessing the likely effectiveness of consumers to constrain the behavior of a supplier. Consumers are more likely to constrain the exercise of market power when they (i) are informed and face little obstruction in switching among competing service providers; or (ii) have an umbrella organization which effectively lobbies consumers' interests.

B. Main Results

83. The key findings from the assessment of competition are that (i) although the market is highly concentrated, it is unlikely that any individual commercial bank, without coordinating *with at least one other bank, could exercise market power; (ii) market conditions are such that entry is difficult and entrants are unlikely to thwart attempts by incumbent supplier(s) to exercise market power-the sole obvious exception to this general rule being JNBS; and (iii) consumers are unlikely to mitigate attempts by any supplier, or group of suppliers, to exercise market power. Enhancing consumer awareness and information could further limit the opportunities of commercial banks to exercise market power.*

84. The main results underpinning these findings are discussed below.

1. Evidence of less than competitive delivery of ancillary services

85. Services offered under the influence of competition are considered to be reasonably priced in the sense that expected sales revenue is sufficient to offset only the cost of supplying the service. It stands to reason, therefore, that the prevalence of unreasonably high priced services is persuasive evidence of the absence of competition among commercial banks.

86. There are many ways to assess whether ancillary services are reasonably priced. One method is to solicit the views of consumers via a survey. Another method is to deduce reasonableness from some observable feature of the market; namely, the bank's profitability in offering ancillary services. It should be noted that both options should be considered as complements rather than substitutes as each method has its short-comings. The main short-coming of the first method is that the term 'unreasonable' is subjective and the results of such a survey may be unreliable since some consumers may view any charge as being unduly high; either because they are unaware of the costs incurred in providing the service or are accustomed to accessing the service free of charge. Notwithstanding the above, however, an attractive reason for using the direct method is that consumers are the ultimate beneficiaries of competition and only their perception, real or imagined, should matter.

87. Pursuant to the first method, the July 2010 Consumer Survey shows that a non-negligible segment of the public holds the view that bank fees are unreasonably high. Specifically, 27 percent of the respondents indicated that they did not have an account with any commercial bank. Further, 19 percent of those respondents indicated that the main reason for

not having any account with commercial banks was that the "…rates/fees charged by these banks were too high".[15]

88. Pursuant to the second method, reasonableness is measured by the extent to which the fee and commission revenue exceeds the reported expenses incurred to deliver the related services. In competitive markets, suppliers earn what is described as "normal profits" which refer to foregone profits that could have been earned had the supplier not participated in that particular market. For instance, if investors could have invested in risk-free government security and earn, say 9 percent per annum rather than investing in the commercial banking sector, then the normal profit for the commercial banking sector would be a return on capital of 9 percent per annum. Super-normal profits refer to profits in excess of normal profits.

89. In using profitability as a benchmark, therefore, the reasonable fees would be consistent with those which yield a return comparable to a return which could have been earned outside of the banking industry.[16]

90. During the period 2005-2009 revenues from bank services are considerably higher than the reported expenses associated with offering the services. Although both expenses and revenue increased over the period, the increase in revenue was disproportionately smaller than the increase in expenses, which has resulted in the narrowing of the gap between revenue and expenses. For example, in 2005 BNS' revenue from banking services was five-fold that of its attendant expenses and in 2009, its revenue was four-fold the expenses. Similarly for NCB, in 2007, bank services generated almost five times as much revenue as the expenses it incurred. Since then, NCB's revenue declined to less than four times as large as the expenses (Figure 5).

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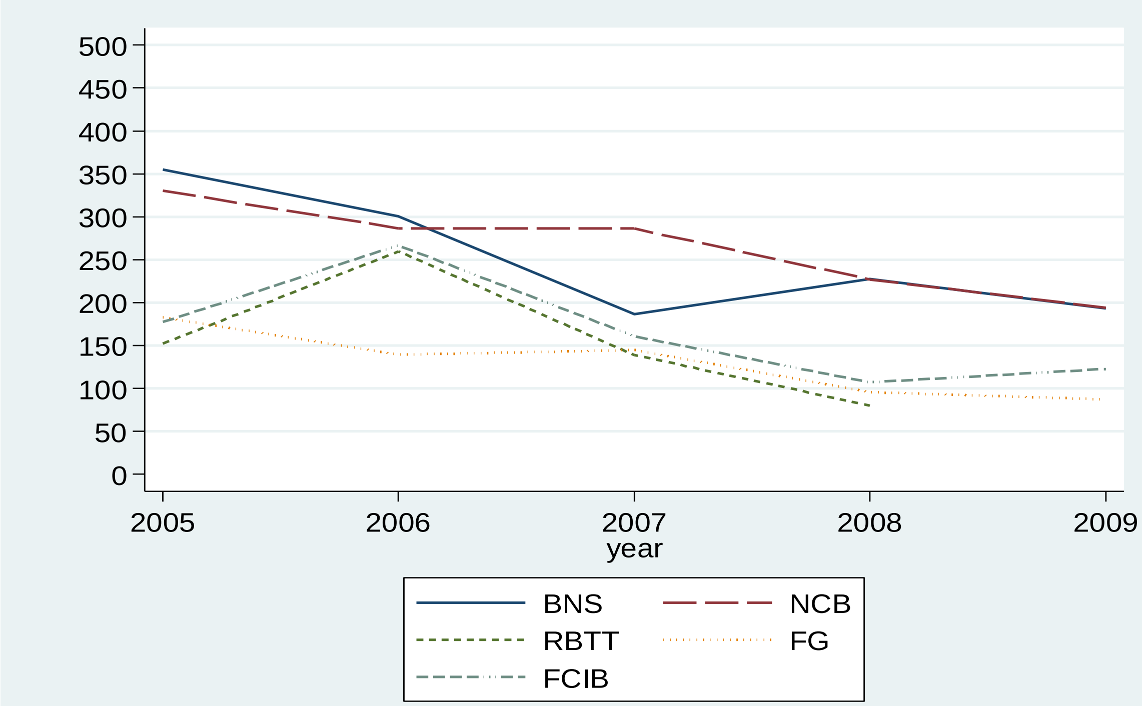
[15] (Consumer Affairs Commission and Consumers International, 2010, p. 4).

[16] For the purposes of this report, we measure profitability using gross profit margins which is defined as the percentage by which revenues exceeds reported expenses. See notes to Figure 5 for details.

Figure 5 Gross Profit Margins (Ancillary Services) by Banks, 2005-2009



Source: Audited financial statements of respective institutions, 2005-2009.

Notes: Gross profit margin is calculated as $\left(\frac{revenue}{\exp enses} - 1\right) \times 100$. Expenses for the Small Banks were estimated as follows: For BNS and NCB, in each year, we calculated the proportion of total expenses that is attributable to fees and commission. Using an average of these proportions, we then imputed the fee and commission expense for the Small Banks based on their total expenses.

91. Since it is unlikely that there are alternative investments which generate returns exceeding 300 percent per annum, we conclude that the fees/charges of the Big Banks are unreasonably high in the sense of being more than enough to earn a reasonable return in the supply of ancillary services.[17] Further, a significant reduction in revenue earned by Big Banks from fees/commission is likely to have only moderate effects on the profitability of the total operations of commercial banks, due primarily to the fact that fees/commission represent only 15 to 20 percent of net revenues (Tables 7a and 7b).

[17] It is noted that the net profit margin on total operations for the commercial banks range between 8 and 24 percent for financial years ending in 2008 and 2009.

Table 7a Estimated Effect of Reduction in Fees Revenue on Net Profit Margin: NCB

	Actual Margin (in 2009)	Estimated Margin Based on a hypothetical …	
		…25% reduction in fees revenue	*…50% reduction in fees revenue*
Interest	23,508,228	23,508,228	23,508,228
Fees	***5,460,325***	***4,095,244***	***2,730,163***
Other	2,448,178	2,448,178	2,448,178
Total Gross Revenue	31,416,731	30,051,650	28,686,569
Total Cost	22,442,135	22,442,135	22,442,135
Gross Profit	8,974,596	7,609,515	6,244,434
Tax	1,983,548	1,528,521	1,073,494
Net Profit	6,991,048	6,080,994	5,170,940
Net Profit Margin (%)	**22.25**	**20.24**	**18.03**

Source: NCB audited Financial Statement, 2009 and FTC calculations.

Table 7b Estimated Effect of Reduction in Fees Revenue on Net Profit Margin: BNS

	Actual Margin (in 2009)	Estimated Margin Based on a hypothetical …	
		… 25% reduction in fees revenue	*…50% reduction in fees revenue*
Interest	22,595,335	22,595,335	22,595,335
Fees	*4,489,173*	*3,366,880*	*2,244,587*
Other	1,035,372	1,035,372	1,035,372
Total Gross Revenue	28,119,880	26,997,587	25,875,294
Total Cost	20,083,524	20,083,524	20,083,524
Gross Profit	8,036,356	6,914,063	5,791,770
Tax	2,411,952	2,037,855	1,663,757
Net Profit	5,624,404	4,876,208	4,128,013
Net Profit Margin (%)	**20.00**	**18.06**	**15.95**

Source: BNS audited Financial Statement, 2009 and FTC calculations.

92. For financial year ending in 2009, NCB realized a net profit margin of 22.25 percent. If NCB had earned 25 percent less in revenues from fees/commission, it is estimated that net profit margin would have been lowered by approximately 2 percentage points to 20.24 percent. Further if NCB earned only one-half of the revenues it earned through fees/commission in

2009, it is estimated that net profit margin would have been lowered by approximately 4 points to 18.03 percent.

93. Similarly, BNS realized a net profit margin of 20.00 percent for the financial year ending in 2009. IF BNS had earned 25 percent less in revenues from fees/commission, it is estimated that net profit margin would have been lowered by approximately 2 percentage points to 18.06 percent. Further if BNS earned only one-half of the revenues it earned through fees/commission in 2009, it is estimated that net profit margin would have been lowered by approximately 4 points to 15.95 percent.

94. Although imputed profit margins on ancillary services of the Small Banks were high, they were significantly below the level enjoyed by Big Banks.[18] It is observed that (i) Small Banks offer lower fees/charges than Big Banks; (ii) Small Banks earn lower gross profit margins; and (iii) Big Banks and Small Banks earn super-normal profits. Given that these trends have been fairly stable throughout 2005-2009, it suggests that the Big Banks are insulated from competition from the Small Banks. This does not necessarily mean, however, that the Big Banks are engaged in anticompetitive conduct since there are circumstances which would legitimately allow suppliers to earn super-normal profits. Specifically, any market power being exercised by the Big Banks could have been generated by, among other things, consumer welfare-enhancing conduct such as product differentiation.

Product differentiation as a source of market power

95. Product differentiation, which results in an increase in the varieties of a given product available in markets, is one mechanism through which the market accommodates consumers' diverse preferences. Services are said to be differentiated whenever consumers perceive differences in the services offered by rival suppliers. Consumers are willing to pay greater than competitive prices for services which cater to their peculiar tastes and needs. Suppliers who differentiate their services to the satisfaction of consumers, in conjunction with an inadequate capital market, are able to earn super-normal profits.

[18] Small Banks did not disclose the expenses associated with fees and commission. The relevant expenses were therefore estimated. See notes to Figure 5 for an explanation of how the expenses were estimated.

96. The Big Banks, by virtue of their island wide branch network have successfully differentiated themselves from the Small Banks. Recall from earlier in the report that most consumers list “convenience” and “accessibility/location” as major considerations in choosing among commercial banks in Jamaica. It is noted that the Big Banks have an advantage over the Small Banks regarding convenience and accessibility/location since Big Banks are the only banks with a presence in all parishes.[19] Further, the Big Banks are the only banks with branches in some parishes. In fact, it is reasonable to infer that the Big Banks are largely insulated from competition from the Small Banks by virtue of the differences in network size between the two groups of banks. This inference is consistent with observations that over the period 2005-2009, the Big Banks have consistently secured approximately 75 percent of the revenue generated by ancillary services despite charging, on average, the highest fees/charges.

97. Although the Big Banks are differentiated from the Small Banks, BNS and NCB are close substitutes for each other since, from a competitive perspective, there is no apparent appreciable difference between the two banks regarding accessibility/location, prices and service offerings. It has been shown that in markets with closely substitutable services, price competition between even two suppliers could result in competitive prices, under certain conditions.[20] Without more, therefore, product differentiation between the Big Banks and the Small Banks is unlikely to explain the observed sustained super-normal profits generated by BNS and NCB, and by extension the perceived absence of competition in the market.

2. Scope for anticompetitive conduct by a single bank

98. In assessing whether a single bank could exercise market power, emphasis is placed on identifying factors which would mitigate such power. Those factors are referred to as competitive constraints; and can emanate from current competitors, potential competitors or consumers.

[19] Convenience/accessibility is considered to be a measure of quality which is a form of what economists refer to as “vertical” product differentiation.

[20] The conditions sufficient to drive this result are: (i) There must be no differentiation; (ii) suppliers must compete on prices; (iii) each supplier must be able to serve the entire market; (iv) suppliers must compete with each other in the sense of not coordinating their activities.

99. Regarding the prospects for competitive restraints from current competitors, the conduct of each bank is capable of being constrained by at least one other bank. Specifically, although the industry is highly concentrated, with the Big Banks accounting for between 65.4 and 75.1 percent of the market, the Big Banks are roughly equally-sized and are considered to offer reasonably close substitutable services. This means that each Big Bank is capable of effectively limiting the opportunities for anticompetitive conduct on the part of the other.

100. Regarding the prospects for competitive restraints from potential competitors, the conduct of current banks is capable of being constrained by the entry of JNBS only; this as JNBS is well positioned to compete with the Big Banks if it entered the commercial banking market. As discussed earlier, impediments to entry may arise from market and artificial impediments. If JNBS were to be granted a licence to operate a commercial bank in Jamaica, it would have started in a similar position as PCB in the sense that they both would have operated deposit-taking institutions prior to obtaining a commercial banks license. This means that it would have been relatively straightforward for them to overcome the regulatory-based impediments to entry. Two important distinctions between the two institutions would be, however, that JNBS has a national geographic coverage and has deep roots in Jamaica dating as far back as 1874.[21] Unlike PCB, therefore, JNBS is well-positioned to overcome the market impediment associated with a convenient/accessible branch network as well as those associated with consumer uncertainty about a "new" bank. Of the 14 deposit-taking institutions, JNBS has the third largest market share in terms of deposits, as at March 2010.

101. Regarding the prospects for competitive restraints from consumers, it is unlikely that consumers are appreciably restraining the conduct of banks. This as the discussion earlier in the report indicates that consumers are predominantly uninformed.

102. For reasons cited above, the market power being exercised by banks is unlikely to have arisen from unilateral conduct. This suggests, therefore, that we must assess other factors which are known to inhibit the competitive process including, but not limited to, the strategic coordination ('collusion') among banks.

[21] JNBS currently has 33 branches island wide with at least one in each Parish (Jamaica Telephone Directory, 2010).

3. Scope for anticompetitive conduct among a group of banks

103. Although collusion encompasses any conduct that results in the deliberate restriction of competition among rival suppliers, the most common and likely harmful collusive conduct take the form of price fixing, restricting output or market sharing arrangements. Notionally, colluding banks do not compete on the merits; and they do not offer the lowest priced, best quality products that they are capable of supplying. Collusion raises competition concerns only when the suppliers involved collectively have market power and is more likely to occur in markets where (i) it is easy for colluding parties to agree upon the terms of the arrangement and monitor each other's market behavior; (ii) there is a credible deterrence mechanism to ensure adherence to the terms and conditions of collusion; and (iii) customers or other suppliers cannot undermine the agreement. For a collusive arrangement to be maintained for a protracted period, the benefits from maintaining it must exceed the expected benefits from not maintaining it.

104. The incentive and opportunity for suppliers to collude are largely influenced by characteristics of the market. The most prominent facilitators of collusion are highlighted below:

105. <u>Few competitors</u>—when there are fewer suppliers, members of a collusive agreement are better able to monitor each other's activities. Further, in markets with few suppliers, each party to a collusive agreement would get a larger share of the profits, relative to markets where there are many suppliers. This means that each supplier would have more to gain from participating in the arrangement, rather than abandoning it.

106. <u>High concentration</u>—markets which have many suppliers are nonetheless susceptible to collusion if only a few suppliers account for a large share of the market. It is possible for those few suppliers to act independently of the smaller ones. The extent to which this is feasible depends on the ability of the smaller suppliers collectively to gain market share through price cutting.

107. <u>Close substitutes</u>—where services are close substitutes, suppliers are better able to agree upon the terms of the collusion. Further, suppliers would be able to monitor each other's

conduct as it is more likely that changes in market shares are the result of suppliers not adhering to the collusive agreement.

108. High entry barriers—collusion is very difficult to sustain if entry impediments are low, as entry by potential suppliers would undermine the agreement by eroding the profits earned by the colluding parties.

109. Coordinating mechanism—the costs of forming and enforcing a collusive arrangement can be facilitated if an easy way exists for suppliers to meet and coordinate their activities.

110. The commercial banking sector in Jamaica has numerous characteristics which could facilitate collusion. Chief among these are: (i) high concentration - with the Big Banks supplying at least 65 percent of the market; (ii) close substitutes - the Big Banks offer comparable services; (iii) monitoring mechanism - the fee schedule of each Big Bank can be readily accessed by the other; and (iv) disciplining device - each Big Bank could creditably commit to punishing the other if prices approached competitive levels, by virtue of their capacity to supply a substantial portion of the market. These characteristics are necessary but not sufficient for sustaining a collusive arrangement in the commercial banking market. Accordingly, we conclude that conditions are favourable for a stable collusive arrangement among banks, in particular between the Big Banks. This is not to be interpreted, however, as conclusive evidence that there is collusion in the commercial banking sector.

4. Scope for stifled competition by way of consumer inaction

111. The preceding sections in this Part of the report focused on assessing the extent to which the market power observed to being exercised in the commercial banking sector arose from the *action* of individual suppliers or group of suppliers. In this section, we assess the extent to which the market power may be attributable to *inaction* on the part of consumers. By inaction we refer specifically to the lack of comparison shopping among consumers.

112. While we reviewed no information directly addressing the extent to which consumers engage in comparison shopping, we infer this information by assessing the extent to which market conditions facilitate such consumer behavior. The three main features which are important in assessing the extent to which comparison shopping is facilitated are (i) the extent

of consumer loyalty to specific banks; (ii) the ease with which consumers are able to switch among suppliers and (iii) the ease with which consumers are informed on product characteristics, including prices. Consumers loyal to a specific brand typically do not engage in comparison shopping. There is evidence that a significant portion of consumers are not loyal to a specific bank. Specifically, more than half the consumers surveyed indicated that they would switch banks if another institution offered less expensive services.

113. Most consumers hold the view that switching among suppliers is not very difficult. This as 54 percent of consumers surveyed characterised their experience in switching to be either easy or very easy; with only 3 percent indicating it was very difficult.

114. The only other likely reason that consumers would find it difficult to engage in comparison shopping is a difficulty in obtaining and/or interpreting information. To this end, part III documents the relatively high level of consumer unawareness of fees and charges. The extent of unawareness extends beyond prices. Terms used by banks sometimes have different meanings, thereby making it difficult for consumers to compare services offered. For example there is no industry standard for the definition or treatment for "dormant" account. An account is classified as dormant after a specified period of no customer-initiated activity. Banks differ, however, on the time period, the charges and the method of informing customers. See Appendix B for a comparison of the varying treatment of dormant accounts. To facilitate ease of comparison there should be, to the extent possible, a standard definition.

115. This suggests that, due primarily to the inadequate flow of information to consumers, comparison shopping is difficult. By extension, it is unlikely that consumers are constraining the exercise of market power.

V. CONCLUSION

116. An assessment of the competitive constraints in the commercial banking sector was carried out to characterize the nature and extent of competition within the sector, with particular focus on services ancillary to the sector's core function as a financial intermediary. Whether a single supplier or group of suppliers can exercise market power, thereby charging uncompetitive prices, depends on the competitive constraints they face. These constraints can

emanate from current competitors, potential competitors or consumers. The analysis was carried out primarily by identifying characteristics of the market which would limit the opportunities for anticompetitive conduct, as contemplated under the FCA, on the part of a single bank or a group of banks operating collusively.

117. The sources of income for the sector are *interest charges* associated with loans disbursed for personal and business purposes; *fees and commission* from charges and ancillary services; and from other sources including *foreign currency* market activities. During the period 2005-2009, commercial banks generated total net revenues in excess of $50 billion annually. Interest charges account for the largest share of income, while fees and commission account for between 7 to 20 percent of income for the sector.

118. The key findings from the assessment of the structural characteristics are that the commercial banking sector (i) is persistently highly concentrated, with BNS and NCB being the largest banks and accounting for over 75 percent of the sector’s income; (ii) is characterized by differentiated services; (iii) requires entrants to have an expansive branch network for effective entry; and (iv) serves consumers who are inadequately informed.

119. The key findings from the assessment of competition are that (i) although the market is highly concentrated, it is unlikely that any individual commercial bank, without coordinating with at least one other bank, could exercise market power given that each of the two largest banks can provide sufficient competitive constraint against each other; (ii) entry conditions are such that entrants could constraint attempts by incumbent supplier(s) to exercise market power; and (iii) based on the current extent of consumer unawareness, consumers are unlikely to mitigate attempts by any supplier, or group of suppliers, to exercise market power. It is apparent that enhancing consumer awareness could further limit the opportunities of commercial banks to exercise market power.

120. The market has the characteristics which provide two largest banks with the opportunity to strategically coordinate their activities and hence allow them to exercise market power. There is no evidence, however, to suggest that commercial banks are colluding.

121. The main obvious challenge to competition in the sector is the lack of information on the part of consumers. The disparities in levels of fees provide room for improved competition to the extent that informed consumers (household and businesses) are willing and able to switch banks or reorganize their accounts to take advantage of lower priced services.

122. The recommendations of the study are therefore geared towards empowering consumers so that they can make informed choices thereby enhancing the competitive environment in which financial services are offered.

VI. RECOMMENDATIONS

123. Based on the findings, the following are recommended to improve the availability of relevant information in the commercial banking sector to facilitate informed choices on the part of both the consumers and service providers.

a. Mechanisms should be put in place to ensure that banks provide adequate information on their services.

124. To facilitate consumers making informed decisions, there must be improvements in the provision of information by the banks. The information provided should be such that it is easier for consumers to do comparative shopping for financial services.

125. Regarding the improved dissemination of information. Firstly, banks should make consumers aware of the relevant fees prior to the consumer approving the given transaction. For example, on their websites, banks should include a loan calculator which provides a breakdown of the total cost of a loan. This includes total interest payment and total fees and charges associated with the loan. Further, at Point-of-Sale and ATM terminals consumers should be alerted to the relevant fee prior to completion of a chargeable transaction. RBTT has made a position step in this direction by posting its fee schedule in the ATM enclosure in at least one location.

126. Secondly, banks should inform consumers of ways in which they can avoid/minimize fees and charges. In recent times, NCB and FCIB have made positive steps in this direction by actively notifying consumers on ways to minimize if not avoid fees for given services.[22,23] Finally, where fees or charges are imposed, banks must clearly communicate to customers the related services or situations under which those fees and charges apply. For example, the labels "service charge" and "miscellaneous charge" are insufficient to advise customers of the services to which the fees were applied.

[22] NCB, "Want to cut you bank fees?"2010. NCB also point consumer to a website where they can obtain more information on reducing banking fees at NCB (http://www.cutyourbankfees.com). Last accessed December 29, 2010.

[23] FCIB recently initiated a "switch and gain" campaign encouraging consumers to switch to FCIB to reduce their fees on select service (http://www.firstcaribbeanbank.com). Last accessed December 29, 2010.

b. Facilities should be put in place to make it easier for consumers to access information about banking services.

127. Regarding the improved acquisition of information, it should be useful for consumers to have access to a central location which contains comparable current information on fees and charges of all commercial banks. The effort by the Consumer Affairs Commission (CAC) to publish banking fees across commercial banks is a positive step in this direction. To ensure that the information remains current, however, commercial banks should be required to submit the information in a timely manner. Terms used by banks sometimes have different meanings, thereby making it difficult for consumers to compare services offered. To facilitate ease of comparison there should be, to the extent possible, a standard definition for commonly used terms.

128. Secondly, consumers should be encouraged to shop around and, where feasible, choose the bank which offers them the most attractive terms.

c. Mechanisms should be put in place to make it easier for banks to access customer information

129. For services which involve an assessment of creditworthiness, and where a historical relationship with banks is an important factor when a bank is assessing its exposure to risk, a credit bureau should be established. This facility should allow for the sharing of, for example, credit-related customer information.

130. The absence of complete information on consumer creditworthiness may result in the under- or over-provision of credit. A comprehensive risk assessment will determine whether banks extend a line of credit and the interest rates it would charge.

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APPENDIX A: Select Fees and Charges

Table A1. Select Fees and Charges by Commercial Banks as at December 2009 (part 1 of 2)

Service					BNS	NCB	RBTT	FGB	FCIB	PCB
Savings Account	ATM fees: own bank	Withdrawal			30.00[1]	18.50[5]	10.00	15.00	15.50	31.00
		Insufficient funds			8.00	12.00	0.00	30.00	8.00	.
		enquiry			0.00	0.00	0.00	30.00	.	20.00
	ATM fees: non bank	Withdrawal	Approved		45.00	41.00	32.00	33.00	35.00	31.00
			Declined		27.30	25.00	20.00	30.00	21.00	20.00
		Insufficient funds			27.30	25.00	20.00	30.00	21.00	.
		enquiry	Approved		27.30	25.00	21.00	30.00	21.00	20.00
			Declined		27.30	25.00	20.00	30.00	21.00	.
	POS fees	approval			9.00	12.00	10.00	10.00	12.00	10.00
		decline			18.00	10.00	9.00	30.00	12.00	10.00
	Minimum Balance violation fees				.	100.00[4]	132.00	.	.	.
	Dormant Accounts				.	250.00[6]	25.00[4]	600.00[19]	154.00[8]	0.00
Manager's Cheque	From account				350.00	320.00	200.00	300.00	260.00	150.21
	With cash				870.00	850.00	650.00	800.00	.	150.21
	With cheque				.	.	.	.	.	.

Table A1 (part 2 of 2)

Service					BNS	NCB	RBTT	FGB	FCIB	PCB
Current Account	Cheque book	Personal accounts			1,480.00[2]	1,400.00[2]	.	800.00[14]	.	950.00[2]
		Non-personal accounts			8,950.00[3]	8,400.00[3]	.	1,200.00[14]	.	6,008.58[3]
	Transaction fee	Personal account			100.00	.	.	.	.	.
		Non-personal account			.	.	.	.	.	.
	Bounce cheque	Non-sufficient funds			845.00	900.00	750.00	850.00	400.00	600.86
		dishonoured			750.00	480.00	750.00	850.00	200.00	600.86
	Bank statement				485.00	400.00	200.00[9]	1,500.00[16]	204.00	300.00
	Overdraft fee	commitment	Personal		1,140.00[4]	900.00[4]	2,913.00[10]	2,500.00[17]	.	858.37[4]
			Business		1,140.00[4]	900.00[4]	2,913.00[10]	2,500.00[17]	.	858.37[4]
		renewal	Personal		.	.	2,913.00[10]	.	.	.
			Business		.	.	2,913.00[10]	.	.	.
	Overdraft facility fee	Regular			1,140.00[4]	900.00[4]	750.00	2000.00[17]	.	858.37[4]
		Business			1,140.00[4]	900.00[4]	750.00	2000.00[17]	.	858.37[4]
		Personal plus			.	.	750.00	.	.	.
		Corporate plus			.	.	750.00	.	.	.
	maintenance				.	.	.	.	.	.
Bill payment	In branch	Customer			.	17.22[7]	80.00[21]	.	0.00	.
		Non-Customer			.	17.22[7]	80.00[21]	.	50.00	.
	Online				.	0.00	.	.	0.00	.
	ATM				.	.	.	.	0.00	.

Table A2. Select Fees and Charges by Commercial Banks as at December 2008 (part 1 of 2)

Service					BNS	NCB	RBTT	FGB	FCIB	PCB
Savings Account	ATM fees: own bank	Withdrawal			30.00[1]	14.00[5]	10.00	13.50	15.50	31.00
		Insufficient funds			8.00	10.00	0.00	13.50	8.00	.
		enquiry			0.00	0.00	0.00	6.00	.	20.00
	ATM fees: non bank	Withdrawal	Approved		45.00	37.90	32.00	31.00	35.00	31.00
			Declined		27.30	23.97	20.00	19.35	21.00	20.00
		Insufficient funds			27.30	23.97	20.00	19.35	21.00	.
		enquiry	Approved		27.30	23.97	21.00	19.00	21.00	20.00
			Declined		27.30	23.97	20.00	19.35	21.00	.
	POS fees	approval			9.00	8.61	10.00	10.00	12.00	10.00
		decline			18.00	8.10	9.00	6.00	12.00	10.00
	Minimum Balance violation fees				.	100.00[4]	132.00	.	.	.
	Dormant Accounts				.	200.00[6]	25.00[4]	600.00[19]	154.00[8]	0.00
Manager's Cheque	From account				350.00	320.00	200.00	300.00	260.00	150.21
	With cash				870.00	850.00	650.00	750.00	.	150.21
	With cheque				.	.	.	.	.	.

Table A2 (part 2 of 2)

Service					BNS	NCB	RBTT	FGB	FCIB	PCB
Current Account	Cheque book	Personal accounts			1,480.00[2]	1,160.00[2]	.	350.00[14]	.	950.00[2]
		Non-personal accounts			8,950.00[3]	6,900.00[3]	.	677.00[14]	.	6,008.58[3]
	Transaction fee	Personal account			100.00	.	.	.	.	.
		Non-personal account			.	.	.	.	.	.
	Bounce cheque	Non-sufficient funds			845.00	750.00	450.00	750.00	400.00	600.86
		dishonoured			750.00	349.00	450.00	750.00	200.00	600.86
	Bank statement				485.00	350.00	200.00[9]	1,000.00[16]	204.00	300.00
	Overdraft fee	commitment	Personal		1,140.00[4]	900.00[4]	2,913.00[10]	2,000.00[17]	.	858.37[4]
			Business		1,140.00[4]	900.00[4]	2,913.00[10]	2,000.00[17]	.	858.37[4]
		renewal	Personal		.	.	2,913.00[10]	.	.	.
			Business		.	.	2,913.00[10]	.	.	.
	Overdraft facility fee	Regular			1,140.00[4]	900.00[4]	750.00	1,500.00[17]	.	858.37[4]
		Business			1,140.00[4]	900.00[4]	750.00	1,500.00[17]	.	858.37[4]
		Personal plus			.	.	750.00	.	.	
		Corporate plus			.	.	750.00	.	.	
	maintenance				.	.	.	.	.	.
Bill payment	In branch	Customer			.	17.22[7]	14.37[20]	.	0.00	.
		Non-Customer			.	17.22[7]	14.37[20]	.	50.00	.
	Online				.	0.00	.	.	0.00	.
	ATM				.	.	.	.	0.00	.

Table A3. Select Fees and Charges by Commercial Banks as at December 2007 (part 1 of 2)

Service					BNS	NCB	RBTT	FGB	FCIB	PCB
Savings Account	ATM fees: own bank	Withdrawal			28.20[1]	10.14[5]	10.00	13.15	15.50	
		Insufficient funds			.	8.11	0.00	13.15	8.00	
		enquiry			0.00	0.00	0.00	6.00	.	
	ATM fees: non bank	Withdrawal	Approved		42.00	34.46	32.00	31.00	35.00	
			Declined		27.30	21.79	20.00	19.00	21.00	
		Insufficient funds			27.30	21.79	20.00	19.00	21.00	
		enquiry	Approved		27.30	21.79	21.00	19.00	21.00	
			Declined		27.30	21.79	20.00	19.35	21.00	
	POS fees	approval			7.50[1]	8.61	10.00	10.00	12.00	
		decline			15.00[1]	7.79	9.00	6.00	12.00	
	Minimum Balance violation fees				.	70.00[4]	132.00	.	.	
	Dormant Accounts				.	200.00[6]	25.00[4]	510.00[6]	154.00[8]	
Manager's Cheque	From account				290.00	200.00	200.00	200.00	260.00	
	With cash				720.00	709.14	650.00	200.00	.	
	With cheque				.	.	.	.	.	

Table A3 (part 2 of 2)

Service					BNS	NCB	RBTT	FGB	FCIB	PCB
Current Account	Cheque book	Personal accounts			1290.00[2]	999.00[2]	.	710.00[15]	.	
		Non-personal accounts			7,785.00[3]	6,000.00[3]	.	710.00[15]	.	
	Transaction fee	Personal account			70.00	.	.	.	.	
		Non-personal account			.	.	.	.	.	
	Bounce cheque	Non-sufficient funds			700.00	750.00	450.00	510.00	400.00	
		dishonoured			500.00	350.00	450.00	305.00	200.00	
	Bank statement				405.00	350.00	200.00[9]	305.00	204.00	
	Overdraft fee	commitment	Personal		945.00[4]	700.00[4]	2,913.00[10]	660.00	.	
			Business		945.00[4]	700.00[4]	2,913.00[10]	660.00	.	
		renewal	Personal		.	.	2,913.00[10]	.	.	
			Business		.	.	2,913.00[10]	.	.	
	Overdraft facility fee	Regular			945.00[4]	700.00[4]	750.00	355.00	.	
		Business			945.00[4]	700.00[4]	750.00	355.00	.	
		Personal plus			.	.	750.00	.	.	
		Corporate plus			.	.	750.00	.	.	
	maintenance				.	.	.	.	.	
Bill payment	In branch	Customer			.	17.22[7]	14.37	.	0.00	
		Non-Customer			.	17.22[7]	14.37	.	50.00	
	Online				.	0.00	.	.	0.00	
	ATM				.	.	.	.	0.00	

Table A4. Select Fees and Charges by Commercial Banks as at December 2006 (part 1 of 2)

Service					BNS	NCB	RBTT	FGB	FCIB	PCB
Savings Account	ATM fees: own bank	Withdrawal			23.50[1]	10.13[5]	6.00	13.15	15.50	
		Insufficient funds			.	8.10	6.00	13.15	7.75	
		enquiry			0.00	0.00	0.00	6.50	.	
	ATM fees: non bank	Withdrawal	Approved		35.00	34.46	32.00	31.00	31.00	
			Declined		22.75	21.78	20.00	19.00	20.25	
		Insufficient funds			22.75	21.78	20.00	19.00	20.25	
		enquiry	Approved		22.75	21.78	15.00	19.00	20.25	
			Declined		22.75	21.78	20.00	19.00	20.25	
	POS fees	approval			10.25[1]	8.61	10.00	10.00	10.25	
		decline			.	7.79	9.00	6.00	10.25	
	Minimum Balance violation fees				.	49.00[4]	132.00	.	0.00[18]	
	Dormant Accounts				.	151.96[6]	25.00[4]	510.00[6]	154.00[8]	
Manager's Cheque	From account				260.00	151.96	180.00	200.00	154.00	
	With cash				635.00	709.13	500.00	200.00	154.00	
	With cheque				.	.	.	.	.	

Table A4 (part 2 of 2)

Service					BNS	NCB	RBTT	FGB	FCIB	PCB
Current Account	Cheque book	Personal accounts			1,150.00[2]	850.00[2]	.	710.00[15]	.	
		Non-personal accounts			6,920.00[3]	5,550.00[3]	.	710.00[15]	.	
	Transaction fee	Personal account			65.00	.	.	.	.	
		Non-personal account			.	.	.	.	.	
	Bounce cheque	Non-sufficient funds			620.00	750.00	450.00	510.00	305.00	
		dishonoured			420.00	253.25	450.00	305.00	183.00	
	Bank statement				360.00	290.00	.	305.00	204.00	
	Overdraft fee	commitment	Personal		840.00[4]	515.02[4]	1748.00[11]	660.00	.	
			Business		840.00[4]	515.02[4]	2913.00[12]	660.00	.	
		renewal	Personal		.	.	1748.00[13]	.	.	
			Business		.	.	2913.00[12]	.	.	
	Overdraft facility fee	Regular			840.00[4]	515.02[4]	291.25	355.00	.	
		Business			840.00[4]	515.02[4]	291.25	355.00	.	
		Personal plus			.	.	291.25	.	.	
		Corporate plus			.	.	291.25	.	.	
	maintenance				.	.	.	.	.	
Bill payment	In branch	Customer			.	17.22[7]	14.37[20]	.	.	
		Non-Customer			.	17.22[7]	14.37[20]	.	.	
	Online				.	0.00	.	.	.	
	ATM				.	.	.	.	.	

Table A5. Select Fees and Charges by Commercial Banks as at December 2005 (part 1 of 2)

Service					BNS	NCB	RBTT	FGB	FCIB	PCB
Savings Account	ATM fees: own bank	Withdrawal			17.70[1]	10.00[5]	6.00	13.15	15.50	
		Insufficient funds			.	8.00	6.00	13.15	7.75	
		enquiry			0.00	0.00	0.00	6.50	.	
	ATM fees: non bank	Withdrawal	Approved		28.30	28.50	32.00	31.00	31.00	
			Declined		18.20	15.35	20.00	19.00	20.25	
		Insufficient funds			18.20	15.35	20.00	19.00	20.25	
		enquiry	Approved		18.20	17.50	15.00	19.00	20.25	
			Declined		18.20	15.35	20.00	19.00	20.25	
	POS fees	approval			8.60[1]	8.50	10.00	10.00	10.25	
		decline			.	8.00	9.00	6.00	10.25	
	Minimum Balance violation fees				.	29.00[4]	209.86	.	0.00[18]	
	Dormant Accounts				.	150.00[6]	11.65[4]	510.00[6]	154.00[8]	
Manager's Cheque	From account				203.00	150.00	180.00	200.00	154.00	
	With cash				506.50	700.00	500.00	200.00	154.00	
	With cheque				.	.	.	.	.	

Table A5 (part 2 of 2)

Service					BNS	NCB	RBTT	FGB	FCIB	PCB
Current Account	Cheque book	Personal accounts			861.00[2]	625.00[2]	.	710.00[15]	.	
		Non-personal accounts			5,370.00[3]	3,950.00[3]	.	710.00[15]	.	
	Transaction fee	Personal account			50.50	.	.	.	.	
		Non-personal account			.	.	.	.	.	
	Bounce cheque	Non-sufficient funds			456.00	410.00	450.00	510.00	305.00	
		dishonoured			253.00	250.00	450.00	305.00	183.00	
	Bank statement				253.00	190.00	.	305.00	204.00	
	Overdraft fee	commitment	Personal		600.00[4]	350.00[4]	1748.00[11]	355.00	.	
			Business		600.00[4]	350.00[4]	2913.00[12]	355.00	.	
		renewal	Personal		.	.	1748.00[13]	.	.	
			Business		.	.	2913.00[12]	.	.	
	Overdraft facility fee	Regular			600.00[4]	350.00[4]	291.25	660.00	.	
		Business			600.00[4]	350.00[4]	291.25	660.00	.	
		Personal plus			.	.	291.25	.	.	
		Corporate plus			.	.	291.25	.	.	
	maintenance				.	.	.	.	.	
Bill payment	In branch	Customer			.	17.00[7]	14.37[20]	.	.	
		Non-Customer			.	17.00[7]	14.37[20]	.	.	
	Online				.	0.00	.	.	.	
	ATM				.	.	.	.	.	

Source: Respective commercial banks schedule of rates and charges, 2005-2009. Correct as at June 2010.

Notes:

1 -First 7 electronic transactions (ABM, POS, TeleScotia) free per month
2-per set of 100 leaves. For new accounts first supply of 50 cheque leaves free.
3- per set of 600 leaves. For new accounts first supply of 50 (NCB and BNS)/ 100 (Pan Caribbean) cheque leaves free.
4-per month charge
5-charge applicable after 3 free debit entries per month (Using NCB ABMs & POS terminals)
6- per annum charge
7-average charge for 3 categories of utility providers (1- GOTEL, 2-JPS and CW &J and 3- NWC, Digicel and NHT)
8- there is a notice charge of 154.00 and for every 1 year after (2009) / 6 months after (2005-2008) the fee is 154.00
9-per sheet
10-2% min or J$2913.00
11-2.33% min J$ 1748
12-1.7475- 2.33% min J$ 2913
13-1.7475- 2.33% min J$ 1748
14- per set of 100 leaves
15- service charge for customized cheque leaves
16- for 1-5 sheets over 5 sheets is $2000.00 (2009) and $1500.00 (2008)
17- Penal rate 45%.
18- interest not accrued
19- charged when notices are sent.
20-average bill payment fee for NWC, C &WJ and JPS
21- per bill (NWC, CWJ and JPS)

APPENDIX B: Charges on Dormant Accounts

Savings Accounts

	NCB	BNS	RBTT	FCIB	FGB	PCB
Dormant after (years)	2	1	2	2	1	2
Dormancy fee (J$)	297.87	440*	30	155.32**	700	No charge
Fee cycle	Annually	After the 2nd, 5th & 7th year	Monthly	Monthly	One-time charge	NA
Customer recovery of fees	Non-refundable. Exceptions granted on case by case basis.	Refundable if account is reactivated.	Refundable	Refundable if account is reactivated.	Non-refundable	NA

Current Accounts

	NCB	BNS	RBTT	FCIB	FGB	PCB
Dormant after (years)	1	1	6 months	2	6 months	2
Dormancy fee (J$)	297.87	440*	30	155.32**	700	No charge
Fee cycle	Annually	After the 2nd, 5th & 7th year	Monthly	Monthly	One-time charge	NA
Customer recovery of fees	Non-refundable. Exceptions granted on case by case basis.	Refundable if account is reactivated.	Refundable	Refundable if account is reactivated.	Non-refundable	NA

Source: Respective Commercial Banks.

Notes: Information current as at June 2010.
* BNS charges $440 for balances which are less than $50,000 on personal accounts. A charge of $950 is applied to non-personal accounts with a balance less than $100,000.
**FCIB charges dormant fee on accounts with balance less than $35,000.