



Seminar for Micro-Finance Institutions
Assessing Competition in the Banking Sector¹

February 19, 2019

David Miller – Speaking Notes

We would like for you to understand the goals and objectives of this study (Assessing Competition in the Banking Sector) and that you are important to the process of shaping an appropriate framework for the “banking space”. For the purpose of this meeting I will refer to the banking sector and the work that is being undertaken as the “banking space”; as the term “banking sector” has a specific meaning in the minds of most market players and the general public.

The Consultancy for assessing competition in the banking sector is being undertaken by Menns SPRL and it is a collaborative effort between the Ministry of Finance & the Public Service (MFPS), the Bank of Jamaica (BOJ) and the Fair Trading Commission (FTC).

We at the FTC are competition practitioners & our job is to study the structure of markets; to examine aspects such as the players, their size, relationships between players & their suppliers, barriers to entry and exit. Generally, what is it that makes the market function & to see whether there are ways to make the market function more efficiently whether through legislation, policy or general advocacy. We ‘serve’ not only for the players but most importantly, for the benefit of consumers.

There is sufficient information that leads us to the view that Micro-Finance institutions (MFIs) are significant players in the ‘banking space’; and that MFIs do compete with traditional commercial banks. That MFIs have carved out a niche, that you serve consumers who are in need and that MFIs do operate profitably. Therefore, for a comprehensive assessment to be done, we have to speak with the players such as you, as you know the market, you know your business much better than we do.

¹The Seminar was held at the Ministry of Finance & the Public Service with Micro-Finance institutions and the Jamaica Association of Micro Financing Limited.

We gather data and information from you and use established tools, best practices of course, to predict the future state of the market. I am not speaking about a crystal ball. Its trends, behavioral patterns, empirical data that we use to inform us; and ultimately use to make recommendations on the most appropriate framework that should be put in place for the 'banking space'. This is not only us here in Jamaica. Its worldwide, established principles, concepts, tools to come up with this framework within which we would like for our market to operate. So we need your to help us to shape this framework.

I will now refer to the Terms of Reference for the Consultancy for a few critical points that guides their work; all of which is relevant to this discussion.

Background

- 1. A well-functioning financial sector is fundamental to support Jamaica's path towards enhanced competitiveness and private sector growth.** Low levels of competition and high intermediation costs in the banking sector can negatively affect economic activity and private sector development. Shallow markets and low access to basic financial services increases transaction costs, in particular for more vulnerable segments such as MSMEs and low income households.
- 2. The financial sector lags behind its regional peers in terms of competition.** Competition in the banking sector is low, with high concentration levels, and two banks holding over 75 percent of total assets and deposits. The banking sector was restructured following a severe financial crisis in the 1990s and this resulted in significant concentration. Furthermore, the market power of commercial banks, has increased over time.

Key Objectives of the Study

- 1. Low levels of competition in Jamaica have been identified as a key bottleneck to address financial sector deepening, expand access to finance and promote private sector growth.**
- 2. The objective of the study is to assess competition in the space/market in which commercial banks operate, identify bottlenecks and impediments and propose policy recommendations for improved competition.**

The analysis will compare indicators internationally (regional and peer countries) and within the domestic market, with special attention to bank size and market potential. In particular, the analysis will: (i) analyze overall competition levels in the banking sector; (ii) analyze and identify the key components and drivers of high interest rates and spreads in Jamaica; (iii)

analyze competition issues affecting usage of digital payment instruments; and (iv) propose policy recommendations to foster greater competition.

Dr. Kevin Harriott, Competition Bureau Chief of the FTC, will speak more on what we have seen in the “banking space” and how this has changed or evolved in the past decade. This is why we are here today as MFIs have made an impact on the traditional commercial banking sector; and we wish to use economics tools to estimate this impact and to guide policy in the future. We would like for you to tell us more about your business and we hope that you will share the data and information that our Consultants need, to run the analyses.

This is intended to be an open discussion and we look forward to the Q&A session.

Key questions to guide this study will focus on:

- a. What are the main factors explaining low competition outcomes in Jamaica? What are the barriers to entry and exit for the banking sector?
- b. What are the causes behind high interest rates and spreads in the country?
- c. Are there any specific bottlenecks to deepen usage of digital retail payment instruments? How does technology affect competition for the delivery of services?
- d. How can the authorities facilitate greater usage of financial products and services, technology and credit reporting?
- e. What interventions can policy makers undertake to foster greater competition?

Opportunities for all Market Players:

- 1. Development and usage of digital retail payments instruments is relatively low.** Although there is an increasing range of retail electronic payments available, cheques remain the most widely used non-cash payment instrument. The use of digital payment instruments, including card-, mobile- and internet-based, is low. While 65 per cent of Jamaicans report owning a debit card, just 25 per cent have used it in the past year. The penetration of non-traditional distribution channels, whether electronic or through mobile technology, remains limited.
- 2. BoJ is pushing forward a shift in electronic payments.** BoJ approved two pilot projects of non-bank payment service providers using mobile technology. In addition, BoJ is facilitating financial inclusion and providing an impetus to the use of retail electronic payments. In 2013, BoJ issued “Guidelines for Electronic Retail Payment Services”, permitting both banks and non-

bank payment service providers to provide retail electronic payments, including through agents. Simplified KYC requirements have been prescribed for users to avail retail electronic services from non-bank service providers.

By informing the study you will assist in shaping this framework and government policy. The market within which you operate, is dynamic. Things have changed and things will continue to change: the business landscape, technology, the nature and background, demographic if you will of your target market or segment that you serve.

We look forward to hearing from you.

Thank you