FAIR TRADING COMMISSION

Report on Local Banking Charges

FAIR COMPETITION DIVISION

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INTRODUCTION

1. The Fair Trading Commission (Commission) at Section 5 (1) (c) of the "Fair Competition Act CAP, 326C (the Act), is required to "*keep under review commercial activities to ensure that practices that may adversely affect the interests of consumers are prevented or terminated*". In view of this the Commission, having been contacted directly by a number of consumers as well as hearing the concerns raised made in various public discussions concerning the matter of alleged unfair commercial banking charges, agreed pursuant to Section 5 (1) of the Act to, on its own initiative[1], conduct an investigation into the same.

2. Specifically, the issues in this matter suggest that certain banking and interest charges are unreasonably high and unjustified, and appear to be the result of collusive practices by the commercial banks. In noting these concerns, the Commission began its inquiry looking specifically at the quantum of the charges, the frequency of their increases, the timing of their implementation, the similarity of their type, and other information that would indicate that the charges are being driven by anti-competitive trading practices.

3. Concerns regarding unfair banking charges are not unique to Barbados, investigations and research have been conducted by several countries to address these and other related concerns. In 2007, the European Commission completed an enquiry into retail banking in the European Community and found evidence

[1] Section 5 (1) of The fair Competition CAP. 326C gives the Fair Trading Commission the power to *(b)* carry out, on its own initiative such investigations or inquiries in relation to the conduct of trade.

of convergence of banks' prices and policies within member states.[2] In 2008, the South African Competition Commission conducted an extensive study which focused on competition in the banking sector with specific interest on the level and structure of charges imposed by banks. The Jamaica Fair Trading Commission in August 2006 also completed a study which looked at the nature and extent of competition in the banking industry with a special focus on the understanding of banking charges. Other countries such as the United Kingdom (UK), Canada and Ireland also examined their banking industries in relation to competition and banking charges.

4. In completing the study the Commission relied on statistical data collected from the commercial banks and other stakeholders, extensive interviews with all the banks, as well as customer surveys. Through this approach the investigation first sought to examine the structure and state of competition within the banking industry considering the relative market strengths of the various institutions and the extent to which they are likely to or unlikely to behave independently. Second, based on the charges most frequently complained about, the study examined a selected set of banking charges in an attempt to identify patterns or trends that would suggest that their determination and implementation were a function of anti-competitive trade practices. Finally, the study outlined recommendations to address some of the competition related concerns identified.

[2] Report on the retail banking sector inquiry - Commission Staff Working Document accompanying the Communication from the Commission – Sector, Inquiry under Art 17 of Regulation 1/2003 on retail banking (Final Report) [COM(2007) 33 final] SEC(2007) 106, 31 January 2007

APPLICATION OF THE FAIR COMPETITION ACT CAP 326C

5. The allegations made in this matter can be considered under Section 13 of the Act which explicitly addresses all trading practices and anti-competitive agreements in particular. Section 13 of the Act states that:

   All acts or trading practices prescribed or adopted by

   a) an enterprise;
   b) an association of enterprises; or
   c) a group of affiliated companies

   that result or are likely to result in the disruption or distortion of competition are prohibited.

6. Further Section 13 (2) states that:

   "[…] *all agreements between enterprises, trade practices or decisions of enterprises or organisations that have or are likely to have the effect of preventing, restricting or distorting competition in a market are prohibited and void."*

7. The Act goes on to state that without prejudice to the generality of the foregoing, agreements preventing competition include agreements that *"directly or indirectly fix purchase or selling prices or determine any other trading conditions" (Section 13.3.a).*

8. This section makes it clear that all agreements, trade practices or decisions that are likely to distort or restrict competition are in breach of the Act. The range of activities to which this section applies is quite broad. It categorically includes not only formal agreements signed by enterprises, but all agreements including informal agreements completed verbally. It also specifically includes all trading practices that though not constituting an actual agreement would by their nature have the effect of knowingly preventing, restricting or distorting competition among otherwise competing agencies.

9. The Barbados Act is not unique in this regard. Competition law enforcement, as far as anti-competitive agreements are concerned, generally adopts a very strict standard of application and very broad interpretation of what constitutes such conduct. Article 102 of the European Union Treaty for example, states that: "*the following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and* ***concerted practices*** *which may affect trade between member states and which have as their object or effect the prevention, restriction or distortion of competition within the common market,"* [emphasis added].

10. Article 102 covers all types of agreements including "*concerted practices*", probably the most intangible form of agreement. According to the European Court of Justice (ECJ) in ICI[3], "concerted practices" or "concertation" within the meaning of Article 102 is defined as:

    "[…] a form of coordination between undertakings which, without having reached the stage where an agreement properly so-called has been concluded, knowingly substitutes practical cooperation between them for the risks of competition".

11. The ECJ further added that:

    "a concerted practice does not have all the elements of a contract but may inter alia arise out of coordination which becomes apparent from the behaviour of the participants".

12. The Barbados legislation adopts an even broader standard, by indicating that *"all acts or trading practices"* that has the effect of knowingly substituting for or

[3] Imperial Chemicals Industries v Commission (48/69) 1972 ECR 619

eliminating competition would be prohibited, (this would be inclusive of any form of concerted action).

13. In the present case therefore, by virtue of Section 13 and the relevant case law, any agreement including conduct among the commercial banking community such as "conscious parallelism" where, one competitor would change its price and the others in the market would knowingly follow under an unspoken mutual understanding[4], would be prohibited under the Act.

14. The challenge for the competition authority is to determine whether the conduct of the participants are logical, intelligent and independent responses to the prevailing market circumstances or a form of 'concertation' that avoids competition.

[4] http://www.legal-explanations.com/index.htm

COMPETITION IN THE BANKING INDUSTRY

15. Several factors combine to determine the level of competition in any market. On the supply side these factors include; the number of firms in the market, the relative market power of those firms, the heterogeneity of the products supplied by the existing firms, the height of the barriers to entry of the market, the level of interaction of the firms, the structural linkages between the firms, and the symmetry of cost across the firms. On the demand side factors affecting competition include; elasticity of residual demand, consumer power, search costs and switching costs. In seeking to assess the state of competition in the local banking market, these factors are examined.

Relevant market

16. The "relevant market" for the purposes of this paper is defined, consistent with standard competition law principles, according to its product and geographic dimensions. The relevant product market includes the services which are regarded as interchangeable or substitutable by the consumer, by reason of their characteristics, their prices and their intended use[5]. On the other hand, the relevant geographic market consists of the area over which the service providers currently supply, or could supply the service and the area to which buyers can or would practically turn, to find substitutable sources of supply.

[5] European Commission Guidelines (2002/C 165/03)

17. Commercial Banks are generally recognised as part of a wider sector of financial services. *The Financial Institutions Act CAP, 324A* states that the financial services sector comprises *"commercial banks, trust companies, finance companies, merchant banks and brokerage houses"*. Credit Unions fall under the aegis of *the Co-operative Societies Act CAP, 378A (CSA)* and are regulated by the Financial Services Commission. The Financial Institutions Act describes "banking business" as:

"(a) receiving money from the public on current account, deposit account or other similar account and paying and collecting cheques drawn by or over a period by customers, and making advances to customers; or

18. While commercial banks are a part of a wider financial services sector, they are distinguished from other financial services primarily because of the wider range of services they provide. They offer a range of products or services including chequing and savings deposit accounts, bill payments, loans, mortgages, investment banking, credit cards, 24-hour ATM facilities, and lines of credit to businesses and individuals.

19. Trust companies, or merchant banks' main activities include the acceptance of deposits, the issuing of shares, the granting of loans, the collection of premiums, brokerage, investment adviser and the investment of funds. Unlike banks however a trust company is not allowed to offer facilities such as, chequing accounts, credit cards, and foreign exchange purchases.

20. Credit unions offer a closely matched range of services but are considered separate from the market of commercial banks because of ownership and focus. While banks are owned by private shareholders and are driven by profit, credit

unions are usually non-profit organisations, owned by the membership of the union, who hold accounts. This difference in focus dictates the variation in range and price of the products offered. An empirical study[6] for Barbados on relationships between credit unions and commercial banks found that they were not directly competitive in that the actions of credit unions did not significantly influence the reactions of the banks and visas versa. Banks earn most of their revenue from the interest and fees on business and consumer accounts, whereas credit unions focus on individual accounts, consumer deposits and small loans. The banks also offer chequing accounts, credit cards, foreign exchange services which the credit union does not.

21. The distinctions in terms of the unique range services they supply demarcates commercial or retail banking as a unique sector, defined geographically in the context of this report with respect to Barbados.

22. The relevant market of commercial banking in Barbados is currently served by five banks, following the merger of the Royal Bank of Canada (RBC) and RBTT Bank (Barbados) Limited (RBTT) in 2012. The other commercial banks in the defined market include Barbados National Bank (BNB), the Bank of Nova Scotia (BNS), Butterfield Bank (Barbados) Limited (BB) and FirstCaribbean International Bank (Barbados) (FCIB)[7].

[6] CBB Working Paper 2002-6 -An Empirical Examination Of The Relationship Between Commercial Banks And Credit Unions In A Small Open Economy By Anton Belgrave, Roland Craigwell And Winston Moore - Central Bank Of Barbados Research Department

[7] A brief description of the banks are set out below:

i. Barbados National Bank (BNB) was established by an Act of Barbados Parliament on March 20, 1978. On November 14 2000, as a limited liability company under the Companies Act, this bank was reincorporated as Barbados National Bank Inc. BNB is owned by the Republic Bank Limited of Trinidad & Tobago and operates only in Barbados. In this paper, the data obtained and used are comprise of the accounts of Barbados National Bank and its two subsidiaries BNB Finance & Trust Corporation and Barbados Mortgage Finance Company Ltd.

23. The Barbados commercial banking sector has undergone quite a dramatic transformation during the past decade. In 2000 the sector comprised seven entities. There were three Canadian banks (RBC, BNS and CIBC), two Barbadian owned banks (BNB, and the Mutual Bank of the Caribbean), one Trinidadian owned bank Caribbean Commercial Bank (CCB) and one British bank (Barclays Bank PLC).

- During the year 2002 CIBC West Indies Holdings and Barclays Bank PLC completed a merger from which has emerged FCIB as an indigenous Caribbean bank.
- In 2003, the Trinidadian owned bank, Republic Bank Limited purchased majority shareholding in Barbados National Bank, which is expected to be rebranded as Republic Bank (Barbados) Limited in July 2012[8].

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ii. Butterfield Bank (Barbados) Limited was established from the acquisition of The Mutual Bank of the Caribbean in December 2003 by the Butterfield Bank Group. It is a wholly owned subsidiary of Bank of N.T. Butterfield & Son Limited, a company registered in Bermuda. This bank has one distinguishable business segment, Butterfield Asset Management (Barbados) which is a local representative for the Group's investment business services whose function is to meet the asset and cash management needs of various companies such as captive insurance companies and international businesses.

iii. FirstCaribbean International Bank (Barbados) Limited is a subsidiary of FirstCaribbean International Bank. FirstCaribbean International Bank was established on October 31, 2001 from an agreement between Barclays Bank PLC and Canadian Imperial Bank of Commerce to combine Caribbean operations. This bank was incorporated in Barbados with CIBC and Barclays PLC being the major joint shareholders. As at December 22nd 2006, CIBC acquired Barclays' stake and became the majority shareholder in FirstCaribbean. In 2001 the Commission was not as yet established and the parties were subject to required approvals from the government of Barbados and the appropriate regulatory agencies.

iv. The first branch of Royal Bank of Canada ("RBC") was opened in Barbados on February 16, 1911 with a staff complement of three. By 1996 RBC Royal Bank of Canada, or its subsidiaries, had consolidated its operations with 1,190 employees in Antigua, the Bahamas, Barbados, Cayman Islands, Dominica, Montserrat, St. Kitts and St. Lucia.

v. RBTT Bank Barbados Limited (formerly Caribbean Commercial Bank Limited) was acquired by RBTT Financial Holdings Limited on June 24th 2004. This bank is a member of RBTT Financial Group. It has four branches.

vi. BNS Barbados commenced operation in Barbados in 1956. It is a member of the BNS's group of companies, Canada's leading international bank. This bank operates a network of eight branches. Internet banking was introduced in Barbados by BNS in 2003.

[8] Last accessed June 13, 2012 http://www.bnbbarbados.com/index.php?option=com_content&view=article&id=142&catid=1&Itemid=180

- In 2004 RBTT acquired the CCB[9] and The Mutual Bank of the Caribbean Inc. was acquired by Bank of Butterfield.

- In June 2008 RBC acquired RBTT Financial Group and in May 2012 the RBTT and RBC were amalgamated and now operates under a single legal entity, RBC Royal Bank (Barbados) Limited.

- In 2012 First Citizens a bank majority owned by the Trinidad and Tobago Government started acquisition of shares in Butterfield bank. Butterfield was subsequently acquired by First Citizens Bank.

Market Concentration

24. An assessment of the level of concentration in the market is important to establish the competitive pressures likely to be exerted on the firms in the market. A low market concentration implies a market with a high number of operating firms. The greater the number of firms, the greater in theory will be the competitive pressures in the market.

25. A formal estimate of concentration in the market can be determined through the use of the Herfindahl-Hirschman Index (HHI)[10] test. The HHI is a concentration-ratio test widely used by competition agencies to measure concentration ratios in

[9] Last accessed June 13, 2012 http://legacy.guardian.co.tt/archives/2004-05-19/business1.html

[10] The Herfindahl-Hirschman Index (HHI) is calculated by summing the squares of the market shares of all the firms engaged in the market.

$H = \sum_{i=1}^{N} s_i^2$ where s_i is the market share of firm i in the market, and N is the number of firms. Thus, in a market with two firms that each have 50 percent market share, the Herfindahl index equals $0.50^2 + 0.50^2 = 1 / 2$.The Herfindahl Index (H) ranges from $1 / N$ to one, where N is the number of firms in the market. Equivalently, if percents are used as whole numbers, as in 75 instead of 0.75, the index can range up to 100^2, or 10,000.

markets. The higher the HHI the more concentrated the market, and therefore the lower the competitive pressures faced by the competing firms. The HHI is calculated by summing the squares of the market shares of all the firms engaged in the market.

26. In estimating the relative concentration of market power in a given market, it is necessary to identify a variable that reflects the volume of commercial activity being undertaken by the different banks in the market. Three variables were considered, (i) total income[11], (ii) total financial assets and (iii) an estimate of customer accounts. These were considered useful indicators of the overall market activity undertaken by the banks and were used to estimate the relative concentration within the market for commercial banking services.

   i. The total current income of the banks was measured as, the net interest income from loan activity plus all other income. The total income of the entire market was measured as the summation of net interest income and other income across all banks. Net interest income from loan activity was calculated as the difference between interest income and interest expense. Interest income comprises interest earned from loans and advances, securities, investments and balances held at other banks and institutions. On the other hand, interest expense comprises interest paid on savings deposits, time deposits, demand deposits and balances held with banks and other financial

[11] This variable was extracted from the financial statements of the banks submitted to the Commission as well as reported in PricewaterhouseCoopers - Barbados Banking Industry 2009 Performance Highlights www.pwc.com/bb/en/publications/assets/BankingHighlights/Barbados_Banking_Highlights_2009.pdf

institutions. Other income comprises foreign exchange commissions, fees and other commissions received and rentals.

ii. Total financial assets were measured as total assets less property, plant and equipment. It included cash resources, securities, loans, customers' liability, guarantees and other assets. These were averaged for the years 2008 to 2011.

iii. The percentage share of customer accounts was derived from the customer survey[12] conducted. Customers were asked, with which banks they held an account, to get an idea of the institutions that they did some measure of business. These responses were then converted into relative percentage market shares of customer accounts.

27. The estimated market shares for the five banks were calculated based on these variables are provided in the table below. Using these relative market share estimates, HHIs were computed using each measure. The HHI calculated for total income, was 2282, that for total financial assets[13] was 2363 and that for the relative share of customer accounts was 2146. The concentration ratios were calculated using the current market structure of 5 banks since RBC and RBTT would have operated as subsidiaries of a common group even though not fully amalgamated.

[12] Between the months of January and June 2012, the Fair Trading Commission conducted an online and telephone interview survey of banks and banking perception in Barbados. The sample of respondents was taken from persons resident in Barbados. There were some 218 respondent to the survey.

[13] Cash resources, securities, loans, Customer' liability under acceptances, guarantees and letters of credit, other assets

Table 1. HHI based on Average Total Income (2007 – 2011)
Average Total Financial Assets (2008 – 2011)
Number of Customer Accounts (2012)

Bank	Percentage Market Share based on Average Total Income per Year (2007 – 2011)	Percentage Market Share based on Average Total Financial Assets per Year (2008 – 2011)	Percentage Market Share based on customer accounts 2012
BNS	23.0	18.8	22.1
BNB	26.0	20.8	20.9
RBC/RBTT	22.2	25.2	26.8
BB	5.2	5.1	10.2
FCIB	23.7	30.1	20.1
HHI	**2282**	**2363**	**2146**

* In June 2008 RBC acquired RBTT Financial Group and in May 2012 the RBTT and RBC were amalgamated and now operates under a single legal entity, RBC Royal Bank (Barbados) Limited

28. The internationally recognised threshold that normally is used to indicate whether there is cause for concern with respect to high concentration can be found in the Horizontal Merger Guidelines[14] used by the United States Federal Trade Commission and the US Department of Justice. Those guidelines indicate that:

[14] *See* Horizontal Merger Guidelines at Issued: August 19, 2010, U.S Department of Justice and the Federal Trade Commission. *See* Guidelines on the assessment of horizontal mergers under the Council regulation on the control of concentrations between undertakings at C 31/6. Official Journal of the European Union.

"Based on their experience, the Agencies generally classify markets into three types:

- *Unconcentrated Markets: HHI below 1500*
- *Moderately Concentrated Markets: HHI between 1500 and 2500*
- *Highly Concentrated Markets: HHI above 2500"*

29. The European Commission's Guidelines[15] on the assessment of horizontal mergers adopts somewhat lower thresholds but generally concerns are likely to be raised with regard to concentration levels above 2000. By this standard therefore the commercial banking market may be regarded as relatively concentrated, but not highly so, suggesting that there is limited competitive pressures on the existing banks.

Market Shares

30. One useful indicator of the extent to which competitive pressures are at work within a market is the extent to which the firms in the market are able to gain or lose market share over time.

31. A review of the market shares (calculated in terms of total income i.e. net interest income plus other income) over the past seven years (2005 – 2011) since the present configuration of banks indicate that the market shares in the industry have remained relatively stable over that time. The larger banks FCIB, BNB and BNS have retained their dominance over the period. Their combined share is approximately 73% of the market over the entire period. It must be noted

[15] Guidelines on the assessment of horizontal mergers under the Council Regulation on the control of concentrations between undertakings (2004/C 31/03)

> *"The Commission is unlikely to identify horizontal competition concerns in a market with a post-merger HHI below 1 000. Such markets normally do not require extensive analysis. 20. The Commission is also unlikely to identify horizontal competition concerns in a merger with a post-merger HHI between 1 000 and 2 000 and a delta below 250, or a merger with a post-merger HHI above 2 000 and a delta below 150"…*

however that following the merger of RBC and RBTT, its combined market share is now approximately 22% which makes them similar in size to the other three larger banks. Over the period BNS has made some gains in the market, which appears to be at the expense of FCIB, which has seen some loss in share over the same period. The shares of the others have hardly changed.

32. The continuing merger and acquisition activity in the market and the changes in relative market shares suggest a market with a measure of competition. The responses of the three smaller banks, that is, the recent merger of RBC and RBTT, and the acquisition of BB by First Citizens would appear to be a reaction to the long term competition for market share.

Table 2. Market Shares Calculated For Total Income For The Period 2004-2011[16]

Bank	Percentage (%) Market Shares						
	2005	2006	2007	2008	2009	2010	2011
BNS	19.7	18.8	19.8	22.4	23.5	26.1	27.4
BNB	25.5	26.8	27.2	26.8	25.9	24.5	22.6
RBTT	6.6	7.1	7.1	7.0	7.3	6.4	7.3
RBC	15.3	16.0	15.7	15.2	14.8	14.4	15.1
BB	5.0	5.1	4.5	5.0	5.3	5.4	5.0
FCIB	27.9	26.3	25.6	23.6	23.2	23.2	22.7

33. Currently BNS in terms of income generation appears to be the leading bank, followed by FCIB then BNB The market share analysis is supported by the results of the consumer survey[17] completed by the Commission.

34. An estimate of the banks where customers had at least one account showed about the same order as the market share information as derived from total income at the most recent year. The results of a survey indicated that of the

[16] The estimates are derived from the annual reports of the commercial banks as well as: Barbados Banking Industry-2009 Performance Highlights -www.pwc.com/bb/en/publications/assets/BankingHighlights/Barbados_Banking_Highlights_2009.pdf

[17] The Commission conducted an online survey of a sample of persons resident in Barbados. They were two hundred and eighteen (218) responses. The questionnaire comprised of 6 basic questions which sought to capture the primary bank used by those who completed the survey, how satisfied they were with the service received from their primary bank, how many times within the past five years they had switched banks and how difficult was it to switch from their primary bank to another.

respondents 22.3% had at least one account at the BNS, 22.1% had at least one account at FCIB, 21.8% at BNB, 15.8% at RBC, 9.5% at RBTT and 8.5% at BB.

Table 3. Estimated Percentage Share of Consumer Accounts (2011/12)

COMMERCIAL BANK	Banks where customer has at least one account (%)	'Primary Bank' Where Customer makes most Transactions (%)
BNS	22.3	26.3
BNB	21.8	15.5
RBTT	9.5	3.8
RBC	15.8	19.7
BB	8.5	9.4
FCIB	22.1	25.4

35. With the recent merger of RBC and RBTT the merged entity would now be vying with BNS and FCIB as the largest bank in the market. An examination of the survey's results also reveal that while several customers held accounts with BNB, several of these transacted most of their business at another bank or considered another bank as their primary bank[18]. BNS and FCIB were the primary banks of choice among the respondents, with the merged (RBC/RBTT) comfortably occupying third position in this context. Some 26.3% of the respondents

[18] Respondents were told that the bank with which they conducted the most of their banking transactions should be identified as their primary bank.

identified BNS as their primary bank followed by 25.4% identifying FCIB as theirs, then RBC/RBTT 23.5%, BNB at 15.5% and BB at 9.4%.

Barriers to New Entry

36. It is important to determine the extent to which the prevailing market structure is likely to remain in place. This is largely a function of the strength of the existing barriers to entry that insulate these competitors and prevent new entrants from being able to change the market dynamics. Barriers to entry are features of the market that place an efficient new entrant at a significant disadvantage compared to the existing firms. These features include high sunk costs, economies of scale, high levels of product differentiation and brand loyalty, access to scare resources controlled by incumbent firms, legal or regulatory restrictions, and/or the possibility of retaliatory action by powerful incumbents. Some of the barriers thought relevant to the local market are discussed below.

Legal/Regulatory Requirements

37. There are a number of statutory requirements that must be met in order for one to operate as a commercial bank in Barbados. As prescribed in the Financial Institutions Act, one must first be a corporate body. Second one must obtain the requisite banking license as issued by the Minister of Finance. In order to obtain a license one must, in the case of a Barbados bank, have the stated capital or in the case of a foreign bank, the assigned capital of at least $4,000,000. In addition the licensee shall not, at any time, have a capital adequacy ratio of less than such percentage as may be prescribed and calculated in such manner as may be prescribed.

Economies of Scale and Scope[19]

38. Several major research studies have demonstrated that there are significant economies of scale in the banking industry. One recent study[20] using data from the United States stated that; *"the consensus of these earlier studies was that only small banks had the potential for significant scale efficiency gains and the gains were usually small, on the order of 5 percent of costs or less. But more recent studies, using data from the 1990s and 2000s and models of bank production that incorporate risk management aspects of banking, find significant scale economies at even the largest banks in the sample"*. The results of these studies[21] confirm that a new entrant will have to generate significant size relative to its incumbent competitors before it is able to realise the cost savings that would be competitively feasible. For example a new entrant will be required to invest in substantial infrastructure including equipment, plant, and operating systems, before it could feasibly supply the service.

39. This sunk infrastructural cost represents a significant barrier to entry because of the large investments required to provide efficient service, little of which would be recovered if a new entrant was unable to remain in the market *(Hoffmann-La Roche v Commission)*[22]. In addition the economies of scale already earned by the established incumbent banks will require that the new entrant price competitively and this will make it difficult for those new entrants to recover their sunk costs quickly at such rates.

[19] Economies of scale allow a company to lower its average cost per unit through increased production because fixed costs are shared over an increased number of goods. Economies of scope is a related concept that refers to situations where a company's average total cost of production decreases as a result of increasing the number of different goods produced.

[20] Scale Economies in Banking and Financial Regulatory Reform - *Loretta J. Mester - Federal Reserve Bank of Philadelphia and The Wharton School, University of Pennsylvania - Published September 1, 2010*

[21] 1) FRBSF Economic Letter - **2005-29; November 4, 2005, Economies of Scale and Continuing Consolidation of Credit Unions.** 2) FRBSF Economic Letter - 2004-15; June 18, 2004, Banking Consolidation

[22] Case 85/76, Hoffmann-La Roche [1979] ECR 461

40. The barriers to new entry for the commercial banking sector appear high. Not only with respect to the formal regulatory barriers and the necessary economies of scale required to be competitive, but also the fact that the market, given the limited movement in market share over time, appears well settled with the penchant for switching among consumers seemingly quite weak. This would be a considerable challenge for any new entrant to overcome, and reinforces the ability of the incumbent banks to exercise significant power within their differentiated product lines without major threat.

Interest Charges

41. Nevertheless, the changes in market share demonstrate that over the recent past there has been some measure of competition taking place within the industry. The movement in market share suggests that there are areas wherein some banks have been able to out-perform their rivals and thereby seize a greater share of banking activity. These areas of service may include such factors as, superior customer service, more competitive rates or better quality products. To assess the factors that are driving that competition over the same period, we sought to examine the prices (interest rates, service fees) charged by the banks for the main services they provide.

Personal Loans

42. Most banks tend to carry one interest rate for all types of personal loans including medical bills, education, travelling furniture and appliances. In the table below we look at the rates for personal loans for furniture and appliances and find that the rates for most banks showed decreases over the period, except

for BNB, whose rates increased from 11% to 14% and 14% to 16% for secured and unsecured loans respectively. On average the other banks showed decreases of approximately 2 percentage points over the same period. In this area RBC appeared to carry the lowest rates quite consistently over the period, whilst those for FCIB tended to be the highest on the market. There has been significant activity in this area as all the banks have initiated a number of charges sometimes offering various combinations and rates within a single year.

Table 4 Interest Rates on Personal Loans (Furniture and Appliances) 2006 - 2011

Bank		2011	2010	2009	2008	2007	2006
BNB	Secured	14.0	14.0	14.0	11.0	11.0	11.0
	Unsecured	16 .0	16	16	14.0	14.0	14.0
RBTT		9.25	9.25	9.75	10.8	11.25	9.75
RBC		8.00	8.00	9.5	10	10.5	10.25
BB		9.5*	9.1*	9.1*	10.45*	10.85*	10.5
FCIB		15.75	15.75	17.25	17.25	17.75	18.25
BNS		13.88	13.88	13.88	15.25	15.25	15.25

*Average

Used Vehicles

43. The interest rates for the purchase of used vehicles showed increases for BNB, RBTT and RBC. FCIB was the one entity that showed a material decrease in its rates on the purchase of used vehicles over the period 2006 to present. Importantly however its rates were higher than the market average and only

since a decrease in 2010 are they now comparable to the other banks. The rates for RBC have tended to be the lowest on the market until the period 2009 -2010 when its rates went to 12.4% from 8.75%. BNS's rates for used car loans have tended to be consistently between 11.25% and 11.6% for the period which is currently at the lower end of the market.

Table 5 **Interest Rates on Used Vehicles 2006 - 2011**

Bank	2011	2010	2009	2008	2007	2006
BNB	14.0	14.0	10.5	10.5	10.5	10.5
RBTT	12.4*	12.4	9.75	10.8	11.25	10.5
RBC	12.4	12.4	8.75	10.1	10.5	10.25
BB	n/a	n/a	n/a	n/a	n/a	n/a
FCIB	11.25	11.25	12.75	12.75	13.5	14.0
BNS	11.6	11.6	11.6	11.25	11.25	11.25

*Average

New Vehicles

44. There tended to be much activity in this area of interest rates for the purchase of new vehicles. The banks all tended to offer a variety of packages. The rates across all the banks have decreased for new cars over the period except for BNB which showed an increase of three percentage points going from 9.25% in 2006 to 12.5% currently. The average decrease is approximately one percentage point. BNS, along with FCIB appear to be consistently at the low end of the scale.

Table 6 **Interest Rates on New Vehicles**
2006 - 2011

Bank	2011	2010	2009	2008	2007	2006
BNB	12.5	12.5	12.5	12.8	13.45	9.25
RBTT	10.0	10.0	10.25	11.25	11.25	10.25
RBC	10.0	10.0	9.5	10.5	10.75	10.5
BB	8.7*	8.7*	9.9	10.9	10.9	10.7
FCIB	10.0	10.0	11.0	11.0	12.5	12.5
BNS	10.25	10.25	10.25	11.0	11.0	11.0

* Prime Rate Upper Limit

Land

45. Interest rates for the purchase of land are at most institutions now approximately 7.5%. This represents a decrease for most banks over the period 2006 to present. These rates have shown small decreases of approximately 1.0 percentage points over the period. BNS has consistently carried a rate of approximately 7.75% over the period which is at the lower end of the scale.

Table 7. Interest Rates on Land 2006 - 2011

Bank		2011	2010	2009	2008	2007	2006
BNB	Up to $150,000	11.5*	10.2	10.7	11.3	11.95	11.7
	Over 150,000	11.5*	9.7	10.2	10.8	11.45	11.2
RBTT		7.5	10.5	10.5	0	0	0
RBC		7.5	7	7.8	9.1	9.25	8.75
Butterfield		n/a	n/a	n/a	n/a	n/a	n/a
FCIB		7	7	8.25	8.25	8	8.5
BNS		7.75	7.75	7.75	8.75	8.25	7.75

* Up to 90% financing

Mortgages

46. Both fixed and variable mortgage rates have decreased over the period. Variable rates which were approximately 7.5% six years ago are approximately 6.0% currently. The rates have been declining consistently across all the banks reflecting likely competitive pressures in this area. The fixed rates for mortgages have tended to behave similarly to the variable rates, with the current market estimate being around 6.5% generally down from 7.5% five years ago.

Table 8. Variable Mortgage Rates (2006 – 2011)

Bank	2011	2010	2009	2008	2007	2006
BNB	6.5	6.5	6.5	7.5*	8.5	7.5
RBTT	6.0	6.7	6.7	7.7	0	0
RBC	6.0	5.5	5.5	7.25	7.25	7.75
BB	6.25	6.25	6.25	7.5	0	0
FCIB	6.0	6.0	7.49	7.49	0	0
BNS	6.0	6.0	6.00	7.25	6.75	6.25

*Average

Table 9. **Fixed Mortgage Rates 2006 - 2011**

Bank	2011	2010	2009	2008	2007	2006
BNB	-	5.72*	-	7.5*	-	-
RBTT	0	0	0	0	0	0
RBC	6.75	6.5	6.5	7.75	7.75	8.0
BB	6.45	6.45	6.45	7.45	7.5	7.5
FCIB	6.5	6.5	0	0	0	0
BNS	6.75	6.75	6.75	7.75	7.25	6.75

* Fixed 2 Terms

47. It is evident from the significant amount of activity around interest rates that this has tended to be an area where banks have placed a substantial degree of their competitive interest. This is also the area where the banks face competitive pressure from the other financial institutions (credit unions and finance companies) that offer similar products.

48. Interest rate activity reflects a measure of competitive activity occurring within the market. The banks offer a varied and ever changing array of packages aimed at attracting customers. The movement in interest rates support the relative market share distribution observed over the period, as a composite of rates shows that BNS's rates have tended to be slightly lower than the competition.

Consumer Mobility

49. One useful indicator of the extent to which there is effective competition within a banking industry is the frequency with which customers switch banks when attracted by the different product offers. In an attempt to gauge the mobility of

consumers the Commission questioned the banks with regard to the policy of "tying"[23] customers. Tying is a practice that seeks to tie a customer to the bank with the understanding that over time the customer will purchase all their everyday banking services from that bank. However, this practice is only considered anti-competitive in a market where the company practicing tying is dominant.

50. In the survey of the commercial banks, the banks were asked if they tied current accounts to consumer loans, or tied insurance policies to mortgage loans. None of the banks indicated that they tied insurance policies to mortgage loans. Only one bank requires that a customer open a current account in order to obtain a loan. None of the other banks communicated that it was a requirement, but all of them indicated that customers were encouraged to open current accounts at the time at which they secured a loan to minimise the risks of default.

51. The results of the customer survey showed that customers are very reluctant to switch banks in Barbados. The information showed that within the past five years 77.8%, of customers has maintained the same primary bank, 16.4% of the customers switched their banks once and only 4.8% have switched more than once.

52. A customer therefore, once securing a loan may feel obliged to become attached to the bank where this policy exists. This practice was found in the EU to be widespread in most member states and contributed to reduced customer choice, a weakening of competition between banks because of increased switching costs,

[23] "tied selling" means any practice whereby a supplier of goods or services , *(a)* as a condition of supplying the goods or services to a customer, requires the customer to (i) acquire any other goods or services from the supplier or the nominee;

discouraging of new firms into the market and increasing the banks' power in the market place to influence prices[24].

53. When asked if it was difficult to switch banks the majority (67.1%) of those who responded to that question indicated that it was not difficult to switch, however (16.2%) thought that it was difficult in one way or another. Switching difficulties were identified in regard to, the amount of information required to open a new account, the fact that they had significant debt with their current bank and the psychological hassle of changing payroll deductions and standing orders etc.

54. In explaining the negligible degree of switching between banks by customers, it may be safe to conclude that most customers having made their choice of bank are not keen to switch because they are relatively satisfied. Most customers (51.5%) indicated that they were "fairly satisfied" with their primary bank, whilst others (9.7%) because of the challenges associated with the process of switching may feel somewhat tied to their current bank.

Nature of Competition in Industry

55. In summary the market for commercial banking can be defined as a differentiated oligopoly. Oligopolies are markets where profit maximising competitors set their strategies by paying close attention to how their rivals are likely to react. The market satisfies all of the classic criteria of such industries, for example:

- The market is moderately concentrated with competition taking place between a small numbers of firms servicing a large number of consumers.

[24] *Ibid*., p. 3

- There are relatively high barriers to entry which facilitates the maintenance of the existing market structure.
- The firms offer similar but differentiated products at similar prices and appear to have retained their respective market shares in large measure quite consistently over the past eight years.
- The banks do compete with respect to interest rates on loans as reflected in their product offers and rate changes. The product options and rate changes in regard to new and used car loans are quite varied. Other rates on land and mortgages have also decreased over the period under review demonstrating some competitive pressure.
- The banks compete less vigorously with respect to bank charges. A review of a sample of bank charges for the period 2006 to present (Appendix 1.1 to 1.6) reveal starkly different behaviour to what is happening with regard to interest rates. Bank charges for the selected services showed virtually no change over the same period. Rarely did the banks attempt to vary or decrease bank charges at any time in order to attract customers.
- There is very limited customer mobility in the industry, switching is very rare as evidenced by the low number of customers which have changed their bank in recent years.

56. In summary, one may conclude that there is some measure of competition within the industry. This has tended to occur around interest rate offers for new and used vehicles and also with regard to mortgages. Customers are attracted via a variety of loan offers and retained for as long as possible. While there is some competition in the market, the limited mobility of customers may pose a threat because it reduces the elasticity of demand faced by the banks. This may

increase their market power and would therefore make it possible for them to set higher prices for their established customers. It is also especially threatening for potential new entrants as well as the smaller banks seeking to expand, because customers are already tied to a particular institution. It is likely therefore that the small or potential new banks will themselves pursue strategies of tying their existing customers and increasing the product fees on those customers. This is a similar finding to that observed in the European Commission's and several other studies on retail banking discussed below.

BANKING CHARGES

57. Banks have stated that they charge fees for the services they provide to the customer. These fees can take many forms – they often include but are not limited to:
    - monthly charges for the servicing an account
    - charges for specific transactions or
    - charges for exceeding authorised overdraft limits.

58. Reports from international banking associations such as the Canadian Banking Association (CBA) suggest that although banking charges were not always explicitly stated, customers were always charged for the related services. It was suggested that in the past, people taking out loans paid a relatively higher rate of interest, which covered the cost of their own transaction account and the transaction services used by other customers who did not have loans and this higher interest rate subsidised the cost of providing other services which are now charged to customers. The CBA further stated that this environment for subsidisation of charges changed when new mortgage providers entered the market and undercut bank interest rates. To remain competitive, banks lowered their interest rate margins, which meant a better deal for borrowers, but also a reduction in cross subsidisation, as service fees were introduced for banking products.

59. In recent years, there have been many complaints relating to these charges worldwide. Studies have been done in several countries, as mentioned earlier, because of complaints emanating from concerned customers.

Studies on Banking Charges

United Kingdom

60. In the United Kingdom for example, the Office of Fair Trading carried out a market study on personal current accounts, with one of its main purposes being the level and incidence of charges associated with unarranged overdrafts and low levels of price and cost transparency as it related to these charges. The study found that there was much complexity and lack of control over unarranged overdraft charges combined with very low levels of transparency of charges and other costs.

South Africa Competition Commission (SACC)

61. In August 2006, after two[25] previous studies on the banking sector, the SACC commenced an in-depth enquiry into the banking sector in South Africa. The Enquiry which lasted two years recommended a number of reforms including:
    a. specific standards and criteria[26] for transparency and disclosure
    b. Measures to reduce search costs and improve the comparability of banks' product offerings and prices
    c. Measures to reduce switching costs and assist consumers switching
    d. Expand the mandate of the Ombudsman for Banking Services

[25] Feasibility Research Report entitled *The National Payment System and Competition in the Banking Sector* was completed and handed to the Competition Commissioner during March 2006.
A Task Group was established by the National Treasury to undertake a study entitled *Competition in South African Banking.* It was released in April 2004.

[26] This code should at least include criteria regarding:
- Standardisation of terminology and a "plain language" requirement
- Communication and provision of information to clients
- A requirement for at least certain minimum information to be included in bank statements
- A summary and breakdown of charges and interest (both debit and credit) on every account
- Advance notice of new charges and altered charges
- A regular rights reminder to customers.

The code on transparency and disclosure should be subject to a process of periodic review.

e. A cap to be imposed on the price of processing rejected debit orders
f. Replacement of the current inter-bank pricing system of carriage to a model of direct charging in the ATM stream

Northern Ireland

62. In 2004 the Competition Commission (CC) in Northern Ireland investigated the extent to which features of the supply of personal current account banking services market, either alone or in combination, prevented, restricted or distorted competition in connection with the supply or acquisition of any goods and services in Northern Ireland. The CC found that generally:
    - banks had unduly complex charging structures and practices
    - banks did not fully or sufficiently explain their charging structures and practices and
    - customers generally did not actively search for alternative Personal Current Accounts (PCA) or switch bank.

    In order to alleviate these concerns found in the study, the report proposed a package of remedies to be implemented by Order[27] including:
    - *easy-to-understand terminology and descriptions of PCA services*
    - *explanations of the levels of charges and interest rates and how and when they are applied*
    - *information on statements*
    - *annual summary and breakdown of charges and interest*
    - *advance notice of charges and debit interest incurred*

[27] On 22 November 2007 the CC gave notice of its intention to make this order in accordance with paragraph 2 of Schedule 10 to the Act as applied by section 165 of the Act where it implemented a remedy package

- *regular 'switching rights reminder'*
- *changes to the switching process*

<u>*Jamaica*</u>

63. The Jamaica Fair Trading Commission also conducted a study to assess the nature and extent of competition in the commercial banking sector in Jamaica. The study focused particularly 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. In examining the sector they found that

a) it is unlikely that any individual bank, without collaborating with at least one other bank, could hinder competition;

b) 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

c) without improvement in information available to consumers, they are unlikely to mitigate attempts by any bank, or group of banks, to hinder competition

In order to combat some of factors found which may hinder competition in the sector, it was recommended that:

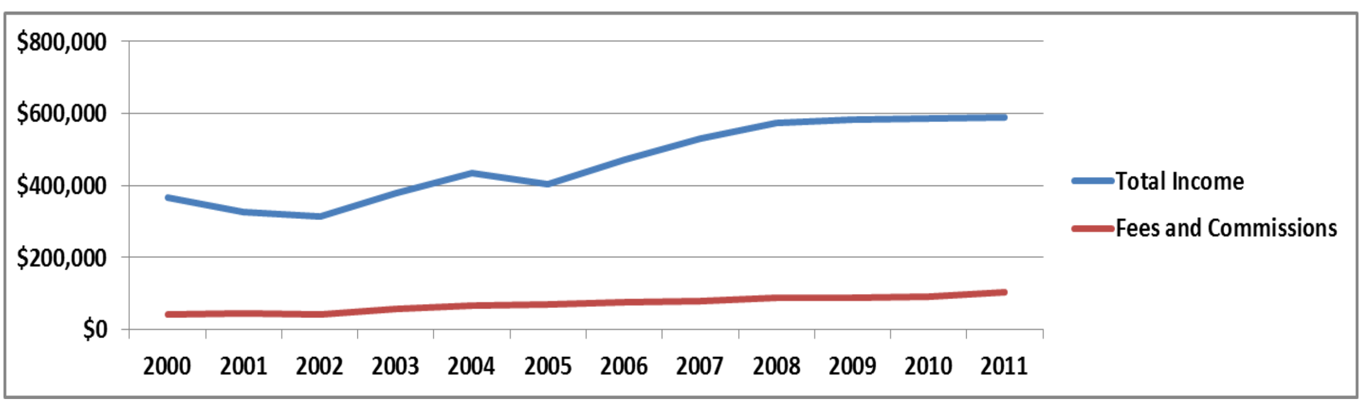
a. Mechanisms should be put in place to ensure that banks provide adequate information on their services.
b. Facilities should be put in place to make it easier for consumers to access information about banking services.
c. Mechanisms should be put in place to make it easier for banks to access customer information.

64. In Barbados data for the years 2000-2011 (Table 10) show that banking charges account for on average, approximately 15.2% of the total income (Net Interest Income + Other Income) of the commercial banks as reported in their financial statements. It is important to note however that the estimate of fees and Commissions as listed in the statements does includes commissions such as those earned for negotiations on the behalf of third parties. Total income over the period 2000 to 2011 increased by approximately 60.9%, while that of fees and commissions increased by 143.6%.

Table 10. Total Income vs Fees and Commissions (2000 – 2011)

All Banks	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total Income	$366,428	$327,250	$314,831	$377,701	$435,316	$402,370	$471,926	$530,891	$573,447	$582,176	$584,902	$589,477
Fees and Commissions	$42,823	$45,466	$42,002	$58,896	$68,099	$71,026	$75,053	$77,554	$88,041	$88,392	$92,972	$104,304
Fees and Commission Percentages of Total Income	11.69%	13.89%	13.34%	15.59%	15.64%	17.65%	15.90%	14.61%	15.35%	15.18%	15.90%	17.69%

Graph 1. Fees and Commissions vs Total Income (2000 – 2011)



65. Banks are required to offer a range of everyday banking services such as credit card facilitation, foreign exchange transactions, and chequing which the other financial institutions do not. The Banks indicated that there are significant costs attached to delivering these everyday banking services normally demanded by the customer. The tasks involved in providing these services will typically include: the authentication of the involved parties, validation of payment instruments, verification of payers' abilities to pay, authorisation of transfer between payers' banks and the payees' banks, information transmission between the banks, and clearing and settlement. In addition to these costs the banks were quick to identify expenses such as wages and salaries paid, infrastructural costs, outsourcing, materials, risk and taxes. It is within this context that the banks have explained the need to impose certain charges to recover the costs of providing their services.

66. The information provided by the banks suggests that there are two basic types of charges. Those instituted primarily for deterrent purposes and those instituted largely to recover the cost of providing the particular service.

67. Charges instituted primarily to recover costs can be separated in terms of costs driven by the usage of internal resources of the institution, and those driven by the usage of external resources utilised by the bank in providing a service. This is an important distinction because it establishes the extent to which either, the bank on its own determines the final estimate of the charge to be levied on the customer, or whether the final estimate is largely driven by the amount needed to compensate the external party engaged to facilitate the service. Some of the more contentious fees as determined by consumer complaint were examined

within the context of the distinctions identified above.

Deterrent Charges

68. The banks indicated that some of their charges are largely intended to drive behaviour. The primary basis of these charges is to have customers behave in a particular way, in order to allow the bank to operate more effectively and efficiently. Deterrent charges therefore, while often carrying some element of cost recovery in their makeup, may deviate significantly from the cost of the service provided. The quantum of these charges is more likely to reflect the importance placed by the bank on correcting or influencing the behaviour of customers. In this respect there is an element of arbitrariness associated with these charges. Two examples of these types of charges would be the "Minimum Balance" charge and the "Over-the-Counter withdrawal" charge.

Minimum Balance Charges

69. Most of the banks enforce a minimum monthly balance on some version of regular savings accounts. Customers whose balances go below that minimum are charged a small monthly fee. The amounts charged are intended to deter the customers from allowing their balances to fall below the minimum amount. The banks explained that this charge is necessary because the banks incur considerable costs in having to service these accounts. Servicing the accounts involves *inter alia*: checking the account balances daily, updating them to reflect daily transactions, determining the levels of interest accrued and conducting overall reconciliations. These activities generate significant costs, in terms of the

time and effort of the staff that have to be deployed. The lower the balance in the account the more of a net loss it represents to the bank hence the basis for imposing the charge.

70. Most banks, in addition to requiring a minimum balance on regular savings accounts will require minimum balances to be kept on a special savings or savings plus account. These usually carry a few additional opportunities to make over-the-counter withdrawals or other benefits compared to the regular savings accounts. Customers will usually be charged greater fees if their balances fall below the minimum on these special savings accounts.

71. Some banks describe the application of this charge to the customer as a case of "*the fee being waived if the balance is maintained*", an alternative application that achieves the same result.

Table 11 **Minimum Balance Saving Accounts Charges 2011/2012**

($BDS)

Charges	FCIB	BNS	BNB	RBC	BB	RBTT
Regular Saving - Minimum Monthly Balance	1,000.00	2,500.00[Sco1]	300.00[BNB]	500.00[RBC]	500.00	500.00
Monthly Fee for falling below the Minimum	10.00	15.00 [Sco2]	0	2.50 [RBC]	2.00	2.00

Sco1 - Primary Plan - Everyday Banking
Sco2 - Primary Plan - Everyday Banking - No fee for falling below balance. Fee is waived if balance is maintained
RBC - Customer Service Representative withdrawal resulting in balance falling below $500
BNB - Minimum Balance below which no interest is accrued

72. The amounts of these minimum balances vary across the banks depending on whether the plans are regular savings accounts or special savings plans. They range from no minimum balance to $1,000 for the regular savings plans and up to $5,000[28] for a special savings plan. Three banks (RBC, BB, and RBTT) have set their minimum balances at $500 and charge $2.00 for falling below this minimum. In the case of RBTT the monthly charge is $2.50. BNS's Primary Saving's Account carries no minimum balance, but its "Primary Plan - Every Day Banking[29]" has a minimum balance of $2,500.00, for which "the fee is waived if the balance is maintained".

73. The charges for falling below these minimum balances across the banks therefore are quite varied, ranging from no charge to $10 per month for the regular savings account. It is clear however that this policy of penalising customers for falling below some minimum balance is consistently applied across all of the institutions.

74. In the interviews completed with the banks, it was acknowledged that there is limited public information provided by the institutions with respect to the basis for these charges. The consumer survey supported this finding, with only 28.5% of persons indicating that they were aware of the charges and of those who were aware of the charges only 30.8% were aware of the purpose for the imposition of them. Approximately 69.2% indicated that they did not know why they were charged that fee. This means that they would be even less likely to be able to compare and contrast the offers across and even within the institutions.

[28] There are special savings plans which can require minimum balance of $25,000 monthly, but these are not utilized by the average customer and therefore were not considered within the scope of this review.
[29] Allows for unlimited electronic plus 5 in branch or cheque transactions

75. This general lack of transparency can be a hindrance to competition. In addition to not being aware of the purpose of the charges the quite diverse means of presentation of charges across the banks as well as the language used in some cases must be very daunting to the average customer, making the ability to compare across institutions very difficult.

Over-The-Counter Withdrawals Charge

76. The charges for over-the-counter withdrawals are generally meant to drive behaviour. The charges are intended to deter customers from entering the bank to pay utility bills and make routine deposits and withdrawals. They are meant rather to encourage the customer to use the "alternate delivery channels" like the internet and ATMs to make their everyday transactions. The banks indicated that the charge is necessary because customers entering the bank unnecessarily mean longer queues that must be served. These long lines create delays for other customers and negatively affect the quality of the service the banks are able to provide. In addition the banks indicated that they have invested significantly in the ATMs which are placed strategically and conveniently to facilitate quick withdrawals and deposits and it is important that these machines be effectively utilised.

Table 12 Savings Accounts Withdrawal Charges - 2011/12

$BDS

Savings Accounts Withdrawal Charges	FCIB	BNS	BNB	RBC	BB	RBTT
Withdrawals/Debits/Cheques – In Branch /over-the- counter	2.10	2.50	n/a*	0.00	1.50	0.00
Withdrawals/Debits/Cheques – Point of sale	2.10**	1.50	0.75	0.00	1.00	0.50
Deposits/Credits – In Branch/Over- the -Counter	0.00	0.00	0.00	0.00	0.00	0.00

* Republic Bank has since indicated that their fee is $2.00
**First two (2) free

77. In explaining the quantum of the withdrawal fees, the banks indicated that the amount charged is partly a reflection of the time and effort needed to complete the tasks calculated in terms of the salaried costs of the tellers serving the customers. The amount charged as declared by some banks is also a reflection of the competition. The Banks indicated that irrespective of the cost of delivering the service, they were unlikely to charge significantly higher than their competitors, in the interest of not pricing themselves 'out of the market' and risk losing market share.

78. The banks were asked whether their attempt to caution behaviour had achieved its purpose in driving persons to the ATMs. At least one bank indicated that some change of habit was being observed, as customers were frequenting the ATMs more however this was a slow process.

79. The charges for most of the banks in this area have remained unchanged while only a few have actually increased in some instances (Table 13). To the extent that an attempt to caution behaviour is an accurate assessment of the reasons for the maintenance or increase of the charge over the years, there is little if any public information available that explains this circumstance and gives the public an opportunity to curb its behaviour in order to avoid the particular charges. Customers (based on the survey results) are generally unaware of these charges or their purpose. There appears to be little notion that they are being driven more aggressively to the ATMs and the internet as a means of banking. Given this disconnect between the banks purpose for instituting the charge and the customers understanding of that purpose, there is little likelihood that the charges would achieve their intended purpose of changing customer behaviour. In light of the current situation it is likely that the banks may increase these charges to motivate customers to utilise the ATMs and the internet.

80. None of the banks charge the customer when he/she enters the bank to make an over-the-counter deposit, even though the relative cost in terms of teller time and effort remains the same.

81. There was again some variation in regard to the method of implementation of these charges specifically with regard to the number of free withdrawals allowed before the charges were incurred, but all of the banks impose this charge. The charges range from no charge to $2.50 for in-branch over-the-counter withdrawals and between $1.50 and $2.10 for point of sale withdrawals (Table 12). Increases in these charges were rare. In examining the rates over the past seven years there was only a 5% increase (Table 13) registered recently at one institution.

Table 13 Selected Banking Charges ($BDS) Regular Saving Accounts 2006 – 2011

	BANK	2011/2012	2010	2009	2008	2007	2006
Minimum Monthly Savings Balance to avoid monthly service fee	FCIB	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
	BNS	-	-	-	-	-	-
	BB	500.00	500.00	500.00	500.00	500.00	500.00
	RBC	500.00	500.00	500.00	500.00	500.00	500.00
	RBTT	-	-	-	-	-	-
	BNB	-	-	-	-	-	-
Monthly Service Fee for falling below the Minimum balance	FCIB	10.00	10.00	10.00	10.00	10.00	10.00
	BNS	-	-				
	BB	2.00	2.00	2.00	2.00	2.00	2.00
	RBC	2.50	2.50	2.50	2.50	2.50	2.50
	RBTT	-	-	-	-	-	-
	BNB	-	-	-	-	-	-
Withdrawals/Debits /Cheques – In Branch /over the counter	FCIB	2.10	2.00	2.00	2.00	2.00	2.00
	BNS	2.50	2.50	1.00	1.00	1.00	1.00
	BB	1.50	n/a	n/a	n/a	n/a	n/a
	RBC	-	-	-	-	-	-
	RBTT	2.00	n/a	n/a	n/a	n/a	n/a
	BNB	-	-	-	-	-	-
Withdrawals/Debits /Cheques – Point of sale	FCIB	2.10					
	BNS	1.50	1.50				
	BB	1.00	-	-	-	-	-
	RBC	-	1.00	1.00	1.00	1.00	1.00
	RBTT	0.50	0.50	0.50	0.50	0.50	0.50
	BNB	0.75	0.75	0.75	0.75	0.75	0.75

Cost Recovery Charges (Internally Driven)

82. Some of the charges are not designed to drive behaviour, but rather are primarily meant to recover the cost of particular services provided by the banks. These services cater to the everyday requests of the customer such as, the need to know the balance on an account, the need to transfer funds, or make payments. These types of services which include the establishment of standing orders and direct debits, facilitating account transfers and producing customer statements, can usually be provided to the customer without the need for the banks to significantly utilise external resources.

83. The fact that these services are intended primarily to recover costs and are internally driven suggests that their respective charges are likely to be a fair reflection of the internal costs of their delivery, and in so doing they may be considered a useful indicator of the relative efficiency of the banks' operations. These services require the banks to undertake several of the main processes identified above including, confirmation of the involved parties, verification of the payment instruments, confirmation of the ability to pay and authorisation of any transfer to meet the request. The banks can be said to apply an activity based costing methodology for arriving at the amounts to be charged. They indicated that they determined costs by identifying all of the activities required to deliver these services. The activities are then evaluated in terms of the time and skills used to complete them. In addition the costs of energy, equipment, and material are included in the estimate.

84. The nature of this approach to arriving at service charges does not lend itself to effective testing. The range of activities and items mentioned in determining costs however at times includes fixed costs incurred by the banks whether or not

the customer requires the particular service. In this regard it is possible that the rates determined do not reflect the marginal costs incurred by the banks in delivering the service.

Charges for Standing Orders/Account Transfers/Statements

85. Standing orders are instructions given by the customer to the bank, requiring the bank to pay a fixed amount, at specified intervals to a named account, such as a monthly loan payment. All of the banks have a charge for setting up and for making amendments to the standing order. The banks confirm that the tasks mentioned above are critical to the establishment and execution of standing order services.

86. Another charge of this type is Transfers which occur when the customer authorises his bank via written/faxed or telephone instructions to transfer funds from one account to another in order to cover a payment. These charges are not as frequently levied as the standing order charges.

87. Statement Charges are also of a largely internal nature. These are charges levied on customers when they request a written record of the balances on their accounts whether periodically or in a one off special request.

88. The charges for the various transactions in each of the categories of services identified though primarily driven by unique internal costs are almost uniform across the banking industry.

89. The charge for example, for making an internal transfer between accounts through a standing order is $10.00 across the industry. Similarly the fee for

external transfers locally is $10 for all except one institution. The fees for transfer of funds to overseas accounts are all set at $10.00 before stamp duty and wire transfers, except at one bank. FCIB is the only bank with a different charge in each case but their current charge was only introduced in 2011. Prior to 2011 their charges were exactly the same as the others.

Table 14 Charges for Standing Orders/Account Transfers/Statement(January 2012)

($BDS)

Standing Orders	FCIB	BNS	BNB	RBC	BB	RBTT
Set Up fee	20.00	10***	20.00	20.00	20.00	30.00
Amendment	10.00	N/A	10.00	N/C	10.00	N/C
Internal service (Loan payment/Annual Fees)	0.00	0.00	0.00	N/C	0.00	N/C
Internal service Between Other Accounts	10.00	10.00	10.00	10.00	10.00	$10.00
External – Transfer funds *locally*	20.00*	10.00	15.10**	10.00**	10.00*	$10.00*
External – Transfer funds *overseas*	20.00**	10.00	10.00	10.00*	10.00**	$10.00*

*Plus stamp duty
**plus stamp duty plus draft/wire fee
***Monthly charge -no separate set-up fee

($BDS)

Account Transfers	Current Charges					
	FCIB	BNS	BNB	RBC	BB	RBTT
By customer via ATM, telephone or online Banking	0	0	0	0	-	0
By Home Bank on written/faxed or telephone instructions	10.00	10.00	10.00	10.00	10.00	10.00

($BDS)

Statements	Current Charges					
	FCIB	BNS	BNB	RBC	BB	RBTT
Mailed/Regular/diary filled statement	-	-	-	0	0	0
Duplicate/Additional/Interim statement	25.00	10.00	15.00	20.00	10.00	25.00
Screen Print Photography	5.00	5.00	0.00	10.00	10.00	10.00
Held for collection at branch	15.00*	-	-	15.00-	10.00	20.00

90. These charges have been in place and unchanged for several years at all of the banks. Table 15 shows the uniformity of the prices across the banks for the past seven years. At BNB for instance the charge for Standing Orders between accounts has been in place since 1999 and at least over 5 years at the other banks.

Table 15 Selected Charges - Standing Order (2006 – 2012)

Charges	BANK	2011/2012	2010	2009	2008	2007	2006
Set Up fee	FCIB	20.00	10.00	10.00	10.00	10.00	10.00
	BNS	-	-	-	-	-	-
	BB	20.00	20.00	20.00	20.00	20.00	20.00
	RBC	20.00	20.00	20.00	20.00	20.00	20.00
	RBTT	30.00	30.00	30.00	30.00	30.00	30.00
	BNB	20.00	20.00	20.00	20.00	20.00	20.00
Amendment	FCIB	10.00	10.00	10.00	10.00	10.00	10.00
	BNS	-	-	-	-	-	-
	BB	10.00	10.00	10.00	10.00	10.00	10.00
	RBC	-	-	-	-	-	-
	RBTT	-	-	-	-	-	-
	BNB	10.00	n/a	n/a	n/a	n/a	n/a
Internal service Between Other Accounts	FCIB	10.00	10.00	10.00	10.00	10.00	10.00
	BNS	10.00	10.00	10.00	10.00	10.00	10.00
	BB	10.00	10.00	10.00	10.00	10.00	10.00
	RBC	10.00	10.00	10.00	10.00	10.00	10.00
	RBTT	n/a	n/a	n/a	n/a	n/a	n/a
	BNB	10.00	10.00	10.00	10.00	10.00	10.00
External – Transfer funds *locally*	FCIB	20.00	10.00	10.00	10.00	10.00	10.00
	BNS	10.00	10.00	10.00	10.00	10.00	10.00
	BB	10.00	10.00	10.00	10.00	10.00	10.00
	RBC	10.00	10.00	10.00	10.00	10.00	10.00
	RBTT	10.00	10.00	10.00	10.00	10.00	10.00
	BNB	15.10	10.10	10.10	10.10	10.10	10.10
External – Transfer funds *overseas*	FCIB	20.00	10.00	10.00	10.00	10.00	10.00
	BNS	10.00	10.00	10.00	10.00	10.00	10.00
	BB	10.00	10.00	10.00	10.00	10.00	10.00
	RBC		10.00	10.00	10.00	10.00	10.00
	RBTT	10.00	10.00	10.00	10.00	10.00	10.00
	BNB	10.00	20.00	20.00	20.00	20.00	20.00

91. It is likely that because the banks operate within a common economic environment that much of their operational costs will be similar. However over time given the independence and varied policy objectives and individual priorities of each bank, it is expected that their costs and strategies will divert leading to greater differences in the changes of their rates. Given that the rates are internally driven and not the main source of competition, these charges remain very similar.

92. It is likely however that where the practice for determining rates as communicated by the institutions, is through the monitoring of one's competitors to ensure that one remains competitive then the ensuing rates are likely to be uniform as they are in some cases or likely to display a small variation around a certain median.

Table 16 Statements Charges (2006 – 2012)

($BDS)

Charges	BANK	2011/12	2010	2009	2008	2007	2006
Duplicate/Additional/Interim statement	FCIB	25.00	25.00	25.00	25.00	25.00	25.00
	BNS	10.00	15.00	15.00	15.00	15.00	15.00
	BB	10.00	10.00	10.00	10.00	10.00	10.00
	RBC	20.00	20.00	20.00	20.00	20.00	20.00
	RBTT	20.00	25.00	25.00	25.00	25.00	25.00
	BNB	15.00	20.00	20.00	20.00	20.00	20.00
Screen Print Photography	FCIB	5.00	5.00	5.00	5.00	5.00	5.00
	BNS	5.00	5.00	5.00	5.00	5.00	5.00
	BB	5.00	10.00	10.00	10.00	10.00	10.00
	RBC	10.00	7.50	7.50	7.50	7.50	7.50
	RBTT	10.00					
	BNB	-					
Held for collection at branch	FCIB	15.00	15.00	15.00	15.00	15.00	15.00
	BNS	-	15.00	15.00	15.00	15.00	15.00
	BB	20.00	10.00	10.00	10.00	10.00	10.00
	RBC	-	-	-	-	-	-
	RBTT	-					
	BNB	-	10.00	10.00	10.00	10.00	10.00

Cost Recovery Charges (Externally Driven)

93. The banks also provide a number of services where they have to rely on and cooperate with external parties including their competitors in order to deliver the service effectively. These services include ATM and Credit card services. In

providing these services the bank is often constrained in setting their final charge by the amount of compensation owed to the external party. It is not uncommon in circumstances where competitors carry common underlying costs, for them to offer similar rates. However it would be useful to gauge if and when those underlying common costs change whether the competitors behave in the same way without consultation.

Automated Teller Machines (ATM) Charges

94. ATM charges are levied by the banks and the interbank networks on the customer for using the ATM. The ATM fee is made up of
    - the surcharge imposed by the owner of the machine and
    - the transaction fee charged by the bank issuing the card usually for conducting a transaction outside of their network of machines.

95. In Barbados the ATM service is facilitated by the Caribbean Integrated Financial Services Network (CarIFS)[30] . According to CarIFS its network *"links all the commercial Banks and two Credit Unions to switch balance enquiry, cash withdrawal and point of sale transactions between them".*

96. They indicated that their interaction therefore is *"with those entities and not with individual cardholders who are the actual users of the CarIFS, network. Fees charged to cardholders are imposed by their individual bank and vary from bank to bank. CarIFS also provides daily settlement services to its members as well as adjustments to those settlements when transactions are disputed".*

[30] See Trends and Prospects for the Debit Card Industry in Barbados, Winston Moore -

97. In Barbados the two main types of debit card transactions, are the automatic teller machine (ATM) transactions and point-of-sale (POS) transactions.

    (1) "With an ATM transaction, the consumer either withdraws cash or queries information about his/her account. In Barbados, the consumer can conduct ATM transactions through the CarIFs network at any ATM terminal. The consumer simply enters a personal identification number (PIN) to verify identity, the account is checked for adequate funds, and if everything is satisfactory, cash is issued.

    (2) *With the POS transaction, the CarIFS network facilitates consumer purchases of goods and services. With these types of transactions, the cardholder presents the debit card to a retailer initiating the transaction. The transaction travels over the debit network to the issuing bank, which checks the availability of funds in the user's deposit account. If the consumer has enough funds the bank authorises the transaction and his/her account is immediately debited for the amount of the transaction and the retailer's account is credited"* (Moore) [31].

<u>*ATM transaction:*</u>

98. An example of the flow of funds within one of these transactions is provided here for an explanation of the transaction. In this case the hypothetical issuer or the bank of the customer requesting the transaction is Bank X and the acquirer bank is Bank Y , the bank that owns the ATM from which the customer is either withdrawing money, requesting a balance or using the POS terminal):

99. A Bank X customer goes to a Bank Y ATM and makes a withdrawal. When the bank X customer inserts his card into the Bank Y ATM, the Bank Y ATM recognises that it is not a Bank Y card and its processor routes the transaction

[31] See Trends and Prospects for the Debit Card Industry in Barbados, Winston Moore -

through the CarIFS network which subsequently contacts Bank X's processor and obtains the correct bank information for the customer.

100. From Bank X's perspective – the customer is charged $1.00 (Table 17).

- bank X is also charged $0.46 (Table 19) by Bank Y for the use of Bank Y's ATM to accessBbank X's funds.
- bank X is also charged by CarIFS for facilitating the processing switch, $0.27 (Table 19).
- In total Bank X pays out $0.73 (Table 19).

For a POS transaction:

101. The Bank X customer goes to the Bank Y POS terminal and pays the merchant the required monies. When the Bank X customer swipes his card at the Bank Y POS terminal, the Bank Y POS terminal routes the transaction through the CarIFS network which subsequently contacts Bank X's processor and obtains the correct bank information for the customer.

102. The Bank X cardholder is charged a $1.50 fee (Table 17) by Bank X for using the POS terminal.

- Bank X as issuer pays CarIFS $0.02 (Table 20) for the use of its network to facilitate the transaction.
- Bank Y as acquirer also pays CarIFS $0.01 (Table 19) for the use of its network to facilitate the transaction. Note that Bank Y pays on behalf of its merchant (customer of Bank Y) for use of its POS terminal.

Table 17. Automatic Teller Machine Charges (January 2012)

Automatic Teller Machine	Charges ($BDS)					
	FCIB	BNS	BNB	RBC	BB	RBTT
New Issue/replacement of expired or stolen card	0.00	0.00	0.00	10.00	0.00	0.00
Replacement of lost card	20.00	0.00	7.50	10.00	20.00	0.00
ATM Deposits	0.00	0.00	0.00	0.00	0.00	0.00
ATM withdrawals at Home Bank	0.00	0.00	0.00	1.00	0.00	0.00
ATM withdrawals at Another Bank	1.25	1.00	1.00	1.00	1.00	1.50
Point of Sale purchases	0.50	1.50	0.75	0.00	0.00	0.50

Table 18. Automatic Banking Machine Service (Charges) (2006 – 2012)

Service	BANK	2011/12	2010	2009	2008	2007	2006
Replacement of lost card	FCIB	20.00	20.00	20.00	20.00	20.00	20.00
	BNS	-					
	BB	20.00	10.00	10.00	10.00	10.00	10.00
	RBC	10.00					
	RBTT	20.00					
	BNB	7.50	7.50	7.50	7.50	7.50	7.50
ATM withdrawals at Home Bank	FCIB	-	-	-	-	-	-
	BNS	-	-	-	-	-	-
	BB		-	-	-	-	-
	RBC	1.00	1.00	1.00	1.00	1.00	1.00
	RBTT	-	-	-	-	-	-
	BNB	-	-	-	-	-	-
ATM withdrawals at Another Bank	FCIB	1.25	1.00	1.00	1.00	1.00	1.00
	BNS	1.00					
	BB	1.00	1.00	1.00	1.00	1.00	1.00
	RBC	1.25	1.25	1.25	1.25	1.25	1.25
	RBTT	1.50	1.50	1.50	1.50	1.50	1.50
	BNB	1.00	1.00	1.00	1.00	1.00	1.00
Point of Sale purchases	FCIB	0.50	0.50	0.50	0.50	0.50	0.50
	BNS	1.50	1.50	1.50	1.50	1.50	1.50
	BB						
	RBC	-	-	-	-	-	-
	RBTT	0.50	0.50	0.50	0.50	0.50	0.50
	BNB	0.75	0.75	0.75	0.75	0.75	0.75

103. An examination of the various ATM charges (Table 6) demonstrates that the fees across the institutions vary slightly. For a Replacement card the charge is $20 at two of the six institutions. The rate for withdrawals ranges between $1.00 and $1.50, with four banks charging a rate of $1.00, while for Point of Sale purchases the rate tends to be more varied with two banks not charging for such transactions while another charges $1.50 per transaction. These rates have also been in place for several years. Table18 indicates that these rates have remained virtually the same for all banks over the past six years, except for at FCIB where the rate was actually increased by 25% in the past year.

Table 19. Debit Card Fees (2012)

Transaction Type	Issuer	Acquirer	CarIFS
Approved Withdrawal	*-$0.73*	*+$0.46*	*+$0.27*
Declined Withdrawal	*-$0.43*	*+$0.16*	*+$0.27*
Approved Balance Inquiry	*-$0.73*	*+$0.46*	*+$0.27*
Declined Balance Inquiry	*-$0.43*	*+$.0.16*	*+$0.27*

Table 20. Point Of Sales Transactions Fees (2012)

Transaction Type	Issuer	Acquirer	CarIFS
Approved Purchase	*-$0.02*	*-$0.01*	*+$0.03*
Declined Purchase	*-$0.03*	*-$0.00*	*+$0.03*
Appr. Purchase W/Cash Back	*-$0.02*	*-$0.01*	*+$0.03*
Dec. Purchase W/Cash Back	*-$0.03*	*-$0.00*	*+$0.03*

Table 21. CARIFs Debit Card and Point of Sales Transaction Fees (2000)

Debit Card Fees

Transaction Type	Issuer	Acquirer	Switch (CarIFS)
ATM Withdrawals (approved)	-$0.85	+$0.35	+$0.50
ATM Withdrawals (declined)	-$0.60	+$0.10	+$0.50
ATM Balance Inquiry (approved)	-$0.85	+$0.35	+$0.50
ATM Balance Inquiry (declined)	-$0.60	+$0.10	+$0.50
POS Purchase (approved)	-$0.23	-$0.23	+$0.46
POS Purchase (declined)	-$0.46	-$0.00	+$0.46

104. Continuing with our hypothetical example above we note that as of the year 2000 when a similar ATM transaction was undertaken (Table 21) the then charges per transaction paid by the customer's bank (Bank X) was $0.85 cents made up of ($0.35 to the other bank (Bank Y) and $0.50 to CarIFS, leaving Bank X with a net of $0.15 per transaction.

105. Based on the withdrawal scenarios described above, we noted that the current charge per transaction paid by the customers' bank (Bank X) in 2012 is 0.73 cents made up of (0.46 to the other bank (Bank Y) and 0.27 to CarIFS, leaving Bank X with a net also of $0.27.

Table 22. ATM Withdrawal Transaction

Year	Charge to Customer	Pay to Other Bank	Pay to CARIFs	Net Return for Bank
2000	1.00	0.35	0.50	0.15
2012	1.00	0.46	0.27	0.27

106. Over the years the transaction fee to the customer's home bank has fallen substantially from $0.85 to $0.73, or by 14%(Table 22). Alternatively the net return on the transaction before other expenses used to be $0.15, and is now $0.27 or an increase of 44.0%.

107. For a POS transaction the changes in cost have been even more dramatic.

108. Previously on the POS transaction mentioned above, the customer's home bank after charging the customer $1.50 would have incurred a cost of $0.23 paid to CarIFS to facilitate the transaction. Based on the current charges the customer's home bank now incurs a cost of only $0.03 per transaction. This represents an 87% reduction in this cost per transaction.

Table 23 POS Purchase Transaction

	Charge to Customer	Issuer to Carifs	Acquirer to CARIFs	Net Return for Bank
2000	1.50	0.23	0.23	1.04
2012	1.50	0.02	0.01	1.47

109. These decreases in the charges according to CarIFS have in the main been due to decreases in operational costs driven by increased economies of scale as the numbers of transactions have increased. CarIFS has pointed out that from their records that:

"on average in 2011:

580K transactions/mth – valued at Bds$73.185 million were switched between Members.

351K transactions/mth through 127 ATM's dispensed Bds$47 million in cash.

230K point of sale purchases at approximately 2,240 terminals to a value of Bds$27 million.

In December 2011 (alone), a total of 703,603 transactions were recorded. 387,727 @ ATM's for Bds$56 million in withdrawals – 315,876 @ POS terminals for Bds$39 million in purchases"

110. The number of transactions, the respective customer charges per transaction, and the significant decreasing costs for those transactions brings into perspective the relative net revenue grossed by the banks through these transactions.

111. In a competitive market, industry wide efficiency savings due to technology or other factors are normally passed on to the consumer. In the present circumstance it appears that no bank has attempted to decrease its ATM charges in light of these quite significant decreases in costs which they have all benefitted from simultaneously. The banks have behaved uniformly in not passing on the reduction in costs.

Credit Card Charges

112. Although credit card debt remains a small proportion of overall personal debt, outstanding credit card debt has been rising significantly over the last ten years. In terms of overall market penetration (credit cards issued per thousand persons), Barbados is on par with the European countries of Germany, Ireland, Netherlands and Austria, but still lags behind countries such as the UK, Canada, Japan and the United States of America (US), (Winston Moore)[32].

113. There are several types of credit cards currently available to the local consumer. All of the banks carry at least a classic or basic card along with a "gold" card. There are also several premium card options available.

[32] See Trends and Prospects for the Debit Card Industry in Barbados, Winston Moore

Table 24 Credit Cards Interest and Charges ($BDS) (January 25, 2012)

Credit Cards Interest /Fees	Visa Card				Master Card		
	FCIB	BNB	RBC	BB	BB	RBTT	BNS
Annual Fee	60.00	60.00	50.00	40.00	50.00	40.00	60.00
Co – Applicant	30.00	30.00	25.00	20.00	25.00	25.00	30.00
Cash advance fee	3.50%	3.50% [BNB1]	2% [RBC1]	5.00%	5.00%	5.00% [RBTT1]	2.99% [Sco1]
Annual interest rate	23.00%	26.00%	20.00%	22.00%	22.00%	20.52%	21.50%
Replacement card	40.00	50.00	35.00	20.00	20.00	25.00	20.00
Copy of statement	-	5.00	20.00	20.00	20.00	5.00	15.00
Late Payment Fee	80.00	75.00	35.00	20.00	20.00	35.00 [RBTT2]	40.00
Overlimit Charge	80.00	75.00	35.00	25.00	25.00	40.00	40.00
Cash Advance Interest	28.00%*	26.00%	20.00%*	30.00%*	30.00%*	20.52%	24.00%*

SCO1 - A minimum $10.00 fee is charged per cash advance, or 2.99% of the advance, whichever is greater
BNB1 - A minimum $5.00 fee is charged per cash advance, or 3.5% of the advance, whichever is greater.
RBC1 – An Additional $5.00 is charged if withdrawn from another bank's ATM, or 2.00% of the advance, whichever is greater.
RBTT1 - A minimum $10.00 fee is charged per cash advance, or 5.00% of the advance, whichever is greater
RBTT2 – Plus a pass through of 2.00%
* - Interest applied daily *regardless of full payment by Payment Due Date*

114. Credit card charges have been one of the main sources of concern for local customers. These charges include interest charges on purchases and cash advances, fees for cash advances, late payments, over the limit, and annual fees.

115. A review of the charges for a basic or "Classic" credit card reveals that the annual interest rates across the banks range between 20.52 % and 26.0% regardless of the brand (Master or Visa) of card used. One bank offers both Visa and Master cards, but the annual interest rates are still within this range.

New Purchases Interest

116. The annual interest rate is applied to New Purchases Interest and Revolving Interest across all banks. The different types of interest charged are discussed below according to the information reported on the reverse side of credit card statements (FCIB):

"New Purchases Interest is defined by the bank as "On the day we prepare your current monthly statement, we determine whether we received payment for your full balance from your prior month's monthly statement by the payment due date. If we did not, then all new purchases appearing on your previous monthly statement will be subject to interest. New Purchase Interest is calculated on each purchase transaction from the transaction date to the Payment Due Date of the previous billing cycle".

117. The important consideration with regard to the FCIB approach in the application of the New Purchases interest is that, if the customer pays a significant portion of the new purchases balance (but not all) in the next month, the interest for that next month is still applied to the entire new purchase amount of the last month.

118. This is not the common approach. In most cases New Purchases expense is treated much the same as previous expenses or outstanding balances on the card, in that the customer is charged the annual interest rate on the total outstanding balance including new purchases.

Delinquency Interest

119. *"Delinquency Interest is calculated for the period that the overdue payment amount remains unpaid during the billing cycle. Once the requested payment is overdue,*

the account is considered delinquent. On the start of the current delinquency, this is calculated from the payment due date of your previous statement to billing date of your current statement. If the delinquency is not paid, it is then calculated from the billing date of the previous statement to the billing date of the current statement".

120. It should be noted that delinquency interest like the cash advance interest is applied at three of the six banks at a higher interest rate than the annual interest rate, and it is applied on a daily basis.

Revolving Interest

121. *"Revolving Interest is interest accrued and charged on the outstanding balance shown on your previous statement, less the overdue payment amount and all transactions listed on that statement. Revolving Interest is calculated from the previous cycle billing date to the day prior to your current statement date".*

122. The revolving interest is charged on the standard outstanding balance on the customer's card. This is always applied at the annual interest rate amount on a monthly basis.

Cash Advance Interest

123. *(d) Cash Advance Interest – Cash Advance includes Balance Transfers, Convenience Cheques and ATM withdrawals. Interest is accrued and charged, from the day of withdrawal, for any cash advance posted in the previous billing cycle regardless of full payment by Payment Due Date. Cash Advance Interest is calculated on each cash advance transaction from the transaction date to the payment due date.*

124. The cash advance interest rates vary between 20.52% and 30.0% across the industry. The application of this charge is unique because "*Interest is accrued and*

charged, from the day of withdrawal, for any cash advance posted in the previous billing cycle regardless of full payment by Payment Due Date". Specifically, this interest charge which applies to, balance Transfers, Convenience Cheques and ATM withdrawals is applied at four of the six banks daily on each cash advance, from the time of the withdrawal to the payment due date. This is different from the manner in which the interest charged on previous purchases is applied, where there is a grace period (prior to the payment due date), where if full payment is made the interest is avoided. With this charge, because the charge is applied daily there is no grace period within which the customer is able to repay the full balance without incurring an interest charge.

Cash Advance Fees

125. The fee for cash advances varies between 2% and 5% however in most cases a fixed amount of either $5 or $10 is charged irrespective of the amount advanced. This means that where customers withdraw $50.00 in cash (where a minimum of $10 is charged), the actual rate is 20% instead of 3% or 5%. If the amount withdrawn is $100, then where a fixed $5 is charged the rate equates exactly to the other banks with the 5% rate.

126. The Annual fees varies between $40.00 and $60.00, with three banks currently charging $60, two charging $50 and the other $40.

127. The Over the Limit fees and the Late Payment fees are about the same at all of the banks. Two of the banks (BB and RBTT) carry a slight difference of $5.00 between the two charges. These charges vary from $20.00 to $80.00 across the banks. This is a charge for engaging in purchases, cash advances, or transfers.

128. The method of application of fees and interest rate charges on credit cards is very similar across most of the banks. Four of the six banks apply the cash advance interest charge, on a daily basis and more often at the higher rate. This naturally places a heavier burden on the consumer.

129. The banks have defended the level of their interest rates by indicating that Barbados is a relatively high risk area with regard to default on loans, hence perhaps a higher rate. In the US for example the annual rates range in the vicinity of 17.25% compared to approximately 22.0% for Barbados.

RESPONSES FROM THE BANKS

Republic Bank

130. Republic Bank (previously BNB) responded to the Commission on September 19th 2012 and made various comments. Aside from the comments made with regard to information that may have changed since the writing of the report as well as few errors with relation to their charges, they made substantive comments on fee charges, credit card charges and the requirement of customers to open a current account in order to obtain a loan.

131. They stated that *"the ATM & POS fees have remained at $1.00 and 0.75c respectively despite the CARIFS reduction (which appears to be savings operationally). As the survey suggests, costs/fees should cover the marginal cost of offering the facility. Fees should assist in covering the cost of maintenance of machines, stationery, telecommunication links, opportunity/convenience costs etc. and the fee that Republic Bank charges is minimal e.g. a paper roll for a machine costs $4.75 and is provided free to the customer"*

132. As it related to credit card charges they stated: *"Credit card fees/charges are priced in line with convenience and the risks associated with the unsecured nature of the portfolio and the associated delinquency management. The study did not reveal the levels of delinquency in the market, Also late fees act as a deterrent and are within tie control of the customer"*

133. The Republic Bank did not support the initial/draft recommendation which stated that – "Banks should not require that customers open a current account in order to obtain a loan or access any other general service or product

offered by the Bank." *They stated that it was not in keeping with the rules under Anti-Money Laundering (AMI) regulations and Know your Customers (KYC). Banks are required to know the business activity of their customers and be able to monitor and ensure, as much as possible, that funds are from and/or destined to a legitimate source. Republic Bank therefore needs to develop a sound customer relationship and be reasonably assured that the Bank is not party to any money laundering or other illegal activity. This requirement also allows more effective credit management and facilitates access to salary deposits for servicing debt.*

134. The Commission researched this statement as it relates to Anti-Money Laundering Guideline[33] and also spoke with representatives of the Central Bank. It should be noted that the Rules do not explicitly state that a bank should require a customer to open a current account in order to obtain a loan. However in *Section 7 – Customer due Diligence*, the Central Bank does require that the banks "know their customer" and employ due diligence procedures. It can be reasonably surmised that a bank would have a right to secure the information of their client.

<u>Scotia Bank</u>

135. In its response to the Commission, Scotiabank reiterated that there were no elements of collusion in their pricing strategy and highlighted that the market was competitive. It was stated that they issue a diverse *"range of account options"* inclusive of those which have reduced fees or in some cases *"attract no fees"*.

[33] Anti-Money Laundering /Combating Terrorist Financing Guideline for Financial Institutions Licensed under The Financial Institutions Act, Cap. 324A and The International Financial Services Act, Cap. 325

RBC/RBTT

136. The response from RBC stated that they have reviewed the study and that they *"have no additional evidence or further comments to make at this stage"*.

First Citizens

137. First Citizen's response to the Commission acknowledged receipt of the report and stated that the *"report accurately reflects the information provided to the Commission from our records and are therefore not opposed to the finalisation of the said document"*.

CIBC First Caribbean

138. CIBC First Caribbean's response included the following comments:

- They have not colluded with respect to fees – charges are determined by a committee of Executives.
- They have increased operating costs due to additional regulatory reporting and Anti-Money Laundering (AML) requirements.
- They offer a wide choice of products some of which offer free services. They do not coerce persons to open a deposit account with them, rather, they *"encourage approved loan customers to open an account with us* (CIBCFCIB) *as a means of helping them conveniently manage their loan payments"*. They further stated that *"the opening of a transactional account is in no way linked to revenue opportunity for our Bank but driven by risk and operational efficiency advantages both for the bank and customer"*.
- Lastly, they concluded that customers are multi-banked and are actively encouraged by competitors to switch.

CONCLUSIONS AND RECOMMENDATIONS

139. This study focused on the unique range of services that characterise commercial banks supply in Barbados, and in so doing it explored the movement in banks' fees and charges from 2006 to 2011 so as to determine whether there may have been anti-competitive conduct found therein.

Structure

140. The Herfindahl-Hirschman Index (HHI) was employed to determine the competitive pressures likely to be exerted by firms in the market. Independent assessments using total income, total financial assets and an estimate of customer accounts as indicators all confirmed that the commercial banking market may be regarded as relatively concentrated with limited competitive pressures on existing banks.

141. Furthermore, the market satisfies all of the classic criteria of a differentiated oligopolistic industry. For example:

- The market is moderately concentrated with competition taking place between a small numbers of firms servicing a large number of consumers.
- There are relatively high barriers to entry which facilitate the maintenance of the existing market structure.
- The firms offer similar but differentiated products at similar prices and appear to have retained their respective market shares in large measure quite consistently over the past eight years.

Interest Rate Charges

142. The banks offered varied packages aimed at attracting customers of which interest rates were a key component. On analysing the movement of the rates charged on personal loans; loans for new and used vehicles; loans for the purchase of land and mortgages it became evident that there was a significant amount of activity around these rates which reflected a measure of competitive activity occurring within the market. Therefore it was concluded that the banks do compete with respect to interest rates on loans.

Other Banking Charges

143. For the purposes of this paper other banking charges' were defined as:

- monthly charges for the servicing an account
- charges for specific transactions
- charges for exceeding authorised overdraft limits.

144. Banks indicated that some of the aforementioned charges were largely intended to drive behaviour. For example, some of the charges were imposed primarily for deterrent purposes, while others had a cost recovery component so as to allow the bank to operate more effectively and efficiently. In the cases where the charges were implemented to recover costs the main drivers included fixed costs incurred by the banks whether or not the customer required the particular service. In this regard it is possible that the rates determined may not reflect the marginal costs incurred by the banks in delivering the service. The price or charge may therefore not be reflective of the true cost of the service and this may lead to some negative impacts on consumer welfare.

145. Though these were the reasons given by the banks for the implementation and/or existence of charges, interviews with the banks and surveys of customers acknowledged that there is limited public information provided by the institutions with respect to the basis for these charges. In fact, it appears that the average customer is unaware of the purpose of the charges levied by their respective banks. This has the tendency to create scepticism among customers regarding the legitimacy or authenticity of the charges.

146. In addition to not being aware of the purpose of the charges, the fact that there is no uniform way in which banks present or define their charges also create negative customer sentiment as it limits one's ability to compare product offering and charges across institutions. This general lack of transparency could present a hindrance to customer mobility. Notably, the consumer survey revealed that there was limited customer mobility in the industry as switching was not a frequent occurrence. Although other factors may contribute to switching behaviour, one cannot dismiss the possibility that asymmetric information, resulting from the lack of a standard definition of bank charges, may also be a major cause of the limited mobility.

147. Based on the concerns of the Commission in relation to where a policy may exist which requires customers to open a current account in order to secure a loan, Republic Bank indicated that under the Anti-Money Laundering Guideline[34] the banks are "*required to know the business activity of their customers and be able to monitor and ensure, as much as possible, that funds are from and/or*

[34] Anti-Money Laundering /Combating Terrorist Financing Guideline for Financial Institutions Licensed under The Financial Institutions Act, Cap. 324A and The International Financial Services Act, Cap. 325

destined to a legitimate source". The Commission researched this statement as it relates to Anti-Money Laundering Guideline[35] and also spoke with representatives of the Central Bank. It should be noted that the Rules do not explicitly state that a bank should require a customer to open a current account in order to obtain a loan. However in *Section 7 – Customer due Diligence*, the Central Bank does require that the banks "know their customer" and employ due diligence procedures. It can be reasonably surmised that a bank would have a right to secure the information of their client.

148. In the period reviewed, it was also revealed that competition with respect to banking charges proved to be less robust than that exhibited for interest rate charges. The five banks under review have charges which have remained unchanged for several years. Further, the charges, though not identical, demonstrate some measure of congruence across banks. While it is noted that this similarity in pricing may be attributed to similar operating costs, given the oligopolistic structure of the market and the common economic environment in which they operate, it may also be as a result of intelligent pricing driven by unilateral decisions to keep prices close to those of one's rivals. In addition it may be a reflection of conscious parallelism driven by "understandings" among the competitors. This understanding or collusion among competitors would raise some competitive concerns in relation to the FCA. However, in view of the presented facts, it was concluded that there was no evidence to determine that there was an 'understanding' among competitors and hence no anti-competitive conduct was found.

[35] Anti-Money Laundering /Combating Terrorist Financing Guideline for Financial Institutions Licensed under The Financial Institutions Act, Cap. 324A and The International Financial Services Act, Cap. 325

Summary:

149. While there was no evidence of anti-competitive conduct found within the market examined, there remain several issues of concern that bear relevance to achieving effective competition within the market.

- Evidence suggests that competition in the area of sundry charges is not as robust as that for interest charges.
- With regard to some charges related to sundry items and ATM charges it appears that some banks levy a charge which is not entirely reflective of the cost of delivering such services. Though this may not be deemed anti-competitive due to the oligopolistic structure of the market it may raise concerns as it relates to consumer welfare.
- While customers are aware of the charges, it appears that they are unaware of the rationale for the charges and are generally not empowered, due to lack of information or lack of clarity of the available information, to make comparisons between the various institutions.

Recommendations:

150. In light of the aforementioned areas of concern as it relates to competition in the defined market the Commission therefore recommends the following:

I. The bankers associations periodically, through its education arm should

   a. seek to inform the public as to the industry developments eg. changes in legislation, costs, policies, trends etc; especially those policies or developments which are likely to the customer.

b. seek to enhance the ability of customers to compare and contrast products on offer by the banks by offering more standardized definitions on the services that are offered.

II. Banks should frequently review their fee structure to make sure that fees are relevant to the respective services offered. Where a new charge is introduced to recover the cost of delivering a particular service, the amount charged ought to be reflective of the direct incremental cost. The incremental costs should also reflect the component of the service that can be controlled by the respective institution.

151. These recommendations should not only allow for more robust competition in the area of charges but also increase and facilitate transparency within the market.

Appendix 1.1

First Caribbean international Bank- SELECTED BANKING CHARGES ($BDS)

	2011/2012	2010	2009	2008	2007	2006
Regular Saving Accounts						
Minimum Savings Monthly Balance to avoid monthly service fee	$ 1,000.00	$ 1,000.00	$ 1,000.00	$ 1,000.00	$ 1,000.00	$ 1,000.00
Monthly Service Fee for falling below the Minimum balance	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
Withdrawals/Debits/Cheques – In Branch /over the counter	$ 2.10	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00
Withdrawals/Debits/Cheques – Point of sale	$ 2.10					
Deposits/Credits – In Branch/Over the Counter	$ -	$ -		$ -		
Standing Orders						
Set Up fee	$ 20.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
Amendment	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
Internal service (Loan payment/Annual Fees)	$ -	$ -	$ -	$ -	$ -	$ -
Internal service Between Other Accounts	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
External – Transfer funds *locally*	$ 20.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
External – Transfer funds *overseas*	$ 20.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
Automatic Banking Machine						
New Issue/replacement of expired or stolen card	$ -	$ -	$ -	$ -	$ -	$ -
Replacement of lost card	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00
ATM Deposits	$ -	$ -	$ -	$ -	$ -	$ -
ATM withdrawals at Home Bank	$ -	$ -	$ -	$ -	$ -	$ -
ATM withdrawals at Another Bank	$ 1.25	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Point of Sale purchases	$ 0.50	$ 0.50	$ 0.50	$ 0.50	$ 0.50	$ 0.50
Statements						
Mailed/Regular/diary filled statement	$ -	$ -	$ -	$ -	$ -	$ -
Duplicate/Additional/Interim statement	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00
Screen Print Photography	$ 5.00	$ 5.00	$ 5.00	$ 5.00	$ 5.00	$ 5.00
Held for collection at branch	$ 15.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00

Source: First Caribbean International Bank (Barbados) Limited

Appendix 1.2

Bank of Nova Scotia - SELECTED BANKING CHARGES ($BDS)						
Regular Saving Accounts						
	2011/2012	**2010**	**2009**	**2008**	**2007**	**2006**
Minimum Savings Monthly Balance to avoid monthly service fee	$ -	$ -	$ -	$ -	$ -	$ -
Monthly Service Fee for falling below the Minimum balance	$ -	$ -				
Withdrawals/Debits/Cheques – In Branch /over the counter	$ 2.50	$ 2.50	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Withdrawals/Debits/Cheques – Point of sale	$ 1.50	$ 1.50				
Deposits/Credits – In Branch/Over the Counter	$ -	$ -	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Standing Orders						
Set Up fee						
Amendment						
Internal service (Loan payment/Annual Fees)	$ -					
Internal service Between Other Accounts	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
External – Transfer funds *locally*	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
External – Transfer funds *overseas*	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
Automatic Banking Machine						
New Issue/replacement of expired or stolen card	$ -	$ -	$ -	$ -	$ -	$ -
Replacement of lost card	$ -					
ATM Deposits	$ -	$ -	$ -	$ -	$ -	$ -
ATM withdrawals at Home Bank	$ -	$ -	$ -	$ -	$ -	$ -
ATM withdrawals at Another Bank	$ 1.00					
Point of Sale purchases	$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 1.50
Statements						
Mailed/Regular/diary filled statement	$ -					
Duplicate/Additional/Interim statement	$ 10.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00
Screen Print Photography	$ 5.00	$ 5.00	$ 5.00	$ 5.00	$ 5.00	$ 5.00
Held for collection at branch	$ -	$ 15.00	$ 15.00	$ 15.00	$ 15.00	$ 15.00
Source: Scotia Bank (Barbados) Limited						

Appendix 1.3

Butterfield Bank - SELECTED BANKING CHARGES ($BDS)						
Regular Saving Accounts						
	2011/2012	**2010**	**2009**	**2008**	**2007**	**2006**
Minimum Savings Monthly Balance to avoid monthly service fee	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00
Monthly Service Fee for falling below the Minimum balance	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00	$ 2.00
Withdrawals/Debits/Cheques – In Branch /over the counter	$ 1.50	$ -	$ -	$ -	$ -	$ -
Withdrawals/Debits/Cheques – Point of sale	$ 1.00	$ -	$ -	$ -	$ -	$ -
Deposits/Credits – In Branch/Over the Counter						
Standing Orders						
Set Up fee	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00
Amendment	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
Internal service (Loan payment/Annual Fees)	$ -	$ -	$ -	$ -	$ -	$ -
Internal service Between Other Accounts	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
External – Transfer funds *locally*	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
External – Transfer funds *overseas*	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
Automatic Banking Machine						
New Issue/replacement of expired or stolen card	$ -	$ -	$ -	$ -	$ -	$ -
Replacement of lost card	$ 20.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
ATM Deposits		$ -	$ -	$ -	$ -	$ -
ATM withdrawals at Home Bank		$ -	$ -	$ -	$ -	$ -
ATM withdrawals at Another Bank	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Point of Sale purchases						
Statements						
Mailed/Regular/diary filled statement	$ -	$ -	$ -	$ -	$ -	$ -
Duplicate/Additional/Interim statement	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
Screen Print Photography	$ 5.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
Held for collection at branch	$ 20.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
Source: Butterfield Bank (Barbados) Limited						

Appendix 1.4

RBC Royal Bank - SELECTED BANKING CHARGES ($BDS)						
Regular Saving Accounts						
	2011/2012	**2010**	**2009**	**2008**	**2007**	**2006**
Minimum Savings Monthly Balance to avoid monthly service fee	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00	$ 500.00
Monthly Service Fee for falling below the Minimum balance	$ 2.50	$ 2.50	$ 2.50	$ 2.50	$ 2.50	$ 2.50
Withdrawals/Debits/Cheques – In Branch /over the counter	$ -					
Withdrawals/Debits/Cheques – Point of sale	$ -	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Deposits/Credits – In Branch/Over the Counter	$ -					
Standing Orders						
Set Up fee	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00
Amendment	$ -					
Internal service (Loan payment/Annual Fees)	$ -					
Internal service Between Other Accounts	$ -	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
External – Transfer funds *locally*	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
External – Transfer funds *overseas*		$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
Automatic Banking Machine						
New Issue/replacement of expired or stolen card		$ -	$ -	$ -	$ -	$ -
Replacement of lost card	$ 10.00					
ATM Deposits	$ -	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
ATM withdrawals at Home Bank	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
ATM withdrawals at Another Bank	$ 1.00	$ 1.25	$ 1.25	$ 1.25	$ 1.25	$ 1.25
Point of Sale purchases	$ -	$ -	$ -	$ -	$ -	$ -
Statements						
Mailed/Regular/diary filled statement	$ -	$ -	$ -	$ -	$ -	$ -
Duplicate/Additional/Interim statement	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00
Screen Print Photography	$ 10.00	$ 7.50	$ 7.50	$ 7.50	$ 7.50	$ 7.50
Held for collection at branch	$ -	$ -	$ -	$ -	$ -	$ -
Source: RBTT Barbados Limited and RBC Royal Bank (Barbados) Limited						

Appendix 1.5

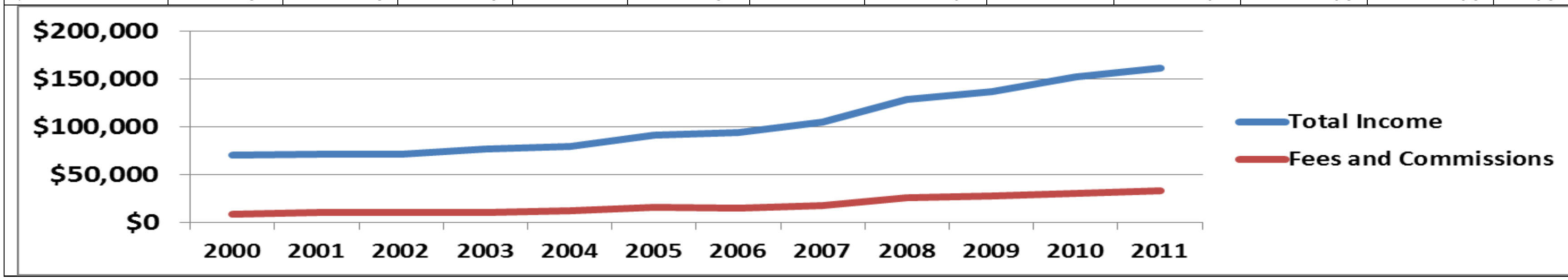
RBTT Bank - SELECTED BANKING CHARGES ($BDS)						
Regular Saving Accounts						
	2011/2012	**2010**	**2009**	**2008**	**2007**	**2006**
Minimum Savings Monthly Balance to avoid monthly service fee	$ -	$ -	$ -	$ -	$ -	$ -
Monthly Service Fee for falling below the Minimum balance	$ -	$ -	$ -	$ -	$ -	$ -
Withdrawals/Debits/Cheques – In Branch /over the counter	$ 2.00					
Withdrawals/Debits/Cheques – Point of sale	$ 0.50	$ 0.50	$ 0.50	$ 0.50	$ 0.50	$ 0.50
Deposits/Credits – In Branch/Over the Counter	$ -	$ -	$ -	$ -	$ -	$ -
Standing Orders						
Set Up fee	$ 30.00	$ 30.00	$ 30.00	$ 30.00	$ 30.00	$ 30.00
Amendment	$ -					
Internal service (Loan payment/Annual Fees)	$ -					
Internal service Between Other Accounts	$ -					
External – Transfer funds *locally*	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
External – Transfer funds *overseas*	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
Automatic Banking Machine						
New Issue/replacement of expired or stolen card	$ -	$ -	$ -	$ -	$ -	$ -
Replacement of lost card	$ 20.00					
ATM Deposits	$ -	$ -	$ -	$ -	$ -	$ -
ATM withdrawals at Home Bank	$ -	$ -	$ -	$ -	$ -	$ -
ATM withdrawals at Another Bank	$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 1.50
Point of Sale purchases	$ 0.50	$ 0.50	$ 0.50	$ 0.50	$ 0.50	$ 0.50
Statements						
Mailed/Regular/diary filled statement	$ -					
Duplicate/Additional/Interim statement	$ 20.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00
Screen Print Photography	$ 10.00					
Held for collection at branch	$ -					
Source: RBTT Barbados Limited and RBC Royal Bank (Barbados) Limited						

Appendix 1.6

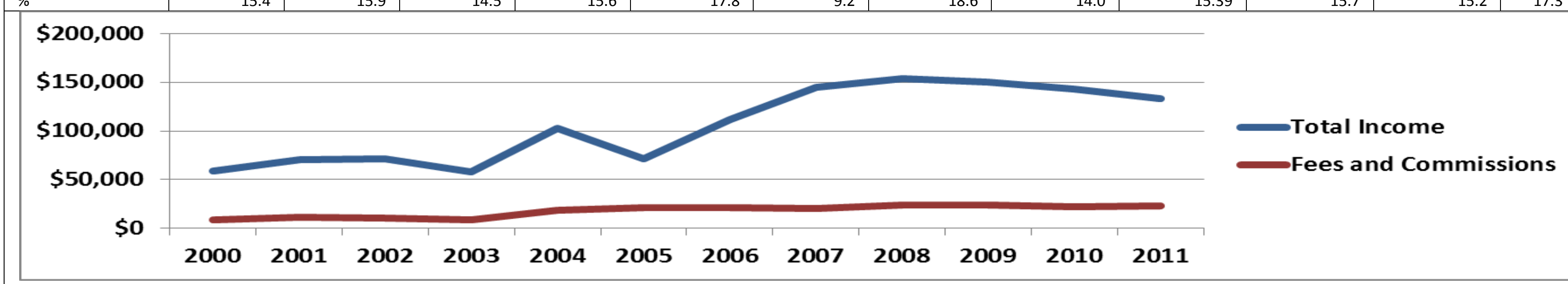
Barbados National Bank - SELECTED BANKING CHARGES ($BDS)						
Regular Saving Accounts						
	2011/2012	**2010**	**2009**	**2008**	**2007**	**2006**
Minimum Savings Monthly Balance to avoid monthly service fee	$ -	$ -	$ -	$ -	$ -	$ -
Monthly Service Fee for falling below the Minimum balance	$ -	$ -	$ -	$ -	$ -	$ -
Withdrawals/Debits/Cheques – In Branch /over the counter		$ -	$ -	$ -	$ -	$ -
Withdrawals/Debits/Cheques – Point of sale	$ 0.75	$ 0.75	$ 0.75	$ 0.75	$ 0.75	$ 0.75
Deposits/Credits – In Branch/Over the Counter		$ -	$ -	$ -	$ -	$ -
Standing Orders						
Set Up fee	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00
Amendment	$ 10.00					
Internal service (Loan payment/Annual Fees)	$ -	$ -	$ -	$ -	$ -	$ -
Internal service Between Other Accounts	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
External – Transfer funds *locally*	$ 15.10	$ 10.10	$ 10.10	$ 10.10	$ 10.10	$ 10.10
External – Transfer funds *overseas*	$ 10.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00
Automatic Banking Machine						
New Issue/replacement of expired or stolen card	$ -	$ -	$ -	$ -	$ -	$ -
Replacement of lost card	$ 7.50	$ 7.50	$ 7.50	$ 7.50	$ 7.50	$ 7.50
ATM Deposits		$ -	$ -	$ -	$ -	$ -
ATM withdrawals at Home Bank	$ -	$ -	$ -	$ -	$ -	$ -
ATM withdrawals at Another Bank	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Point of Sale purchases	$ 0.75	$ 0.75	$ 0.75	$ 0.75	$ 0.75	$ 0.75
Statements						
Mailed/Regular/diary filled statement	$ -					
Duplicate/Additional/Interim statement	$ 15.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00	$ 20.00
Screen Print Photography	$ -					
Held for collection at branch	$ -	$ 10.00	$ 10.00	$ 10.00	$ 10.00	$ 10.00
Source: Barbados National Bank						

Appendix 2. Total Income vs Fees and Commissions by Bank

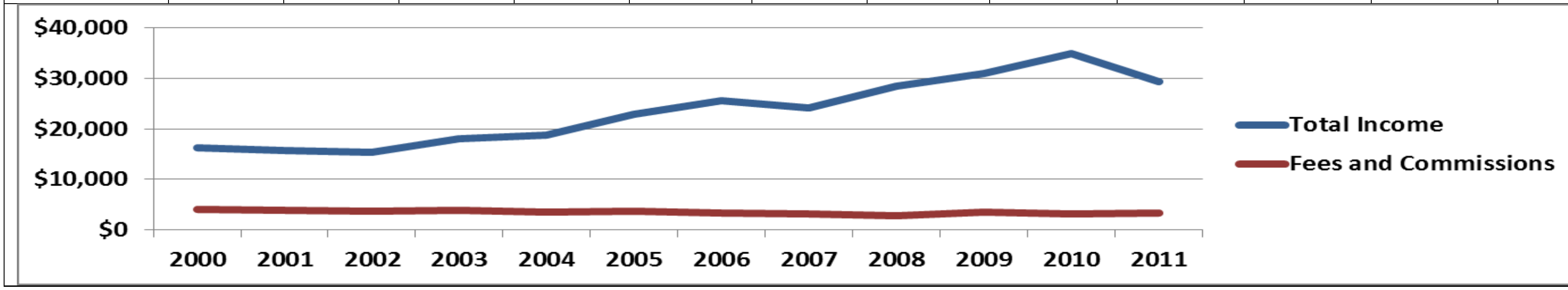
BNS	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total Income	$70,077	$71,388	$71,553	$76,995	$79,791	$91,074	$94,270	$105,184	$128,460	$136,723	$152,547	$161,292
Fees and Commissions	$9,207	$10,210	$10,647	$10,882	$12,560	$15,862	$15,297	$18,000	$25,922	$27,701	$30,944	$33,011
%	13.1	14.3	14.9	14.1	15.7	17.4	16.2	17.1	20.2	20.3	20.3	20.5



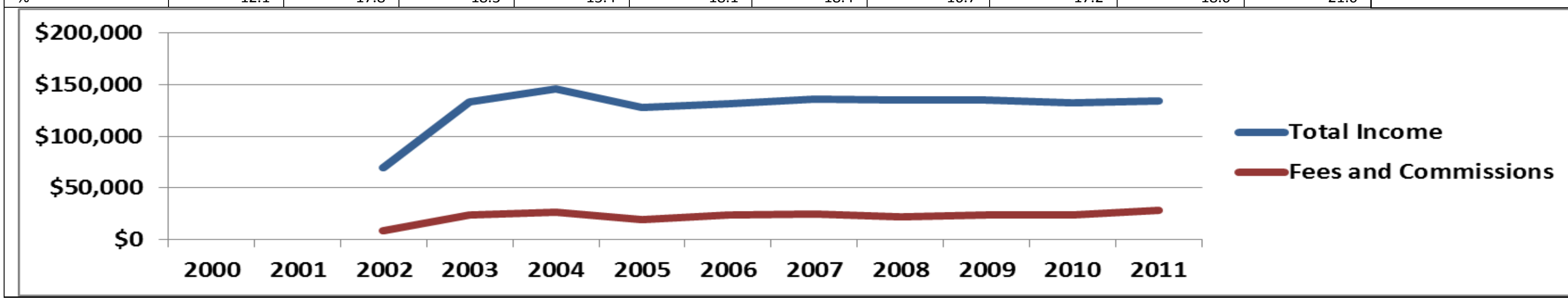
BNB	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total Income	$58,458	$70,517	$71,341	$58,147	$103,173	$71,508	$112,250	$144,818	$153,634	$150,703	$143,054	$132,974
Fees and Commissions	$8,975	$11,181	$10,354	$9,057	$18,403	$20,888	$20,898	$20,247	$23,647	$23,652	$21,679	$22,978
%	15.4	15.9	14.5	15.6	17.8	9.2	18.6	14.0	15.39	15.7	15.2	17.3



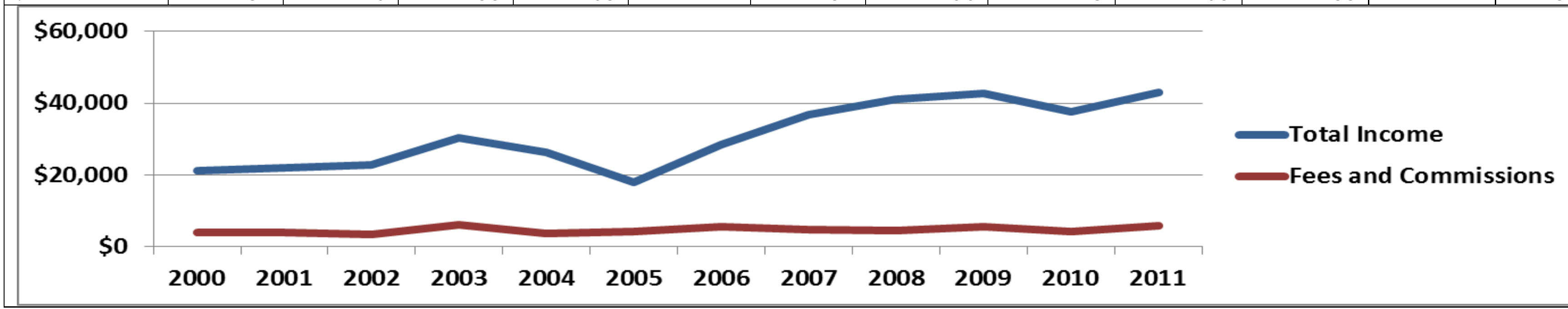
BB	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total Income	$16,196	$15,732	$15,408	$18,055	$18,784	$22,965	$25,514	$24,148	$28,436	$30,921	$34,989	$29,419
Fees and Commissions	$4,128	$3,893	$3,690	$3,804	$3,524	$3,723	$3,352	$3,085	$2,776	$3,556	$3,242	$3,336
%	25.5	24.7	23.9	21.1	18.8	16.2	13.1	12.8	9.8	11.5	9.3	11.3



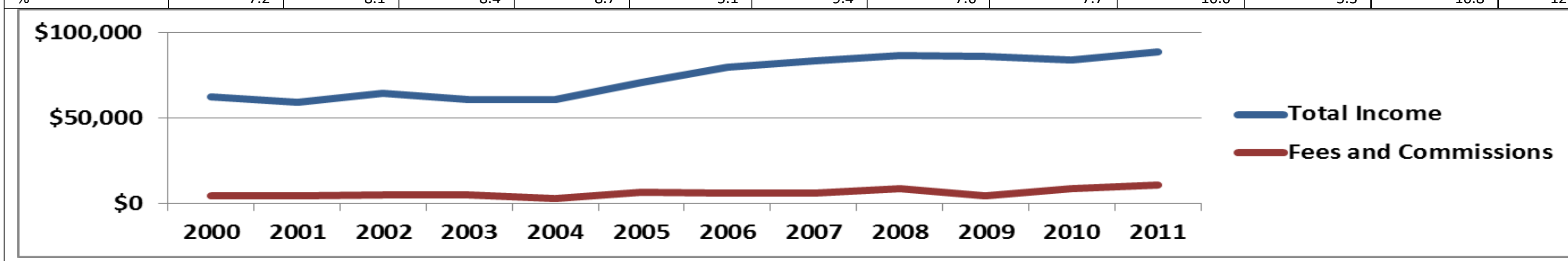
FCIB	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total Income	$69,424	$133,130	$146,183	$128,144	$131,434	$136,307	$134,985	$135,104	$132,542	$133,972
Fees and Commissions	$8,395	$23,717	$26,754	$19,765	$23,819	$25,107	$22,534	$23,298	$23,893	$28,106
%	12.1	17.8	18.3	15.4	18.1	18.4	16.7	17.2	18.0	21.0



RBTT	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total Income	$21,036	$22,038	$22,655	$30,368	$26,408	$17,947	$28,559	$36,792	$41,111	$42,686	$37,659	$43,023
Fees and Commissions	$3,878	$3,879	$3,475	$6,154	$3,754	$4,139	$5,594	$4,720	$4,442	$5,660	$4,163	$5,842
%	18.4	17.6	15.3	20.3	14.2	23.1	19.6	12.8	10.8	13.3	11.1	13.6



RBC	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total Income	$62,498	$59,106	$64,450	$61,006	$60,977	$70,732	$79,899	$83,642	$86,821	$86,039	$84,111	$88,797
Fees and Commissions	$4,496	$4,801	$5,441	$5,282	$3,104	$6,649	$6,093	$6,396	$8,720	$4,525	$9,051	$11,031
%	7.2	8.1	8.4	8.7	5.1	9.4	7.6	7.7	10.0	5.3	10.8	12.4



Appendix 3. CARIFS Network Processing Rates

Jan 1998 to Dec 2005	Approved Withdrawal	Declined Withdrawal	Approved Enquiry	Declined Enquiry	Approved Purchase	Declined Purchase
Issuer	0.85	0.60	0.85	0.60	0.25	0.50
Acquirer	0.35	0.10	0.35	0.10	0.25	0.00
Carifs	0.50	0.50	0.50	0.50	0.50	0.50
Jan 2006 to Dec 2006						
Issuer	0.85	0.60	0.85	0.60	0.23	0.46
Acquirer	0.35	0.10	0.35	0.10	0.23	0.00
Carifs	0.50	0.50	0.50	0.50	0.46	0.46
Jan 2007 to Dec 2007						
Issuer	0.80	0.55	0.80	0.55	0.19	0.38
Acquirer	0.40	0.15	0.40	0.15	0.19	0.00
Carifs	0.40	0.40	0.40	0.40	0.38	0.38
Jan 2008 to Apr 2008						
Issuer	0.78	0.52	0.78	0.52	0.10	0.19
Acquirer	0.42	0.16	0.42	0.16	0.09	0.00
Carifs	0.36	0.28	0.36	0.36	0.19	0.19
May 2008 to May 2011						
Issuer	0.74	0.44	0.74	0.44	0.04	0.06
Acquirer	0.46	0.16	0.46	0.16	0.02	0.00
Carifs	0.28	0.28	0.28	0.28	0.06	0.06
June 2011 to Present						
Issuer	0.73	0.43	0.73	0.43	0.02	0.03
Acquirer	0.46	0.16	0.46	0.16	0.01	0.00
Carifs	0.27	0.27	0.27	0.27	0.03	0.03