Bank Fees Canada

Recently the CBC and The Globe and Mail both reported on what has been referred to as a consumer "bank fee outcry". CBC compares banks to cable and phone companies, standing accused of trying to gouge customers with service fees. The backlash appears to have originated in conjunction with the NDP and the Consumers Council of Canada which argues that there is anxiety 'among consumers about banking fees'.

Recently RBC backed off of various fees after complaints from customers and significant unwanted media attention. The main issue being that pay-to-pay fees, according to Ian Lee, a management professor at the Sprott Scholl of Business, is a 'step too far'.

This report examines consumer fees in Canada and compares the trend to the U.S. and the UK.

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Summary of Canada Fees

- 27% of consumers pay no fees
- 48% of consumers pay between $1 and $15 per month
- decrease in fees 19% between 2005 and 2013_(Charles Gibney, 2014)
- 14 percent of customers have switched their main bank or credit union in the past five years.

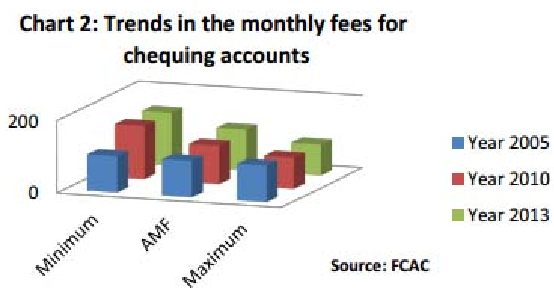

Chart 1, Canadian fees

Based on information from various sources, the facts on fees show very little movement before the recent changes.

UK Bank fees

- Some 276,000 current account customers switched to Santander last year, boosting its total number of account holders to 3.3m.
- Taking all expenses into account, including salaries, buildings, and equipment, Moebs estimates that it costs a megabank $350 to $450 to maintain a checking account annually, compared with $175 to $240 for community banks and credit unions.
- UK VIRGIN MONEY HITS AT FREE BANKING MODEL
- FT - Emma Dunkley
- System risks mis-selling, says lender as it rolls out current account 'œThe reason we don't have enough account switching in my view is not that customers have such a great deal with their existing bank, nor that there's an obstacle to switching, but that there's no differentiation between current accounts,'� Ms Gadhia told the Financial Times.

Key findings[1]

- Challengers are banks that have reinvented themselves
- None of the newest entrants have made a significant impact. Though potential for challenger brands including Tesco, M&S, Virgin Money Metrobank, Post Office.. to achieve combined market share just short of 10%.
- 3% cashback on paid for media inc. mobile, broadband and paid for TV packages
- 2% cashback on gas + electricity bills and 1% on water + council tax bills
- Fee-free arranged overdraft for 4 months if you switch
- Assumed borrowing of £1,200 for 3 months, 0.0% EAR (variable). The first £12.00 will be fee free. Overdraft usage fee: £1.00 per day. Credit available subject to status. There are other rates for different credit and / or debit balances.

[1] http://www.tnsglobal.com/uk/other-news/current-account-switching-index-white-paper

TNS account switching finding

UK TNS group has studied bank fees in the UK and discovered the following:

- Most switchers change between larger organizations
- New entrants have not shown significant growth, although some challenger banks (Halifax & Nationwide) have been gainers;
- Santander has grown 12% via its innovative 1-2-3 account;
- Predict slow transition away from traditional (big 4) banks.

UK fees appear competitive, with many banks offering free accounts. Despite this, challenger banks are not gaining much ground with a few exceptions.

	Loss	Gain	% gain/loss
+			
Santander	10%	22%	+12
Halifax	10%	16%	+6
Nationwide	5%	10%	+5
TSB	4%	5%	+1
First Direct	1%	2%	+1
-			
Co-op	4%	3%	-1
Barclays	11%	10%	-1
BoS	3%	1%	-2
RBS	5%	2%	-3
Lloyds	13%	9%	-4
Natwest	12%	8%	-4
HSBC	11%	3%	-8

US Fees Overview

US bank fees 14% down from 17% in 2009 (Sterngold, 2014)

Bank of America, which recently dropped plans for a $5 monthly debit-card fee after an uproar, is charging some customers $5 to replace lost debit cards and $20 for rush replacement, which had not been extra. It also charges e-banking customers $8.95 each month they use a teller to make a transaction. In December TD Bank began charging $15 for incoming domestic wire transfers. And in February Chase imposed a $12 fee on its standard checking account, which had been free for most customers. (Son, 2011)

Some banks even charge fees if you close an account too soon after opening it. U.S. Bank and PNC charge $25 if it's closed within 180 days. Chase had imposed a $25 fee if an account was closed within 90 days but dropped it in December 2011.

"You're probably paying more and getting less. Fewer than half of the noninterest checking accounts are now free, down from 76 percent just two years ago," according to a 2011 survey by Bankrate.com.

According to Consumer Reports Magazine, "The average fee banks charge noncustomers to use their ATMs rose to a new high for the seventh consecutive year, from $2.33 in 2010 to $2.40. Add your own bank's fee for using an out-of-network ATM and the charge climbs to $3.81 on average. The average fee to cover insufficient funds hit a record $30.83, up from $30.47." (Magazine, 2012)

Banks vs. credit unions

The largest credit unions tend to have lower fees on average than the biggest banks.

	Bank fee	Credit-union fee
Noninterest checking/mo.	$10.27	$6
Minimum balance to waive fees	$1,115.97	$500
Online bill payment/mo.	$6.95	$0
Use another bank's ATM	$2.21	$1.07
ATM surcharge	$2.96	$2.79
Insufficient funds	$34.48	$27.82
Stop payment	$31.09	$19.43
Overdraft	$34.48	$27.82

Source: Informa Research Services banking data.

U.S. According to ConsumerReports.org:

The latest rule, which took effect in October, limits the so-called "interchange" fees that large banks—those with more than $10 billion in assets—can charge retailers when people swipe their debit cards to pay for a purchase.

They're now capped at 21 cents to 24 cents per transaction, about half the average amount banks had been charging. (The actual cost of processing a debit transaction requiring a PIN is 8 cents on average, and one requiring a signature is 13 cents.) That change alone is expected to cost banks $6.6 billion a year, Javelin says.

It follows other rules that took effect in 2010. One limits the ability of credit-card issuers to raise interest rates on cardholder balances. The Boston Consulting Group estimates that new regulations will cost banks about $18 billion a year. Another provision bars them from charging overdraft fees in connection with ATM and debit-card transactions unless customers opt for overdraft protection. Javelin estimates that will cost banks $5.6 billion a year.

It's not surprising that banks are reacting by raising fees in areas not regulated, says McBride of Bankrate.com. "If the government came along and said you can only charge so much for a hamburger, you'd charge more for soda and fries," he notes.

Merchant credit card fees, known as 'merchant discount' have made headlines around the world. It is commonly known that Canada's merchant fees are typically in excess of $5 bn per year. These fees are typically used to fund rewards programs.

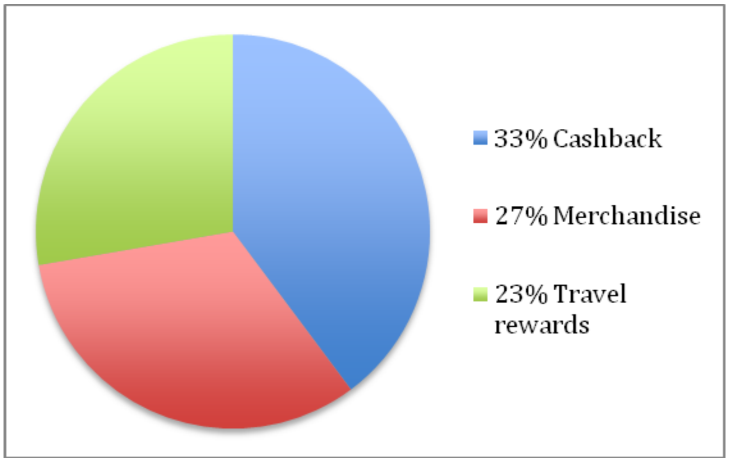

Chart 1, consumer reward preference (Sibthorpe, 2015)

Visa says rewards cards now make up more than half of all credit cards and about 80 percent of money spent on a credit card. (Source: Aite Group, January 2008).

Program	Conversion min	Conversion Max for ongoing promotions	Min fuel rewards	Max fuel rewards
TD V cash	0.50%	1.00%		
V RBC	1.00%	1.00%		
Captal 1 Platinum	1.00%	2.00%	2.00%	2.00%
Average	0.80%	1.67%	1.70%	3.88%
Max	1.50%	5.00%	3.00%	10.00%
Points only				
Optimum	0.83%	2.00%		
Metro	0.80%	1.6%		
CAA	2.00%	30.0%	2%	3%
Ultramar ValueMax Loyalty	0.25%	2.50%	1.00%	2.0%
Canadian Tire money	0.40%			
MC AirTransat BonBon rewards	0.2%	1.0%		

Table 1, reward values, (Sibthorpe, 2015)

Typical reward value is upwards of 1% for no-fee rewards cards and can be much more lucrative for high spenders or fee based cards.

Spend levels of $25,000 per year on credit cards are not uncommon. Spending at this level could generate reward value of $250 per year or more.

Obviously this money comes from somewhere, typically merchants.

All-in-all, 8.7% of customers in 2011 indicate they switched their primary banking institution during the past year to a new provider, whereas just 7.7% said the same in 2010. On average, customers in 2011 say they considered 1.9 banks while shopping — up from an average of 1.6 banks in 2010. (Staff, 2011)

Ironically, according to the J.D. Power study, people switch not because of fees, but due to a change in life circumstances, also for fees, unmet expectations and poor service. The drivers for change are advertising, branch convenience, products and services, promotional offers, and direct and indirect customer experience. Gift cards seem to carry the most weight in determining whether to switch.

Contestability

The issue of fees is a contentious one. Regulators and consumers often refer to the high concentration of assets by a few large banks. This is viewed as anti-competitive. The truth, based on the TNS research discussed earlier, and as we can see in the UK, Canada and the US, is that it is not fees alone that drive the propensity for consumers to switch.

A better way to evaluate the competitiveness of a market for financial services, according to Klaus Schaeck and Martin Cihak, is the idea of 'contestability.' This is a more relevant measure of competitive issues. As they put it:

> *The perception that the market for financial services is much less competitive in Canada than in the United States is not consistent with most of the research that has been conducted. While the market is significantly more concentrated in Canada than in the United States, most economists now regard **contestability** as a more important predictor of competitiveness. Bikker and Haaf (2002, p. 2202), for example, attributed an H-statistic of 0.54 to the United States and 0.60 to Canada, indicating that Canada's market for financial services is more contestable than the U.S. market.*

- H-Statistics UK 0.39 (Klaus Schaeck, 2007)
- H-statistic United States 0.54
- H-statistic Canada 0.60 Bikker and Haaf (2002, p. 2202)

Summary

It appears that Canadian banks are seeking new revenue streams. From expansion into the U.S., to pay-to-pay fees, it appears as if this could be an ongoing trend. Evidence from J.D. Power and the TNS report indicate that competitive fees are not required to keep existing clients, and reducing fees to gain new clients may only attract cherry pickers, unless onboarding terms prevent this.

Despite the outcry, Canadian consumers have benefitted from very stable fees over the past few years and research indicates that a large proportion of consumers pay very little in terms of fees.

Considering the fact that lucrative rewards cards often pay $250 or more each year, it indicates that even consumers that pay some fees can still be net winners if they are prudent transactors and not revolvers: easy to say.

The real question may, therefore, be 'whether or not Canada is a competitive market?' Contestability seems to indicate yes. In fact, if Schaeck and Cihak are to be believed, then Canada is actually more competitive than the US and the UK. I know some merchants that would not agree with this latter view.

Recent related articles

WHY DO WE ACCEPT BANKS' PRICING DOUBLE STANDARD?

(*Linkedin – Jerry Ross)* – Industry Conduct

BANK FEE OUTCRY UNITES CONSUMERS AND EVEN POLITICIANS

(*G&M –Andre Mayer)* – Competitive Issues / Attitude and Preference Issues

Canadian MPs seeking to regulate bank charges

Rising fees ... and concerns

All of the so-called Big Five banks — Scotiabank, CIBC, TD Bank, BMO and RBC — have recently raised fees.

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