Banking Services in Fiji: From Consumers’ Perspective

A Consumer Council of Fiji Report

March 2011
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Consumer Council of Fiji (CCOF) is a statutory organization dedicated to protect the rights and interests of consumers in Fiji and promote consumers' interests nationwide through education, research, campaign and lobbying. It was established in 1976 and currently has 3 offices in Fiji.
For more information, visit www.consumersfiji.org

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Banking Services in Fiji: From Consumers’ Perspective

A Report by:
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GLOSSARY AND ACRONYMS

ABIF : Association of Banks in Fiji
ACCC : Australian Competition and Consumer Council
APRA : Australian Prudential Regulation Authority
ASIC : Australian Securities and Investment Commission
BOB : Bank of Baroda
BSP : Bank South Pacific
CCoF : Consumer Council of Fiji
CNB : Colonial National Bank
FSDC : Financial Systems Development and Compliance Group of the RBF.
LFI : Licensed Financial Institution
RBF : Reserve Bank of Fiji

Collusion: An explicit or formal collusion exists if there is an agreement, usually secret, among competing firms (mostly oligopolistic firms) in an industry designed to control the market, raise the market price, and otherwise act like a monopoly. An implicit collusion exists if there are seemingly independent, but parallel actions among competing firms in an industry that achieve higher prices and profits, as if guided by an explicit collusion agreement.

Product Differentiation: Real or perceived differences among similar goods that prompt buyers to pay different prices. Product differentiation can occur through physical differences, perceived differences, and support services.

Prudential Regulations: Regulations through which a Central Bank monitors the financial position and financial performance of financial institutions to ensure that the financial institutions are stable and solvent.

Interest Spread: The gap between a depository institution’s return on monetary assets and the cost of funds. Very basically the gap between bank lending rates and deposit rates.

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EXECUTIVE SUMMARY

1. This study reviews banking services in Fiji from the perspective of consumers of banking services.
2. The banking industry has existed in Fiji for about 110 years.
3. A comprehensive review of this industry was undertaken in 1999 through a Committee of Inquiry into Financial Services in Fiji set up by government under the Chairmanship of Professor Asefa Ravuvu.
4. This Committee made a number of recommendations regarding improvements in the industry to make banking services just and fair for consumers. Most of the recommendations have still not been implemented more than a decade after the Report was released.
5. The banking industry remains uncompetitive, fees, charges and commissions remain exorbitantly high, and the quality of services rendered by banks remains a cause for concern among consumers.
6. Frustrated with this situation, the Consumer Council of Fiji decided in early 2010 to commission an independent study of consumer protection aspects of banking services in Fiji. This Report is the result of that study.
7. For this study, various stakeholders were consulted, 501 bank customers were interviewed, banking products and services were scrutinised, and stakeholders were asked to comment on a draft of the Report.
8. Strong evidence exists to suggest that the banking sector in Fiji does not function in a perfectly competitive environment. As a result of this, the price of banking products and services is significantly higher compared to the country of origin of the banks and the services provided are of a lower standard.
9. The study finds that there are four major areas that need either very serious reconsideration or significant refinement. These four areas, in order of the number of recommendations made, include disclosure of information, quality of banking services, complaints management, and the level of interest rates, fees and charges, and commissions. In total 21 recommendations are made.
10. Regarding disclosure:
   - the RBF issued a policy directive on Disclosure Guideline on Fees and Charges for Banks and Credit Institutions in mid 2002
   - it is not mandatory for banks to display, or publicise in any other form, this directive on disclosure. Customers, therefore, do not know what should be disclosed to them
   - some banks have been found not to be compliant with the requirement in the disclosure directive regarding displaying brochures on fees and charges on their premises
   - it is not possible to compare some products, such as housing loans, using the disclosure brochures on fees and charges from different banks
• the RBF’s directive on disclosure relates only to fees and charges and not to terms and conditions, making comparisons of products and services meaningless
• some customers have complained that banks do not always notify them of changes to terms and conditions or interest rates
• banks are not required to fully and unambiguously explain the terms and conditions to the customer before a contract is entered into, or to sign a declaration that they have done so.

11. Concerns about the quality of banking services centre around a variety of issues:
• the time taken to conduct or finalise transactions is at times unduly long. For example there are concerns about the length of queues at some branches and about the time taken to settle property transactions
• some bank staff have been found not to be well informed about the products and services offered by their bank and have provided wrong or misleading advice
• if a customer wishes to have just one account to both save and engage in transactions, no bank has a single account where an ordinary wage earner will earn a positive return even if the savings grow
• it is not easy or cost effective to switch banks to take advantage of better products and services offered by other banks
• the time taken for loan approvals varies between and within banks. Where time benchmarks exist, these are seldom adhered to. There is no requirement by the RBF for banks to set transaction timelines
• in some cases, where a borrower is in default, adequate warning has not been given before the mortgaged property has been put on the market or a report filed with the Data Bureau. In some cases, the mortgaged property has been sold well below its market value.

12. The revenue of the two major banks in Fiji, ANZ and Westpac, from interest, fees and charges, and commissions as a percentage of assets is substantially higher than that of the four major banks (ANZ, Westpac, National Australia Bank and Commonwealth Bank of Australia) in Australia. This has resulted in excessive profits being reaped by the banking industry in Fiji. Banks in Fiji continue to charge exorbitant and unconscionable penalty rates on dishonoured cheques and overdraft excess.
13. The Complaints Management Unit at RBF has issued several guidelines to make banks accountable, transparent and compliant. The penalties for non-compliance with these guidelines, however, are hardly deterrent. Also, the RBF has not shown any seriousness in either monitoring noncompliance or penalising noncompliant banks.

14. The risk of doing banking business in Fiji is lower than in Australia for various reasons.

15. The suggestions and recommendations in this study are directed at both the regulator and banks.

16. The reviewer is of the view that if the recommendations regarding the four major areas are acted upon, specific issues such as long queues, delays in finalising property transactions, or misleading advice will be addressed and complaints reduced.

17. The findings of this Review and recommendations are summarised in section 6.
1. INTRODUCTION

The banking industry in Fiji, and indeed the world over, has been the focus of increasing consumer concerns in recent years. This focus has been brought about not only because of the global financial crisis but also as a result of consumers and consumer advocates no longer taking bank fees, charges and processes for granted.

The banking sector in Fiji is characterised by a general lack of competition which has adverse consequences for the convenience and choice for consumers and for high costs of banking services. Since the banking industry is central to the functioning of the consumer sector, it is essential that policymakers, regulators, bankers, researchers and consumer groups remain fully engaged in monitoring developments in the consumer finance market and continually seek to understand the strengths and weaknesses of the financial services industry, including how well it serves lower income and underserved consumers.

In view of this, the Consumer Council of Fiji (CCoF) decided in early 2010 to commission an independent study of consumer protection aspects of banking services in Fiji. This Report is the result of that study and examines the following aspects of banking services in Fiji:

1. Types of products and services offered in the market and relevant fees and charges set down by the banks including savings and transfer
2. Consumers’ access to credit
3. Cost of accessing credit
4. Access to (good) quality and independent financial advice
5. Client assessment practices for granting credit
6. Consumers’ personal information and its protection
7. Overview of good and bad industry practices by the service providers.

A first draft of this Review was presented to the Board and staff of the CCoF on 3 June, 2010. The second draft, incorporating the comments of the Board and staff was submitted to the CCoF on 18 June, 2010 for in-house views and comments. The final draft was submitted to the CCoF on 6 September, 2010 for circulation to stakeholders for written comments within 14 days. Subsequently, a closed door consultation with key stakeholders was held on 16 November, 2010. The Review was finalised in February, 2011.

Many countries have now either partly or fully adopted reform packages to address the concerns of consumers of banking products or are in the process of designing and implementing reforms. The examples of Australia and the United States are shown below to illustrate.

A 2004 study (Nicole, R. 2004) conducted in Australia by the Consumer Law Centre Victoria found Australian banks were charging penalties on overdrawn accounts, late payments, dishonoured cheques, and debit payments that were extravagant and exorbitant in relation to the provision of the services. The
study helped raise awareness among consumers of banking services and government about the unfairness of not only penalty fees but other fees charged by banks and other unfair practices employed by banks in Australia. For example, in early 2008, the Australian government announced a package of measures to make it easier for Australians to switch banks if they are not satisfied with their current service provider; around mid 2009, banks began abolishing ATM disloyalty fees; and by late 2009, in response to an outcry by consumers, Australian banks reduced penalty fees substantially. On 12 May, 2010, the Sydney Morning Herald reported that:

*Australia's banks face the biggest class action in corporate history for overcharging their millions of customers about $5 billion in penalty and late fees over the past six years.*

To protect borrowers against unfair and predatory lending practices, the Australian government announced a national credit reform package that came into force on 1 July 2011.

It is worth noting that while their counterparts in Australia have reduced their penalty and late fees, ANZ and Westpac in Fiji have continued to charge these higher fees.

One of the objectives of the financial reform Bill introduced in the United States by the Obama administration in 2010 is to protect consumers from abusive financial services practices. The Bill includes a Consumer Financial Protection Act that creates a Bureau of Consumer Financial Protection. The purpose of the Bureau is to implement and enforce consumer financial law consistently to ensure that markets are fair, transparent, and competitive. The objectives of the Bureau deal with:

- providing timely and understandable information to consumers
- protection from unfair, deceptive or abusive acts and practices and discrimination
- identifying and addressing outdated, unnecessary and unduly burdensome regulations to reduce unwarranted regulatory burden
- consistent enforcement of Federal consumer financial law to promote fair competition
- transparent and efficient operation of services and products to facilitate access and innovation.

The financial reform bill was signed into law in July 2010. The Dodd-Frank Wall Street Reform and Consumer Protection Act (H.R. 4173), as it is referred to now, has brought about the toughest reforms since the Great Depression of the nineteen thirties.

In relation to Fiji, more complaints are now being received by the Consumer Council of Fiji, the RBF and individual banks. In addition, a number of letters have continued to appear for many years in the daily newspapers expressing dissatisfaction with banking services in Fiji. In fact, the Committee of Inquiry into Financial Services in Fiji was actually provoked by public outcry and response from parliamentarians.
The main findings of the Committee of relevance to consumer issues were:

- The Committee found high interest rate margins and spreads, very high level of profits by foreign banks compared to their global performance, and consumer dissatisfaction on interest rates, fees and charges were “strong indicators” that Fiji “has been bearing relatively high costs of intermediation and services related to the payments mechanism” (p183)
- The Committee noted that the “current structure and level of banks’ and other financial institutions’ fees, charges and interest rate margins were relatively high” and have “a potential cushion for reduction” (p184)
- Affordability of fees and charges – “can represent a substantial burden on average family in a developing economy such as Fiji.” (p185)
- Banks had not taken a sufficiently proactive approach to information provision. The Committee recommend that bank branch staff be available to provide advice in English, Fijian or Hindi. (p186)
- The Committee found competition to be “uneven and delivered mixed results to consumers in Fiji”. The two major banks (ANZ & Westpac) had the “market power to effectively increase and/or dictate the level of fees and charges.” (p186) The Committee noted that “competitive pressures...are very weak” as indicated by poor quality service. The Committee noted that if banking in Fiji was competitive then it would be evidenced by improved quality of service. (p187)
- Pricing arrangements in Fiji’s financial system were not distributed equitably. “The interest rate structure on loans and advances appears to be favourable to a few powerful, influential and large scale operators belonging to the higher income brackets, compared to less privileged ones who constitute the majority of bank customers”. (p187)
- Absence of a market for corporate controls of banks. A market would exist if banks issued shares to local residents and traded on the local stock market. (p188)
- The Committee found a decline in geographical coverage of banks in Fiji.

This Review finds that all these findings, with the exception of the last one, are as true today as they were more than a decade ago. The last finding has to some extent been addressed by rural banking facilities introduced by ANZ and mobile phone banking.

The general recommendations of the Committee were:

- a “Banking Commissioner” to monitor the industry (p189)
- banks review their withdrawal policies in agencies, branches in small towns and rural areas
- banks to consider mobile banking services in rural areas
• high margins and spread on interest rates be reduced in light of overall profits earned by banks in Fiji
• the committee did say that “country risk should no longer be an issue” as the two major banks have been around for 100 years or more. They have “long accepted this risk” and were “deemed to be comfortable with the level of profitability and return on equity that they enjoy” (p191)
• Government should immediately establish a Banking Commission
• The committee had recommended Government to encourage more players to come into the banking industry and increase competition
• The committee had recommended “localisation” through:
  • government to encourage foreign banks to form local subsidiaries and list on the Suva Stock Exchange (now SPSE).
  • make it a requirement for foreign banks to operate in Fiji as subsidiaries and not branches
  • foreign banks to incorporate under Fiji laws and offer 49% of share on stock exchange to local residents

This Review finds that while some of the recommendations of the Committee of Inquiry have been addressed to some extent, others have not received any serious attention at all. Of those recommendations that have been addressed, more could be done to make them effective. One of the recommendations that has not been addressed, for example, concerns high fees and charges and commissions. A recommendation that has seen an attempt at implementation concerns disclosure. This Review finds deficiencies in how the disclosure policy is implemented.

Regarding disclosure, the Report of the Committee of Inquiry into Financial Services in Fiji released in early 1999 recommended (p192):

• that banks be required to give full and specific disclosure to all consumers of any specific fees and charges that will be applied to a particular account at the opening of such accounts, and that this be made mandatory
• that in situations where fees or charges were not specifically disclosed at the outset, the banks are not at liberty to impose such fees or charges
• that banks be required to advertise and disseminate information on the products and services they offer in the three main languages on a regular basis
• that banks must ensure that the information disseminated to consumers is clear and precise and is not misleading or likely to mislead consumers
• that banks should provide information in Fijian and Hindustani as well as English on their most popular products. Many concerns were raised in submissions concerning the difficulty in understanding the products being offered and to shop around and find out the different benefits available at all banks before deciding on which account to
open. They should take advantage of whatever information banks provide on their products so that they become conversant with them.

In response to these recommendations, the RBF issued a policy directive, ‘Disclosure Guideline on Fees and Charges for Banks and Credit Institutions’ in mid 2002. This guideline focuses exclusively on making it mandatory for banks to disclose fees and charges in a specified format and in the vernacular languages. There are no directives by the RBF regarding the justification behind the levels of fees and charges or behind the adoption of procedures and processes employed by banks.

The RBF’s Disclosure Guideline is not effective for two reasons. First, some bank branches are still not serious about displaying the disclosure brochures on their premises as a result of a lack of monitoring by the regulator. Second, the reason why disclosure is important is that it enables consumers to compare products from different banks. This Review finds that using the disclosure brochures, it is not possible to compare home loans, for example, from two banks.

It is little wonder, then, that complaints regarding banking services keep on flowing in through all avenues and that too in a country where people by nature are not normally fussy or litigious. ¹

A draft of this Report was furnished to stakeholders for comments. Comprehensive comments were received from the RBF and the Association of Banks in Fiji (ABIF). One of the comments from both these was that for a balanced view the report should acknowledge the positive contributions made by the banking sector in Fiji in relation to economic growth in Fiji and financial innovation or the introduction of improved products and processes. This Report acknowledges the positive contributions of the banking sector. In addition, this Review has benefited significantly from critical comments and suggestions from the CCoF. The responsibility and liability for any errors, omissions and content of the Report lies solely with the author.

¹Cost of litigation is restrictive in Fiji where lawyers can charge exorbitant fees especially in civil suits and the process can take years in the court system. Civil courts are clogged up with cases. Also no legal recourse exists for poor consumers. Legal Aid Commission now prioritizes criminal cases over civil suits.
2. CONSUMER PROTECTION AND THE BANKING INDUSTRY

2.1 The Banking Sector in Fiji

Currently there are five banks in Fiji operating 63 branches. With the Bank South Pacific (BSP) purchasing Colonial National Bank (CNB) in December 2009, there are effectively only four banks operating in Fiji. The purchase of CNB by BSP can be taken as a sign of confidence in the economy and negates the view held by some that Fiji is a risky country that is not conducive to good business investment.

Table 1 lists the distribution of the branches. All the banks operating in Fiji have their parent companies abroad and operate in other countries as well. The two banks which command the largest share of banking business in Fiji, ANZ and Westpac, are Australian in origin. The National Bank of Fiji, which was the only local bank, ceased operations almost a decade ago as a result of excessive non-performing loans.

<table>
<thead>
<tr>
<th>BRANCH</th>
<th>ANZ</th>
<th>BOB</th>
<th>BSP</th>
<th>CNB</th>
<th>WBC</th>
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<td>8</td>
<td>2</td>
<td>18</td>
<td>19</td>
<td>63</td>
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</tbody>
</table>

*Source: Association of Banks in Fiji*

Combined, these banks operate 162 ATM machines and have 2,091 EFTPOS facilities. The number of these facilities varies greatly among the banks with ANZ having the most and Bank of Baroda having the least. Table 2 lists the number of ATMs and EFTPOS facilities per bank.

<table>
<thead>
<tr>
<th>Bank</th>
<th>ANZ</th>
<th>BOB</th>
<th>BSP</th>
<th>CNB</th>
<th>WBC</th>
<th>TOTAL</th>
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<td>ATMs</td>
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<td>8</td>
<td>4</td>
<td>41</td>
<td>35</td>
<td>162</td>
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<td>1,093</td>
<td>-</td>
<td>5</td>
<td>193</td>
<td>800</td>
<td>2,091</td>
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</tbody>
</table>

*Source: Association of Banks in Fiji*
Banks in Fiji provide a wide range of financial services in the areas of personal and business banking, lending and credit, and international transactions and foreign currency accounts. By and large, banks in Fiji engage in all the activities that they engage in their countries of origin.

2.2 Competition and the banking industry

Uncompetitive behaviour by firms can lead to a failure in the operation of market forces in allocating resources efficiently and to a deadweight loss to consumers. Uncompetitive behaviour in the banking industry in Fiji can arise from a variety of factors that characterise the industry.

First, Fiji has only a handful of banks and one bank has a dominant share of banking business. This reduces options available for customers to choose products and services and also makes it easy for banks to engage in behaviour that may be interpreted as collusive. A larger number of banks would make collusion difficult. Commenting on this, the ABIF says that the dominant bank “is not dominant in all products and services, nor in all segments of the market”. This is an admission of the fact that the dominant bank is dominant in some products and services and in some segments of the market. It is this dominance that can lead to implicit collusion in the areas of dominance.

The ABIF further adds that “it would be fairer to say that there is a plethora of banking products available in Fiji and it may sometimes be hard for some consumers to determine which product suits them best”. The implication of this admission is that if a consumer wants to take a car loan, for example, the products offered by different banks so differ that the consumer will have to compare apples with oranges.

Second, some degree of product differentiation exists in the banking industry. For example, savings accounts within banks and between banks differ in some respects. This creates a movement away from competition and towards an oligopoly. The ABIF in its reply to a draft of this Report asks the questions: “How can diversity i.e. enhanced consumer choice, be bad? How is this anticompetitive?” The answer is simple. If a customer wants to put some money in a fixed deposit account and approaches ANZ and BSP, the interest return at ANZ will be 1 percent and at BSP it will be 1.5 percent. Of course the difference in the rates is because the fixed deposit products are not exactly the same. So while product differentiation does give rise to a diversity of products, it does lead to a movement away from price competition.

Third, for competition to exist, it is necessary for customers to have full information about every aspect of the product being purchased. While the RBF’s disclosure requirement goes a long way in making information available to consumers of banking services, some information is still being disclosed in very fine print and it is not mandatory for banks to disclose all fees and charges. Clause 4.3 of the Disclosure Guideline on Fees and Charges reads:
The Reserve Bank of Fiji understands that some banks in Fiji offer more services and products than others. In this case, if a bank does not offer a particular service or product that is specified in the subheading of the disclosure format prepared by the Reserve Bank, it does not need to disclose this in the fees and charges brochure.

The ABIF in its response to the draft report asks “What “fine print” is the report referring to…?” As an example, the ABIF should look at page 15 of the Fiji Times of May 25, 2010 where ANZ discloses its interest rates. At the bottom of this disclosure in the Fiji Times information is disclosed in very fine print.

Fourth, and the most significant factor that limits perfect competition among banks in all countries including Fiji, is prudential regulation by the Central Bank. This is discussed in detail in the next section.

Consumers of financial services, like insurance and banking, face a number of risks. These include:

1. Prudential risk
2. Misconduct risk
3. Complexity or unsuitability risk
4. Performance risk
5. Market risk
6. Self-regulation risk
7. Access to redress risk and
8. Sophistication and self-reliance risk

It should be noted that prudential risk is only one of the many risks consumers of banking services face. Central Banks focus largely on prudential risk. Despite this focus on prudential risk, experience throughout the world, including Fiji, has demonstrated that banks have failed. In recent years, Central Banks have begun addressing other risks to some extent. While this is to be applauded, the fact remains that the overriding concern of Central Banks remains prudential regulation.

2.3 Prudential Regulation of Banks

In almost all countries, Central Banks are charged with ensuring a stable and solvent financial system. Two of the objectives of the RBF are:

- to promote monetary stability
- to promote a sound financial structure

To achieve these objectives, it is necessary for the RBF to regulate banks. Regulations aimed at ensuring a sound (stable and solvent) financial system are referred to as prudential regulations. In fact, unlike most other businesses, banking business is conducted under a special Act, the Banking Act and is supervised by the RBF under the RBF Act. Since prudential regulations are aimed at promoting a sound financial structure, they do not necessarily protect the consumers of banking products. The only protection that accrues to consumers from prudential regulations arises from the fact that if banks are stable and solvent, depositors’ funds are protected. However, there have been many cases throughout the world, and one in Fiji, where banks have failed despite the existence of prudential regulations. Of course, the risks of bank failure would be far greater without prudential regulations.

\[footnote{\text{For a discussion of these risks see Chand and Dulare (2008), p14-15}}\]
Prudential regulations make the banking sector the most highly regulated sector in any country. This has been the case almost since the establishment of the first bank in the world around in 3000 BC in the Middle East. These banks were located in temples and governed by religious laws and regulations. But by around 1700 BC, the Babylonians had enacted laws to govern banking operations. Some form of banking began in the West in the 16th century AD and experienced massive growth in the 18th century AD accompanied by the imposition of more and more regulations. Developments in Europe and in the US saw the imposition of more and more regulations until the early second half of the 20th century when banks started feeling the strain of these regulations. The strain was so much that financial business started shifting to unregulated financial institutions and new financial products and processes during the 1970s. The share of banking, and therefore (prudentially) regulated, business as a proportion of total financial business declined. This meant that the total financial sector was becoming less and less prudential. The regulators had to act and reform the regulations. Many commentators have characterised these reforms as liberalising the banking sector.

A plethora of regulations aimed at keeping the banking sector uncompetitive still exist to restrict entry into the banking business and to monitor the solvency and stability of existing banks. There are a number of reasons why these regulations are imposed. First, regulations (prudential) help maintain the confidence of people in banks and therefore the currency. One of the instruments used to ensure that people have confidence in banks is some sort of deposit insurance regulations or guarantee of deposits by governments or central banks. This kind of guarantee or insurance on deposits results in the second reason for regulations. Since deposits are in one way or the other guaranteed, there is a possibility that banks can engage in very risky practices. If they make a profit they get to keep it, if they make a huge loss, the taxpayer pays as evidenced in the National Bank of Fiji crisis where taxpayers in Fiji forked out over $200 million. Regulations are imposed to supposedly prevent this from happening. Third, banks need to be regulated because they form the backbone of the financial and payments systems of a country. Fourth, since central banks conduct monetary policy through influencing the behaviour of banks, they need to be empowered by regulations not only to be able to do this but also to ensure the solvency and stability of the banking industry.

Given that the banking sector is highly regulated for prudential purposes, it may seem that consumers are adequately protected. Unfortunately this is not the case. Prudential regulations ensure that the banking sector is not perfectly competitive. The prudential regulator has the view that if a bank competes as vigorously as a peanut seller at the Suva Bus Station, it would be living on the edge with a high possibility of insolvency, creating a very unstable and volatile financial system and eroding the confidence of people in banks, in the payments system and in the currency. A peanut seller can go bankrupt without much loss to the public but if a bank goes bankrupt the casualties can be depositors, taxpayers, the financial system, and the whole economy. As such, prudential regulations create an uncompetitive banking industry. As a result of this lack of competition, the consumers of banking products can be short-changed through high fees and charges and unfair practices, and need protection. In its comments on this paragraph the RBF completely misses the point by saying that the analogy with the peanut seller is “not comparative”.

Even if a specific insurance or guarantee does not exist, governments have bailed out banks in times of crises as in the case of the global financial crisis and in the case of the National Bank of Fiji collapse.
Authorities need to ensure that banks and other financial institutions are safeguarded against failure. If a bank fails, there is a possibility that depositors may lose some or part of their deposits if some sort of deposit guarantee through government, parent company or insurance scheme does not exist. Since all the banks in Fiji are foreign owned and their operations in Fiji are small compared to their global operations, presumably if their operations in Fiji fall under stress, the parent company will bail it out so that depositors funds are fairly safe.

Authorities also need to ensure that the financial system is stable. Experience the world over has demonstrated that recessions are followed by financial instability. If authorities let the financial system be unstable, it is not only the consumers of financial products that are affected but consumers of all products and services suffer.

The need to ensure a solvent and stable banking system necessitates the creation of an imperfect and uncompetitive system, with adverse repercussions on consumers of banking services. Since it is government policy to promote monetary stability and a sound financial structure with the RBF as the implementing agency, the responsibility of ensuring adequate protection of the rights of consumers of banking services affected adversely through prudential regulations lies fully with government and its agencies. But the lack of competition created by prudential regulations enables banks to rake in higher profits and provide a lower range of services or substandard services. As such banks should, and have the ability to fund consumer protection and education activities.

Commenting on the above, the RBF states:

_In our view, prudential regulation is not the proximate cause for higher profits and lower range, or substandard services._

The RBF further adds that:

_The regulatory cost of compliance is not as much as in other countries and thus does not unreasonably affect the price of credit and hence competition._

Commenting on high interest rate in Fiji, the ABIF on the other hand says:

_The cost of complying with prudential regulations is a factor._

This is a clear indication that either the RBF or the ABIF is attempting to mislead.

### 2.4 Consumer protection agencies

Institutions and procedures exist in every country to protect the rights of consumers of banking services. In the US, the Consumer Protection Act of 1969 requires all lenders to provide information to consumers about all costs of borrowing including interest rates and fees and charges. The Fair Credit Billing Act of 1974 ensures that creditors provide information on how charges are assessed and that billing complaints are handled quickly. The Equal Credit Opportunity Act ensures that there is no discrimination in the provision of credit based on personal characteristics. The Community Reinvestment Act of 1977 requires that banks lend to all geographical areas they take deposits from.
In Australia, consumers of banking products are provided some protection through Acts such as the Corporations Act and the Trade Practices Act. On 1 January 2011 the Trade Practices Act 1974 changed its name to the Competition and Consumer Act 2010 (CCA) which incorporates the new Australian Consumer Law. Australia has several institutions engaged in consumer protection in financial services. These are:

- Reserve Bank of Australia (RBA) - plans and puts in practice the country’s monetary policy including monitoring the health of the financial system
- Australian Securities and Investments Commission (ASIC) - deals with misleading, deceptive and unconscionable conduct of financial services. ASIC also enforces the National Consumer Credit Act
- Australian Prudential Regulation Authority (APRA) - responsible for the prudential regulation of banks, insurance companies and superannuation funds, credit unions, building societies and friendly societies
- The Australian Banking and Financial Services Ombudsman (BFSO) - helps individuals and small businesses to resolve complaints against banks and financial service providers. The BFSO is able to make decisions that are binding on the financial services provider

Institutions like the Australian Prudential Regulations Authority (APRA), the Australia Securities and Investment Commission (ASIC) and the Australian Competition and Consumer Commission (ACCC) are also instrumental in addressing consumer issues relating to banks. The Australian Code of Banking Practice has a Code Compliance Monitoring Committee that operates as an independent regulator within a self-regulatory framework. Banking business in Australia is also covered by the Uniform Consumer Credit Code (UCCC).

In Fiji, the rights of consumers of all products are protected through agencies like the Ministry of Industry and Trade, Commerce Commission, and the Consumer Council of Fiji. The Reserve Bank of Fiji provides some protection through policy statements and institutional arrangements based on specific clauses in the Reserve Bank of Fiji Act and the Banking Act. For example, the RBF’s Disclosure Guideline on Fees and Charges by Banks and Credit Institutions are issued under Section 14(3) of the Banking Act, 1995, which reads:

*Licensed financial institutions and where required by the Reserve Bank, any associated persons, shall be subject to the supervision, regulations, rules, orders or other directives of the Reserve Bank which may be issued in accordance with the provisions of this Act, of the Reserve Bank of Fiji Act, or any other written law.*

In early 2010, the RBF announced a Policy Guideline on Complaints Management to improve the efficiency and effectiveness of responses to customer complaints and cover consumer issues relating to banks and other financial institutions. The Policy Guideline on Complaints Management is critically evaluated in the next chapter.

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4There have been some changes to consumer protection in the country since mid-2010. The Commerce Commission Decree 2010 saw the amalgamation of the Prices & Incomes Board and Department of Fair Trading & Consumers Affairs into Commerce Commission. The merger was made via the decree.
3. COMPLAINTS MANAGEMENT

3.1 Complaints and dispute resolution

One of the core functions of the Financial Systems Development and Compliance Unit established by the RBF in April 2009, is to handle complaints raised by customers about financial institutions that the RBF regulates. In pursuing this core function, the RBF issued a Policy Guideline on Complaints Management in December 2009.

Well constructed complaints management procedures, processes and institutional arrangements are crucial if consumers are to be adequately protected. If banks and their employees know, for example, that if a customer is unfairly dealt with and the possibility of a complaint being filed exists and that the complaint can not be dealt with quietly but will come under the scrutiny of not only senior management of the bank but also the regulator, the bank or employee will exercise a higher degree of caution in being fair to the customer. Also, if the complaints in the industry are aggregated, analysed and publicised, systemic problems within individual banks and the industry as a whole can be identified and addressed to the advantage of all stakeholders, including consumers. It is for these reasons that this Review devotes significant space and time in analysing the Policy Guideline on Complaints Management.

It should be noted at the outset that even though the RBF’s Policy Guideline on Complaints Management is silent on the role of the CCoF, nothing prevents the CCoF from acting as an advocate for consumers of banking services. Many a time consumers feel uncomfortable or scared to approach their bank directly if they have a complaint. These consumers should have the right to approach an advocate, duly authorised by the consumer, to act on their behalf. That authority should not be questioned by any agency.

Also, the Consumer Credit Act (1999) has provision for the establishment of a Consumer Credit Office which, among other functions, is empowered to receive and consider complaints from consumers about credit services. Unfortunately, the Consumer Credit Office has yet not been established and does not exist.

There is no international benchmark for complaints management to ensure consumer protection across the financial sector at the moment.

Susan Rutledge in a Working Paper for the World Bank (2010, p. 4) recommends the following in relation to complaints and dispute resolution:

- financial consumers should have access to a redress mechanism that is fast, inexpensive and effective
- all financial institutions should be obliged to have a designated department (or at least an officer) responsible for handling customer complaints
- when opening a new account or buying any new service, the consumer should be advised in writing as to where to submit complaints, inquiries and disputes
- financial supervisors should review the complaint files of the
financial institutions they oversee

- ideally there should be one, clearly identified, central location where consumers of financial services and products can go when they have complaints or inquiries
- the central complaints office should have a toll-free telephone line so that in case of a dispute, anyone from anywhere in the country can obtain information about financial services and consumers’ legal rights
- consumers should be able to submit their complaints by email, by postal mail, by telephone or by visiting the premises of the complaints office
- statistics on consumer complaints should be analyzed and published—and used to identify future improvements in the financial consumer protection framework
- policy-makers should consider alternatives to courts, such as a financial ombudsman’s office, that can take and enforce decisions regarding consumer claims for small amounts of money
- a financial ombudsman’s office may be set up under a professional association or as an independent statutory ombudsman.

The Policy Guideline on Complaints Management for banks and credit institutions of the RBF is analysed with the above recommendations in mind.

Section 1.2 of this Guideline acknowledges that safeguarding of depositors’ interests is a fundamental requirement in the financial system but goes on to talk about the reputation of Licensed Financial Institutions and confidence in the financial system, that is, prudential considerations instead of consumer issues. Section 1.3 admits that with prudential regulation as one of the functions of the RBF, the Reserve Bank establishes only minimum guidelines for customer complaints management.

### 3.2 Access to a redress mechanism that is fast, inexpensive and effective

Section 5.2.1 of the Guideline requires that LFIs must endeavour to resolve complaints received within 21 working days unless legal proceedings are required. This section looks a little weak: banks do not “have to” but only need to “try to” resolve the complaints within 21 working days and the 21 working day resolution of disputes is too long. A total of 21 working days translates to four weeks and a day. It would have made sense if the resolution time limit was two weeks or three weeks. It seems that the original drafters of the Guidelines in fact had “21 days” in mind and someone slipped the word “working” in between. This is the only way the use of the number 21 makes sense – that some gremlin somewhere inserted the word “working”, and presumably the words “endeavour to”, in the section to remove any potency.

Sections 5.2.2 to 5.2.5 inclusive deal with timeframes for informing customers on the outcome of complaints resolved by banks or through legal proceedings and the status of complaints, together with document requirements before the commencement of the 21 day complaint resolution period. These timeframes are satisfactory.
Section 5.2.6 and 5.2.7 make it mandatory for banks to clearly state the reasons if complaints are not resolved, to provide complainants with internal and external review options if the complainant is dissatisfied with the outcome of the complaint. This is also satisfactory.

However, the Policy Guideline does not mention any financial compensation for consumers with successful complaints. If a customer is treated wrongly by a bank, there are costs, financial and psychological, that the customer suffers in relation to that wrong and in relation to filing the complaint. In all fairness to the consumer, all such costs need to be reimbursed.

3.3 Designated department (or at least an officer) responsible for handling customer complaints

Section 5.3.1 of the Guidelines makes it mandatory for banks to:

- establish internal reporting mechanism on complaint resolution process
- establish effective procedures to monitor complaints
- produce regular reports to senior management for review
- the reports to be read by senior management.

Section 4.2.3 of the Guidelines makes it mandatory for banks to:

have a unit, or function established specifically or combined with other duties in each branch, with designated staff to handle and resolve complaints lodged by customers or authorised customer representatives.

This would be of benefit to consumers who, at the moment, do not know who to complain to or whether the officer they are complaining to is capable of handling their complaints.

Section 4.2.4 of the Guideline requires banks to ensure that complaints handling staff are independent, unbiased, skilled, keep complaints registers updated, acknowledge complaints in writing, have knowledge of the products and services of the bank, and are familiar with the complaints management policy of the bank.

3.4 When opening a new account and buying any new service, the consumer should be advised in writing as to where to submit complaints, inquiries and disputes

There is no requirement in the Guideline making it obligatory for banks to inform new customers or existing ones about the complaints management procedures or who to submit complaints to. Section 1.3 of the Guideline says that the Guideline would “assist LFI customers develop a positive attitude knowing that there are procedures that would adequately address their cause, should the need arise”. But for this to happen, customers need to be first informed about the procedures. As such, the provision of this information should be mandatory.
Section 5.1.6 of the Guideline makes it mandatory for a description of the complaints handling system to be accessible to customers either through the bank website or in correspondence with customers, through pamphlets and posters. The bank can choose which mode to use. If the bank uses its website, only those who have access to it will see the information. If pamphlets and posters are used, only those who can read or bother to read will know about where to submit complaints, enquiries and disputes.

Both new and existing customers must be informed in writing about the complaints handling policy of banks and about where to submit enquiries, complaints and disputes.

The ABIF agrees with this and suggests that while the RBF policy is silent on the above requirements at the commencement of contractual agreements, “this may be a useful initiative for banks to follow”.

However, the RBF maintains that since banks “are required to publicise their complaints management procedures and processes, hence new/existing customers should be aware of such publicity/awareness by the banks”.

Again, while banks are willing to address consumer issues, the RBF brushes the issue aside.

3.5 Financial supervisors should review the complaint files of the financial institutions they oversee

Section 5.3.1 of the Guideline requires banks to produce regular reports to senior management for review with all complaints read by senior management. Under Section 6.0 of the Guideline, the RBF will conduct ongoing monitoring as well as on-site examination of the complaints management policy and implementation. The Section also establishes an advisory group from the community that will meet every six months, be briefed by the RBF and provide feedback on issues of concern to the public. Section 6.5 of the Guideline requires banks to submit Quarterly Complaints Reports to the RBF.

What is lacking in the Guideline, however, is any mechanism or obligation on the part of the regulator to publicly file a report on the complaints received by banks. The analysis and feedback on the complaints terminates at the advisory group. But it should be noted that the RBF now publishes the number of the complaints filed directly with it. Complaints are also received by the CCoF, which should also be required to submit a Quarterly Complaints Report to the RBF. In fact, the advisory body should be briefed about complaints received by all agencies: banks, RBF, and the CCoF.

The membership of the advisory group will include, among others, NGOs, CCoF, the Fiji Chamber of Commerce and religious group representatives. Presumably the representatives will be nominated by each group. The question that immediately arises is which NGO and religious groups will be included. The Guideline needs to provide some certainty about this. Also, there is no requirement that the members should have experience with either consumer issues or financial sector issues.

The advisory group to be established will be briefed by the RBF and will provide feedback to it. As such, it will be limited in its powers to direct the RBF to
address systemic issues arising from the nature of complaints received. In any case, the advisory group will have an advisory role only. Whether the advice is acted upon will depend on the inclinations of the incumbent Governor.

The RBF’s response to the above is that the candidates approached will have experience/knowledge on consumer and financial sector issues and that the RBF will only provide secretarial support and not chair the Group. If this is so, there should be no difficulty in including these conditions in the Guidelines.

In actual fact, the advisory group established at the end of 2010 is called the Complaints Management Forum and consists of financial institutions, the CCoF, regulatory bodies like the Commerce Commission and other relevant parties, with an independent chair.

3.6 Ideally there should be one, clearly identified, central location where consumers of financial services and products can go when they have complaints or inquiries

If a customer has a complaint or a dispute with a bank, the RBF requires that the customer approach the bank in the first instance for resolution. Banks are required to have designated staff at each branch to handle and resolve complaints. If the customer is not satisfied with the outcome, he/she can take the complaint to the RBF. The complaint to the RBF can be filed through either filling in a form that is also available on the RBF website, by telephone, email, fax, or letter. The complaints filed with the RBF are considered by the Financial Systems Development and Compliance Group at the RBF. This institutional arrangement clearly identifies where consumers of banking services can go to if they have a complaint or a dispute.

3.7 The central complaints office should have a toll-free telephone line so that in case of a dispute, anyone from anywhere in the country can obtain information about financial services and consumers’ legal rights

Low incomes and high cost of phone calls may deter consumers in seeking information if they have a complaint. In any case, most complaints are inquiries rather than disputes and can be addressed over the phone. A toll free phone line will increase the number of enquiries, complaints and disputes and provide banks and the RBF with information to formulate better business practices to their advantage. While the Guideline is silent on toll free telephone lines, hopefully banks will see the advantage of such a provision and the RBF will also use them.

3.8 Consumers should be able to submit their complaints by telephone, email, by postal mail, or by visiting the premises of the complaints office

The RBF’s Policy Guideline on Complaints Management states very clearly that
complaints can be lodged by any reasonable means. These include complaints lodged in writing through a letter, fax, email, or by filling in a prescribed complaint form or verbally by telephone or in person. Complaints can be filed by customers or authorised customer representatives and special attention should be given to those with physical or mental disabilities.

3.9 Statistics on consumer complaints should be analyzed and published—and used to identify future improvements in the financial consumer protection framework

The RBF’s Financial Systems Development and Compliance (FSDC) Group began publishing its quarterly *E-Guardian* magazine from the first quarter of 2010. This magazine is an excellent attempt to inform and educate the public. Unfortunately it is available in electronic form only.

The *E-Guardian* also includes statistics on the number of complaints filed by Licensed Financial Institutions (LFIs) and the status of these complaints. Only the number of complaints is published and not any diagnostic analysis of these complaints.

Information gained from an analysis of complaints can be very useful for the RBF, banks and consumers of banking services and help increase confidence in the banking system. The RBF needs to aggregate the complaints filed with individual banks, the RBF, and the CCoF, statistically analyse the complaints, and use the analysis to formulate policies that would reduce complaints against banks. The analysis should be published through a medium that is accessible to all consumers if it is to be effective in building confidence in the banking system.

The RBF’s response to the above is “We embrace the point that collaboration between the various organisations will assist in the quick resolution of consumerism issues”. The RBF further adds that “The RBF could consider entering into Memorandum of Understandings where appropriate”.

3.10 Policy-makers should consider alternatives to courts, such as a financial ombudsman’s office, that can take and enforce decisions regarding consumer claims for small amounts of money

The RBF’s policy guideline on complaints management does not create a Financial Ombudsman’s Service but the system and procedures adopted in the Guideline are robust on paper. The CCoF is of the view that, in practical terms, it is not actually working as it should. In fact the policy guideline should not be called a guideline but a regulation since it is issued under Section 14(3) of the Banking Act of 1995 and the RBF can take appropriate action for non compliance under the Act.

In the first instance, complaints are filed with respective banks that are required to have dedicated officers to handle them, whose senior management must review the complaints and file a report on them to the RBF. These requirements ensure that the complaints are handled with a lot of seriousness.
If a customer is not satisfied with the outcome of the complaint filed with the bank, the customer can take the complaint to the RBF.

The RBF’s consumer complaints unit, which functions under the Financial Systems Development and Compliance Group, acts as a de facto financial ombudsman service. Its powers are derived under the RBF Act and Section 14.3 of the Banking Act 1995.

The RBF’s institutional arrangement regarding complaints from consumers of financial products covers all kinds of complaints including those that are supposed to fall under the Consumer Credit Act. The Consumer Credit Act is enforced by the Ministry of Trade and Commerce which is not equipped with the expertise required to handle complex issues in the financial sector. The Consumer Credit Act requires the establishment of a Consumer Credit Office. This office could be established as part of a Financial Ombudsman Service within the RBF. The Financial Ombudsman Service can easily be established on lines similar to the Financial Intelligence Unit.

Consumer protection has more to do with it than just complaints handling and management. There are systemic issues that need to be addressed as well. Systemic issues are more important than addressing consumer complaints.

Some commentators have raised reservations about the RBF acting as a Financial Ombudsman Service saying that the preoccupation of the RBF with prudential considerations may override issues regarding consumers of financial products.

Where the financial supervisory agency is responsible for consumer protection, as well as prudential supervision, supervisors may recommend a corrective measure against a financial institution that does not comply with consumer protection regulation—and this measure may weaken the soundness or stability of the financial institution. (Rutledge, S., 2010, p 17)

However, Rutledge concedes that where the prudential regulator also takes the consumer protection role, it finds that the complaints provide an early warning signal of prudential problems that may arise with specific financial institutions. Also, analysis of complaints can provide insights into systemic challenges that may exist in the financial sector. If the prudential regulator is also the consumer protection agency, it has first hand information on the trends in consumer complaints and any systemic problems that may exist, or arise, in the sector. If consumer complaints are handled by another agency, the prudential regulator might not take ownership of consumer protection issues and not be serious in addressing systemic challenges in the financial sector. It is for this reason that some countries, like India, have a Financial Ombudsman Service operating under a separate legislation but housed and funded by the Central Bank.

To address any perceived conflict of interest, the RBF could place the consumer complaints unit under a different reporting structure from that of prudential supervisors, under the headship of a separate senior/chief manager. This unit can then enforce the Consumer Credit Act and also streamline financial, administrative, and other non-financial issues.

The recourse mechanism for consumer complaints that is appropriate to a
It should be noted that Banking Ombudsmen Offices in India are funded by the Reserve Bank of India with serving officers of the RBI in the rank of Chief Managers and General Managers posted as Banking Ombudsmen in different regional areas. The Annual Report of the Banking Ombudsman Scheme in India produces, for public consumption, a very comprehensive analysis of complaints received.

### 3.11 Conclusions

The RBF’s Banking Supervision Policy No. 13: Policy Guideline on Complaints Management is proactive and fills in a huge gap that had existed regarding protection for consumers of banking services. The Guideline addresses effectively most of the concerns of consumer advocates and will go a long way in improving the quality of services provided by commercial banks. However, the Policy Guideline has some fundamental deficiencies that need to be addressed. Also, a fundamental aspect that is missing from the Guideline is redress or compensation for those whose complaints are successful. The following recommendations are made as suggestions for improving the Guideline:

**Recommendation 1:** Section 5.2.1 of the Policy Guideline on Complaints Management should read: LFI’s should resolve complaints received no later than 21 days from the receipt of the complaint unless legal proceedings are required.

**Recommendation 2:** The RBF’s Policy Guideline on Complaints Management should include a provision for the payment of a just and fair compensation to complainants whose complaints are successful.
**Recommendation 3**: Both new and existing customers must be informed in writing about the complaints handling policy of banks and about where to submit enquiries, complaints and disputes.

**Recommendation 4**: The RBF should collate complaints filed with the banks, CCoF, and RBF, diagnostically analyse the complaints, and publish the analysis.

**Recommendation 5**: The composition of membership of the advisory group established by the RBF should be more certain and also include expertise in financial services. The advisory group should elect its own Chair who should not be a staff member of the RBF.

**Recommendation 6**: The RBF should consider placing the consumer complaints unit under a different reporting structure from that of prudential supervisors, under the headship of a separate senior/chief manager. This unit should also take responsibility for the Consumer Credit Act. The Unit should be called the Financial Ombudsman’s Office.
4. MAJOR PROBLEM AREAS

4.1 Introduction
Complaints about the quality of services provided by banks and interest rates and fees charged crop up often in private discussions and letters to the media. More formally, complaints are filed with individual banks, the CCoF and the RBF. The complaints centre largely around delays in the provision of services, ranging from waiting time in queues to delays in getting property settlements; the lack of complete knowledge on the part of bank employees about conditions relating to the products and services offered by their bank resulting in wrong or ambiguous advice; the level and transparency of interest rates, fees and charges; and at times the arrogance of bank officials. Concerns have also been raised during discussions and consultations regarding mortgages. These concerns have centred largely around the mortgage of properties other than the property being purchased, with the value of the properties greatly in excess of the loan being taken and the sale of properties well below market value on loan default.

4.2 Fees, Charges and Profits
Since the major banks have their parent companies in Australia, the comparisons are made with fees, charges and profits in Australia. Profit after tax as a percentage of total assets is taken as an indicative ratio for the comparison of profitability between Fiji and Australia.

Table 3 compares the after tax profits as a percentage of total assets for the Fiji operations of ANZ and Westpac with that of the four major banks in Australia.\textsuperscript{5}

<table>
<thead>
<tr>
<th>Year</th>
<th>Major 4 Australia</th>
<th>ANZ Fiji</th>
<th>Westpac Fiji</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>0.20%</td>
<td>2.52%</td>
<td>3.51%</td>
</tr>
<tr>
<td>2005</td>
<td>0.19%</td>
<td>2.56%</td>
<td>3.74%</td>
</tr>
<tr>
<td>2006</td>
<td>0.17%</td>
<td>3.24%</td>
<td>3.41%</td>
</tr>
<tr>
<td>2007</td>
<td>0.17%</td>
<td>2.23%</td>
<td>2.94%</td>
</tr>
<tr>
<td>2008</td>
<td>0.16%</td>
<td>2.75%</td>
<td>4.11%</td>
</tr>
</tbody>
</table>

Table 3: Net Profit After Tax and Minority Interests as Percentage of Total Assets

Source: APRA, RBF

The table above indicates that operations in Fiji for both ANZ and Westpac are substantially more profitable than in Australia. On average, over the five year period, ANZ’s net after tax profit as a percentage of total assets were fifteen times more in Fiji than that of the four major banks in Australia. For Westpac, the percentage was over 20 times more in Fiji.

The RBF is of the view that the difference in profit ratios arises from the fact that the asset size of Australian banks is far greater than that of Fiji banks. What the analysis compares is not asset sizes but the return on these assets. The return on assets is definitely higher in Fiji.

\textsuperscript{5}The 4 major banks in Australia are ANZ, Commonwealth Bank of Australia (CBA), National Australia Bank (NAB), and Westpac. 

On average, over the five year period, ANZ’s net after tax profit as a percentage of total assets were fifteen times more in Fiji than that of the four major banks in Australia. For Westpac, the percentage was over 20 times more in Fiji.
Further, using figures available to it, the regulator finds that the ratio for the year 2007 for the four major banks in Australia is 1.0% and the ratio for 2005 for Westpac Fiji is 3.15%. While these figures differ from Table 4 above, they clearly demonstrate that the returns are indeed higher in Fiji.

Interestingly, the ABIF did not make any attempts to question the figures in the above table but went on to justify higher rates on the basis of “Perception of Credit Risk” and the cost of complying with prudential regulations. However, the 1999 Committee of Inquiry found that since the major banks have operated in Fiji for over 100 years, they have accepted the risk.

Bank profits are derived largely from interest income and fees and commissions. Table 4 compares net interest income as a percentage of total assets for the Fiji operations of ANZ and Westpac with that of the four major banks in Australia.

Net interest income as a percentage of total assets on average over the five years is about 11 times higher for the Fiji operations of both ANZ and Westpac as compared to that of the four major banks in Australia. A similar situation exists in relation to fees and commissions. On average, over the five year period net fee and commission revenue for ANZ Fiji was over 10 times higher than that of the four major banks in Australia. For Westpac it was over 8 times higher.

Further, using figures available to it, the regulator finds that the ratio for the year 2007 for the four major banks in Australia is 1.0% and the ratio for 2005 for Westpac Fiji is 3.15%. While these figures differ from Table 4 above, they clearly demonstrate that the returns are indeed higher in Fiji.

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Bank profits are derived largely from interest income and fees and commissions. Table 4 compares net interest income as a percentage of total assets for the Fiji operations of ANZ and Westpac with that of the four major banks in Australia.

Net interest income as a percentage of total assets on average over the five years is about 11 times higher for the Fiji operations of both ANZ and Westpac as compared to that of the four major banks in Australia. A similar situation exists in relation to fees and commissions. Table 5 compares net fee and commission revenue as a percentage of total assets. On average, over the five year period net fee and commission revenue for ANZ Fiji was over 10 times higher than that of the four major banks in Australia. For Westpac it was over 8 times higher.

Slightly higher interest charges, fees and commissions in some countries may be justified on the basis of higher risks existing in that country. One of these risks is the risk of higher loan default or higher bad debts.

Bad and doubtful debts recorded in the profit and loss account may be recovered in subsequent years. The difference between bad and doubtful debts and their recoveries in any year can be positive or negative. As such, annual comparisons of bad and doubtful debts are misleading. To compare bad and doubtful debts, first the net bad and doubtful debts from 2004 to 2008 are summed. Second, this sum is divided by the average loans and advances from 2004 to 2008. Let us call this the medium term risk ratio.
Table 6: Net Bad and Doubtful Debts as a Percentage of Net Loans and Advances

<table>
<thead>
<tr>
<th>Year</th>
<th>Bad and doubtful debts less recovered: P&amp;L</th>
<th>Net loans and advances</th>
<th>Bad and Doubtful debts/ Average Net loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major 4 banks Australia ($m)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>-476</td>
<td>848798</td>
<td>-0.06%</td>
</tr>
<tr>
<td>2005</td>
<td>-374</td>
<td>924253</td>
<td>-0.04%</td>
</tr>
<tr>
<td>2006</td>
<td>-551</td>
<td>1037094</td>
<td>-0.05%</td>
</tr>
<tr>
<td>2007</td>
<td>-710</td>
<td>1201462</td>
<td>-0.06%</td>
</tr>
<tr>
<td>2008</td>
<td>-4458</td>
<td>1490044</td>
<td>-0.30%</td>
</tr>
<tr>
<td>Total net bad and doubtful debts</td>
<td>-6569</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average net loans and advances</td>
<td></td>
<td>1100330</td>
<td></td>
</tr>
<tr>
<td>Medium term risk ratio</td>
<td></td>
<td></td>
<td>-0.60%</td>
</tr>
</tbody>
</table>

ANZ Fiji ($,000) |                                           |                        |                                          |
| 2004     | -4164                                     | 657791                 | -0.63%                                   |
| 2005     | -4624                                     | 843161                 | -0.55%                                   |
| 2006     | 6905                                      | 1064020                | 0.65%                                    |
| 2007     | -1956                                     | 1141751                | -0.17%                                   |
| 2008     | -1165                                     | 1220801                | -0.10%                                   |
| Total net bad and doubtful debts | -5004                                     |                        |                                          |
| Average net loans and advances |                                           | 985505                 |                                          |
| Medium term risk ratio |                                           |                        | -0.51%                                   |

Westpac Fiji |                                           |                        |                                          |
| 2004     | 1546                                      | 424129                 | 0.36%                                    |
| 2005     | 1743                                      | 521113                 | 0.33%                                    |
| 2006     | 8954                                      | 574409                 | 1.56%                                    |
| 2007     | -8954                                     | 803620                 | -1.11%                                   |
| 2008     | 6881                                      | 876246                 | 0.79%                                    |
| Total net bad and doubtful debts | 10170                                     |                        |                                          |
| Average net loans and advances |                                           | 639903                 |                                          |
| Medium term risk ratio |                                           |                        | 1.59%                                    |

Table 6 reveals very clearly that the risk of doing banking business in Fiji is lower compared to Australia. In fact, over the four year period, Westpac had more bad and doubtful debts recovered than written off. The lower risk ratio in Fiji could be the result of either more stringent conditions applied for loan approvals or more prudent borrowers in Fiji. It is highly likely that the case is the former rather than the latter, since the riskier lending business goes to institutions like the Fiji Development Bank and Housing Authority. Whatever the case may be, banks in Fiji have the ability to lend to what they perceive as risky enterprises and to substantially reduce interest rates and fees and commissions.

The fact that a substantial amount of debt classified as bad or doubtful for the purpose of calculating profits is later recovered, casts considerable doubt on the criteria used to ascertain whether a debt is bad or doubtful. There is a definite need for a review of these criteria.

The risk of doing banking business in Fiji does not justify either the excessive interest rates charged or the exorbitant fees and commissions levied.
The ABIF justifies fees, charges and profits on the basis of higher “Perception of Credit Risk” in Fiji and the costs of complying with prudential regulation. The suggestion that the cost of complying with prudential regulations is higher in Fiji compared to Australia is absurd. If the perception of credit risk is the factor, banks need to change this perception in light of the fact that loan default risk is lower in Fiji and that despite numerous political upheavals in Fiji, the banking sector has not been subjected to stress. Further, the global financial crisis did not affect the banking sector in Fiji since licensed financial institutions are required by the Banking Act to at all times hold assets (other than goodwill and intangible assets) in Fiji of a value of not less than the total amount of deposit liabilities in Fiji. As such banks in Fiji are not exposed to volatilities in the international financial markets. So the risk of doing banking business in Fiji is low compared to Australia.

4.3 Interest rate spread

The interest rate spread or the gap between bank lending rates and deposit rates depends on a variety of factors. In broad terms the interest spread depends on the level of liquidity in the financial system, the level of competition among banks, the risk of loan default, and the expectations about the future stance of monetary and fiscal policy and economic conditions.

Higher levels of liquidity in the financial system see a larger decrease in deposit rates and a comparatively lower decrease in lending rates leading to a rise in the interest spread. Tighter financial conditions see a reduction in the spread. With fewer banks and/or a large market share of one bank, the interest spread is likely to be high. The interest rate spread is also higher in countries where the risk of loan defaults is higher. When difficulties are anticipated in the future as a result of economic policies, economic fundamentals or political developments, the interest spread tends to increase.

What the spread does not depend on is the cost of funds: the cost of funds is the cost on which a mark-up is added to derive the lending rate. The interest rate spread can be thought of as this mark-up.

Fiji has demonstrated considerable resilience in the face of a variety of adversities resulting from vagaries of the weather, political turmoil, international sanctions, and global crises. Also, the risk of loan default as explained above is significantly low, even lower than that in Australia. Also, financial conditions have been tight for some time now and one would imagine that the competition for deposits would increase the interest rate on deposits and reduce the interest spread. Under these circumstances, there is no reason why the interest rate spread in Fiji should be as high as what it has been. Recognising this, authorities in Fiji issued a directive to banks in early 2009 to gradually reduce the interest rate spread to four per cent. Towards the end of 2009, interest rate spreads in Fiji have come down to about four per cent.

Table 7 compares the interest spread in Fiji with that in some neighbouring and similar countries.
While the interest rate spread in Fiji has not been as high as the spreads in the Solomon Islands, Mauritius, or PNG, it has been higher compared to its developed neighbours (Australia and New Zealand), immediate island neighbours (Tonga and Vanuatu), and a similar island nation in the Caribbean (Trinidad and Tobago).

Jayaraman & Sharma (2003) come to the same conclusion:

“... like the developing countries in the Caribbean region, Fiji has also been experiencing large interest spreads. Compared to some of the other PICs, the magnitude of the spread in Fiji is among the lowest. However, at this level, the spread is still higher than those of the developed countries.” (p.90)

The RBF directive on interest rate spreads has been lifted but banks are still required to justify increases in interest rate spreads. On 14 May 2010, RBF announced the implementation of a new monetary policy framework.

“An important feature of the new framework is the disclosure of reasons for any widening of commercial banks’ interest rate spread from the current levels of four percent. In addition, the banks will be required to publish their Base Lending Rates (BLR), which will serve as a reference rate for the public.” (RBF, 14 May 2010)

The RBF defines interest spread as the gap between a depository institution’s return on monetary assets and the cost of funds. The return on monetary assets is the ratio of interest income to average monetary assets. Monetary assets would include net loans and advances, investment, deposit with banks, money at call and ESA (Exchange Settlement Account). Cost of funds is the ratio of interest expense to average paying liabilities. Paying liabilities include deposits, balance due to RBF, balance due to banks and at call, bills payable and long term liabilities on which interest is paid.

Section 41 of the Reserve Bank of Fiji Act, Rev. 1985 provides the RBF with the powers to regulate and monitor interest rates charged by banks.

These include “maximum and minimum rates of interest chargeable in respect of the:

i. making of advances, whether by loans or overdrafts and investments;
ii. discounting of bills of exchange, promissory notes and other
The RBF does monitor all interest rates charged and monitors these through monthly statistics as follows:

- interest rates on deposits (RBF Form M-2); and
- rates of interest on loans and advances and leases (RBF Form M-4).

The RBF has now been able to reduce the interest rate spread and monitors changes in the spread, deposit and lending rates and bank fees and charges. If any changes are made in these, banks have to justify the changes.

However, given the exorbitant revenues earned by banks in Fiji through interest and fees and charges, what need to be monitored are the levels of deposit rates, lending rates and fees and commissions.

As an indication of the higher charges in Fiji, the example of a one-day $200 overdraft excess fee is taken. For Fiji, the whole fee is levied on the day the overdraft facility is exceeded. For ANZ Australia, there is a daily penalty with a monthly limit while Westpac Australia charges $9 per occurrence.

### Table 8: Fee on $200 Overdraft Excess for One Day (relevant $)

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Fiji</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANZ</td>
<td>Westpac</td>
<td>ANZ</td>
</tr>
<tr>
<td>6</td>
<td>9</td>
<td>25</td>
</tr>
</tbody>
</table>

The ABIF is of the view that “The charging of such fees is intended to be a disincentive to delinquent customers...”. Whether banks can charge penalties over and above the cost of a transaction is a matter to be considered under the Doctrine of Penalties. This has been undertaken in Australia and banks have reduced their fees on overdraft excess and dishonoured cheques significantly. However, these fees (penalties) remain exorbitant and unconscionable in Fiji. The levels of these penalties remain extremely high in Fiji and such levels could be described as tantamount to fee gouging.

**Recommendation 7:** The CCoF should write formally to the Commerce Commission requesting an investigation into the fairness of the levels of interest rates charged and paid and the fees and commissions levied by banks.

The response of RBF to this recommendation is:

*We feel strongly that there is no need for this because we view it as a way of fixing prices on interest rates, bank fees and charges and commissions, as this is best left to the market forces to determine.*

This stance of RBF is of great concern for a variety of reasons. First, the RBF presumes that market forces are perfectly competitive and Adam Smith’s invisible hand will automatically lead to just and fair prices. This is despite the admission on the part of banks in Fiji that the industry is not perfectly competitive. Second, it presumes that the Commerce Commission will recommend...
fixing interest rates, bank fees and charges, and commissions. This is not necessarily so. Third, the regulator seems to be happy with some of the exorbitant fees and charges like dishonour fees and overdraft fees levied by banks and it does not acknowledge that these fees and charges are high. Fourth, the RBF seems to be uncomfortable about an independent arbiter scrutinising services that the regulator itself should be monitoring.

The RBF must understand that it is first and foremost a public institution answerable to the public through the objectives and functions outlined in the RBF Act. While the maintenance of financial stability is crucial, the RBF should endeavour not to be seen as predominantly an advocate for the financial sector.

It has been difficult to ascertain how different fees, charges and commissions are set by banks from a questionnaire sent to them. The responses are recorded below.

### Figure 2: Bank Responses on Fees and Charges

<table>
<thead>
<tr>
<th>Baroda</th>
<th>Westpac</th>
<th>BSP</th>
<th>ANZ</th>
</tr>
</thead>
<tbody>
<tr>
<td>The fees, charges and commissions are set to cover operational costs and are market driven.</td>
<td>Fees are set according to cost of transactions and market pricing.</td>
<td>We have different products that attract different fees, charges and commission. We have an internal committee that reviews and recommends the appropriate fees, charges and commissions.</td>
<td>ANZ’s fees, charges and commissions are outlined in ANZ’s Brochure on International Fees and Charges, Customer Fees and Charges, Lending and Credit Card Fees and Charges.</td>
</tr>
</tbody>
</table>

The ANZ response does not answer the question at all but the responses from Baroda and Westpac refer to costs and the market. The cost of doing business in Fiji is lower than that in Australia. As such, higher fees and commissions in Fiji cannot be justified on the basis of costs. Given that the market for banking services is imperfect and more so in Fiji than in Australia, it is highly likely that higher fees, charges and commissions are being determined in a highly imperfect market and therefore need to be regulated.

### 4.4 Disclosure of information

For consumers to have access to just, fair and competitive services, it is essential that full information is available to compare the services from different providers. The difficulty with which the information is available or the cost of obtaining the information needs to be low.

The RBF’s Banking Supervision Policy Statement No. 8 sets out the disclosure guidelines on the form and content of fees and charges for banks and credit institutions. Section 3.1 of the Policy Statement reads:

Licensed financial institutions shall fully disclose all fees and charges on all the services and products they offer to members of the public. Fees and charges can be disclosed in brochures, leaflets, pamphlets or booklets and placed in a conspicuous position in each of its offices and branches in Fiji. The method of disclosure undertaken by an LFI is entirely its choice as long as the format used conforms to the disclosure standard of the RBF.
Section 3.2 reads:

*These brochures shall be made available to members of the public at all places of its operation and be displayed in a manner where all customers can have easy access to it e.g. on a display board or shelf. Upon enquiring for a banking service or product, the LFI personnel should encourage customers to study or examine the LFIs fees and charges brochures before acquiring a product or service. Furthermore, after choosing a particular service or product the institution’s personnel should ensure that the customer is fully aware of the conditions and associated fees and charges.*

The Policy Statement goes a long, but not the full way in ensuring that information is provided to consumers of banking services. The Reserve Bank of Fiji needs to be commended for at least introducing the Policy in 2002. A consumer of banking services can now easily visit any branch of all banks, get information on fees and charges, and then make an informed choice about which bank he/she will engage with. However, as will be seen later, if a consumer of a banking service actually goes to all banks, gets their disclosure brochures and tries to make meaningful comparisons, she will be frustrated and disappointed.

A survey of banks in Nadi, Namaka, and Lautoka conducted on 18 March, 2010 showed that some banks did not have any printed materials in any language on their fees and charges displayed in accordance with the disclosure requirements of the RBF. Another survey conducted on 26 May 2010 in Lautoka only revealed the following:

*Figure 3: Survey of Disclosure Compliance, 26 May 2010*

<table>
<thead>
<tr>
<th>Fees and Charges</th>
<th>ANZ</th>
<th>BOB</th>
<th>CNB/BSP</th>
<th>Westpac</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Banking</td>
<td>×</td>
<td>×</td>
<td>√</td>
<td>×</td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lending</td>
<td>×</td>
<td>×</td>
<td>√</td>
<td>×</td>
</tr>
<tr>
<td>International</td>
<td>√</td>
<td>×</td>
<td>√</td>
<td>×</td>
</tr>
</tbody>
</table>

Clearly, a majority of the banks in Fiji do not take the RBF’s policy statement on disclosure of fees and charges seriously.

If a bank fails to comply with the requirements of Banking Supervision Policy Statement No. 8, the RBF can invoke section 11.1 of the Policy Statement:

*The RBF will conduct an annual survey to check compliance on the disclosure practices of licensed financial institutions. If the survey finds that an institution is not fully disclosing its fees and charges, the RBF will first request the institution to comply with the disclosure standard within 30 days. If the institution fails to adhere to RBF’s request within the specified time, the RBF would then take appropriate actions under Section 15 of the Banking Act 1995.*

The inspection is conducted only once a year and presumably banks are informed before the inspection. After the inspection a bank could afford to take the Policy Statement less seriously for a year. Also, if there is a breach, the bank has 30 days to correct the breach.

**Recommendation 8:** The RBF should check compliance with disclosure of fees, commissions, charges and interest rates more often and without notice. No 30 day grace period should be given. The penalty under Section 15 of the Banking Act 1995 should be increased.
Also, cognizance needs to be given to the fact that many consumers would find it cheaper and easier to access information from websites. Therefore banks should disclose fees and charges and interest rates together with other conditions on their websites. The information could also be provided on the website of the Association of Banks in Fiji. The ABIF does have comparative information on fees and charges but there are gaps that can be easily filled in. The example below taken from the ABIF website relating to inspection fees illustrates the point.

<table>
<thead>
<tr>
<th>Description of Fee or Charge</th>
<th>ANZ</th>
<th>Baroda</th>
<th>BSP</th>
<th>CNB</th>
<th>Westpac</th>
</tr>
</thead>
<tbody>
<tr>
<td>- First inspection; percentage on Limit/Loan Approval fee (min $50)</td>
<td>20%</td>
<td>N/A</td>
<td>$50.00</td>
<td>$40.00</td>
<td>$50.00</td>
</tr>
<tr>
<td>- Subsequent visits; per visit (maximum of 6 visits)</td>
<td>$50.00</td>
<td>N/A</td>
<td>$25.00</td>
<td>$80.00</td>
<td></td>
</tr>
<tr>
<td>- Fee when 6 inspections exceeded; per visit</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>$90.00</td>
</tr>
<tr>
<td>- First Drawdown fee</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>$30.00</td>
</tr>
<tr>
<td>- Subsequent Drawdowns (maximum of 6 draws);</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>$80.00</td>
</tr>
<tr>
<td>- Fee when 6 draws exceeded; per visit</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>$40.00</td>
</tr>
<tr>
<td>- Where transport is provided by the Client;</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>$40.00</td>
<td>N/A</td>
</tr>
<tr>
<td>- Where transport is provided by the bank branch within:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- within 20km of the Bank Branch;</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>$60.00</td>
<td>N/A</td>
</tr>
<tr>
<td>- outside 20km of the bank Branch.</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>$60.00 plus $0.50 per km</td>
<td>N/A</td>
</tr>
</tbody>
</table>

It should be noted that if information is provided on bank and ABIF websites it will be easier and cheaper for banks to update changes as they occur.

**Recommendation 9:** The form and content of disclosure in the RBF’s directive on disclosure should include disclosure on individual bank websites and the website of ABIF.

Consumers of banking services also need to know what information banks are required to disclose. They need to know that the RBF has policies in relation to the disclosure of information by banks. As such, banks should also be required in the Policy Statement to disclose the Policy Statement to users of banking services.

**Recommendation 10:** The RBF’s directive on disclosure should be displayed at all bank branches, on all bank websites, on the RBF website and on the ABIF website.
Recommendations 9 and 10 are recommendations that the ABIF is prepared to consider.

### 4.5 Savings accounts

Savings deposits comprise a significant part of total deposits of banks (approx 25 percent of total deposits).

If a savings account is maintained as a savings account and not a transactions account, the account holder can make a nominal gain. For example if an ANZ customer maintains a Progress Saver Account with no more than one withdrawal per month, the customer will earn an interest of 1.75 per cent per annum in nominal terms without any costs. If inflation is taken account of, the customer will be worse off in real terms. The bank, however, can lend the funds at a higher rate and have the chance to make real gains.

This loss to the customer in real terms can act as a disincentive to save. If one looks at the realities of how customers conduct their business, there can be a loss in nominal terms. The example below illustrates.

Suppose a person earns $600 per month ($150 per week), plans to save $40 per month, withdraws four times a month and is an ANZ customer. The customer can choose to have a Progress Saver Account or a Rural Savings Account or can maintain a transactions account (eg Rural Everyday Account) and a savings account. The following losses will be made by the customer given the above behaviour:

<table>
<thead>
<tr>
<th>Account type</th>
<th>Progress Saver Account</th>
<th>Rural Savings Account</th>
<th>Rural Everyday Account for Salary and $40 per month into Progress Saver Account with no withdrawals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss per annum</td>
<td>$174.75</td>
<td>$138.12</td>
<td>$34.89</td>
</tr>
</tbody>
</table>

The figures above are net losses not just costs: the customer ends up with less than she earned throughout the year.

Clearly, the customer who wishes to both engage in transactions and save:

- incurs a net loss in all situations
- will definitely not choose a savings account only
- will gain nominally if wages are received in cash and the savings are deposited in a savings account

Given the realities of customer behaviour, it would be appropriate if features of savings accounts and transactions accounts are combined so that the cost to consumers whose balance is growing is minimised or eliminated altogether.

Giving an incentive for savings will not only be socially responsible and encourage a saving habit but also provide banks with funds to lend and earn interest on. Westpac and ANZ do have an incentive scheme through bonus interest rates but the conditions are stringent. For example, ANZ’s Fast Saver Account offers a base rate of 0.25 per cent and a bonus rate of 5 per cent. The bonus rate applies if a customer makes at least one $10 deposit and makes no withdrawal a month (disclosed in very small print). No information is furnished in published material on whether there are any costs associated with
the Fast Saver Account or whether interest is calculated monthly or annually.

**Recommendation 11:** To incentivise savings, banks should consider combining features of transactions accounts with savings accounts, publish all terms and conditions of accounts, and not publish any conditions in small print.

The ABIF is prepared to consider this recommendation.

### 4.6 Money transfers

A variety of methods are available from Banks to transfer money to different branches within a bank, between banks locally and internationally. Also, nonbank agencies are available to transfer money. Some comparative costs of transferring $1000 within Fiji from Westpac and ANZ are given below:

<table>
<thead>
<tr>
<th>Type of transfer</th>
<th>ANZ</th>
<th>Westpac</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telegraphic transfer</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Telephonic transfer</td>
<td>30</td>
<td>N/A</td>
</tr>
<tr>
<td>Travelex Money transfer</td>
<td>20</td>
<td>N/A</td>
</tr>
<tr>
<td>Money Gram</td>
<td>N/A</td>
<td>50</td>
</tr>
<tr>
<td>SWIFT transfer</td>
<td>N/A</td>
<td>30</td>
</tr>
</tbody>
</table>

In response to high costs of money transfer, the RBF has recently introduced Fiji Clear which transfers funds between banks. The funds are transferred from the bank sending the funds to the RBF and then to the bank receiving the funds. This occurs instantly. The cost of sending funds through Fiji Clear negotiated by the RBF is as follows:

<table>
<thead>
<tr>
<th>Value of transaction</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $100</td>
<td>$2.00</td>
</tr>
<tr>
<td>$101-$1,000</td>
<td>$5.00</td>
</tr>
<tr>
<td>$1,001-$10,000</td>
<td>$10.00</td>
</tr>
<tr>
<td>10,001 plus</td>
<td>$15.00</td>
</tr>
</tbody>
</table>

It is evident that transferring funds through Fiji Clear is not only the cheapest but also very affordable. Yet, other modes of money transfer continue to exist and at the same high rates.

The reason why the money transfer services of banks are not competitive is that consumers lack information about the services available. For example, consumers are familiar with telegraphic transfers, bank drafts and Western Union but do not know much about SWIFT or Fiji Clear. If consumers are educated about the different products available and about agencies that can assist in the transfer of funds, the money transfer services will become competitive and costs will decrease.

The responsibility to provide this education cannot fall on banks or the ABIF only since nonbank agencies also provide money transfer services. The responsibility to educate consumers in this respect can fall either on the RBF or the CCoF. As the CCoF has an overall responsibility to educate consumers about all products, this responsibility could also be shouldered by the CCoF.
to some extent. However, given that the RBF has now taken over complaints management and consumer protection for customers of financial institutions, the responsibility to educate belongs to the RBF. As part of corporate responsibility, banks should not shy away from also contributing to the funding of this education.

The RBF should produce a quarterly publication that informs consumers about various products and services. For example, a quarterly publication or magazine could have, among other things, information on what to consider when buying an insurance policy and what is available in the market, or information about everything dealing with how to transfer funds, or information that needs to be considered in choosing a home loan.

**Recommendation 12:** The RBF should publish a periodical magazine to educate consumers about financial products and services.

### 4.7 ACCESS TO CREDIT

#### 4.7.1 Consumer Credit Act 1999

The Consumer Credit Act 1999 provides for the establishment of a Consumer Credit Office under the Directorship of the Director of Fair Trading and Consumer affairs. The Consumer Credit Office has yet to be established. The functions of the Consumer Credit Office include among others the promotion of the interests of consumers and prospective consumers of credit services; collection, examination and dissemination of information in respect of matters affecting or likely to affect these consumers; and receiving, considering and investigating complaints.

Not many people are aware of the Act. When asked about whether they knew about its existence, none of the members of a Chamber of Commerce had heard about it. However, the Act requires that credit contracts include “Things you should know before you sign” attachments.

#### 4.7.2 Approval process

The loan approval process adopted by the various banks in Fiji is generally similar. The processes involved are generally to ascertain the creditworthiness of the borrower and the ability to pay back the loan. The specific conditions to be met for a borrower to be eligible to borrow depend on the type of loan and the security provided. Specific criteria include:

- purpose of loan
- age of borrower
- debt servicing ratio
- loan to valuation ratio
- uncommitted monthly income
- stability of employment and residence
- satisfactory credit history (obtained from Data Bureau and other banks)
- security provided (for secured loans)
- profit and loss statement and balance sheet for businesses
Borrowers are required to satisfy all requirements. That is every criterion is given an equal point or weight.

Those banks that are members of Data Bureau Ltd provide information to the Data Bureau as per the requirements of the Data Bureau to verify and confirm credit history. The information provided to the Data Bureau include:

- name of customer
- date of birth
- occupation
- residential address
- phone numbers and
- other identification details such as FNPF number

### 4.7.3 Fees and requirements for loans

The fees charged for loans differ between banks. For some banks, it is tedious to ascertain the fees levied and an ordinary customer will not be able to clearly or correctly calculate the fees required from the fee disclosure brochures that each bank is required to make available to customers by RBF regulations. To illustrate, it is assumed that a borrower wishes to take a $100,000 loan to buy a residential property and wants to compare residential loans from ANZ and Westpac by looking at the Lending Fees and Charges disclosure brochure from both banks. For Westpac, the prospective borrower will find most of the fees and charges under the heading “Premium Option Home Loan”; for ANZ, the borrower will have to look all over the document to get all the fees – if the borrower looks at only the Housing Loan subheading he/she will be misled.

To compare the costs of the Home loan, an attempt was made to tabulate the different fees charged by each bank. This attempt was abandoned since it was not possible to identify without ambiguity the charges that are applicable and the amount that would be charged. This demonstrates that the disclosure brochures have very limited use for a consumer who wishes to compare Home Loans from the two banks.

Given the difficulty above, some of the fees and charges are discussed below to get an idea about the ambiguities.

**Loan approval/establishment fees**

Westpac has a loan establishment fee. The amount of this fee is specified as a minimum of $650 but there is no information about when it exceeds $650. ANZ has a loan approval fee (which does not appear under the Housing Loan section but under the “Payments Outward” section. For a $100,000 Home loan, the approval fee would be $1,000 (1% of the loan amount).

**Property inspection/progress drawdown**

Westpac has four items that relate to inspection or drawdown:

- property Inspection and $80 for each progress draw fee (max of six draws and $90 thereafter)
- inspection fee $50
- drawdown fee $30 ($40 after six draws)
- redraw fee: $20 per draw

Westpac has a loan establishment fee. The amount of this fee is specified as a minimum of $650 but there is no information about when it exceeds $650. ANZ has a loan approval fee (which does not appear under the Housing Loan section but under the “Payments Outward” section. For a $100,000 Home loan, the approval fee would be $1,000 (1% of the loan amount).
The confusion is whether the first is made up of the second and third fees in the above list or the three fees are applied separately. For most consumers this will take a lot of time to figure out. There is no information on when the redraw fee of $20 is charged.

For the first inspection, ANZ charges 20 per cent of the loan approval fee. For a $100,000 loan this will be $200. For subsequent inspections, the fee specified is $50 per visit (min $25). If the fee is $50 per visit, why is a minimum specified? When can the fee, for example be $30?

For the Home Loan, there would be other fees like loan maintenance fee, settlement fee, document handling fee, legal fee, etc levied. However, the borrower will have to look elsewhere in the disclosure document to find some of these fees or not find some of the fees actually charged like legal fees.

The purpose of making it mandatory for banks to disclose fees and charges is to enable consumers to compare banking products and services and make the banking industry competitive. If the disclosure document does not have all the relevant fees and charges or discloses them in a manner that is confusing to the consumer, the whole purpose behind the disclosure requirements is lost.

**Recommendation 13:** The RBF should review its Banking Supervision Policy No 8 on disclosure guidelines to ensure that the disclosure by banks is complete, unambiguous, and enables consumers of banking services to effectively compare all banking services.

**Burden on borrowers**

Conditions that borrowers find difficult to meet include:

- bank fees
- external charges (engineer’s fees, valuer’s fees, solicitor’s fees, etc)
- timely submission of financials for business loans
- providing cyclone insurance in the absence of valid Engineers Certificate
- deposit or borrower’s contribution (20% of the loan for housing loans)

As outlined above, the costs associated with loan applications are high and the borrower has no control over these. The borrower cannot use her own engineer, valuer, or solicitor but a provider from a list of those bank-approved. The provider charges the bank and the bank charges the borrower. Normally, a professional service provider will charge a higher rate to a corporate client compared to what it will charge to an individual. The arrangement used by banks effectively prevents borrowers from negotiating the fees charged by professional service providers. The borrower, therefore, is disadvantaged. The practice in Australia is that if a customer is applying for a home loan, for example, the bank pays for the property valuation and its solicitors. The borrower engages her own solicitors for conveyancing, due diligence, and settlement or can opt to do all these on her own without a solicitor.
4.7.4 Bank switching

The systems and processes loan applications have to go through are fairly standard and aimed at ensuring that credit is given to those who are creditworthy. Also, there is nothing that stops a borrower from making a loan application at a bank where he/she is not a current customer. Customers are at liberty to compare loan products and at times negotiate better deals. This is theoretically fine. However, evidence suggests that a large percentage of customers do not switch banks easily even in developed countries like the UK, US and Australia⁶.

Consumers face administrative and financial barriers to switching their accounts from one bank to another. This difficulty arises in particular if their mortgage, transaction account, direct debits and credits are held with the one bank. A smooth and cheaper switching process will enable existing consumers of banking services to be able to vote with their feet if they are not satisfied with the services they are being provided, prevent them from being stuck indefinitely with a particular service they are not happy with, and bring about greater competition in the banking industry.

There is definitely a need to educate consumers about shopping around before they borrow for any purpose. There is also a need to enable consumers to smoothly and cheaply switch banks. Banks should be required by the RBF to disclose the terms and conditions of all loans in a clear and unambiguous manner using a common disclosure format.

**Recommendation 14:** The RBF should make it mandatory for banks to disclose the terms and conditions of all loans in the same manner as the disclosure of fees and charges.

**Recommendation 15:** The RBF should investigate the administrative and financial barriers to switching banks to enable smoother and cheaper switching of products and services between banks.

4.7.5 Time taken for loan approval

The response from all the banks in Fiji, except Baroda, is that if all requirements are met the benchmark is a loan approval time of 24 hours. The approval time may vary with the type of loan. For Baroda, the benchmark is 10 working days.

However, the survey of bank customers revealed the following:

<table>
<thead>
<tr>
<th>Type of loan</th>
<th>Percentage of borrowers</th>
<th>Modal approval time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal expenses</td>
<td>40</td>
<td>Less than 1 week</td>
</tr>
<tr>
<td>Home improvements</td>
<td>8</td>
<td>Between 2-3 weeks</td>
</tr>
<tr>
<td>Home loan</td>
<td>14</td>
<td>More than 4 weeks</td>
</tr>
<tr>
<td>Business loan</td>
<td>8</td>
<td>Between 1-2 weeks</td>
</tr>
<tr>
<td>Car loan</td>
<td>9</td>
<td>Less than 1 week</td>
</tr>
<tr>
<td>Education loan</td>
<td>15</td>
<td>Less than 1 week</td>
</tr>
<tr>
<td>Farming loan</td>
<td>6</td>
<td>Between 3-4 weeks</td>
</tr>
</tbody>
</table>

The time taken for loan approval for home improvements, home loans and farming loans is excessive. Banks need to streamline their loan approval process for these loans.

Also, the average time taken for loan approvals is larger than the modal time, implying that what could be done in a shorter time for most borrowers takes longer for many of the borrowers. Again, the loan approval process needs to be streamlined to ensure not most but all borrowers have the same loan approval/rejection times.

There were some (eight percent) of the borrowers who were dissatisfied with the terms and conditions of the loan, 15 percent were neutral, and 77 percent who were satisfied.

Interestingly, substantially more women seem to get their loans approved faster compared to men. While 72 percent of females had their loans approved in less than two weeks, only 53 percent of males had their loans approved within that period. There could be a variety of reasons for this (some good and some not so good). But the fact remains that males are disadvantaged with regards to loan approval times. However, at least one bank held to a system for many years of insisting on negotiating with the husband on loan applications by women.

**Recommendation 16:** Banks should ensure that their benchmarks in loan approvals are adhered to. The benchmarks should be included in the ABIF Code of Conduct.

### 4.7.6 Fees and charges for loan approvals

A variety of fees and charges are levied at the time of an application for a loan. For example if a customer borrows $200,000 for a Home Loan, the fees and charges levied by CNB/BSP and Westpac will be:

**Table 14: Fees and Charges for Loan Approvals**

<table>
<thead>
<tr>
<th>Fee type</th>
<th>CNB/BSP Rate Saver personal and investment</th>
<th>Westpac Premium Option Home Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application fee</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Establishment fee</td>
<td>250</td>
<td>Min 650</td>
</tr>
<tr>
<td>FNPF housing transfer fee</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Inspection (1 inspection)</td>
<td>60</td>
<td>50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$510</strong></td>
<td><strong>$800</strong></td>
</tr>
</tbody>
</table>

There are, of course other mandatory fees and charges but the above charges are listed to demonstrate that there appears to be a lack of logical reasoning behind the levels of some of these fees and charges.

The amount of each type of fee seems arbitrary and need to be justified. Also, if one bank can charge $510, why is another bank charging a minimum of $800? This is a clear indication of a lack of competition.

**Recommendation 17:** Banks should be required by the RBF to justify the amounts of all the fees and charges they levy.
4.8 Penalty fees

Apart from charging fees to consumers to engage in banking, banks also impose penalties when the consumer engages in activities that the bank deems undesirable for one reason or the other. A report into penalty fees charged by Australian banks (Nicole, 2004) investigated penalty fees on cheque dishonour, overdrawn accounts and credit card late payment. The report found that the penalty fees were “extravagant, exorbitant or unconscionable in comparison with the loss suffered by Australian banks in processing a customer default”. In response, by mid 2009, the big banks in Australia abolished these penalty rates. Yet, the ABIF states that “Such fees are usual, right throughout the global banking community.”

In the wake of this development, consumers also started questioning ATM disloyalty fees. An ATM disloyalty fee was being charged to a customer if an ATM of another bank was being used. The result was that banks began considering the fee being charged by the machine owner rather than the card owner.

There are lessons to be learnt here for Fiji.

4.9 Mortgagee Sales

Banks are excessively harsh with borrowers who, for one reason or the other, find difficulties in meeting their obligations. The current practice used by the banks in mortgagee sales make consumers lose their years of savings including withdrawal of FNPF. There is a need to put in corrective measures to protect consumers from unfair mortgagee sales and processes employed by banks. The case below, filed with the CCoF in December, 2010, illustrates.

CASE STUDY 1

Mortgagee Sales

Mr K’s 3 properties were mortgaged by Bank X through the bank’s lawyers. Mr K owns a construction company but the company is not doing well due to a downturn in the construction business. He owed $59,763.21 as default payments. His three properties were valued at $285,000, $240,000, $67,000 by the bank’s recommended valuer. The bank received tenders for $140,000, $120,000 (Bank Officer of another bank) and $43,000 (a law firm who initially acted for Mr. K) respectively.

The questions that arise are:

- Why did the bank not sell one property to recover the debt owed by Mr K? Selling one property would have paid off the arrears amount owed and the rest of the money could have been used to reduce the principal sum.
- Why was Mr. K not called when tenders were opened, for his peace of mind. This indicates lack of transparency.
- Why didn’t real estate agents conduct the mortgagee sale as they are professionals who likely could have got better market rate?
4.10 Summary

The profits as a percentage of net assets made by banks in Fiji are excessively high compared to the four major banks in Australia. These excessive profits arise from higher interest revenues and higher revenues from fees and charges and commissions. This occurs even when the risk of loan default is lower in Fiji and in the face of the fact that Fiji is insulated from financial crises abroad.

The interest spread in Fiji has been higher than that in its developed neighbours and immediate island neighbours. The penalty fees on overdraft excess and dishonoured cheques remains disproportionately high.

The RBF has a set of guidelines on the form and content of disclosure by banks regarding fees and charges. Consumers are not aware of these guidelines. The guidelines make it mandatory for banks to display their disclosure brochures on fees and charges on all their premises. Some bank branches have breached this requirement. While the ABIF has made an attempt to tabulate comparative information on fees and charges, gaps in the table make comparisons impossible.

For an average customer who wishes to maintain a single account to both save and engage in transactions, there are difficulties encountered. No bank provides an account where the customer could earn an interest on the account even if there are positive savings every month. In fact, the customer will lose money.

Those wishing to transfer money within Fiji using banks also have to suffer high costs if they use facilities other than FijiClear.

There is a lack of public awareness about the Consumer Credit Act of 1999. Also, the Consumer Credit Office proposed in the Act has yet not been established. The fees charged for loan approval and establishment is high and arbitrary and vary between banks. Using the fee disclosure brochures, it is difficult to compare products like Home Loans from different banks. The time taken for loan approvals varies between and within banks. Where timelines exist, these are seldom followed.

Customers wishing to switch banks in order to take advantage of better products from other banks face restrictive financial and administrative hurdles.
5. CONSUMER COMPLAINTS

5.0 Introduction
Consumers of banking services who are not satisfied with a banking service or product can approach their bank or the RBF. Alternatively, they can engage an advocate like the CCoF, their accountant, or their solicitor. The latter two can be expensive. However, only those complaints filed with the CCoF and the RBF are available for public scrutiny and analysis. Many dissatisfied bank customers do not file formal complaints and suffer in silence while some vent their frustrations by writing in the daily newspapers.

5.1 Complaints lodged with the Consumer Council
The CCoF receives complaints from bank customers on a regular basis. Most of these complaints relate to either fees and charges or customer service. Other complaints relate largely to errors made by banks. Table 15 lists the complaints regarding banks received by the CCoF for 2008 to 2010.

<table>
<thead>
<tr>
<th></th>
<th>Fees/charges</th>
<th>Customer service</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ANZ</td>
<td>2</td>
<td>1</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Westpac</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>CNB</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Baroda</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>10</td>
<td>4</td>
<td>19</td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ANZ</td>
<td>2</td>
<td>7</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>Westpac</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>CNB</td>
<td>3</td>
<td>2</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Baroda</td>
<td>1</td>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>12</td>
<td>9</td>
<td>25</td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ANZ</td>
<td>4</td>
<td></td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Westpac</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CNB/BSP</td>
<td>2</td>
<td></td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Baroda</td>
<td>1</td>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>6</td>
<td>14</td>
<td>10</td>
<td>20</td>
</tr>
</tbody>
</table>

While the complaints per year are not too many, there is a significant increase in the complaints relating to one particular bank regarding customer service and complaints falling under the “others” category. It should be noted that complaints formally lodged at the Council are just the “tip-of-the-iceberg” as...
many consumers in Fiji are lax when it comes to raising complaints. Complaints may have been lodged against the banks by consumers themselves and they may have lost redress due to lack of advice, support and preparedness to press their cases. Also about half of the complaints received relate to customer service. As indicated earlier, only a very tiny percentage of dissatisfied bank customers approach the CCoF. It is, therefore, not possible to make any clear judgements about the nature of the major difficulties consumers of banking services have to deal with or about the nature of systemic challenges in the banking industry that consumers of banking services are subjected to. For a better and deeper analysis of these challenges, use is made of specific case studies in this Report.

5.2 Complaints lodged with the RBF

The RBF established the Financial Systems Development and Compliance (FSDC) Group in April 2009. One of the FSDC Group’s core functions is to handle complaints raised by customers of financial institutions that the RBF regulates. The first written complaint that the FSDC Group received was in June 2009 and as at 31st December 2009, a total of 37 complaints were received.

Of the total complaints received, 19 (51 percent) were against commercial banks. These complaints were related to lending contracts (nine complaints, 47 percent) and bank fees and charges (five complaints, 21 percent). The remaining complaints were related to miscellaneous categories of financial products and services provided by the commercial banks.

As at 31st December 2009, seven complaints were investigated and closed, while 12 remained under investigation and in doing so, relevant financial institutions and other appropriate organisations were consulted.

Before the FSDC Group was formed, the Financial Institutions Group handled all the financial institutions related complaints in addition to the supervision, licensing and regulatory work that they carry out. A total of five complaints against commercial banks were received during the year 2008 and seven as at 31 April 2009. All these complaints were investigated and closed.

For the complaints received in 2008, two were related to bank fees and charges while the remaining ones were miscellaneous types. For those as at 31 April 2009, three complaints were related to bank fees and charges, one to lending contract and the rest to miscellaneous categories of financial products and services provided by the commercial banks.
5.3 Survey of Bank Customers

5.3.1 The Survey

A total of 501 bank customers were surveyed. Table 8 lists the number surveyed from different locations and different banks.

Table 16a. Surveyed Customers per Bank

<table>
<thead>
<tr>
<th></th>
<th>NADI &amp; LAUTOKA</th>
<th>SUVA</th>
<th>LABASA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANZ</td>
<td>52</td>
<td>40</td>
<td>25</td>
<td>117</td>
</tr>
<tr>
<td>Westpac</td>
<td>50</td>
<td>40</td>
<td>25</td>
<td>115</td>
</tr>
<tr>
<td>Baroda</td>
<td>49</td>
<td>40</td>
<td>25</td>
<td>114</td>
</tr>
<tr>
<td>Colonial</td>
<td>47</td>
<td>40</td>
<td>25</td>
<td>112</td>
</tr>
<tr>
<td>BSP</td>
<td>3</td>
<td>40</td>
<td>0</td>
<td>43</td>
</tr>
<tr>
<td>TOTAL</td>
<td>201</td>
<td>200</td>
<td>100</td>
<td>501</td>
</tr>
</tbody>
</table>

A wide cross section of the community was surveyed. The characteristics of the respondents were as listed in Table 16b.

Table 16b. Gender, Ethnicity, Occupation and Age of Respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>50%</td>
</tr>
<tr>
<td>Female</td>
<td>50%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fijian</td>
<td>32%</td>
</tr>
<tr>
<td>Indian</td>
<td>57%</td>
</tr>
<tr>
<td>Other</td>
<td>11%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Occupation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Business person</td>
<td>13%</td>
</tr>
<tr>
<td>Professional</td>
<td>19%</td>
</tr>
<tr>
<td>White collar</td>
<td>14%</td>
</tr>
<tr>
<td>Tradesperson/Blue collar</td>
<td>26%</td>
</tr>
<tr>
<td>Retired</td>
<td>5%</td>
</tr>
<tr>
<td>Unemployed</td>
<td>24%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Age of Account</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 years</td>
<td>41%</td>
</tr>
<tr>
<td>5-10 years</td>
<td>27%</td>
</tr>
<tr>
<td>10-15 years</td>
<td>13%</td>
</tr>
<tr>
<td>More than 15 years</td>
<td>19%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Age of Customer</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 25 years</td>
<td>38%</td>
</tr>
<tr>
<td>25-35 years</td>
<td>27%</td>
</tr>
<tr>
<td>35-45 years</td>
<td>16%</td>
</tr>
<tr>
<td>45-55 years</td>
<td>13%</td>
</tr>
<tr>
<td>Over 55 years</td>
<td>6%</td>
</tr>
</tbody>
</table>

5.3.2 Security of funds and information

Six percent of the respondents had felt at some time or the other that their money is not secure at their bank. For business persons and professionals, this was close to 11 percent. Four percent had their bank details revealed to others without their knowledge. Only 77 percent of the respondents felt very confident that their bank details are confidential. About a quarter (23 percent) lacked some or all confidence in the confidentiality of their bank details.
5.3.3 Notification of terms and conditions

More than one in ten (12 percent) of the respondents were not informed about all the terms and conditions when they opened an account or took a loan. Fifteen percent were not informed about all the fees and charges.

With regards to existing accounts, banks do not always notify customers of changes to terms and conditions or fees and charges to close to or over 60 per cent of their customers. Tables 16c and 16d provide an analysis by banks of the responses.

### Table 16c: Notification of Changes to Terms and Conditions (% of Respondents)

<table>
<thead>
<tr>
<th></th>
<th>ANZ</th>
<th>Baroda</th>
<th>BSP</th>
<th>CNB</th>
<th>Westpac</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Always</td>
<td>37</td>
<td>37</td>
<td>28</td>
<td>47</td>
<td>49</td>
<td>41</td>
</tr>
<tr>
<td>Sometimes</td>
<td>50</td>
<td>44</td>
<td>60</td>
<td>48</td>
<td>35</td>
<td>45</td>
</tr>
<tr>
<td>Never</td>
<td>13</td>
<td>19</td>
<td>12</td>
<td>6</td>
<td>17</td>
<td>13</td>
</tr>
</tbody>
</table>

### Table 16d: Notification of Changes to Fees and Charges (% of Respondents)

<table>
<thead>
<tr>
<th></th>
<th>ANZ</th>
<th>Baroda</th>
<th>BSP</th>
<th>CNB</th>
<th>Westpac</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Always</td>
<td>37</td>
<td>38</td>
<td>33</td>
<td>47</td>
<td>54</td>
<td>43</td>
</tr>
<tr>
<td>Sometimes</td>
<td>48</td>
<td>45</td>
<td>51</td>
<td>45</td>
<td>25</td>
<td>41</td>
</tr>
<tr>
<td>Never</td>
<td>16</td>
<td>18</td>
<td>16</td>
<td>8</td>
<td>21</td>
<td>16</td>
</tr>
</tbody>
</table>

While a higher percentage of CNB and Westpac customers found that their bank always notified them of changes to terms and conditions and fees and charges, a higher percentage of Westpac customers also found that their bank never notified them of these changes.

However, what needs to be noted is that a large percentage of bank customers are either some times or never notified of changes to terms and conditions and fees and charges.

**Recommendation 18**: Banks should always notify all their customers of changes to terms and conditions, fees and charges, and interest rates.
CASE STUDY 2

Credit Card Terms and Conditions

Ms C purchased an American Express Credit Card from a bank and was advised that there would be an interest free period of 55 days on all purchases. However, upon receipt of her statement, she calculated that interest had been charged for purchases made within 3 weeks of her receipt of the card and this Bank had continuously charged her interest for three months. A confused Ms C, went to the Bank to seek clarification regarding the interest charges but the explanation she was given confused her further so she lodged a complaint with the Council. The Council was given a brochure stating all the terms and conditions of the credit card and a meeting was arranged with the bank in the presence of Ms C to better understand the policy. The meeting revealed that the bank officer had failed to thoroughly explain the terms and conditions of the credit card before opening the account. The actual interest charge for the period was not fixed for 55 days but would vary according to the Bank’s terms and conditions. Ms C, who was unable to understand a clause in the brochure explaining the calculation of the ‘interest free period’, was not given a proper explanation as the bank officers themselves were confused about the clause.

Since the bank had failed to fully explain the terms and conditions of the credit card as well as Mrs C’s obligations, the Bank waived her interest charges for three months.

Furthermore, the Council initiated a separate meeting with the bank to bring to their attention their responsibility towards their customers to fully and properly explain the terms and conditions before any contract was signed between the parties. The Council also sought clarification on the interest free period clause, and the bank admitted there was confusion in the manner in which the brochure was written.

The bank was to seek clarification on the issue from their international branch and possibly amend the confusing clauses so that they would be easily understood by customers.

Issues arising from the complaint:

1. The bank admittedly had failed to explain fully the terms and conditions to the customer before the agreement was entered into.
2. The bank officer did not fully understand the terms and conditions.
3. A specific condition was ambiguous.

Recommendation 19: Banks should be required to fully and properly explain the terms and conditions to the customer before any contract is signed and to ensure that all terms and conditions are unambiguous.
Incomplete disclosure

Ms C had been talking with her bank for some time about a car loan. She was assured that a 20 per cent deposit will be required. When she eventually applied for the loan, the head office of the bank rejected the loan application saying that she had to pay a 50 per cent deposit. Ms C re-lodged her application willing to pay the 50 per cent deposit. The head office then replied that she had to pay $650 in legal fees and a $250 loan application fee.

Ms C filed a complaint with the CCoF expressing disappointment about the way her bank was treating customers. The response from the bank was for cars over five years old from first registration in Fiji, a 50 per cent deposit was required and solicitors fees and the loan application fee are standard. The bank added that their advertisements state “subject to conditions and requirements”.

The issues that arise from this complaint are:

1. Bank officers at the branch did not know fully the terms and conditions of car loans to be able to provide complete and correct information to the customer in the first instance so that what could have been approved within a couple of days took considerably longer.
2. The fee charged for the use of a solicitor is high. Banks presumably have an in-house solicitor and the documents prepared are standard, that allow clerical officers to fill in for the solicitor to check and sign. This should not cost as much as $650.
3. The conditions and requirements, especially financial ones, should be clearly stated. It is not sufficient or ethical to hide these under a “subject to conditions and requirements” footnote; and that too in fine print. The bank’s parent company in Australia does not charge any legal fees.

5.3.4 Provision of information

Of the 54 per cent of respondents who had at some stage sought information from their bank about services and products, 86 percent had received complete information while 14 percent had received incomplete information. Only 69 percent of the respondents who had sought information received it when they needed it, 18 percent received the information after a long delay, 10 percent after various attempts to get the information, and two percent after the information was no longer needed.

Financial decisions are the most important decisions consumers make. It is therefore extremely important that banks provide complete and timely information to all customers.
CASE STUDY 4

Improper Notice

Mr A took a loan from a credit institution to assist him in purchasing a second hand vehicle which he had intended to buy from the same credit institution. Mr A had no problems with his loan repayments until he went on a vacation abroad. Before leaving the country, Mr A made arrangements with a relative to make payments on his behalf. Unfortunately, the relative did not make any payments at all. Without disputing the matter, Mr A paid all his arrears and continued payments for another two months, until he was given a notice by the Credit Institution demanding him to make a payment of $3,000. As this was an exorbitant amount, Mr A applied for a loan at his personal bank which was rejected as his name was listed in the Data Bureau because of his debt with this credit institution. Mr A, upon inquiring with the credit institution about the reason for putting his name in the Data Bureau, was duly informed that it was because of the arrears with the credit institution. Mr A further queried why he had not been issued a proper notice advising him of his defaulted account as he could have made arrangements for the payments to be made. His disappointment and frustration with the whole experience spurred him to lodge his complaint with the Council and with the Council’s intervention, Mr A’s name was removed from the Data Bureau and he was able to smoothly continue his loan repayments on conditions which were acceptable to him as well as to the credit institution.

Issues arising from the complaint:

1. The credit institution did not inform, remind or warn the customer about the default.

2. The credit institution did not inform the customer before listing his name with the Data Bureau.

Recommendation 20: Banks and other Licensed Credit Institutions should be required by the regulator to adequately warn customers if they are in default. This warning should also inform the customer of the possibility of the default being reported to the Data Bureau if the default is not addressed within a specified period of time. When the default is actually reported to the Data Bureau, the customer must be promptly informed.
5.3.5 Bank statements
All bank customers have the right to receive a statement of account regularly. However, 25 percent of the respondents indicated that they do not receive statements of account regularly. Some (eight percent) indicated that bank statements do not have all the information needed but they were not asked what additional information they would like to be included. A statement of account should not have errors, yet one in ten of the respondents reported that they had encountered errors in their statements. Some isolated human errors are understandable but if 10 percent of customers have encountered errors, it borders on human irresponsibility.

5.3.6 Ease of access to bank facilities
Bank customers pay a price for using bank products and services in terms of interest rates and/or fees and charges which are fixed by banks. But customers may also have to suffer additional costs in terms of transactions costs. These transactions costs are largely in the form of time wasted at banks and the discomfort of standing in a queue. This is one reason why ATM and EFTPOS facilities are desired.

Forty five percent of bank customers surveyed indicated that they do not visit their bank on a regular basis. Since the survey was conducted on bank customers leaving their bank, it would have captured more of the regular customers. It is therefore highly likely that significantly more than 45 percent do not visit their bank regularly as a result of expenses incurred.

Most customers (60 percent) travelled less than 5km to reach their bank, 27 percent travelled between five to 10km, and 13 percent travelled over 10km. Surprisingly, three percent of the customers had travelled more than 30km to reach their bank. The transactions costs of using banks in terms of bus fares/fuel, time and the like to a large proportion of bank customers is high. There is, therefore, an urgent need to increase the number of ATMs and EFTPOS facilities that exist as per Table 2.

The time spent at a bank can be split into the time taken to wait in a queue and the time taken to be served at the counter. 54 percent of customers indicated that on average they spend less than 10 minutes in a queue, 27 percent indicated a queue waiting time of between 10 and 20 minutes, and 19 percent spend more than 20 minutes waiting to be served. With regards to the time taken at the counter, 44 percent of the respondents indicated that they had been frustrated by the time it took staff to serve them at the counter. Of these, 33 percent were frustrated many times, 38 percent quite a few times and 28 percent just a few times. In addition, 22 percent of the customers surveyed found the waiting facilities at their bank poor or very poor.
CASE STUDY 5

EFTPOS machine installation

A reputable hardware company that has been operating in Fiji for over 50 years had an EFTPOS machine from Bank A. The company had an account with Bank A but switched its account to Bank B. Soon after this (July 2005), Bank A withdrew its EFTPOS from the company premises. The company claimed victimization and retaliatory behaviour by Bank A and filed a complaint with the CCoF in July 2008. The response from Bank A was that it reviews its provision of EFTPOS machines once a year and requires

- five daily transactions using the EFTPOS at the site giving a total of $100,000 annually
- that the business is legitimate, and
- an interview with the owner of the business

The owner of the hardware company provided the financials but was reluctant to have a meeting with Bank A, expressing the view that he did not understand the reason or agenda for the meeting. However, he had a meeting with the bank in January 2009 and the issue was resolved. Between July to December 2008, a spate of letters on the complaint circulated among the company, CCoF, RBF, Fair Trading and the bank. Some of these letters were among high ranking officials in the respective institutions. Even the Minister of Finance was approached.

In one of the letters from the Consumer Advocate of Bank A, the final paragraph reads:

“It is (Bank A’s) prerogative and it reserves the right to provide products and services to customers at its discretion”. Perhaps the title of the officer should be changed from Consumer Advocate to Bank A Advocate.

Issues arising from the complaint:

1. It is incongruous that such a big issue arose as a result of a small item like an EFTPOS terminal.
2. It is even more incongruous that high level personnel were involved in an effort to resolve such a small issue.
3. The bank was adamant about interviewing the owner of the company in person when a simple phone call could have been used to get answers and clarifications from the owner.
4. None of the agencies approached to resolve the issue either had the power to resolve it or made any concerted effort do so.
5. This small issue took months to resolve.
6. An EFTPOS terminal, like an ATM machine, is supposed to be a service to the customers of a bank and not predominantly a service to the site owner. It is a therefore strange that the site owner is scrutinized.
7. It is at a bank’s discretion to whom it provides its services. This can lead to unfair discrimination.
5.3.7 Access to ATMs

As listed in Table 2, ANZ has the largest number of ATMs followed by CNB and Westpac. Baroda and BSP have only a handful of ATMs. ATM utilisation depends on a variety of factors that reduce costs, largely of withdrawing funds. Since ATMs are available 24 hours a day, customers have 24 hour access to their funds. In fact, customers should have the right to access their funds whenever and wherever they want. ATMs therefore need to be available, easily accessible, and functional at all times.

Interesting differences are noticed when the experiences of customers with their bank’s ATMs are compared.

Table 16e: ATM Accessibility (% of Respondents)

<table>
<thead>
<tr>
<th></th>
<th>ANZ</th>
<th>Baroda</th>
<th>BSP</th>
<th>CNB</th>
<th>Westpac</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average number of times ATM used</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Never</td>
<td>14</td>
<td>64</td>
<td>20</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Sometimes</td>
<td>43</td>
<td>17</td>
<td>39</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td>At least once a week</td>
<td>43</td>
<td>19</td>
<td>41</td>
<td>69</td>
<td>59</td>
</tr>
<tr>
<td>Ease of locating an ATM</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Some or few times</td>
<td>29</td>
<td>37</td>
<td>72</td>
<td>17</td>
<td>23</td>
</tr>
<tr>
<td>Always or most times</td>
<td>71</td>
<td>63</td>
<td>28</td>
<td>83</td>
<td>77</td>
</tr>
<tr>
<td>Waiting time</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 10 minutes</td>
<td>69</td>
<td>95</td>
<td>83</td>
<td>77</td>
<td>84</td>
</tr>
<tr>
<td>10-20 minutes</td>
<td>26</td>
<td>5</td>
<td>16</td>
<td>17</td>
<td>12</td>
</tr>
<tr>
<td>Over 20 minutes</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>ATM not operational</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rarely or very few times</td>
<td>68</td>
<td>85</td>
<td>80</td>
<td>47</td>
<td>75</td>
</tr>
<tr>
<td>Many times</td>
<td>32</td>
<td>15</td>
<td>20</td>
<td>53</td>
<td>25</td>
</tr>
</tbody>
</table>

Those who use ATMs should be able to find one without any hassle. However, close to a third of ATM users find it difficult to find one some or a few times. The high percentage for BSP may be understandable since it is new. The average waiting time at ANZ ATMs for 31 percent of ATM users is more than 10 minutes even though ANZ has the highest number of ATMs. This compares unfavourably with Westpac ATM users of whom 16 percent wait for more than 10 minutes and CNB ATM users of whom 23 percent wait for over 10 minutes. However, 53 percent of CNB ATM users found ATMs unoperational many times and 25 percent for Westpac.

Banks need to ensure that all customers have easy access to ATMs: all customers should be able to locate an ATM when they want to use it, should not wait too long, and find the ATM working. There is also a need to have ATMs where population densities are high.
5.3.8 Customer Mobility

People do not change their bank or type of bank account too often for many reasons. However, if the right choice of bank and type of account is made in the first place, there is no cause for concern. Yet 21 percent of the respondents indicated that they were not advised about the best account that would suit their needs.

Some customers (16 percent) indicated that they had encountered difficulties opening an account. 13 percent of the respondents indicated that they had either closed or thought of closing an account. Of these, 42 percent indicated that the bank made it somewhat difficult to close an account and five percent indicated that the bank made it difficult to close the account.

About 40 percent of the customers had compared their account with similar accounts in other banks. Of these, 17 percent found that all information was not available to compare the accounts.

5.3.9 Borrowing

A quarter of the respondents had borrowed from their bank. A majority (67 percent) of the borrowers had borrowed less than $5,000 and most (40 percent) had borrowed for personal expenses.

The time taken for various types of loans to be approved vary greatly as discussed in section 4.7.5.

CASE STUDY 6

Delays in settlement of loan and discharge of mortgage

Mr G had sent an instruction to his bank settle his loan and discharge his mortgage. Four months had elapsed and the settlement and discharge had not materialized. In the meantime, interest kept on accumulating on the loan. A frustrated Mr G filed his complaint with the CCoF and in about 10 days the settlement and discharge had been finalized.

The issues that arise from this complaint are:

1. The bank (or its agent) unnecessarily delayed loan settlement and mortgage discharge either as a result of slackness on the part of employees or in an attempt to keep on earning interest for four more months.

2. The customer was not taken seriously when he complained to his bank. It was only when the CCoF stepped in that loan settlement and mortgage discharge were finalized. This is indicative of the power banks have in relation to consumers of banking services.

3. Banks do not seem to appreciate the fact that customers need to finalise transactions smoothly and quickly especially where large sums of money are involved.

4. Customers have to bear significant costs when there are delays. The costs are not only interest charges but can include items such as rental income foregone by the purchaser of a property.
Recommendation 21: Banks should be required by the regulator to set timelines for the execution and finalisation of significant transactions and to ensure that the timelines are honoured.

5.3.10 Complaints
Thirteen percent of those surveyed had had complaints with their bank. Most of these complaints (85 percent) related to poor service, high fees and charges, long waiting time, and not getting bank statements. Most complainants (85 percent) approached bank staff to resolve the complaint; seven percent either approached no one or just talked to friends and other family members, while two percent approached the RBF. Surprisingly, no one approached the Consumer Council.

5.4 Conclusions
It is pleasing to note that both the RBF and the ABIF find it important that complaints are addressed efficiently and effectively and have adopted policies and procedures to achieve this. But equally important is the fact that analysis of complaints assists both the RBF and the banks to address systemic issues. While complaints must be addressed efficiently and effectively, they need to also be collated and analysed. The publication of the analysis of complaints for the consumption of the general public will assist in keeping banks on their toes. If quick closure to complaints and compensation to successful claimants are made mandatory, banks will be constrained to devote more effort and energy in ensuring that consumers of their products and services are treated with fairness.
FINDINGS AND RECOMMENDATIONS

The banking sector in Fiji has contributed its share to economic growth. It has been instrumental in modernisation of financial services through new products and processes, and in recent years worked with the RBF in the areas of microfinance and financial inclusion. The RBF has demonstrated its willingness to address consumer issues through the introduction, for example, of policy guidelines on disclosure of information and complaints management relating to the financial sector. Government has also played a significant part in addressing concerns of consumers of banking services through the introduction of legislations such as the Consumer Credit Act. These developments indicate that banks, the RBF, and Government are all willing to take action to improve the quality of banking services in Fiji for the benefit of consumers.

However, some aspects of the banking industry still need significant improvements, while some need refinements.

Findings

This Review finds that:

1. Almost all of the findings of the 1999 Committee of Inquiry into Financial Services in Fiji regarding the banking sector still remain true today, and more needs to be done to implement the recommendations of the Committee

2. The banking sector is highly uncompetitive

3. Profits as a percentage of total assets are between 15 to 20 times more in Fiji than for the four major banks in Australia with interest income 11 times greater and fee and commission revenue eight to 10 times greater, but bad and doubtful debts are lower in Fiji

4. The interest spread is higher than in the developed neighbours and immediate island neighbours

5. The penalty fees on overdraft excess and dishonoured cheques is exorbitantly high

6. The RBF has a set of guidelines on the form and content of disclosure by banks in relation to fees and charges. Most consumers are not aware of this disclosure guideline. Some bank branches do not display their disclosure brochures on fees and charges as mandated by the guidelines

7. The ABIF has made an attempt to tabulate comparative information on fees and charges but gaps in the table make comparisons impossible

8. For an average customer who wishes to maintain a single account to both save and engage in transactions, there are difficulties encountered. No bank provides an account where the customer could earn an interest on the account even if there are positive savings every month. In fact, the customer will lose money.
9. Those wishing to transfer money within Fiji using banks also have to suffer high costs if they use facilities other than FijiClear.

10. There is a lack of public awareness about the Consumer Credit Act of 1999. Also, the Consumer Credit Office proposed in the Act has yet not been established.

11. The fees charged for loan approval and establishment is high and arbitrary and vary between banks.

12. Using the fee disclosure brochures, it is difficult to compare products such as Home Loans from different banks.

13. The time taken for loan approvals varies between and within banks. Where timelines exist, these are seldom followed.

14. Customers wishing to switch banks in order to take advantage of better products from other banks face restrictive financial and administrative hurdles.

15. Complaints from customers about banking services are received by respective banks, the CCoF and the RBF. These complaints relate to customer service, fees and charges, lending contracts and other miscellaneous items.

16. Thirteen percent of those customers surveyed had complaints with their banks. Most of these complaints related to poor service, high fees and charges, long waiting times, and not getting bank statements. A majority approached their bank to resolve the complaint.

17. Many customers are not informed about the terms and conditions when they open an account or take a loan, and many existing customers are not always notified of changes to terms and conditions, fees and charges, and interest rates.

18. A large percentage of those who seek information about products and services from their bank are dissatisfied with the quality and timeliness of the information received.

19. A large percentage of customers do not receive bank statements regularly and many have encountered errors on their statements.

20. The cost of visiting a bank branch especially for the rural population is high.

21. Waiting times at queues are long, it takes bank officers too long at times to serve customers at the counter, and waiting facilities at some branches are poor.

22. Customers have difficulties finding an ATM at times, many find waiting times long, and a significant proportion find ATMs unoperational many times.
23. Some customers are not advised about the best account to suit their needs when they open one.

24. Many customers encounter difficulties when they wish to open an account.

25. Banks make it difficult to close an account.

26. The RBF’s policy guideline on complaints management is a good first attempt at improving banking services for the benefit of consumers but needs refinements and additions.

Recommendations

1. Section 5.2.1 of the Policy Guideline on Complaints Management should read:

   LFIs should resolve complaints received no later than 21 days from the receipt of the complaint unless legal proceedings are required.

2. The RBF’s Policy Guideline on Complaints Management should include a provision for the payment of a just and fair compensation to complainants whose complaints are successful.

3. Both new and existing customers must be informed in writing about the complaints handling policy of banks and about where to submit enquiries, complaints and disputes.

4. The RBF should collate complaints filed with the banks, CCoF, and RBF, diagnostically analyse the complaints, and publish the analysis.

5. The membership composition of the advisory group established by the RBF should be more certain and also include expertise in financial services. The advisory group should elect its own Chair who should not be a staff of the RBF.

6. The RBF should consider placing the consumer complaints unit under a different reporting structure from that of prudential supervisors under the headship of a separate senior/chief manager. This unit should also take responsibility for the Consumer Credit Act. The Unit should be called the Financial Ombudsman Office.

7. The CCoF should write formally to the Commerce Commission requesting an investigation into the fairness of the levels of interest rates charged and paid and the fees and commissions levied by banks.

8. The RBF should check compliance with disclosure of fees, commissions, charges and interest rates more often and without notice. No 30 day grace period should be given. The penalty under Section 15 of the Banking Act 1995 should be increased.
9. The form and content of disclosure in the RBF’s directive on disclosure should include disclosure on individual bank websites and the website of ABIF.

10. The RBF’s directive on disclosure should be displayed at all bank branches, on all bank websites, on the RBF website and on the ABIF website.

11. To incentivise savings, banks should consider combining features of transactions accounts with savings accounts, publish all terms and conditions of accounts, and not publish any conditions in small print.

12. The RBF should publish a periodical magazine to educate consumers about financial products and services.

13. The RBF should review its BSP No 8 on disclosure guidelines to ensure that the disclosure by banks is complete, unambiguous, and enables consumers of banking services to effectively compare all banking services.

14. The RBF should make it mandatory for banks to disclose the terms and conditions of all loans in the same manner as the disclosure of fees and charges.

15. The RBF should investigate the administrative and financial barriers to switching banks to enable smoother and cheaper switching of products and services between banks.

16. Banks should ensure that their benchmarks for loan approvals are adhered to. The benchmarks should be included in the ABIF Code of Conduct.

17. Banks should be required by the RBF to justify the amount of all the fees and charges they levy.

18. Banks should always notify all their customers of changes to terms and conditions, fees and charges, and interest rates.

19. Banks should be required to fully and properly explain the terms and conditions to the customer before any contract is signed and to ensure that all terms and conditions are unambiguous.

20. Banks and other Licensed Credit Institutions should be required by the regulator to adequately warn customers if they are in default. This warning should also inform the customer of the possibility of the default being reported to the Data Bureau if the default is not addressed within a specified period of time. When the default is actually reported to the Data Bureau, the customer must be promptly informed.

21. Banks should be required by the RBF to set timelines for the execution and finalisation of significant transactions and to ensure that the timelines are honoured.
REFERENCES


www.imf.com.au

Appendix 1: Questionnaire to Consumers of Banking Services

QUESTIONNAIRE

BANKING SERVICES IN FIJI

1.0 General
1.1 Which bank have you just been to?
   ANZ □ Westpac □ Baroda □ Colonial □ BSP □
   Location ______________________

1.2 How far did you have to travel to reach this bank?
   Less than 5km □ 5 to 10 km □ 10 to 20 km □ 20 to 30km □ More than 30km □

1.3 What other banks do you have accounts with?
   ANZ □ Westpac □ Baroda □ Colonial □ BSP □

1.4 What kinds of accounts do you have at Banks?
   Savings □ Home Loan □ Other accounts □
   Cheque □ Business Loan □ Specify _______________
   Term Deposit □ Personal Loan □ _______________

The questions I am going to ask you now relate to this bank where you have just been to.

2.0 Safety and security of funds

2.1 Have you ever felt that your money at this bank is not secure?   Yes □ No □

3.0 Confidentiality of bank details

3.1 Have you ever had your bank details revealed to others without your knowledge?
   Yes □ No □

3.2 How confident are you that your details at this bank are confidential?
   Not confident □ Some confidence □ Very confident □
4.0 Notification of changes to terms and conditions and fees and charges

4.1 When you opened your account or took a loan, were you informed about all the terms and conditions?  
Yes ☐  No ☐

4.2 When you opened your account or took a loan, were you informed about all the fees and charges?  
Yes ☐  No ☐

4.3 Does this bank notify you of changes to terms and conditions?  
Always ☐  Sometimes ☐  Never ☐

4.4 Does this bank notify you of changes to fees and charges?  
Always ☐  Sometimes ☐  Never ☐

5.0 Receiving information about banking services.

5.1 Have you ever sought information about any services or products from this bank?  
Yes ☐  No ☐

5.2 Was the information given:  
Complete ☐  Incomplete ☐  Not provided ☒

5.3 The information was provided  
When you needed it? ☒
After a long delay? ☒
After various attempts to get the information? ☒
After you had obtained the information in other ways? ☒
After the information was no longer needed? ☒

6.0 Receiving statements

6.1 Do you receive bank statements regularly?  
Yes ☐  No ☐

6.2 Does your bank statement have all the information you need?  
Yes ☐  No ☐

6.6 Have you ever had any errors in your bank statement?  
Yes ☐  No ☐
7.0 Ease of access (Banks)

7.1 How often do you visit this bank?
   - Not regularly □
   - Once a week □
   - Twice a week □
   - Three times a week □
   - Daily □

7.2 The time you spend waiting at this bank on each visit on average is
   - Less than 5 mins □
   - 5-10 mins □
   - 10-15 mins □
   - 15-20 mins □
   - 20-30 mins □
   - More than 30 mins □

7.3 Have you ever been frustrated by the time it takes staff to serve you at the counter?
   - Yes □
   - No □

7.4 How often have you been frustrated?
   - Sometimes □
   - Quite a few times □
   - Just a few times □

7.4 The waiting facilities at this bank are
   - Very poor □
   - Poor □
   - Good □
   - Very good □

8.0 Ease of access (ATMs)

8.1 On average how many times do you use this bank’s ATM?
   - Never □
   - Sometimes □
   - Once a week □
   - Twice a week □
   - 3 times a week □
   - Daily □

8.2 Can you easily find this bank’s ATM when you want to use it?
   - Sometimes □
   - A few times □
   - Most of the time □
   - Always □

8.3 The time you spend waiting at this bank’s ATM on each visit on average is
   - Less than 5 mins □
   - 5-10 mins □
   - 10-15 mins □
   - 15-20 mins □
   - 20-30 mins □
   - More than 30 mins □

8.4 How many times have you found that the ATM of this bank is either not working or does not have funds?
   - Rarely □
   - Very few times □
   - Quite a few times □
   - Many times □
9.0 Mobility

9.1 Have you had any difficulty opening any account at this bank?
   Yes ■ No ■

9.2 Were you advised about the best account that would suit your needs?
   Yes ■ No ■

9.3 Have you ever closed or thought about closing an account at this bank?
   Yes ■ No ■

9.4 How easy or difficult did the bank make it for you to close or try to close your account?
   Easy ■ A bit difficult ■ Difficult ■

9.5 Have you compared the account you have with this bank with similar accounts in other banks?
   Yes ■ No ■

9.6 Was all information available to compare the accounts?
   Yes ■ No ■

10.0 Borrowing

10.1 Have you ever borrowed from this bank?
   Yes ■ No ■

10.2 What amount did you borrow?
   Less than $1000 ■ $1000-$5000 ■ $5000-$10000 ■
   $10000-$20000 ■ $20000-$50000 ■ More than $50000 ■

10.3 What was the purpose of the loan?
   Personal expenses ■ Home improvement ■ Home loan ■
   Business loan ■ Car loan ■ Education ■
   Other Loan ■ Specify______________________

10.4 How satisfied were you with the terms and conditions of the loan?
   Extremely dissatisfied ■
   Dissatisfied ■
   Neutral ■
   Satisfied ■
10.5 The time taken for the loan to be approved was

- Less than one week
- Bet 1-2 weeks
- Bet 2-3 weeks
- Bet 3-4 weeks
- More than 4 weeks

11. Complaints

11.1 Have you had any complaints with this bank?
- Yes
- No

11.2 What was the nature of the complaint?

__________________________________________________________________
__________________________________________________________________
__________________________________________________________________

11.3 Who did you approach to solve the problem?

- Bank staff
- Accountant
- Lawyer
- Consumer Council
- Reserve Bank
- Other

Specify ________________________________

12.0 Personal details

12.1 What is your age?

- 15-20
- 20-25
- 25-30
- 30-35
- 35-40
- 40-45
- 45-50
- 50-55
- 55-60
- 60-65

12.2 Gender
- Male
- Female

12.3 Ethnicity
- Fijian
- Indian
- Other

12.4 How would you categorise your occupation?

- Business person
- Professional
- White collar
- Tradesperson/Blue collar
- Retired
- Unemployed

12.5 How long have you been a customer of this bank?

- 0-5
- 5-10
- 10-15
- more than 15 years
Appendix 2: Questionnaire to Banks

REVIEW OF BANKING SERVICES

for

THE CONSUMER COUNCIL OF FIJI

Questionnaire for Banks

1. How are different fees, charges and commissions set?

2. Is full disclosure of fees and charges disclosed to customers when services are accessed?
   Yes ☐ No ☐

3. Are there booklets or printed materials outlining the fees and charges for different services?
   Yes ☐ No ☐

4. What are the costs associated with savings accounts and how much?

5. What different modes of money transfer does the bank have and what are the costs associated with these?

6. What incentives does the bank give for opening savings accounts?

7. Are there any restrictions on opening savings accounts?

8. Are there any incentives given by government for opening savings accounts?

9. If a customer is applying for credit, what is the process used by your bank?

10. There are some borrowers who are poor, disadvantaged or vulnerable (students, women, etc). How does the bank assist or restrict these borrowers?

11. Does the bank have a booklet or printed material that is given to borrowers outlining the terms and conditions including fees and charges that apply to the loan? Yes
    If yes please provide a copy.
12. What are the costs a borrower has to pay before credit is granted? Tick the appropriate ones.
   Application fee
   Legal costs
   Valuer’s fees
   Other costs. Please specify:

13. If a borrower wants to vary a credit facility, what fees or charges are applied?

14. What fees and charges are applied when a borrower wants to exit a credit facility?

15. How long does it normally take from the date of application to the approval of a loan?

16. What conditions need to be met for a borrower to be eligible to borrow?

17. What conditions do borrowers find difficult to meet?

18. What customer information does the bank obtain to process loans? For example age, income, assets, etc.

19. How is the information used in making a decision about whether the borrower is eligible or not? For example, are points given for each item?

20. Which of the information above is provided to the Data Bureau?

   Customer data is confidential. Bank of Baroda is not a member of Data Bureau Ltd.

21. Do customers sign any form which says that the information they have provided is confidential?
   Yes   If yes, can I have a copy of the form?
## Appendix 3: ANZ Disclosure Notice

### ANZ Interest Rates

#### SCHEDULE OF INTEREST RATES

<table>
<thead>
<tr>
<th>Interest Rates p.a.</th>
<th>SCHEDULE OF INTEREST RATES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Index Rate</strong></td>
<td>4.65%</td>
</tr>
<tr>
<td><strong>RETAIL LENDING RATES</strong></td>
<td></td>
</tr>
<tr>
<td><strong>RESIDENTIAL PROPERTY LOAN</strong></td>
<td></td>
</tr>
<tr>
<td>Home Loan</td>
<td></td>
</tr>
<tr>
<td>Standard variable rate</td>
<td>7.75%</td>
</tr>
<tr>
<td>1 year fixed</td>
<td>7.25%</td>
</tr>
<tr>
<td>Investment Loan</td>
<td></td>
</tr>
<tr>
<td>Standard variable rate</td>
<td>8.25%</td>
</tr>
<tr>
<td>1 year fixed</td>
<td>7.50%</td>
</tr>
<tr>
<td><strong>OTHER CONSUMER LOANS</strong></td>
<td></td>
</tr>
<tr>
<td>Personal Loan</td>
<td></td>
</tr>
<tr>
<td>Secured</td>
<td>11.00%</td>
</tr>
<tr>
<td>Unsecured</td>
<td>15.00%</td>
</tr>
<tr>
<td><strong>Small Loan</strong></td>
<td></td>
</tr>
<tr>
<td>Unsecured</td>
<td>19.50%</td>
</tr>
<tr>
<td><strong>Rural Banking Micro Loan</strong></td>
<td></td>
</tr>
<tr>
<td>Credit Cards (FID)</td>
<td>19.50%</td>
</tr>
<tr>
<td>Visa Classic</td>
<td>19.50%</td>
</tr>
<tr>
<td>Visa Business</td>
<td>19.50%</td>
</tr>
<tr>
<td>Gold MasterCard</td>
<td>19.50%</td>
</tr>
<tr>
<td><strong>RETAIL DEPOSIT RATES</strong></td>
<td></td>
</tr>
<tr>
<td><strong>RETAIL TRANSMITTED ACCOUNTS</strong></td>
<td></td>
</tr>
<tr>
<td>Access Account</td>
<td></td>
</tr>
<tr>
<td>Balances</td>
<td></td>
</tr>
<tr>
<td>less than $50,000</td>
<td>Nil</td>
</tr>
<tr>
<td>$50,000 up to $1,000,000</td>
<td>0.10%</td>
</tr>
<tr>
<td>$1,000,000 and over</td>
<td>0.25%</td>
</tr>
<tr>
<td>Access Freedom Account</td>
<td></td>
</tr>
<tr>
<td>All balances</td>
<td>0.25%</td>
</tr>
<tr>
<td>Foreign Currency High Performance Passbook Account</td>
<td></td>
</tr>
<tr>
<td>Balances up to $4,999.99</td>
<td>Nil</td>
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<tr>
<td>$5,000.00 and over</td>
<td>0.25%</td>
</tr>
<tr>
<td>High Performance Passbook Account</td>
<td></td>
</tr>
<tr>
<td>Balances up to $1,999.99</td>
<td>Nil</td>
</tr>
<tr>
<td>$2,000.00 and over</td>
<td>0.50%</td>
</tr>
</tbody>
</table>

#### SCHEDULE OF INTEREST RATES CONT...:

<table>
<thead>
<tr>
<th>Interest Rates p.a.</th>
<th>RETAIL TRANSMITTED ACCOUNTS CONT...:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prime Cash Management Account</strong></td>
<td></td>
</tr>
<tr>
<td>Available to qualifying Prime customers</td>
<td></td>
</tr>
<tr>
<td>$250,000 and over</td>
<td>0.50%</td>
</tr>
<tr>
<td><strong>Rural Everyday Account</strong></td>
<td></td>
</tr>
<tr>
<td>Less than $250,000</td>
<td>Nil</td>
</tr>
<tr>
<td>$250,000 up to $1,999,999</td>
<td>0.10%</td>
</tr>
<tr>
<td>$2,000,000 and over</td>
<td>0.25%</td>
</tr>
<tr>
<td><strong>Senior Access Account</strong></td>
<td></td>
</tr>
<tr>
<td>Balances</td>
<td></td>
</tr>
<tr>
<td>$250,000 up to $1,999,999</td>
<td>0.10%</td>
</tr>
<tr>
<td>$2,000,000 and over</td>
<td>0.25%</td>
</tr>
<tr>
<td><strong>RETAIL SAVINGS ACCOUNT</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Retail Term Deposits</strong></td>
<td></td>
</tr>
<tr>
<td>1 to less than 3 months</td>
<td>1.00%</td>
</tr>
<tr>
<td>3 to less than 6 months</td>
<td>1.00%</td>
</tr>
<tr>
<td>6 to less than 9 months</td>
<td>2.00%</td>
</tr>
<tr>
<td>9 to less than 12 months</td>
<td>2.25%</td>
</tr>
<tr>
<td>12 to less than 18 months</td>
<td>3.50%</td>
</tr>
<tr>
<td>18 to less than 24 months</td>
<td>3.75%</td>
</tr>
<tr>
<td>24 to less than 36 months</td>
<td>4.00%</td>
</tr>
<tr>
<td>36 to less than 60 months</td>
<td>4.50%</td>
</tr>
<tr>
<td>60 months</td>
<td>5.00%</td>
</tr>
<tr>
<td>- Minimum Deposit $500.00</td>
<td></td>
</tr>
<tr>
<td>- Maximum Deposit $59,999.99</td>
<td></td>
</tr>
<tr>
<td><strong>Junior Access Account</strong></td>
<td></td>
</tr>
<tr>
<td>All balances</td>
<td>1.00%</td>
</tr>
<tr>
<td><strong>Fast Saver Account</strong></td>
<td></td>
</tr>
<tr>
<td>Balances</td>
<td>over $10</td>
</tr>
<tr>
<td>Base Rate</td>
<td>0.25%</td>
</tr>
<tr>
<td>Bonus Rate</td>
<td>0.50%</td>
</tr>
<tr>
<td>Total Rate</td>
<td>5.25%</td>
</tr>
<tr>
<td><strong>Progress Saver Account</strong></td>
<td></td>
</tr>
<tr>
<td>All balances</td>
<td>1.75%</td>
</tr>
<tr>
<td><strong>Rural Savings Account</strong></td>
<td></td>
</tr>
<tr>
<td>All balances</td>
<td>1.75%</td>
</tr>
</tbody>
</table>
Appendix 4: Complaints Management Policy for the RBF

RESERVE BANK OF FIJI
Complaints Management Policy for the Reserve Bank of Fiji

1.0 Introduction

1.1 This is a Complaints Management Policy which outlines the key procedures and processes for the management of complaints that the Reserve Bank of Fiji (RBF) may receive. Complaints may be received in writing or verbally from external parties, stakeholders or the general public, in relation to the performance of its services and/or functions.

1.2 A complaint means the expression of dissatisfaction arising from potential financial loss or poor services, including those that may be due to error or negligence.

2.0 Rationale

2.1 To ensure the RBF has an effective and efficient complaints management system in place so that complaints received are addressed promptly.

2.2 An effective and efficient complaints management system enhances the RBF’s commitment to address complaints in a satisfactory manner. Complaints will provide the RBF with feedback on its services and/or functions for possible improvements.

3.0 Complaints Management

3.1 The Compliance Unit of the Financial Systems Development and Compliance (FSDC) Group is responsible for handling complaints against the RBF as well as administering the complaints management processes and procedures. In this regard, all complaints against RBF must be channelled to the Chief Manager, FSDC.

3.2 Complaints received by the Compliance Unit will be registered and forwarded to the appropriate personnel and/or functionality as per the Delegation of Authority (DOA) outlined in Section 4.0, under first sight of the Governor and/or Deputy Governor.

3.3 Primary responsibilities of the Compliance Unit include, but are not limited to, the following:

a. Acknowledge complaints in writing within 48 hours.

b. Record details of complaints received in the Complaints Register. Details should include the date a complaint was received and resolved; complainant’s name and contact details; name(s) of RBF staff handling the complaint; brief description, progress and outcome of the complaint. The Complaints Register should be updated regularly.

c. Attend to the complaints where possible. If complaints require the attention of other personnel in the RBF, disseminate, as soon as practical, to the appropriate personnel and/or functionality as per the DOA after establishing that the complaint is not illegitimate.

d. Take reasonable efforts to ensure that complaints are addressed satisfactory and a response is provided within 14 working days. Exceptions will apply where a legal opinion is required, or the investigation is prolonged and, if so, the concerned parties must be informed.

e. For complaints that are delegated to the appropriate personnel and/or functionality, ensure that regular follow-ups are made for a timely response to keep the timeframe in “d” above, intact.
f. Obtain from the complainant any additional information necessary to investigate the complaint.

g. Ensure that complaints management procedures and processes are accessible to those interested.

h. Submit a Quarterly Update on RBF complaints handled to the Executive Management.

4.0 Delegation of Authority

4.1 The DOA, outlined in paragraph 4.2, identifies the appropriate personnel and/or functionality designated to handle complaints in the RBF. In drawing up the DOA, the relevance, complexity and sensitivity of complaints were considered.

4.2 The DOA, which must be adhered to at all times, is as follows:

a. Complaint about a particular service or function of the RBF will be delegated to the respective Chief Manager. The Chief Manager may exercise discretion in delegating the complaint to the Head of Unit responsible for the particular service or function.

b. Complaint against a staff of the RBF will be delegated to the Chief Manager or to the Deputy Governor in the Chief Manager’s absence. Complaint that is determined to be ethical in nature will be delegated to the Ethics Committee, under first sight of the Governor and/or Deputy Governor.

5.0 Access, Conflict of Interest and Confidentiality

5.1 The Compliance Unit shall have access to relevant and complete information for the purposes of investigating a complaint and this shall be facilitated by the parties concerned. For complaints that are delegated, similar accessibility must be accorded to those within the DOA.

5.2 A staff of the RBF, when handling a complaint, shall inform the Compliance Unit immediately if involved directly or indirectly in the subject of the complaint to avoid potential conflict of interest that may arise. In the event that such instances occur, the Compliance Unit shall discuss with the Chief Manager concerned, or the Deputy Governor to determine the next best course of action.

5.3 Information relating to a complaint should be used only for the purpose of addressing the complaint and should be actively protected from disclosure, unless the complainant expressly consents to its disclosure.

6.0 Implementation and Review

6.1 The Complaints Management Policy for the RBF will become effective from 01 September 2010 and will be reviewed in two years, or earlier if deemed necessary.

Reserve Bank of Fiji
July 2010

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1 For illustration purposes, suppose a complaint was received in relation to a delay in the approval of payment of tuition fees abroad. The personnel delegated to address the complaint shall ensure that the Exchange Control Unit staff who handled this particular transaction does not get involved in investigating the complaint.
Appendix 5: Comments from the Association of Banks in Fiji

Ms Joshika Singh
Deputy CEO, Manager (EU) Project,
Consumer Council of Fiji
SUVA

Dear Ms Singh

Your Council’s Final Draft Report:
Review of Banking Services in Fiji

We acknowledge receipt of your letter dated 9 September 2010 and the Draft Final Report.

In reply to your request we forward our response on the document prepared for the Council by Dr Chandra Dulare of the Fiji School of Applied Science.

The ABIF has noted your Council’s intent to have closed door consultation with stakeholders concerned to receive oral submissions in due course. We would therefore assume that our written submission which accompanies this communication will be deemed sufficient.

Yours sincerely

Rakesh Sharma
CHAIRMAN

24 September 2010
Review of the (Final Draft) of:
“Banking Services in Fiji from Consumers’ Perspective”

Clarifying Comments

While we cannot know the Terms of Reference of the report, it is stated that the report intended to address the following matters:
1. Type of Products and services offered in the market and relevant fees and charges set down by the banks including savings and transfer;
2. Consumers’ access to Credit;
3. Cost of accessing Credit;
4. Access to (good) quality and independent financial advice;
5. Client assessment practices for granting Credit;
6. Consumers personal information and its protection;
7. Overview of good and bad industry practices by the service providers (if any)

Consumer Protection and the Banking Industry
Item 2.2 Competition

First,...“one bank has a dominant share of banking business. This reduces options available for customers to choose products and services and also makes it easy for banks to engage in behaviour that may be interpreted as collusive”....

This unfounded statement is neither accurate nor plausible. Had adequate research been undertaken, the “dominant bank” to which the report refers, (presumably ANZ Bank) is not dominant in all products and services, nor in all segments of the market. For example, they are not “dominant” in the Consumer segment nor in loans to Consumers.

However, it would be fairer to say that there is a plethora of banking products available in Fiji and it may sometimes be hard for some consumers to determine which product suits them best. There is actually a surplus of competition, not a lack of it. Yet the report states that a larger number of banks “would make collusion difficult”. This implies that collusion is already taking place, but where is the evidence of this? There is none, of course, just as there is no collusion.

Second....“Some degree of product differentiation exists in the banking industry. For example, savings accounts within banks and between banks differ in some respects. This creates a movement away from competition.”

This statement is quite inexplicable. How can diversity enhance customer choice, be bad? How is this anti-competitive? Furthermore, how can this support that collusion is taking place?

“Third.... “for competition to exist ....some information is still being disclosed in very fine print and it is not mandatory for banks to disclose all fees and charges....”

This statement, without any support whatsoever, is a bit hard to fathom. What “very fine print” is the report referring to, and which fees and charges are not being disclosed? The Reserve Bank of Fiji (RBF) Clause 4.3 to which the report refers, actually means that if one bank does not have a particular service or product that is on offer at other banks, that is does not have to raise that service or product as a fee type in its brochures and say that because that service or product is not offered, then no fee would be charged – this is merely stating the obvious.

1 Introduction - Page 4
As to full disclosure, the reality is that Banks are only charging fees if those fees have been previously disclosed to RBF, including in one of the three officially-designated brochures. Furthermore, these fees are maximums not minimums. If any evidence exists that this has not happened, a complaint should be lodged by the consumer with the respective bank and the fees will be promptly reversed/corrected as applicable. However, instances of mistakes like this should be quite rare.

Fourth, ..."the most significant factor that limits perfect competition .....is the Central bank"...

As in the third point, above, the report seems to be very critical of RBF and its policies. This is something that should be taken up with them by Chandra Dulare who is a Director of RBF, and has been since 11 January, 2008.

"Consumers of Financial services....
Risks 1- 8"...

Again, a comment about RBF and its focus, however, it is not clear how all this impacts either banks or consumers eg “misconduct risk” or “access to redress risk” – these so-called risks have not been explained nor how they might impact consumers.

2.1 (2.37) Prudential Regulation of Banks

In page 9 para 2. "As such prudential regulations create an uncompetitive banking industry. As a result of this lack of competition, the consumers of banking products can be short-changed through high fees and charges and unfair practices and need protection".

Another unsupported generalisation, that has no basis of fact in Fiji. The notion that Fiji has an uncompetitive banking sector, somehow due to RBF regulation, is just nonsense. What unfair practices?

In page 9 Para 3, .."presumably if their operations in Fiji fail under stress the parent company will bail it out...""

This is another example of a serious lack of understanding of how the Banking system in Fiji works; the respective roles of RBF as regulator and how banks operate within this market, and globally-accepted norms in banking.

In page 10, para 1."a solvent and stable banking system necessitates the need for the creation of an imperfect and uncompetitive system with adverse repercussions on consumers of banking services"...

Where is the evidence of this in Fiji? What uncompetitive system? What adverse repercussions?

..."But the lack of competition created by prudential regulation enables banks to rake in higher profits and provide a lower range of service or substandard services. As such banks have the ability to fund consumer protection and education activities...”

The case has not been made that there is a lack of competition in Fiji. What lower range of services? What substandard services? The statements above, seem to contradict what is stated elsewhere in the report ie in page 6 item 2.1, that banks in Fiji provide a wide range of services typical of their countries of origin.

2.2 (2.37) Consumer Protection Agencies
The report is silent on the full range of consumer issues in the Banking industry in Fiji. However, the Government has considered that matter in quite some detail. Aside from the regulatory aspect which is being addressed through RBF, and which is only covered at a very superficial level in the report, the Banks themselves have for many years had a Code of Banking Practice to protect consumers. The Consumer Council of Fiji would be well aware of this fact – see later.

The ABIF website also fully discloses fees and charges, by bank, in a format which facilitates ease of comparison – see later.

If these matters are not considered sufficient, then the banks would welcome some constructive suggestions as to what more could be done.

Complaints Management

All banks in Fiji had Complaints processes in place prior to the RBF policy in 2009. As noted elsewhere, all banks operating in Fiji have foreign parentage and consumer protection is part of each of the bank’s Corporate policies. What the new RBF policy required was a standardised way of handling complaints by each bank in Fiji, and that is something that the industry welcomed in that it would facilitate consumer awareness.

The reality is that the industry in Fiji now receives about 4 “complaints” per day. As noted in the report on page 17 (item 3.7) most “complaints” are in fact inquiries rather than disputes.

These complaints come in the form of verbal and written complaints. We also receive compliments, but a balanced view of customer feedback does not seem to be of interest to anyone other than the banking industry. In that regard, banks in Fiji also employ professional market research firms to get additional feedback and conduct focus groups. Contrary to the report, and some uninformed observers, banks actually welcome feedback of all types in order to improve their businesses.

Occasionally Consumer Council of Fiji receives a small number of complaints about banks. That number seems to be declining. There are also a small number that are going direct to RBF, but that number seems to be increasing. The banks are now quite used to a process whereby any of these additional complaints are onwarded to the respective banks for prompt resolution. These are then tracked, along with the banks’ own internal complaint statistics, and reported to RBF.

It would appear that the complaints system in Fiji is working well, and consumer interests are being well protected. If this is not the case, we would need to understand what these unreported/unresolved matters are in order that they might be promptly addressed and then remedied.

Turning now to the specifics:
3.1 Complaints and Dispute Resolution

We would not presume to “critically evaluate” RBF policy.
However, with the exception of the last two items most of the 10 bullet points are a part of current practice in Fiji. See also details below.

The concept of a (Financial) Ombudsman office in Fiji has previously been considered by various committees etc. To our knowledge, most complaints in Fiji do not require the
involvement of an Ombudsman and are settled promptly. The more difficult ones usually require legal proceedings. If this is not the case, then details would need to be provided to individual banks or produced to RBF as they are maintaining an oversight of such matters.

3.2 Access to a redress mechanism that is fast, inexpensive and effective

To summarise, this matter appears to have been evaluated as satisfactory in terms of RBF policy formulation. We would say that it is also working that way in practice.

3.3 Designated Department responsible for handling customer complaints

To summarise, it is not clear if this has been evaluated as satisfactory in terms of RBF policy formulation. We would say that it is working that way in practice.

3.4 When opening a bank account and buying a new service the consumer should be advised in writing as to where to submit complaints inquiries and disputes

To summarise, RBF policy is silent on this requirement at time of commencing a contractual relationship, but this may be a useful initiative for the banks to adopt. However, section 5.1.6 is being complied with in that all banks have pamphlets and posters making it easy for customers to lodge complaints.

3.5 Financial supervisors should review the complaints files of the financial institutions they oversee.

This seems to be working well, and RBF manages this through its FSAC group. In fact, Banks in Fiji are supervised by two RBF groups. This is a bit like the involvement with banks in Australia by APRA and ASIC.

Again this is a matter we would not wish to evaluate whether it is good policy or not, or whether advice given to RBF will be acted on, or whether this ...“will depend on the whims and fancies of the incumbent Governor”.

3.6 Ideally there should be one, clearly identified central location where consumers of financial services and products can go when they have complaints or inquiries

To summarise, this matter appears to have been evaluated as satisfactory in terms of RBF policy formulation. We would say that it is also working that way in practice.

3.7 The central complaints office should have a toll-free telephone line so that in case of a dispute, anyone from anywhere in the country can obtain information about financial services and consumer's legal rights

It is interesting to note the rare admission in the report: “most complaints are enquiries rather than disputes”. The report goes on to say that they can be addressed over the phone. Banks have long been saying this, yet the Consumer movement seems to be intent on creating a major issue without fully explaining the real basis of their concerns.

Most banks in Fiji already use toll-free numbers, for example:
ANZ 13 2411
BSP 13 2888
WBC 13 2032
3.8 Consumers should be able to call to submit their complaints by email, by postal mail, or by visiting premises of the complaints office.

To summarise, this matter appears to have been evaluated as satisfactory in terms of RBF policy formulation. We would say that it is also working that way in practice.

3.9 Statistics on customer complaints should be analysed and published and used to identify future improvements in the financial consumer protection framework.

To summarise, this matter appears to have been evaluated as satisfactory in terms of RBF policy formulation. However, more analysis appears to be suggested but once these figures are produced what then? It has been stated that this will "help increase/build confidence in the banking system". Is there a lack of confidence in the banking system? Where is the evidence? What improvements are expected?

3.10 Financial Ombudsman

See comments above. Also on page 19 para 4, this separate reporting structure has already happened – see also 3.5 above.

To summarise, this matter appears to have been evaluated as satisfactory in terms of RBF policy formulation.

3.11 Conclusions

To summarise, except as discussed above, Complaints Management appears to have been "critically evaluated" as satisfactory, in terms of RBF policy formulation.

4 Major Problem Areas

4.1 Introduction

"Complaints" – see also above at item 3.7 – are said to... “crop up often in private discussions and letters to the media”. It would appear that based on the actual numbers of letters to the media about banks, it would not be fair to say that “complaints”... “crop up often”. It must be that the “complaints” then “crop up often” in “private discussions”. Unfortunately, this is all a bit too vague to be able to respond to.

It seems that the main issues are perceived to be:

- Waiting times in queues
- Delays in getting property settlements
- The level and transparency of interest rates, fees, and charges
- Lack of product knowledge by staff/wrong advice by staff/arrogance of staff.

These are indeed problems for all banks, and are subject to continuous review by the management of all the banks.

Waiting times in queues

Each bank is addressing this business issue, not for compliance reasons but for competitive advantage. No bank wants queues, and actively engages with business customers on matters like staggered appointment times/paydays etc. Government paydays are always troublesome, and each bank has developed strategies for dealing with these as best they can.
Delays in getting property settlements
This is also a business issue for each bank. Although these are mainly because of delays due to the law firms, no bank wants a delayed settlement as this detracts from income on loans drawdown. Banks want to facilitate property settlements, not delay them.

The level of transparency on interest rates fees and charges
As mentioned above, disclosure of fees and charges is not one of those things that consumers should be having trouble with. Fee brochures (3 separate items as mandated by RBF) should be on prominent display in each bank branch. Interest rates are similarly well covered — for say, term deposits at the time of entering into the deposit; for loans, those are a well-documented part of the overall loan formalities, (as mandated by Consumer Credit Act arrangements). As noted on page 29 of the report, “a consumer of banking services can now easily visit any branch of all banks, get information on fees and charges and then make an informed choice about which bank he/she will engage with”. So where is the problem?

Staff Issues
This is a further business issue for banks. Each bank invests heavily in the development of their staff, and fully realises that the quality of their staff is an important key success factor in their business. It would not be fair to say that all the staff of all the banks in Fiji are arrogant. However, Management of each bank closely monitors the behaviours of its staff through modern HR practices.

4.2 Fees Charges and Profits
This item is covered under “Major Problem Areas” apparently as a Consumer Perspective issue. It would not normally be appropriate to comment on the specific issues raised due to the fact that it targets only two banks. However, the 2009 PFTAC paper released earlier this year went some way to correct some of the myths that have been circulating in Fiji. Some observations on that paper are as follows:

Interest Rate Determinants – External factors
In the “Perception of Credit Risk” table, Fiji does not rate very well.

Interest rate Determinants – Internal factors
The cost of complying with prudential regulations is a factor. Another factor is that past monetary policy in Fiji has not been effective in smoothing out the large swings in interest rates.

Interest Rate Comparisons
It is noted that Fiji has the lowest (lending) rates in the Pacific, and “on average lending rates in the Pacific appear in line with comparator countries”. If Fiji is already low for the Pacific and also lower than South Asia, Africa and Caribbean, how did the perception develop that the (lending) rates in Fiji were excessively high?

Loan yields in Fiji are broadly in line with those in Australia. However, deposit rates in Fiji are lower than in Australia. Is this because Australia has a large offshore funding component, whereas in Fiji banks have to fund themselves locally?
The "spread" or more correctly NIM should be the measure of underlying profitability in the banking business. However, Solomon Islands, Samoa and Tonga all appear to have higher NIMs than Fiji. In the PCTAC paper is PNG really only 3.8%, or is that a distortion caused by ANZ and Westpac and their reliance on FX assets etc?

Non Interest Income vs Non Interest Expense
These should be close to 0% ie fees etc should ideally cover costs. In Fiji only ANZ and Westpac have achieved this key performance indicator, and this may explain the Fiji figure. For the other banks either they do not have "critical mass" (their costs are too high) and/or their fee income is too low as they strive for Market share. The problem with the Fiji market for the other three banks, is that that need to secure a higher NIM to get their profitability and expense ratios right.

4.3 Interest Rate Spread
There are many flaws in this section of the report. Not only had there been problems with the methodology of RBF's spread calculation, (page 26 para 2 refers) but the imposition in Fiji of the spread along with the WALR ceiling had unintended negative consequences. Some banks were affected very badly by this policy, which was anti-competitive and reinforced the market share dominance of the two major banks. Ultimately, the removal of the 4% spread cap was a positive development for the market and consumers alike.

On page 27 paragraph 1 the statement is made that "exorbitant revenues (are) earned by banks in Fiji" as if this was factually correct. What is the basis for this on a peer comparison basis?

On page 27 paragraph 2 there is a comment on a fee that certain banks in Fiji have charged for overdraft excesses ie breach of contract. How is that relevant to interest rate spread and/or consumer issues? The charging of such fees is intended to be a disincentive to delinquent customers, and is not intended as a revenue-generating measure. In fact, banks would be delighted if there were no overdraft excesses. An alternative would be to immediately cancel all such overdraft limits where unauthorised breaches of arrangements have occurred. Is this seriously being suggested by the report?

Recommendation 6

The recommendation as to investigating interest rates charged is flawed, as the example quoted refers to fees. Similarly, there is no example quoted of what is perceived to be wrong with bank fees and commissions.

In the table below, on page 27, it has been stated that "It has been difficult to ascertain how different fees and charges are set by banks from a questionnaire sent to them". The point seems to be missed in the report that the problem was not only with the questionnaire, but the overall failure by the authors of the report to engage with the banking industry either at ABIF or individual bank level.

Finally, the analyst's assumption that cost of doing business in Fiji is lower than that in Australia is quite breathtaking. Is productivity in Fiji equal to that in Australia? Are banking inputs lower in Fiji than Australia? As with most of the report, serious analysis needs to be done, not mere speculation.
4.4 Disclosure of information

If the information on page 29 is correct, certain branches of certain banks may not have been in compliance on that date with their bank’s own internal instructions and RBF regulations. Management of each bank takes its policies and obligations very seriously. To suggest that is not the case is mischievous and without foundation of any kind.

On page 30 para 2 a suggestion is made about improving the ABIF website. It is pleasing to see that the website has been useful. The issue raised is the same as made previously under RBF policy – item 2.2 on page 2 i.e. is it preferable when you do not have a fee to exclude it from your brochure, or raise the heading for the fee and say N/A or NIL against it?

We agree that the use of the website is desirable, which it should be noted is a not a compliance measure but a consumer education initiative.

Recommendations 8 and 9
This is something that we would be prepared to consider

4.5 Savings accounts

The assumption is that banks are deliberately using small print so that terms and conditions are not disclosed. That is incorrect.

Each bank looks closely at the various savings account products it has on offer and tries to fit these to customer needs. Balancing interest and flexibility of access to funds, is always difficult for customers. For banks, savings account balances frequently fluctuate and predicting overnight balances of such accounts is difficult. The assumption at para 2 on page 31 that banks can automatically lend such funds at a higher rate is flawed.

We are definitely interested in exploring ways in which customers might give banks a larger and more predictable source of funds. We also wish to encourage the development of a savings habit in our customers, and responsible money management.

Recommendation 10
This is something that we would be prepared to consider

4.6 Money Transfer

The possibility that customers might be educated about the potential for greater use of Fijiglare is something that is desirable. Banks have embraced Fijiglare but payments by this means are not cheap. However, all payment types are not the same. Western Union, for example, offers a more direct point to point service than banks. Other similar systems may also be faster or more convenient than banks. However, the Telcos offer an even faster and cheaper system through their E Wallet initiatives. RBF has already promoted these.

4.7 Access to Credit

4.7.1 Consumer Credit Act

On page 34, the assumption that awareness by members of a Chamber of Commerce of the Consumer Credit Act is an indicator of the general level of awareness of the Act may be flawed.
Members of the Chambers are likely to be Businesses borrowers not Consumers as provided for under the Act.

All fees and charges on such Consumer loans are disclosed. Each bank is entitled to charge a fee for the various services it provides and so recover its costs. Banks want to avoid cross subsidies where possible. This makes the all-up cost of loans very transparent.

An all-up quote could be sought from bank A, and compared directly with one from bank B. This is also transparent. On page 38 para 1 of the report this fact is acknowledged.

The issue in the report seems to be that it is suggesting that each bank should have exactly the same quantum of fees; the fees be called the same; and each bank should print their brochures in the same way as it would then make it easier for a customer to do a direct comparison. That sounds like collusion that is being suggested, and banks do not practice that. Instead, we like to offer customers different features and benefits, flexibility etc that may suit one bank but not another, one customer but not another. That is called competition.

Burden on Borrowers

Perhaps Consumer Council of Fiji could look into why Engineers, valuers and solicitors charge the fees that they do. As noted, these costs do not benefit the Banks and are simply reimbursed from customers. It should be noted that some banks in Fiji do their own legal (conveyancing) work for reasons of competitive advantage. This is both cheaper and faster for customers. This is yet another example of competition at work in the banking industry.

4.7.4 Bank switching

Recommendation 8 and 97

Banks fully disclose terms and conditions of loans, as required by the Consumer Credit Act. Agreed Terms and Conditions are fundamental to any loan contract.

The refinance of loans is not a barrier as supposed. Costs will, of course, be incurred again eg loan establishment fees, legal fees etc. The reason for changing is not normally dissatisfaction "with the services they are being provided" rather, the opportunity to get a more attractive rate or loan feature elsewhere. Why should we accommodate the stated need to ... "cheaply switch banks"?

4.7.5 Time taken for loan approval

The measurement of time can vary: customers may measure from the time of first enquiry, whereas banks measure from the time all requirements are met. On that basis, the stated approval time seems incorrect.

The timetable for writing loans is first to get the loan approved; get it accepted by customer and then get it drawdown. This is basic to all banks, and they are anxious to get loans approved. On the other hand the real issue is customer documentation, which is always hard to get. Perhaps this is a customer education issue.

4.7.6 Fees and charges for loan approvals
The example provided shows loans from BSP and Westpac, and when compared, one bank charges $510 and the other bank charges $800. This is cited as a “clear indication of lack of competition”. A comment like this in the report is a most astounding one, and proves that there is no real understanding of what competition is.

4.8 Penalty fees

Penalty fees on cheque dishonour, overdrawn accounts and for credit card late payment are fees that need to be charged. These fees are disclosed. However, banks would rather customers simply meet their obligations when due: such fees are not considered by banks as a windfall revenue opportunity. Although follow-up of such customers represents a significant overhead for banks, some customers believe that banks have no right to charge such fees. Such fees are usual, right throughout the global banking community.

5.0 Customer Complaints
5.1 Complaints with the Consumer Council of Fiji

While several comments have been made above about the true nature of customer “complaints” the number of complaints received by the banks, the consumer council of Fiji and RBF is surprisingly small, say, 4 per day, given the large number of customers we serve and transactions we process.

While we recognise that complaints are not desirable, the reality is that there will always be some complaints of one type or another. But how do we compare against our peers? Is there a need for alarm? Is there a need for an orchestrated campaign against the banks? Do Consumers need to fight for their rights to achieve fair financial services?

5.3.2 Security of Funds and Information
5.3.4 Provision of Information

These findings, if accurate, come as quite a surprise. Bank policy is quite clear on the issues raised, as is the Code of Practice.

5.3.5 Bank Statements

Bank statements are frequently not received by customers due to delays at Fiji Post or changes of address that are not notified. Mail outs are programmed. Errors caused by incorrect recording of transactions are possible but infrequent. Automatic payments are, as expected, automatic and not subject to error. Other than that, we would need more information as to what “errors” occurred.

Banks are continuously looking at the cause of errors and changing processes. Errors are time consuming, costly to fix, and adversely impact our businesses. We are very keen to receive customer feedback in this regard.

5.3.6 Ease of access to bank facilities
5.3.7 Access to ATMs
5.3.8 Customer Mobility

These figures are not what would have been expected. Banks will need to review these findings and ascertain why these results are being recorded.

5.4 Conclusion
7 - Conclusions

Despite the service failures highlighted, it is fairly clear that the banking sector in Fiji more than meets its obligations to most of its customers. RBF requires certain standards to be met and these are either met or exceeded. However, the reality is that banks on their own are improving services to their customers and investing in the future of Fiji in the process. Fiji could be a regional financial centre, but this requires a more balanced view by all stakeholders of the real state of the market here. However, we may have some training issues and we may have some behavioural issues to resolve in individual banks.

The challenge that banks in Fiji now face is not one of policy or management willingness to meet customer expectations, but service delivery by staff. While each bank will do its best to quickly resolve these matters, the bank that is most successful potentially stands to gain competitive advantage.
Appendix 6: Comments from RBF

RESERVE BANK OF FIJI

3 November 2010

Mrs. Premila Kumar
Chief Executive Officer
Consumer Council of Fiji
Private Mail Bag
SUVA

Dear Madam

Re: Report on the Review of the Banking Services in Fiji from the Consumers’ Perspective

Thank you for giving us the opportunity to comment on the above.

We are mindful that certain perspectives alluded to in the report have a direct bearing on our key objectives of monetary and financial stability in particular, to promote a sound financial structure, which includes regulating and supervising the financial system. Such supervision for Banks in Fiji is encapsulated within the Banking Act 1995, under delegation of the Minister for Finance.

The banking industry is an important sector in our economy which impacts the performances of other economic sectors. The supervisory regime ensures that the monies of consumers are protected and their interests safeguarded. Consumerism issues as such are always at the forefront when the RBF formulates regulations or supervision policies governing the banking industry.

In light of the above and the analysis contained in this Report, we note our comments hereunder:

1. Section 2 - Consumer Protection and the Banking Industry

a. The report should depict a balanced view of the banking industry in Fiji. The banking industry has evolved over time and has been the main medium facilitating trade and financial transactions in Fiji. It has been a key player in the development of Fiji’s financial system and has provided a lot of positive services as it evolved over the years. The many banking products that were not offered in the past, the growth in ATMs and EFTPOS infrastructure including e-banking have now opened up a lot more services to the customers of Fiji than what existed. The Banks are now involved with the new innovations through mobile phone banking, microfinance, sponsoring/conducting financial literacy programs and rural banking. Some of the contributions made by the banking industry need to be noted in the report otherwise the report portrays a biased view. In fact, consumers have undoubtedly benefited from the services provided by Banks.
b. With regards to the prudential regulation of Banks. The report in our view shows a very narrow understanding of prudential regulation and its benefits for consumers. In particular, page 8 of the report stipulates that there have been many cases throughout the world, and in Fiji, where banks have failed despite the existence of prudential regulation. This view needs to be taken in context. The same argument can be true if one was to ask what would happen if there were no prudential supervision. Prudential supervision in our view has done more than just to consumers of failures, or at the very least, it has reduced quite substantially the risk of failures and problems to consumers. Prudential supervision has made the Banks’ operations including their services legitimate for use by consumers and has provided confidence to the public in the banking system in Fiji.

c. Page 9 of the report states that monetary policies are conducted through manipulating the behavior of Banks. We wish to stress that decisions taken by the Central Bank are not manipulative decisions but hard decisions based on analysis and forecast of economic and financial data to ensure an effective monetary policy. The word “manipulative”, as portrayed here, has a negative connotation to it and is a misrepresentation. Also on the same page, the report compared the banking industry to a “peanut seller at the Suva Bus Stand”. We are of the view that this analogy is not comparative. In any case, there is a cost to the failure of a peanut seller although not as obvious as that of a Bank. Family members, the public and even the taxpaying community in Fiji would pay for this cost and this is no different to that of a Bank except that the quantum is different and that with the Bank is quite obvious. In addition, the peanut seller faces reputational risk that cannot be quantified in monetary terms and the withdrawal of a peanut seller means the withdrawal of a service to the public.

d. Page 10 of the report indicates that the lack of competition created by prudential regulations enable Banks to rake in higher profits. In our view, prudential regulation is not the proximate cause for higher profits and lower range, or substandard services. Prudential supervision, in fact encourages competition in an orderly and transparent manner. Strong supervision encourages a level playing field for competition. In Fiji, there are no barriers to entry in the banking industry. In fact, the capital requirements for setting up a Bank in Fiji are far less than it would cost in Australia and other parts of the world. The regulatory cost of compliance is not as much as in other countries and thus does not unreasonably affect the price of credit and hence competition. It encourages effective and efficient services. In addition, the public has a right to change Banks where they are not happy with the provision of services offered by any particular Bank. Finally, the report is alluding that prudential risk impedes competition, yet it states that regulation is needed. This view is contradictory as the report also highlights a lack of prudential regulations as reported under the Polley on disclosure.

e. Page 10 of the report also states that the RBF provides some protection through policy statements and institutional arrangement. We feel that the RBF provides well beyond the understanding imbedded in the words “some protection”. The positive and supportive reactions of the CCOF to the RBF’s involvement and complaints management policies as was delivered by the CEO at the recent Financial Systems Development and Compliance Group’s interactive planning workshop is testimony to the fact that the intervention of the RBF on consumer complaints with financial institutions has had and continues to have a dramatic effect on changing the complaints management environment within the Fiji’s financial system and hence, consumer rights’ being protected.

2. Section 3 - Complaints Management

f. This section of the report begins by highlighting that the RBF’s Policy Guidelines on Complaints Management for Banks and Credit Institutions (Polley) is silent on the role of the CCOF and that
g. Page 13 of the report pointed out that the Policy established only the guidelines for complaints management. We view our Policy as a minimum guideline and these are a minimum benchmark for Banks to have in place. Banks have the discretion in establishing procedures and processes over and above these minimum guidelines. The guidelines are not merely complaints management guidelines but rather guidelines requiring Banks to effectively put in place complaints management procedures and processes to resolve complaints.

h. The report, on page 15, states that there is no requirement in the Policy that makes it obligatory for Banks to inform new/existing customers about the complaints management procedures and processes, and who to submit complaints to. Under the Policy, Banks are required to publicize their complaints management procedures and processes, hence new/existing customers should be aware of such publicity/awareness by the Banks.

i. On the Complaints Forum, page 16 of the report refers to the experience of members. Candidates that have been approached by the RBF have experience/knowledge on consumer and financial sector issues. In addition, the RBF will only provide secretarial and administrative support and not chair the Forum as alluded. The assumption in the report on the advisory role only is wrong, since the purpose to have the Forum is to deliberate on how best consumerism issues can be resolved and such deliberations will be attended to by the RBF with the respective industry. This has always been the objective of the Forum and it does not depend on “the whims and fancies of the Governor” as stated in the report.

j. Page 17 of the report states that there should be one clearly identified central location where customers can go if they have complaints or enquiries. We are of view that one of the intentions of the Policy was to provide an avenue for customers to go to their Banks because Banks are now required to put in place a vigorous complaints management environment that addresses complaints effectively and efficiently. Hence, complaints are expected to be resolved at that level. The first level of appeal for customers therefore is to come to the RBF. The RBF thus expects the number of complaints that come to it to be at a minimum.

k. Page 18 of the report also talks about the possible collaboration between the RBF, the CCOF and other organizations. We embrace the point that collaboration between the various organizations will assist in the quick resolution of consumerism issues. In this regard, the RBF has had meetings with CCOF and will continue to have dialogue on consumerism issues with them and other interested stakeholders. The RBF could consider entering into Memorandum of Understandings where appropriate.

l. Page 19 of the report refers to the RBF as a “de-facto Financial Services Ombudsman”, and that the preoccupation of the RBF with prudential supervision overrides issues regarding consumers of financial products and services. Whilst the RBF has a separate function in the supervision and regulation of Banks, it has also set up a dedicated complaints management unit under a different Group specifically focussed on addressing complaints and helping resolve complaints of the public on the products and services provided by Banks. These functions however can be complimentary in that complaints can help identify/provide insights into systematic issues that may exist in the financial sector which needs to be addressed by the supervision and regulatory Group of the RBF for the wider benefit of consumers.
3. Section 4 - Major Problem Areas

m. It appears that this section is the focal point of the report. Therefore, the analysis/source of the data in this section should be correct and accurate. This will ensure that the results portray a true picture of the banking industry. In this regard, we are of the view that the asset size of the Australian Banks is far greater than that of the local Banks. Local Banks/branches represent a fraction of the operations of the Australian Banks, and as such, this would not be the best or fair comparison to make. A better alternative could be comparing the local Banks' performance with those in other Pacific island countries. The other could be comparing the consolidated assets of the local Banks with those of the 4 major Australian Banks.

n. There are two key issues that need to be pointed out. The first is that the profitability ratios of the individual local Banks are compared against those obtained from the consolidated figures for the 4 major Australian Banks. This comparison is made on an uneven playing field as the asset size and profitability would be different for each of the 4 major Australian Banks. For instance, in 2008, the average asset size of the four major banks in Australia is $2,253.94 billion while Fiji's average asset size for all the Banks is $3.77 billion. Secondly, the comparison is of the average of the 4 major Australian Banks against the individual local Banks. Despite this ambiguity in the analysis, the report attempts to justify and draws conclusion that the cost of doing business in Fiji is high. It is hence our view that the reliability and validity of the ratios and conclusions made thereafter in the report needs to be re-examined for accuracy.

o. Based on the Quarterly Bank Performance statistics as at March 2010 obtained from Australian Prudential Regulation Authority's (APRA) website and those for the local Banks, we have found numerous discrepancies in the ratios stated in the report. For instance, the net profit after tax to average total assets ratio for the year 2007 for the 4 major Banks in Australia yields to 1.0%, compared to 0.17% as stated in the report. Similarly, for the year 2005, Westpac Fiji’s net profit after tax to total assets ratio is 3.15%, compared to 3.74% as stated in the report. There are other variations noted between the ratios in the report and those that we have calculated.

p. It was highlighted in the report that fees, charges and commission are being determined in a highly imperfect market in Fiji and thus need to be regulated. With regards to the interest rate spread on page 27 of the report, it was stated that Commerce Commission is to investigate the fairness of the levels of interest rates/fees and charges made. We feel strongly that there is no need for this because we view it as a way of fixing prices on interest rates, bank fees and charges and commission, as this is best left to the market forces to determine. The RBF does however through moral suasion keep the Banks in line in this regard. Furthermore, on page 31, it was stated that the RBF website itself does not have the Policy statement. We wish to point out that all the banking supervision Policies are available on the RBF website and this can be accessed from the following link: http://www.rbf.gov.fj/Default.aspx?page=bankingPS.

q. On page 32, the report recommended that Banks should publish all the terms and conditions of accounts and that it is not done in small prints. We wish to clarify that the Consumer Credit Regulations 2009 requires that the print or type must not be less than 8 point.

4. Section 5 - Consumer Complaints

r. The survey on page 48 showed that Banks need to ensure that all customers have an easy access to ATMs and that these ATMs should be located where population densities are high. While the idea is a noble one, the need to have ATMs physically located in areas with high population densities does not really arise given the existence of interoperability of Banks’ ATMs, and rural and/or postal banking services available.
s. The report on page 49 drew its conclusion from complaints lodged at the CCOF/RBF and the
survey carried out. We are of the opinion that the number of complaints as recorded by
CCOF/RBF when put in context with the size of the financial system and the number of financial
transactions undertaken is not a major concern at this stage. One must keep in mind that no
individual or any system is perfect. There will always be a risk of failling but having said that,
these risks must be mitigated and kept to a minimum. It is more important that the points
identified through the complaints are addressed efficiently and effectively so as to keep
complaints to a minimum.

I hope these comments will be of assistance to you.

Yours faithfully,

[Signature]

Filimone Waqabaca
Chief Manager
Financial Systems Development & Compliance
Appendix 7: Comments from Ministry of Finance

MINISTRY OF FINANCE

The Chief Executive Officer
Consumer Council of Fiji
4 Carnavon Street
Private Mail Bag
Suva

Review of the Banking Services in Fiji

Your letter dated 9th September, 2010 regarding the above subject refers.

We acknowledge receiving your correspondence seeking our comments on the Final Draft Report on Review of Banking Services in Fiji. The paper was well covered and informative as it highlights some of the banking issues Government need to address to avoid provision of substandard banking services to the people of Fiji.

Our Ministry’s comments in response to certain recommendations being proposed by CCoF are as follows:

a. Complaint Management

- Recommendation 2: Both new and existing customers must be informed in writing about the complaints handling policy of banks and about where to submit enquiries, complaints and disputes.

We support the recommendation. Bank brochures should be readily available at the counter to assist bank customers in lodging their complaints.

- Recommendation 3: The RBF should collate complaints filed with the banks, CCoF, CCO, and RBF, diagnostically analyse the complaints and publish the analysis.

We support this recommendation. This would greatly assist RBF in addressing customers’ complaints relating to banking services in line with the Complaints Management Policy.
Recommendation 4: The composition of membership of the advisory group established by the RBF should be more certain and also include expertise in financial services. The advisory group should elect its own Chair who should not be a staff of the RBF.

We feel that the current structure is sufficient to address customer's complaints. This is to avoid unnecessary administrative complexities which may become very costly.

Recommendation 5: The RBF should consider placing the consumer complaints unit under a different reporting structure from that of prudential supervisors under the headship of a separate senior/chief manager.

We agree with the recommendation that a separate unit be created under a different reporting structure. This is to ensure that customers’ complaints are addressed effectively and efficiently.

b. Recommendation 6: The CCF should write formally to the Commerce Commission requesting an investigation into the fairness of the levels of interest rates charged and paid and the fees and commissions levied by the banks.

Whilst we support this for the best interest of the customers, it should be realized that loosening of banking restrictions, would increase the number of firms in the industry hence the whole industry will become more efficient which will enhance competition not to mention the multiplier effect into the economy.

In light of this, we are of the firm view that interest rates and other fees laid by banks should not be heavily regulated (deregulated) to ensure a competitive banking environment. Moreover over regulated banking system would discourage potential investors, foreign banks and financial institutions from entering our shores.

c. Recommendation 7: The RBF should check compliance with disclosure of fees, commissions, charges and interest rates more often and without notice. No 30 Day grace period should be given. The penalty under section 15 of the Banking Act 1995 should be increased.

We support this recommendation to ensure policy is consistent with banking practice.

d. Recommendation 8 & 9 suggested that information in regards to RBF’s directive on disclosure be publicized in the RBF website, and on the websites of individual banks and ABIF.
This recommendation is fully supported. This will greatly assist customers in their timely decision making with regards to savings and borrowings.

e. **Recommendation 10:** To incentivise savings, banks should consider combining features of transactions accounts with saving accounts publish all terms and conditions of accounts and not publish any conditions in small print.

We support this recommendation. This will encourage customers to save money for their future expenses; however restrictions by the regulator should be kept at minimum to preserve competition and efficiency in the banking environment.

f. **Recommendation 11:** Banks should be required by the regulator to justify the amount of all the fees and charges they levy.

Our comment on recommendation 11 is that Banks should not be heavily regulated on the type of products they offered to customers. This is to ensure that Banks are more competitive with their different products, together with their various prices such as interest rates, and other fees on term deposits, loans and commercial paper.

g. **Recommendation 12:** The RBF should review its Banking Supervision Policy Statement to ensure that banks comply effectively with good banking practices

We support this recommendation; however RBF may have its own rationale behind its Banking Supervision Policy in line with its regulatory framework and monetary policy objectives.

h. **Recommendation 13:** Banks and other Licensed Credit Institutions should be required by the regulator to adequately warn customers if they are in default.

This recommendation is supported. This is to ensure safety and protection of bank customers.

i. **Recommendation 14:** Banks should be required to fully and properly explain the terms and conditions to the customers before any contract is signed and ensure that all terms and conditions are unambiguous.

We support this recommendation. Our understanding is that all banks are currently practicing this to all its customers before any contract is signed.
j. **Recommendation 15:** Banks should be required by the regulator to set timelines for the execution and finalisation of significant transactions and ensure that the timelines are honored.

The recommendation is supported. This is to ensure that the interest of the customers are protected to avoid incurring of unnecessary costs such late repayment fee and arrears fee.

We hope this clarifies our Ministry’s position on the respective recommendations being proposed. Should you need further clarification, do not hesitate to contact us.

[Signature]

Isikeli V. Ceduadua  
*For Acting Permanent Secretary for Finance*