

Banking Services in Fiji: From Consumers' Perspective



CONSUMER COUNCIL OF FIJI

Summary of the
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Preface

In early 2010 the Consumer Council of Fiji commissioned a study on *Banking Services in Fiji: From Consumers' Perspective* with the help of the Fiji Institute of Applied Studies (FIAS).

This publication is a simplified version of the original and more in-depth report. The purpose of this booklet is to educate, inform and create awareness for consumers and the general public on the banking industry and the problems of unfair practices and high fees and charges.

Consumers wishing to know more about the banking industry can get the indepth report on Council's website: www.consumersfiji.org, email: complaints@consumersfiji.org or visit our office at Suva, Lautoka or Labasa.

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Summary

This is a report on banking services in Fiji from the viewpoint of consumers. It was commissioned by the Consumer Council of Fiji in early 2010 because of complaints and concerns raised by bank customers.

The banking industry has existed in Fiji for about 110 years. A Fiji Parliamentary Committee of Inquiry into Financial Services released its report in 1999 where it found amongst other things that: Fiji banks charged high fees, charges and interest rates; the banks were making higher profits than made overseas; competition was weak; customers not treated equally and so forth. The Committee made a number of recommendations which included: the setting up of a banking commissioner; reduction of fees and charges; banks to provide services in rural areas; equal and fair treatment of customers; localise ownership of banks and; that banks should no longer consider Fiji as a risky country to invest in. However, most of the recommendations have not been implemented because Fiji banks remain uncompetitive; consumers have complained about the quality of services; and bank fees, charges and commissions have stayed extremely high.

Banks are not competitive – what is known as ‘**perfectly competitive**’ in economic terms – because there are only a few of them (only four) operating in Fiji.

This situation allows banks to charge significantly higher prices for their services and products (such as bank accounts and loans) than the charges made by the same banks in countries such as Australia and New Zealand. It means they can also have lower standards of customer service.

The Council report found that there are four main areas of banking that need serious reconsideration or improvement. These include:

- giving full and proper information about bank services and charges
- quality of service
- managing complaints
- the level of interest rates, fees and charges

This report makes a total of 21 recommendations.

About disclosure (making information available):

- the regulator of banks i.e. the Reserve Bank of Fiji issued a policy instruction in 2002 on Disclosure Guideline on Fees and Charges for banks and credit institutions. However, it is not compulsory for banks to display, or publicize in any other form, this instruction on disclosure. Customers do not know what should be disclosed to them.
- some banks have not followed the guideline for displaying information on fees and charges where customers can see them
- it is impossible to compare bank



“Fiji banks remain uncompetitive; consumers have complained about the quality of services; and bank fees, charges and commissions have stayed extremely high.”

products, such as housing loans, offered by the various banks using their brochures because the banks only have to give information about charges and not about terms and conditions

- nor are banks required to clearly explain the terms and conditions before a customer signs a contract
- customers have complained that banks don't always tell them about changes in terms and conditions or interest rates

About the quality of banking services in a number of areas:

- it can take customers a long time to be served in a bank, for instance the queues can be very long in some branches and property transactions can take a long time
- the time taken to approve loans varies and there is no directive from the RBF to set time limits
- in some cases where a borrower didn't keep up repayments, there wasn't enough warning given before the bank listed the borrower as a defaulter with Data Bureau (which collects and provides individuals and businesses' credit information) and the property was put up for mortgage sale by the bank and sold for much lower price than the market value
- some bank staff don't know all the correct information about their services and give wrong or misleading advice
- a customer can't use one account to save and do banking transactions, no bank provides one single account where an ordinary consumer can

earn good interest, even if the savings grow

- it is difficult and costs money to change banks, even to take advantage of a better deal

Excessively high profits are being made by banks in Fiji. What the two main banks, ANZ and Westpac, earn from interest, fees and charges and commissions – calculated as a percentage of their assets – is much higher than what these banks earn in Australia.

Banks in Fiji charge exorbitant and unconscionable penalty rates – overpriced and unreasonable charges – for dishonoured cheques and overdrawn cheque accounts.

Meanwhile, the risk of doing banking business in Fiji is lower than in Australia for various reasons, such as the fact that bad and doubtful debt recovery in Fiji is better and banks here hardly make losses.

The Complaints Management Unit at the RBF has issued several guidelines to make banks accountable, transparent and compliant, but the penalties are not severe enough to discourage banks from ignoring them. Nor has the RBF shown seriousness in monitoring or penalising banks that ignore the guidelines.

The Consumer Council report suggests that if the Reserve Bank and banks in Fiji give full and proper information on bank services and charges, improve its quality of service and manage complaints well, then the complaints from consumers are likely to reduce.

“Banks in Fiji make excessively high profits in some cases, the profits are much higher than what the main banks in Australia earn.”



Introduction

The banking industry throughout the world has been of concern to consumers in recent years, not just because of the global financial crisis that caused many consumers to lose money, homes and jobs, but also because consumers are questioning the high charges and unfair terms and conditions imposed by banks. In countries such as Australia and the United States of America, policies, regulations and the way banks do business have been reformed and changed to make conditions better for consumers.

In Fiji, lack of competition between banks means consumers have less choice and face higher costs. Since banking is so important to the economy, it is vital for policymakers, regulators, bankers and consumer groups to regularly monitor and understand what is going on in the banking industry, including the quality of services provided by banks.

This is why the Consumer Council of Fiji decided to commission a study that looked at:

- types of products and services offered and the fees and charges set by the banks including for savings and transfers
- how easily consumers can get credit (such as loans and overdrafts)
- the costs of getting credit;
- the availability and accessibility of good, independent financial advice;
- the system of how customers are

judged when they ask banks for credit

- how well customers' personal information is protected
- a general view of good and bad bank practices

All important stakeholders with an interest in the banking industry were given a chance to comment on the report and a confidential meeting was held with these representatives before the report was finalised.

A review of what many other countries have done shows that changes have been made because of the concerns of consumers, such as making fees less unfair. For instance in Australia, it is now easier and less costly to change banks, 'disloyalty' fees for using an ATM that doesn't belong to the bank whose card you are using have been dropped all together, and other penalties greatly lowered. However in Fiji, two Australian banks, ANZ and Westpac have continued to charge the higher penalties and late fees.

In the USA a new law was introduced to set up a Bureau of Consumer Financial Protection to make sure bank customers got necessary information and protection from unfair practices. This law also aimed to get rid of old and unnecessary regulations, promote fair competition between banks and ensure customers received efficient and timely service.

However in Fiji, more complaints than ever are being received by the Consumer Council, RBF and banks, and there

Action Taken by the Governments to Create Fair Financial Services around the World

The government authorities worldwide are looking at concrete and effective ways of improving consumer protection in financial services and are taking decisive and proactive approach to reform their retail financial markets.

Some actions taken in selected countries are:

Australia:

- Exit fees banned on new home loans from 1 July 2011;
- The mortgage war led to National Australia Bank (NAB) offering to pay \$700 to consumers who switch their home loan;
- ANZ abolished its mortgage exit fees;
- National Australian Bank (NAB) scrapped all penalty fees on transaction accounts;
- ANZ reduced dishonored and overdrawn account fees to \$6 per day;

New Zealand:

To ensure consumers can have confidence when they deal with a financial adviser or financial service providers, New Zealand introduced Financial Service Providers (Registration and Dispute Resolution) Act 2008 (FSPA) and Financial Advisers Act 2008 (FAA) which requires registration of financial advisers and financial service providers.

In the **USA** a new law was introduced to set up a Bureau of Consumer Financial Protection to make sure bank customers got necessary information and protection from unfair practices.

However in **Fiji**, the above reforms are yet to take place. More complaints than ever are being received by the Consumer Council, RBF and banks, and there are also many dissatisfied customers who have raised their concerns in the media.



Source: www.prwatch.org

are also many dissatisfied consumers who have raised their concerns in the media.

This was what made the government set up the Parliamentary Committee of Inquiry into Financial Services in 1999. The main findings of this Committee were:

- the leading foreign banks in Fiji had higher profits compared to what they earned overseas
- the fees, charges and interest rate

margins were relatively high and could be reduced

- the fees and charges were a substantial burden on an average family in a developing economy such as Fiji
- banks were not providing enough information and staff should be able to give advice in Fijian and Hindi
- competition between banks was uneven and weak, and the two major banks, ANZ and Westpac, had the market power to control the level of

fees and charges and the quality of service

- the interest rate system on loans and advances seemed to favour a few powerful, influential and large scale businesses compared to the less privileged customers
- banks could be better controlled if they had local ownership where Fiji people were allowed to buy shares in the banks
- a decrease in the number of bank branches around the country

The Consumer Council report shows that all these findings are true today as they were 10 years ago, except the last one that has improved through ANZ's rural banking services and mobile phone banking.

It also shows that while some of the Committee of Inquiry have been put into action in some ways, most haven't been given serious attention.

One of the recommendations not acted on is the need to reduce high fees and charges. The 1999 Parliamentary Committee of Inquiry report said these should be reduced because of the high profits being earned by banks in Fiji. The Committee said the argument by the banks that fees and charges were higher in Fiji because of higher risks was no longer realistic. This is because the two major banks had been around for more than 100 years and had accepted the risks long ago, and were considered to be comfortable with

their profits.

Other recommendation not realised was to localise banks through making them become subsidiaries, rather than branches, of the parent bank companies overseas, and by making shares available on the Fiji share market.

Some recommendations concerned disclosing information, especially on fees and charges on accounts and on conditions of various bank products such as loans, to be written clearly in the three main languages. But the Consumer Council report finds these have not been acted on fully despite a policy guideline issued by the RBF in 2002. Nor are banks made to give proper reasons for their fees and charges.

The RBF information disclosure guideline isn't effective because some bank branches don't seem to take it seriously and don't provide their information brochures; and because the brochures are written in a way that makes it impossible to compare various products at different banks, for instance home loans.

During the stakeholder consultation on this report, wide-ranging comments were received from the Reserve Bank of Fiji and Association of Banks in Fiji (ABIF).

The RBF and ABIF noted that the report should be balanced by acknowledging the contributions of the banking industry to Fiji's economic growth and by introducing new banking products and systems. The report has accommodated these views.



Representatives from the banks, RBF and NGOs and the academics expressing their views on Council's draft banking report.

Consumer Protection and the Banking Industry

There are currently five banks in Fiji operating 63 branches. As Bank South Pacific (BSP) took over the Colonial National Bank (CNB) in December 2009, there are really only four banks operating.

The purchase of CNB by BSP can be taken as a sign of confidence in the economy and goes against the idea that Fiji is a risky country that is discouraging to good business investment.

Table 1 shows how many branches the banks have. All banks operating in Fiji have parent companies abroad and also operate in other countries. The two banks with the largest share of business in Fiji, ANZ and Westpac, are from Australia. Banks in Fiji generally provide similar services that they provide in overseas. The National Bank of Fiji, which was the only local bank, stopped operating more than a decade ago because of bad debts and corruption.

Table 1: Distribution/Location of Bank Branches

BRANCH	ANZ	BOB	BSP	CNB	WBC	TOTAL
Ba	1	1	-	1	1	4
Labasa	1	1	-	1	1	4
Lautoka	1	1	-	1	1	4
Levuka	-	-	-	1	1	2
Nadi	3	1	1	1	1	7
Namaka	-	-	-	1	1	2
Nausori	1	1	-	1	1	4
Navua / Pacific Harbour	-	-	-	1	-	1
Rakiraki	-	1	-	1	1	3
Savusavu	1	-	-	1	1	3
Sigatoka	1	1	-	1	1	4
Suva	6	1	1	5	8	21
Taveuni	-	-	-	1	-	1
Tavua	1	-	-	1	1	3
TOTAL	16	8	2	18	19	63

Source: Association of Banks in Fiji

Table 2 lists the number of ATMs and EFTPOS facilities per bank, which vary greatly and most is operated by ANZ, the least by Bank of Baroda.

Table 2: ATMs and EFTPOS Facilities

Bank	ANZ	BOB	BSP	CNB	WBC	TOTAL
ATMs	74	8	4	41	35	162
EFTPOS	1,093	-	5	193	800	2,091

Source: Association of Banks in Fiji

Competition and the Banking Industry

Competition between banks is needed so that they are constantly trying to attract customers with better services, facilities and deals, and the consumers don't lose out. Lack of competition in the banking business can be caused by a number of reasons and conditions that are normal for the industry in Fiji.

First, Fiji has few banks and one has the biggest share of business. This lessens the choices for consumers. It also makes it easy for banks to behave in a way that could be described as 'collusive', meaning that they could work together to set charges and standards of service, rather than competing against each other. A larger number of banks would make collusion difficult. The ABIF says that the dominant bank (ANZ) "is not dominant in all products and services, nor in all segments of the market". This is an admission that this bank is in a controlling position in some products and services and segments. It is this that can lead to implicit collusion.

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".

This suggests that the customer cannot compare the different terms and conditions for a car loan, for instance, because they are organised and described so differently.

The various products and services offered by banks are all in some ways different, which could be seen as giving wider choices to consumers. But it discourages competition because while it might look as if one bank is giving a better deal, for instance paying interest of 1.5 percent rather than one percent on a fixed deposit, the terms and conditions of the fixed deposit won't be the same. So in fact the consumer may not be getting a better deal.

Consumers need full information about any deal or service so they can make an informed choice. While the RBF's disclosure guidelines help because they require banks to give all information, some of it is in very fine print and in some circumstances banks do not have to show all fees and charges.

The main cause of limited competition among banks everywhere is prudential regulations, the regulations made by the central banks (such as RBF in Fiji)

“The main cause of limited competition among banks everywhere is prudential regulations, the regulations made by the central banks (such as RBF in Fiji) to keep up a sound and stable financial system in the country. Prudential regulation does not provide adequate consumer protection.”



to keep up a sound and stable financial system in the country. While Reserve or Central Banks concentrate on prudential risks, they are only one of the many risks faced by consumers of financial services (such as insurance and banking) and they do not necessarily protect consumers, nor promote good competition.

The authorities that make the regulations for the banking industry understand that if a bank competes as vigorously as, for instance, a peanut seller at Suva Bus Station, it would be very risky and could cause an unstable financial system and undermine people’s confidence in banks and the currency. While a peanut seller can go bankrupt without much loss to the public, if a bank goes bankrupt it affects the depositors, taxpayers, and the whole financial system and economy. So prudential regulations that prevent this kind of problem happening are also responsible for limiting the sort of competition that would be beneficial to consumers.

Government is responsible for protect-

ing consumers. It is government policy to promote financial stability and to use the RBF to do this through its prudential regulations, it has the responsibility of making sure the rights of bank consumers, who are affected by those regulations through lack of bank competition, are also protected.

Lack of competition has allowed banks to make high profits and thus they should have the ability to fund consumer education and protection.

The RBF has commented that it doesn’t think prudential regulations or their cost to banks are an immediate cause of banks making high profits and providing low quality service. The ABIF argued that the cost of following the regulations is part of the reason why Fiji banks were charging a higher interest rate.

In Fiji and overseas there are various regulations and organisations to protect consumers, including bank customers. There are also policy guidelines and practices on complaints.

Look out for the fine print in bank brochures

The image shows three bank brochures with red arrows pointing to their fine print sections. The brochures are:

- ANZ Personal Loans:** The fine print section is titled "What are the conditions and benefits?" and lists various terms and conditions.
- Western Bank's Electronic Transaction Account:** The fine print section is titled "It is a caveat" and lists various terms and conditions.
- BSP Term Deposits:** The fine print section is titled "Watch your money grow!" and lists various terms and conditions.

While the RBF’s disclosure guidelines help because they require banks to give all information, some of it is in **very fine print** and in some circumstances banks do not have to show all fees and charges.

Complaints Management

Complaints and dispute resolution

There is no international standard for handling financial sector complaints but a 2010 World Bank working paper made recommendations that included: “financial consumers should have access to a redress mechanism that is fast, inexpensive and effective”. This report examined at the World Bank recommendations and the RBF’s Policy Guideline on Complaints Management for banks and credit institutions.

Fiji’s Consumer Credit Act 1999 has provision for a Consumer Credit Office that could handle complaints about credit services, but it is yet to be set up.

However, the RBF has taken on complaints related to banks in general, which includes credit services. A Financial Systems Development and Compliance Unit set up by the RBF in 2009 handles complaints made by customers about banks. If banks know that complaints will be treated seriously by the RBF’s system they are more likely to be careful about being fair to customers. Also, if the complaints are analysed and publicised, problems within bank systems can be revealed and fixed for everyone’s advantage.

The RBF Policy Guideline on Complaints Management fills a huge gap that existed in protecting bank con-

sumers and deals with most of their concerns. However, it lacks some basic measures such as providing financial compensation for consumers with successful complaints. It is also only a minimum guideline for customer complaints management.

The complaints policy doesn’t mention the Consumer Council, but nothing stops the Council from acting to help address consumer complaints against banks.

Recommendations for the policy are that:

Recommendation 1: *Financial institutions should resolve complaints received no later than 21 days from the receipt of the complaint unless legal proceedings are required.*

Currently banks are only required to ‘try’ to resolve complaints within 21 working days.

Recommendation 2: *The Reserve Bank of Fiji’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.*

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 fixing the complaint. In all fairness to the consumer, all such costs need to be reimbursed.

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.*

Banks need to have an established way of resolving complaints with particular staff members to handle them that has to be checked and changed if necessary. Banks also have to inform their customers about the complaints system, but they can do it in any way they choose, such as on their website or through brochures. The ABIF agrees with the suggestion that customers should be informed in writing, although the RBF says that because banks have to publicise their complaints system this should be enough.

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

The Consumer Council should also submit a quarterly complaints report to the RBF. It is up to the RBF to act on these complaints. There is no guideline to oblige the RBF to publish a report on complaints received by banks. However the RBF publishes a quarterly *E-Guardian* electronic magazine which is a good attempt to educate people, but is available only through the internet. Information from complaints could be very useful to banks and consumers and help increase confidence in the banking systems.

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.*

While there is an advisory group to be established by the RBF to inform people on issues of concern, there needs to be clear guidelines about which groups will be represented on the advisory group and there should be some with experience in consumer and financial issues. In actual fact, the advisory group established at the end of 2010 is called the Complaints Management Forum and includes licensed financial institutions, Consumer Council, regulatory bodies such as the Commerce Commission, and an independent chairperson.

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.*

The RBF's Policy Guideline on Complaints Management does not create a Financial Ombudsman's Service, but the Consumer Council has the opinion that the guideline isn't working as it should and that it should be made a regulation. The Consumer Credit Act 1999 that comes under the Ministry of Industry and Trade, requires a Consumer Credit Office to be set up. This

could be best done as part of a Financial Ombudsman Service within the RBF, which could enforce the Consumer Credit Act.

Other suggestions on complaints management not in the RBF policy guideline include banks establishing toll-free

phone numbers for complaints as high cost of phone calls can discourage consumers from complaining. A toll free phone line will increase the number of enquiries and complaints and provide banks and the RBF with information to improve business practices.

Bank procedures

Talei Burness
Suva

It was interesting to read comments by the Association chairman Rakesh Sharma of the Association of Banks in Fiji in response to the Consumer Council of Fiji regarding customer complaints and how to ensure their services were up to par.

Perhaps they might like to bring the human aspect back into some of their services, rather than having automatic generating programmed-computers, mindlessly doing it. It would not only create jobs but give rise to good customer relations.

Imagine my surprise last month, when I was charged a \$20 late payment fee because I had inadvertently shortpaid my visa account by \$2 - automatically generated of course! Now how ridiculous and unreasonable is that? If the shoe were on the other foot and I had overpaid instead of underpaid by \$2, would a \$20 bonus payment have been generated perhaps?

I don't think so ... sounds like a win, win situation for the banks - just watching the series "Addicted to

Money" by the Irish economist, David McWilliams on ABC, is enough to scare the pants off one!

He says "millions of your dollars are pumped into the system to keep failed banks breathing" - others make billions of dollars profit!

Fiji Sun - 11/12/2010

Bank fees

Gurdial Singh
Savusavu

Could the commerce commission or consumer council find out if any account maintenance is actually done by the banks and a fee of \$2 charged every month.

When we had passbooks no account maintenance was done or any withdrawal fees charged.

It would be a good idea if the banks can explain what they actually do and how much it costs them.

Could they explain why they charge electronic transfer fees when sending emails from point A to point B is free.

Are we being ripped off?

Fiji Sun - 13/05/2010

ATM queue

FOR the last few months, I have noted that the one of the ATM (automated teller machines) machines at the main branch in ANZ bank Lautoka does not work, especially on Thursdays and Fridays after 2pm. It seems that this is a foolish tactic to control the amount of money withdrawn by hardworking people. I went to withdraw from the main branch (24/2/11), there was line of 44 people since one ATM was not working. So I came to the one on Naviti Street, there was a queue of about 35 people. My message to this bank is competition is high. Fix those ATMs or the same customers will be in front of other ATMs with a different logo on it.

KAMLESH KUMAR
Lautoka

Fiji Times - 26/02/2011

Transaction charge

IN response to Rebecca Singh's letter (28/07/10) on the EFPTOS charges, I had a similar experience. I went to a supermarket to pay my FEA bill and as I did not have any cash at that time, I resorted to paying the bill via EFPTOS.

To my utter surprise, I was told that a fee of \$1 will be applied for this transaction. I hope the relevant authorities can look into this.

AINUL NISHA
Suva

Fiji Times - 29/07/2010

Dissatisfied consumers raising their concerns against banking services in the media.

The following are analysis of complaints lodged with the Consumer Council of Fiji

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?

CASE STUDY 2 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% deposit. Ms C re-lodged her application willing to pay the 50 percent 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.

Major Problem Areas

Fees, charges and profits

An examination of bank profits for this report indicate that ANZ is up to 15 times more profitable in Fiji than in Australia. The same goes for Westpac which is 20 times more profitable in Fiji. Even though the RBF calculations produce different figures, they still show that the banks' returns on assets are definitely higher in Fiji.

The ABIF did not question the report's figures but said the higher rates were justified because of 'perception of credit risk'. But since the major banks have operated in Fiji for more than 100 years, there should no longer be any risks.

Bank profits are mostly from interest charged, fees and commissions. For the ANZ and Westpac banks in Fiji, the amount of income from interest (as a percentage of total assets) during 2004-2008 was on average about

11 times higher than what Australia's top four banks earn. On average over a five year period the net fee and commission earnings for ANZ Fiji were more than 10 times

higher than for the four major banks in Australia, and for Westpac it was more than eight times higher.

Examination of banks' bad and doubtful debts (such as loans that are not being repaid) shows clearly that the risk of doing banking business in Fiji is lower compared to Australia. This is most likely because of the more strict conditions for approving loans in Fiji and because the more risky lending business goes to institutions such as the Fiji Development Bank and Housing Authority. Whatever the case, the figures show that banks in Fiji would be able to lend to what they apparently consider risky enterprises and to still substantially reduce interest rates, fees and commissions. There is also a definite need for a review of the way bad and doubtful debts are identified.

The suggestion that the costs of following the RBF prudential regulations are higher in Fiji compared to Australia is absurd. If banks in Fiji see business here as riskier, they need to change this attitude because the risks of people failing to repay loans is lower in Fiji; and despite political upheaval banks have not been subject to stress, nor did the recent global financial crisis affect banks in Fiji.

“ Study of bank profits for this report in profitable in Fiji than in Australia and

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Interest rate spread

The interest rate spread – the difference between bank lending rates (the interest people pay on loans) and deposit rates (the interest people get on the money they put into their accounts) depends on a variety of reasons. Financial conditions in Fiji should have encouraged competition for deposits that would increase the interest rate (from which consumers would benefit) and reduce the interest spread. There was no reason for the interest rate spread to be as high as it was, and in 2009 the banks were directed to gradually reduce the spread to four per cent, which has now happened.

The RBF monitors changes in the interest spread, deposit and lending rates, bank fees and charges and banks have to justify any changes. However, given the excessive profits earned by banks through interest, fees and charges the RBF should monitor 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 3: Fee on \$200 Overdraft Excess for One Day (relevant \$)

Australia		Fiji	
ANZ	Westpac	ANZ	Westpac
6	9	25	100

The ABIF is of the view that “The charging of such fees by above banks in Fiji is intended to be a disincentive to delinquent customers.”

The table below shows the responses from the four major banks in Fiji on how different fees, charges and commissions are set by them.

Table 4: Bank Responses on Fees and Charges

Baroda	Westpac	BSP	ANZ
The fees, charges and commissions are set to cover operational costs and are market driven	Fees are set according to cost of transactions and market pricing	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.	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.



indicate that ANZ is up to 15 times more profitable than Westpac is 20 times more profitable.

net fee and commission earnings for ANZ are higher than for the four major banks in Fiji more than eight times higher. ”

Recommendation 7: *The Consumer Council 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 RBF responded to this recommendation by saying that there was no need for it because it was best left to market forces to fix bank prices and fees. This is of concern because the banking industry is not 'perfectly competitive' and the RBF does not acknowledge that the fees and charges are too high. It seems to be uncomfortable about an independent body examining the services that the RBF should be checking. But the Reserve Bank of Fiji is first and foremost a public institution answerable to the public, and while maintaining financial stability is vitally important, the bank should try not to be seen as mostly supporting the financial sector. Because it is highly likely that

higher fees, charges and commissions are being set in Fiji's 'highly imperfect' banking market, it needs to be controlled with regulations.

Disclosure of Information

While RBF disclosure guidelines on revealing of information goes a long way, it does not ensure that full information is provided to consumers of banking services. Even if a consumer goes to all banks and collects all the brochures to compare them, it really isn't possible, because of the different ways banks show their fees and conditions. Nor do banks seem to take seriously that they should make the information available.

Recommendation 8: *The Reserve Bank 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.*

Information could also be shown on the website of the Association of Banks in Fiji.

Recommendation 9: *The form and content of disclosure in the Reserve Bank's directive on disclosure should be included in disclosure on individual bank websites and the website of ABIF.*

Consumers should also know what information it is that banks must tell them about.



Recommendation 10: *The Reserve Bank's directive on disclosure should be displayed at all bank branches and on the websites of the RBF, ABIF and all banks.*

Savings Accounts

If a consumer has a savings account used only for savings, they can supposedly earn a little bit from interest, but if inflation (the real value of money) is taken into account, they are really worse off by leaving their money in the bank. Meanwhile, the bank can make real profits from lending the money for a much higher rate of interest.

When a consumer uses a savings account for transactions, taking money out (for which fees are often charged), even if the savings grow it will actually cost money to keep the account. This discourages people from saving.

Recommendations 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.*

Money Transfers

There are different charges for transferring money and the least expensive used by banks in Fiji is a system called FijiClear, but many consumers don't know about the different systems and charges. The responsibility for educating consumers about these things should not fall only on the banks, but the RBF and the Consumer Council should also be involved. But banks should not shy away from contribut-

ing to paying for this kind of consumer education. The RBF could also produce a regular newsletter to inform people.

Recommendation 12: *The Reserve Bank of Fiji should publish a periodical magazine to educate consumers about financial products and services.*

Access to Credit

The Consumer Credit Act 1999 provides for a Consumer Credit Office to look after the interests of consumers and investigate complaints, but it has not yet been set up. Nor are many people aware of the Act and how it can protect consumers.

Loans

Although the way loans are approved by different banks is generally similar, the fees and the way these fees are charged are different and makes it impossible for an ordinary consumer to compare the different loan deals from the information brochures of these banks because of the different terms and conditions they offer. This defeats the reason for making it compulsory



for banks to give information on their fees and charges so consumers can compare them, which will make the banks more competitive.

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

Burden on Borrowers

Borrowers have to pay certain other fees apart from bank fees. In regards to other non-bank services, the arrangement used by banks stops customers from using their own valuers or solicitors. Customers can't negotiate the charges, unlike in places such as Australia where banks also pay some of the fees.

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

It is difficult and costly for consumers to switch from one bank to another. If they could more easily switch banks it would make banks more competitive because they would want to offer a better deal to keep existing customers and attract new ones.

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

Time taken for loan approval

The usual amount of time taken for loan approvals for home and farming loans is too long. Some borrow-

Penalty fees for late payment on credit cards, dishonoured cheques and overdrawn accounts are far too high and unreasonable, especially compared to Australian banks, that had to drop these sorts of fees in 2009.

ANZ Credit Card	
GOLD MASTERCARD	
→ Replacement Card/PIN Fee	\$15.00
→ Transaction Verification Fee	\$10.00
→ Duplicate Statement Fee	\$10.00
→ Dishonoured Cheque Fee	\$7.50
→ Late Payment Fee	\$20.00

WESTPAC AMERICAN EXPRESS® CREDIT CARDS	
→ Transaction Verification Fee	\$10.00
→ Duplicate Statement (per page)	\$10.00
→ Dishonoured payment/Cheque	\$10.00
→ Lost/Stolen Card - Replacement (Local)	\$10.00
→ Replacement PIN	\$5.00
→ Emergency Card Replacement (overseas) (temporary card lasts 2 months)	Free
→ Overlimit Fee	\$15.00
→ Late Payment Fee	\$15.00

COLONIAL MASTERCARD	
Joining Fee	
Regular Card	\$48.00
Gold Card	\$95.00
Annual Fee	
Regular Card	\$48.00 per annum
Gold Card	\$95.00 per annum
Interest Free Days	Up to 55 days interest free days on purchases only
(Gold Card and Regular Card)	
→ Over Limit Fee	\$25.00 each time the balance exceeds the credit limit
	\$25.00
→ Late Payment Fee	(Is charged to credit card account if the minimum monthly repayment is not paid by the due date as shown on credit card statement)
	\$7.00 per voucher
	\$2.00 per page
→ Copy of Sales Voucher	
→ Statement Copy Fee	
→ Dishonoured Payment Fee	\$10.00 per item
→ Replacement Card Fee	\$20.00 per replacement
Balance Enquiry Fee	
Balance Enquiry at CNB "Easy Bank" ATM (CNB card at CNB ATM)	Free
Cash Advance Fee	
Cash Advance at CNB "Easy Bank" ATM (CNB card at CNB ATM)	Free
Cash Advance at other Bank ATM (Local or International)	\$5.00 per transaction

ers have to wait longer than others, showing that the bank could approve the loans more quickly if it wanted to. Also, women seem to get their loans approved faster than men. All borrowers should have the same loan approval or rejection times.

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

Fees and charges for loan approvals

The charges appear to be random, not based on anything in particular, and should have proper reasons for how they are set. This also shows a lack of competition between banks.

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

Penalty Fees

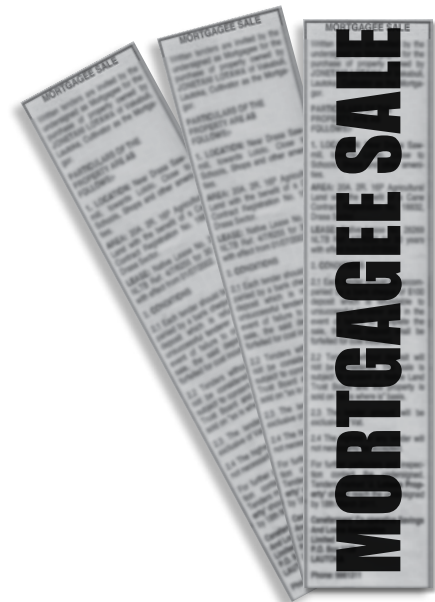
Fees charged by banks as penalties for late payment on credit cards, dishonoured cheques and overdrawn accounts are far too high and unreasonable, especially compared to Australian banks, which had to drop these fees in 2009. Yet the ABIF maintains that the types of fees charged in Fiji are normal throughout the world. Consumers are also questioning fees charged for using ATMs with a different bank's card.

Mortgagee Sales

Banks are too harsh with borrowers who have difficulty paying their mort-

gage (loan for which the customer uses property as a guarantee to repay). The system of banks selling customers' properties to get the money owed to them needs correcting to protect consumers from unfair sales and methods used by banks. In one case a consumer, who was unable to keep his repayments when his business faced difficulties, had all his three properties sold for much less than they were worth. The buyers included an employee from another bank and a law firm that had first represented the man. The debt owed by the consumer could have been easily recovered through the sale of just one of the three properties.

“ The system of banks selling their properties to get the money owed to them needs correcting to protect consumers. ”



Consumer Complaints

Consumers can complain to their own banks and if they are not satisfied they can complain to the RBF or Consumer Council. The number of complaints received by the Consumer Council against banks is just 'the tip of the iceberg', because many consumers either do not lodge complaints or may have complained directly to the banks. The RBF has set up the Financial Systems Development and Compliance Group in 2009 to handle complaints. The type of complaints received are mostly about consumer worries for the security of their deposits, their private details given out to others (Data Bureau), and not being notified about terms and conditions of the bank products and services. For example banks do not always notify customers of changes to terms and conditions of fees and charges.

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

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.

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.



“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.”

“Some customers have complained about not being told enough about what sort of terms and conditions apply to their contracts.”

Bank Statements

All customers have the right to receive a statement about their account regularly, but about a quarter of people asked about this say they don't. Others have complained of errors in the statements.

Easy access to bank facilities

Customers pay for bank services at prices set by the banks, but they also have other costs, including time wasted waiting at banks, discomfort in long queues, travelling long distances to get to banks or to find an ATM, and the lack of EFTPOS facilities that allow customers to pay in shops with their bank cards. Those who use ATMs should be able to find one that works properly without any hassle.

Customer Mobility

Some customers have complained about difficulty opening an account, and not being advised properly about what kind of account would be best for them. Others had difficulty closing an account.

Borrowing

Complaints about loans involved mainly unnecessary delays in approving and settling loans, which cost the consumers money in various ways.

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.

Both the RBF and Association of Banks in Fiji find it important for complaints to be sorted out quickly and properly and have got policies to do this. Equally important is that by studying complaints, banks can improve their systems. Publishing information about customer complaints would keep banks on their toes. If banks have to deal quickly with complaints, and give compensation to customers in some cases, banks will try to give people better and fairer service.

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Summary of Findings and Recommendations

Findings

Banks in Fiji have given their share to the country's economic growth and have introduced modern services and products. Recently they have worked with the RBF on microfinance (usually small loans) and ways of making banking services available to everyone. The RBF has shown itself willing to deal with consumers' concerns, and the government has also played its part through new laws, such as the Consumer Credit Act 1999. But some aspects of the banking business need major improvements.

This study and report done for the Consumer Council finds that:

1. Almost all of the findings of the 1999 Committee of Inquiry into Financial Services in Fiji about the banks are still true today, and more needs to be done to apply 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 what the major banks in Australia make, while the income from the interest they charge is 11 times more. Income generated from fees and commissions is up to 10 times more, but bad and doubtful debts (which could be losses to banks) are less in Fiji.
4. The interest rate spread is higher than in Australia, New Zealand and immediate island neighbours.
5. The penalty fees on drawing more than the allowed overdraft and for dishonoured cheques is exorbitantly high.
6. The RBF has a set of guidelines on what banks have to tell customers about fees and charges, but most consumers don't know about it. Some bank branches do not provide or display their information brochures on fees and charges as required.
7. The ABIF has made an attempt to compare information on fees and charges but gaps in the way the information is given by different banks make it impossible for ordinary consumers to make meaningful comparisons.
8. An average customer who wants to have a single account to both save and make transactions (put money in

- and out), has difficulties. 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. Consumers who want to transfer money within Fiji using banks have to pay high costs if they use facilities other than FijiClear.
 10. Many consumers don't know about the Consumer Credit Act of 1999 and the Consumer Credit Office proposed in the Act has not yet been established.
 11. The fees charged for loan approval and establishment is high and not logical and varies between banks.
 12. Using the fee information brochures, it is difficult to compare such products as home loans from different banks.
 13. The time taken for loan approvals varies between and within banks. Where time guides exist, they are seldom followed.
 14. Customers wishing to switch banks to take advantage of better products from other banks face costs and organising difficulties.
 15. Complaints from customers about banking services are about customer service, fees and charges, lending contracts and other miscellaneous items.
 16. Thirteen percent of the customers surveyed had complaints with their banks. Most of these complaints were concerned with poor service, high fees and charges, long waiting times, and not getting bank statements. Most 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 look for information about products and services from their bank are dissatisfied with the sort of information they get and how long it takes to get it.
 19. A large percentage of customers do not receive bank statements regularly and many have had errors on their statements.
 20. The cost of visiting a bank branch, especially for people in rural areas, is high.

21. Waiting times and 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 number of people find ATMs aren't working many times.
23. Some customers are not advised about the best account to suit their needs when they open one.
24. Many customers have difficulties when they wish to open an account.
25. Banks make it difficult to close an account.
26. The Reserve Bank of Fiji's policy guideline on complaints management is a good first attempt at improving banking services for the benefit of consumers but needs improvements 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 1999. 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.