



Survey on Retail Banking Charges in The Bahamas *

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SURVEY ON RETAIL BANKING CHARGES IN THE BAHAMAS¹

INTRODUCTION

In April 2004, the Central Bank conducted a survey of domestic banks to ascertain the level and variance of charges for retail banking services. The exercise forms part of an ongoing effort to obtain more disaggregated data on the domestic banking sector, and covered the operations of the eight commercial banks and one savings and loans institution. Since fees on fiduciary services were not considered, local trust companies were not asked to participate in the exercise.

The results indicate that, for most services, the important charges, particularly for credit facilities, show little variance among financial institutions. Although the net interest margin (interest charged on loans less interest paid on deposits) provides the bulk of domestic banks' total revenues, fee income increased in importance since 2000, as slowed credit growth curtailed net interest gains. Important costs not attributed to banks', however, are the Government's stamp taxes on various financial transactions and instruments.

It should be noted that the Central Bank of The Bahamas does not regulate bank charges. Moreover, the Clearing Banks Association, to which local banks belong, does not determine or influence charges, although the Association's Code of Conduct obliges banks to inform customers of product charges prior to arranging services.

METHODOLOGY

The survey design was finalized following a preliminary study of fee brochures published by local banks. Institutions were subsequently requested to provide fee information on the full range of customer services, including deposits, loans, and foreign exchange facilities. In this respect, the survey also sought to ascertain whether charges varied according to the value and volume of transactions undertaken. Where this was determined to be the case, the selective analysis in this paper focuses on the average fee which would have applied to a typical transaction. In instances where banks provided a range of values for fees, the mid-point was used for comparisons. All averages are arithmetic, based on the number of relevant banks for the respective facility analysed.

¹ This report is a summary of a more extensive ongoing work by Sherry Sands and Jamell Bodie.

Banks reported data on a variety of premium and regular accounts and on both business and non-business products. In the case of deposits, the important distinctions between regular and premium accounts are often the minimum deposit amounts required to maintain the facilities, and the rate of interest paid on balances. For credit card facilities, the distinction is usually made in terms of maximum credit lines that can be extended, the cost of the annual membership and the interest rate charged on outstanding balances.

Tables 1 - 4 summarize selected results from the survey.

Table 1
Selected Retail Banking Fees: Deposit Products

	Average	Max	Min
I. Regular Personal Savings Deposits			
i. Withdrawal Charge / Transaction	\$0.90	\$2.00	\$0.00
ii. Minimal Account Balance	\$66.67	\$100.00	\$50.00
iii. Dormant Act. Charge (Qtrly)	\$5.21	\$6.25	\$3.00
II. Regular Personal Chequing			
i. Minimum Monthly Fee	\$6.07	\$8.00	\$5.00
ii. Drawing/Cashing Fee (per cheque)	\$0.29	\$0.55	\$0.00
iii. Dishonoured Cheque Charge	\$21.25	\$25.00	\$10.00
iv. Stop Payment Order	\$10.63	\$15.00	\$10.00
v. Cheque Certification	\$7.00	\$10.00	\$5.00
vi. Cheque Printing (per 100)	\$20.27	\$39.85	\$10.00
III. Business Checking Accounts			
i. Minimum Monthly Fee	\$8.67	\$10.00	\$7.00
ii. Drawing/Cashing Fee (per cheque)	\$0.45	\$0.65	\$0.00
iii. Dishonoured Cheque Charge	\$21.25	\$25.00	\$10.00
iv. Stop Payment Order	\$10.63	\$15.00	\$10.00
v. Cheque Certification	\$7.00	\$10.00	\$5.00
vi. Cheque Printing (per 100)	\$26.47	\$39.85	\$10.00
IV. Services Related to Deposit Accounts			
(a) Statement Printouts	\$4.38	\$5.00	\$2.00
(b) Interim Statements Requested	\$4.75	\$5.00	\$3.00
(c) Photocopies			
i. First Page	\$3.00	\$5.00	\$1.00
ii. Additional Pages	\$0.93	\$1.00	\$0.50

Source: Central Bank of The Bahamas' Survey of Retail Bank Charges

ANALYSIS OF THE RESULTS

Deposits and Related Facilities

It should be noted that for deposit products, some maintenance and transactions fees are only levied when balances fall below a stipulated minimum monthly level. With the exception of one institution, which specializes in wholesale banking, all others surveyed provide savings deposit facilities. Two of the other eight banks provide this service at, no cost for withdrawals, beyond the applicable Government stamp tax. Where facilities become dormant, the quarterly maintenance fee can range between \$3 and \$6 (see Table 1).

On personal checking facilities, which attract a range of fees, the average minimum monthly fee to maintain such accounts is just over \$6, with an upper bound of \$8. For three of the relevant eight banks, no fee is levied for check cashing; however, the rate could be as high as 55¢ at some institutions. A more uniformed practice is the assessing of charges for dishonoured checks and stop payment orders which, on a per transactions basis, averaged \$21.25 and \$10.63 respectively, with more convergence observed for stop payment fees. Costs for check certification averaged \$7, ranging between \$5 and \$10.

In most instances, no distinction was made between costs levied on premium checking services and regular accounts, where differences tended to be explained by the higher required minimum monthly balance and the payment of interest on the former. Also, the distribution of transaction charges for most business checking facilities was similar to those on personal accounts, except that business facilities attracted a higher range of monthly maintenance fees.

Electronic Banking

All institutions surveyed offer some form of automated and electronic banking services, mainly automated banking machines (ABM), with a growing number providing access to remote internet and telephone banking. Apart from monthly fixed costs for personal internet and telephone banking, which were as high as \$5, two institutions with these services also imposed charges for the convenience of paying utility bills and transferring of balances between accounts (see Table 2). Two of the eight banks did not levy a charge to customers for local ABM usage, but assessed non-customers \$1 and \$2 respectively, and were the only two institutions permitting use of the ABM cards outside The Bahamas, for which only one bank had a set fee.

Table 2
Selected Fees: Electronic Banking

	Average	Max	Min
I. Online / Internet Banking			
(a) Monthly Access Fees			
i. Personal Banking	\$3.25	\$5.00	\$0.00
ii. Business Accounts			
Up to 5 Accounts	\$6.50	\$10.00	\$3.00
6 - 10 Accounts	\$9.00	\$15.00	\$3.00
Over 10 Accounts	\$20.00	\$20.00	\$20.00
(b) Transactions Charges			
i. Bill Payment (each)	\$1.17	\$3.00	\$0.00
ii. Loan Payment	\$0.00	n/a	n/a
iii. Transfers Between Accounts	\$1.20	\$5.00	\$0.00
iv. Balance / Statement Inquiry	\$1.00	\$5.00	\$0.00
II. ATM/ABM Use			
(a) Withdrawals Outside The Bahamas	\$3.00	n/a	n/a
(b) Local Withdrawals			
i. Customer	\$0.57	\$1.00	\$0.00
ii. Non-Customer	\$1.50	\$2.00	\$1.00
(c) Mini Statements	\$0.75	\$1.00	\$0.50

Source: Central Bank of The Bahamas' Survey of Retail Bank Charges

Credit Facilities

The broad category of credit products covered in the sample included credit cards, commercial and residential mortgages, overdraft facilities and personal facilities for automobile and land purchases (see Table 3).

Only two of the local banks did not offer or were not affiliated with a banking group that provided Bahamian dollar credit card products. Most banks offered a combination of regular and premium account under both of the recognized international brands (MasterCard and Visa). The annual membership fee for regular accounts, which showed the least amount of variance, was most commonly established at \$35, as opposed to a less uniform, higher range for premium cards of \$60 - \$75. The annual interest rate on outstanding balances on regular cards was uniformly 18.00%, with a similar rate offered on most premium cards, although at least one bank offered a premium rate of 15.00%. Credit card usage outside The Bahamas typically attracted the conventional conversion rate for foreign exchange (1.0125%). However, more variance existed for the over-limit fee (\$10 - \$30), replacement cards charge (\$10 - \$25) and late payment fees (\$10 - \$30).

Table 3
Selected Fees: Credit Products

	Average	Max	Min
I. (a) Regular Personal Credit Cards			
i. Annual (Membership) Fee	\$35.00	\$35.00	\$35.00
ii. Cash Advance Fee (per \$1000)	\$22.50	\$35.00	\$15.00
iii. ABM/ATM Use Charge (each)	\$0.33	\$1.00	\$0.00
iv. Dishonoured Cheque Charge	\$17.50	\$25.00	\$5.00
v. Foreign Exchange Commission	1.13%	1.50%	1.01%
vi. Late Payment Fee	\$17.50	\$30.00	\$10.00
vii. Over-limit Fee	\$17.50	\$30.00	\$10.00
viii. Replacement Card Fee	\$21.25	\$25.00	\$20.00
ix. Additional Card (s) (each)	\$17.50	\$25.00	\$10.00
x. Copy of Transaction/Charge Slip	\$5.00	\$5.00	\$5.00
xi. Statement Copy Fee	\$5.00	\$5.00	\$5.00
xii. PIN (password) Change Fee	\$3.75	\$15.00	\$0.00
xiii. Interest Rate (per annum)	18.00%	18.00%	18.00%
(b) Premium Personal Credit Cards			
i. Annual (Membership) Fee	\$63.75	\$75.00	\$60.00
ii. Replacement Card Fee	\$20.00	\$25.00	\$15.00
iii. Additional Card (s) (each)	\$25.00	\$30.00	\$20.00
iv. Interest Rate (per annum)	16.75%	18.00%	15.00%

The range of costs applied on other credit products include Government stamp duties (discussed separately later), legal fees, late payment penalties and loan refinancing fees. The most common rate assessed for legal fees on personal and commercial loans was 2.50% of the loan value. In most cases, a flat late payment fee was levied, which for personal loans, ranged between \$5 and \$100 but with most assessments in the \$20 range. Other banks established a lower bound and levied a penalty based on a percentage of the monthly loan payment amount. Only one bank charged a higher differential for late payments on commercial loans, which resulted in minimum penalty in the sector that was between \$20 and \$50. For large balances under amortization on both commercial and personal loans it was also possible for charges to exceed these ranges, with three banks also applying the penalty as a percentage (1.00% - 3.00%) of the monthly payment that was due.

Most banks charged a flat fee to process loan refinancing and add-on (increase in the principal) fees of either \$50 or \$100. However, these fees were either not always applicable for all loans, or the services not uniformly provided by all banks. An additional cost in the case of mortgages was the commitment fee, which averaged 1.29% and ranged between 1.00% and 2.00%.

Table 3 (Cont'd)
Selected Fees: Credit Products

	Average	Max	Min
II. Personal Loans			
(a) Private Vehicles			
i. Legal Fees	2.13%	2.50%	1.00%
ii. Early Repayment Charges	\$17.86	\$100.00	\$0.00
iii. Late Payment Fee	\$35.71	\$100.00	\$5.00
iv. Loan Refinancing Fee	\$66.67	\$100.00	\$50.00
v. Add-On Fee	\$75.00	\$100.00	\$50.00
(b) Land Purchases			
i. Legal Fees	2.54%	2.75%	2.50%
ii. Early Repayment Charges	\$25.00	\$100.00	\$0.00
iii. Late Payment Fee	\$20.83	\$35.00	\$5.00
iv. Loan Refinancing Fee	\$66.67	\$100.00	\$50.00
v. Add-On Fee	\$75.00	\$100.00	\$50.00
(c) Other Consumer Loans			
i. Legal Fees	2.58%	2.75%	2.50%
ii. Early Repayment Charges	\$17.14	\$100.00	\$0.00
iii. Late Payment Fee	\$25.83	\$50.00	\$5.00
iv. Loan Refinancing Fee	\$66.67	\$100.00	\$50.00
v. Add-On Fee	\$75.00	\$100.00	\$50.00
(d) Residential Mortgages			
i. Legal Fees	1.32%	2.0%	1.0%
ii. Early Repayment Charges	2.50%	2.5%	2.5%
iii. Late Payment Fee	\$25.00	\$50.00	\$5.00
iv. Loan Refinancing Fee	\$0.01	\$0.02	\$0.01
v. Add-On Fee	n/a	n/a	n/a
(e) Personal Overdrafts			
i. Overdraft Fee	1.0%	1.5%	0.5%
ii. Penalty Interest (%)	18.0%	18.0%	18.0%
iii. Commitment Fee	1.2%	1.5%	1.0%
iv. Over-limit Fee	\$15.50	\$30.00	\$7.00
II. Commercial Loans			
(a) Commercial Mortgages			
i. Commitment Fees	1.5%	2.0%	1.0%
ii. Legal Fees	2.5%	2.5%	2.5%
iii. Late Payment Fee	\$29.17	\$50.00	\$20.00
iv. Loan Refinancing Fee	1.2%	2.0%	0.6%
v. Add-On Fee	n/a	n/a	n/a
(b) Commercial Overdrafts			
i. Overdraft fee	1.44%	2.00%	1.00%
ii. Penalty Interest Rate (%)	18.0%	18.0%	18.0%
iii. Commitment fees	1.85%	2.00%	1.50%
iv. Over-limit Fees	\$5.60	\$15.00	\$0.01
(c) Other Commercial Loans			
i. Commitment Fees	1.54%	2.00%	1.00%
ii. Legal Fees	2.50%	2.50%	2.50%
iii. Late Payment Fee	\$31.00	\$50.00	\$20.00
iv. Loan Refinancing Fee	1.4%	2.0%	1.0%
v. Add-On Fee	1.5%	1.5%	1.5%

Source: Central Bank of The Bahamas' Survey of Retail Bank Charges

Four of the surveyed financial institutions imposed some disincentive for early loan repayment, based on a variety of fixed or variable assessments determined as a fraction of the principal in question. Where applicable, fixed charges were more widespread for consumer loans, ranging between \$25 and \$100. For residential and commercial mortgages, three of these institutions set this at equivalent to three months interest on the repaid principal.

Table 4
Selected Fees: Other Banking Products

	Average	Max	Min
I. Standing Payment Orders			
(a) Internal Payments	\$1.00	\$2.00	\$0.00
(b) Inter-Bank Payments or Transfers	\$10.67	\$15.00	\$6.00
II. Letters of Credit			
	\$44.00	\$100.00	\$15.00
III. Bank / Credit References			
	\$15.63	\$20.00	\$15.00
IV. Auditor's Confirmation Letter			
	\$23.13	\$30.00	\$15.00
V. Safety Deposit Boxes (Annual Rental)			
(a) Small	\$56.00	\$65.00	\$50.00
(b) Medium	\$92.50	\$145.00	\$45.00
VI. Document Search / Retrieval			
(a) Vouchers (each)	\$3.40	\$5.00	\$3.00
(b) Vouchers (per hour)	\$28.57	\$30.00	\$20.00
(c) Records (per hour)	\$27.86	\$30.00	\$15.00
(d) Accounts (each)	\$19.38	\$30.00	\$5.00
VII. Foreign Exchange and Wire Transfers			
(a) Wire Transfers			
i. Local Currency (each)	\$18.60	\$65.00	\$6.00
ii. Foreign Currency (\$1,000 Example)	\$28.50	\$65.00	\$8.00
(b) Foreign Currency Drafts			
(Commission & Charges on \$1,000)	\$24.27	\$50.00	\$12.63

Source: Central Bank of The Bahamas' Survey of Retail Bank Charges

Other Services

Among other banking services, costs were nearly uniform for obtaining bank/credit references (\$15), but more varied for inter-bank standing payment orders (\$6 - \$15), letters of credit (\$15 - \$100) and safety deposit rentals. Considerable uniformity also existed for various document search and retrieval services (see Table 4).

Some notable cost variance was observed across banks foreign exchange and wire transfer services. In addition to the standard conversion premium of 1.0125% on non-cash instrument, banks also attached other fixed or variable commissions, resulting in an average cost for a \$1,000 foreign currency draft of about \$24.87, and a range of \$12.60 - \$50.00. The cost of overseas wire transmissions varied between \$8 and \$65 for a \$1,000 transaction. Domestic wire transfers attracted costs between \$6 and \$10 but, in one case, as much as \$65.

SIGNIFICANCE OF BANK CHARGES

While fees defray the administrative costs of providing bank services, intermediary activities still underpin the bulk of the net returns earned by banks in The Bahamas (see Table 5). Just over 75% of domestic income is derived from the net interest margin, having decreased temporarily, however, given the slowdown in credit growth since 2001. The other two sources are nevertheless commission & foreign exchange income and fee income (mostly from loans). Commission and foreign exchange income has marginally decreased in importance since 2000, as growth in foreign exchange transactions softened during this period. Conversely, dependence on fee income increased steadily since 2000, from 16.1% to 20.4% of total income. This corresponded to average annual growth in fee income of 9.0%, while commission & foreign exchange income and net interest margin decreased by an average 0.9% and 1.0%, respectively. Over this period, banks' total expenses rose an average 6.7% each year. Hence, fee income provided an important support to the net income of banks.

Table 5
Distribution of Domestic Banks' Income and Fees

	Avg. Growth				
	2000	2001	2002	2003	2000-2003
1. Income Sources					
Net Interest Margin	77.3%	78.4%	75.7%	73.2%	-1.0%
Commission & Forex Income	6.5%	6.4%	6.5%	6.3%	-0.2%
Fee Income	16.1%	15.2%	17.8%	19.4%	7.2%
Dividend Income	0.0%	0.1%	0.0%	1.1%	n.m.
Total	100.0%	100.0%	100.0%	100.0%	0.8%
2. Profitability (Ratios to Average Assets)					
Total Net Interest & Other	7.87%	7.75%	6.60%	6.64%	0.8%
Expenses	4.42%	4.44%	3.96%	4.43%	6.7%
Net Income (ROA)	3.45%	3.31%	2.64%	2.14%	-9.0%

Source: The Central Bank of the Bahamas

n.m = Not Meaningful.

Table 6
Selected Government Taxes on Financial & Commercial Transactions

Transaction	Tax Rate	
	Fixed	Variable
a) Deeds of conveyance, assignment or transfer of realty or personalty (chattels)		
up to \$20,000	n/a	2.0%
\$20,001 - \$50,000	n/a	4.0%
\$50,001- \$100,000	n/a	6.0%
\$100,000 - \$250,000	n/a	8.0%
Over \$250,001	n/a	10.0%
b) Mortgage or transfer of realty (per \$100)	n/a	1.0%
c) Re-conveyance of realty to borrower or mortgagor (per \$100)	n/a	0.1%
d) Endorsement of mortgage (per \$100)	n/a	0.1%
e) Receipt for money for a sum exceeding \$5	\$0.25	n/a
f) Foreign exchange (funds remitted or transferred out of the Bahamas): Every bill of exchange, draft, money order, mail transfer of money , traveler's cheque or letter of credit	\$0.25	1.5%
g) Every Bill of exchange, bank receipt for deposit withdrawal, cheque or order drawn issued, originating paid or negotiated in The Bahamas	\$0.25	n/a

Source: The Stamp Act (Chapter 370)

SIGNIFICANCE OF GOVERNMENT STAMP TAXES

Government stamp taxes apply on most financial transactions in The Bahamas (see Table 6). In particular, all checking and savings accounts withdrawals are levied a 25¢ charge. The stamp tax on purchases of foreign currency drafts, money transfers and travelers checks is set at 1.50% of the transactions value plus 25¢. Along with bank specific charges, these typically result in a total cost for such facilities of between 2.50% and 2.75%. Stamp taxes are the highest on conveyances associated with realty transactions, ranging between 2.0% and 10.0%², and an additional 1.00% is applicable for the mortgage instrument.

CONCLUSION

This study's findings suggest significant similarities between fees charged for most banking product and services in The Bahamas. This is understandable given that domestic retail banking

² In 2002 the stamp tax was eliminated from for first time home purchases.

services are provided in an oligopolistic setting and there is little incentive for financial institutions to deviate from the mainstream in the setting of product charges. While it is useful to compare the fees for banking products in The Bahamas with those for equivalent products in other countries, such comparisons should take account of structural differences or similarities in the financial systems being compared, such as the level of competition, the extent to which technology is used and economies of scale in operations. In this regard, The Bahamas' domestic financial sector has more in common with markets in the Caribbean, in many cases with branches or subsidiaries of the same foreign banks. Meanwhile, competition from, or the ability of non-bank financial institutions to provide facilities similar to banks is more restrictive in the Caribbean, than in the US or more developed markets in major industrial countries, and contributes to a higher cost of accessing services.

Over the medium-term, modernization of the domestic payments systems is expected to have some influence on the cost of some depository and payments related banking transactions. Electronic (non-cash) payments are expected to increase in importance once automated clearinghouse facilities have been established for The Bahamas, as is anticipated by the end of 2005. This should stimulate more demand for internet banking and the use of non-cash, point-of-sale technologies. The increase use of these services by businesses and households should generate greater economies of scale which influence banks' cost of providing these services.