

Banking Services in Fiji: Consumer Issues

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Abstract

This study reviews banking services in Fiji from the perspective of consumers of banking services. A comprehensive review of this industry was undertaken in 1999 through a Committee of Inquiry into Financial Services in Fiji. 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. 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.

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 examples of Australia and the United States are illustrative; a 2004 study 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 (Nicole, 2004). 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. In 2010, proceedings began where Australia's banks were challenged in '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' (12 May, 2010, the *Sydney Morning Herald*). 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 2010.

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.

Likewise, in the US, the Obama Administration introduced a financial reform Bill in 2010, aimed 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 Bureau was to provide timely and understandable information to consumers; protect consumers from unfair, deceptive or abusive acts and practices and discrimination; identify and address outdated, unnecessary and unduly burdensome regulations to reduce unwarranted regulatory burden; ensure consistent enforcement of Federal consumer financial law to promote fair competition, and ensure 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 Reserve Bank of Fiji 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 here. In fact, the earlier *Committee of Inquiry into Financial Services in Fiji* was actually a response to public outcry on consumer dissatisfaction with the banking industry.

The main findings of the Committee of relevance to consumer issues were:

- 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'.

- 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'.
- Affordability of fees and charges 'represent a substantial burden on average family in a developing economy such as Fiji'.
- Banks had not taken a sufficiently proactive approach to information provision; bank branch staff were to be available to provide advice in English, Fijian or Hindi.
- competition is 'uneven and delivered mixed results to consumers'. The two major banks (ANZ & Westpac) had the "market power to effectively increase and/or dictate the level of fees and charges." '[C]ompetitive pressures...are very weak...'
- 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'.
- There was an 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.
- There was a decline in geographical coverage of banks in Fiji (199: 183-187).

The present study finds that all these 1999 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 1999 Committee were:

- Government should immediately establish a Banking Commission, and a 'Banking Commissioner' should monitor the industry.
- Banks review their withdrawal policies in agencies, branches in small towns and rural areas, and banks 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.
- "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.

- The Government ought to encourage more players to come into the banking industry and increase competition.
- There needed to be 'localisation' through Government, making it a requirement for foreign banks to operate in Fiji as subsidiaries and not branches, i.e., foreign banks incorporate under Fiji laws, listing on the Suva Stock Exchange [now South Pacific Stock Exchange], and offering 49% of share on stock exchange to local residents

The matter of high fees and charges and commissions, relates to disclosures as well. The 1999 Report recommended 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. It further recommended that in situations where fees or charges were not specifically disclosed at the outset, the banks can not be at liberty to impose such fees or charges, and 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 in clear and precise terms that are not likely to mislead consumers.

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

The present study finds that the *Disclosure Guideline* is not effective for two reasons. First, some bank branches are still not serious about displaying the disclosure brochures on their premises. Second, the way the disclosures are done, defeat the main purpose of the disclosure, which is for consumers to compare products from different banks; none of the disclosure brochures allow such comparisons to be made. The regulator has consistently failed in monitoring the implementation of the guideline. Thus complaints regarding banking services keep flowing, even in a society where people by nature are not normally fussy or litigious.

In view of the continuing issues with banking services, in 2009 the Consumer Council of Fiji commissioned an independent study on consumer protection aspects of banking services in Fiji. This paper presents a

summary of the study.¹

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 dead-weight 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, with one bank holding a dominant share of banking business. This reduces options available for customers to choose products and services. It 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. The view of the Association of Banks in Fiji (ABIF) is 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'. Thus, if a consumer were to take a car loan, for example, the products offered by different banks are so different that the consumer would effectively be comparing apples with oranges.

Second, a degree of product differentiation exists in the banking industry. For example, savings accounts within banks and between banks differ. This creates a movement away from competition. The ABIF 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 two banks, she may find the interest return at one bank higher than that at another. 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. It is also not mandatory for banks to disclose all fees and charges. Clause 4.3 of the *Disclosure Guideline* 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 has also questioned the observation on 'fine prints'; it asked 'What "fine print" is the report referring to...?'. The response is simple: fine prints are literally prints so fine that people can not read them without stress. There is no requirement in the Guideline on the font requirement for disclosures; a bank can, thus, provide disclosures in fonts as low as 5 or 6.

Fourth, and the most significant factor that limits competition among banks is prudential regulation by the Central Bank.

Prudential Regulation of Banks

Consumers of financial services, like insurance and banking, face a number of risks.² Prudential risk is one of the many risks consumers of banking services face.

In almost all countries, Central Banks are charged with ensuring a stable and solvent financial system. Two of the objectives of the Reserve Bank of Fiji are to promote monetary stability, and 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. Unlike other businesses, banking business is conducted under a special legislation - the *Banking Act* - which comes under the RBF portfolio enabled by

¹ Drafts of the report were presented at a number of stakeholder meetings, including circulation to stakeholders, and closed door consultations. Comprehensive comments were received from the Reserve Bank of Fiji 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 Consumer Council of Fiji. The responsibility and liability for the any error, omission and content lie solely with the author.

² For a discussion of these risks see Chand and Dulare (2008: 14-5).

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 as well, where banks have failed despite the existence of prudential regulations. Of course, the risks of bank failure would be far greater without prudential regulations.

A plethora of regulations aimed at keeping the banking sector uncompetitive still exists. These restrict entry into the banking business. There are a number of reasons why these regulations are imposed. First, prudential regulations help maintain the confidence of people in banks, and, therefore, in the currency. One of the instruments used to ensure that people have confidence in banks is the requirement on some sort of a deposit insurance regulations or guarantee of deposits by governments or central banks³.

This '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 case where taxpayers forked out over \$200 million to cover for depositors assets. 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. The RBF disputes the analogy of a peanut seller. But facts remain. It is also a well established theory (of second best) that where distortions are allowed to fester or distortions are deliberately encouraged, then welfare can only be optimised through regulatory distortions.

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 could bail it out. There, however is no legislative requirement on this

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 to become unstable, the consumers of financial products would not be the only party affected; consumers of all products and services would suffer.

It is, contrary to accepted neo-classical wisdom, a fact that 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 these agencies need to first and foremost understand that 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. The agencies in Fiji, led by the RBF, however, neither recognise this, nor are they prepared to examine this matter, preferring to go by its 'views, as the RBF commented: 'In our view, prudential regulation is not the proximate cause for higher profits and lower range, or substandard services.' A fur-

³ It ought to be noted that 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, or even within normal business environment as the Government did in the case of the collapsing National Bank of Fiji.

ther assertion by the RBF strengthens this point: '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'. In contrast, the AIBF accepts that the cost of complying with prudential regulations is a factor in explaining the high interest rates in Fiji.

Complaints and Dispute Resolution

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 cannot 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.

In April 2009, the Reserve Bank established a *Financial Systems Development and Compliance Unit*, with the core objective of handling complaints raised by customers about financial institutions that the Reserve Bank regulates. In pursuing this core function, the RBF issued a *Policy Guideline on Complaints Management* (RBF Supervision Policy No. 13) in December 2009.

There is no international benchmark for complaints management to ensure consumer protection across the financial sector at the moment. The World Bank's Sue Rutledge recommends the following in relation to complaints and dispute resolution:

- the redress mechanism should be 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 (2010: 4).

We can, thus, analyse the RBF's *Policy Guideline on Complaints Management* against the above.

Section 1.2 of the 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.

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. Under this, banks do not 'have to' but only 'need to try to' resolve the complaints within 21 working days. And consumers need to wait while the banks try to resolve the disputes. There is no requirement on strict evidence of what a bank did specifically that amounts to 'trying' to resolve the case over 21 days.⁴

While it is mandatory for banks to clearly state the reasons if com-

⁴ 21 working days is an odd period - its one month and 1 day. It seems that from an original of '21 days' the word 'working' was inserted in subsequent revisions, without considering absurd outcome.

plaints are not resolved, to provide complainants with internal and external review options if the complainant is dissatisfied with the outcome of the complaint, the long period of over 1 month to be told that the complaint can not be resolved can potentially bring irreparable damage to consumers, particularly if their welfare depends on a successful resolution of the complaint. The policy Guideline does not mention any financial compensation for consumers with successful complaints. Consumers incur significant costs - direct financial, time-loss (indirect financial), and psychological - in preparing and lodging complaints. Where successful, there is no redress for recovering these costs.

Designated office to handle 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, and for 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. 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. These read well and show that consumers have a redress desk with a competent and neutral officer. However, the front offices of none of the banks have a desk or office or space which consumers can identify and walk to lodge a complaint; instead they are channelled into the long queues for 'enquiries'. Nor does any bank's telephone directory list a complaints number or email address. The hurdles one has to jump to reach an office to lodge a complaint is still unaddressed; the regulatory authority has also failed to ensure that the guideline is actually followed. This is both, in breach of the intent of the Guideline, as well as frustrating to the consumer.

Advice upon opening new account, and complaints procedure

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. There is, however, 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. None of the banks have any easily available information on their websites on complaints, nor have they ready brochures for new customers on complaints management. 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'. The regulator has kept silent on the lack of any firm initiative from banks that show compliance with this requirement.

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.

Complaint Files

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, the Reserve Bank 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 Reserve Bank 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 Reserve Bank.

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 with the advisory group. The maximum that is publicly available is the publication of the number of complaints filed directly with the Reserve Bank.

The membership of the advisory group will include, among others,

NGOs, Consumer Council of Fiji, 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. Furthermore, 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. But the fact is that the advisory group established at the end of 2010 is called *Complaints Management Forum* and consists of financial institutions, the Consumer Council of Fiji, regulatory bodies like the Commerce Commission and other relevant parties, with an independent chair.

Toll-free telephone line and mode of submitting complaints

Low incomes and high cost of phone calls, particularly with long waits on automated phone answering devices in banks effectively deter consumers in seeking information if they have a complaint. In the first place, 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, and possibly reduce the number of complaints and disputes. There, however, is no requirement in the Guideline on empowering consumers with free calls on lodging complaints.

The RBF's Guideline states 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.

Statistics on consumer complaints

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 a good attempt to inform and

educate the public. Unfortunately it is available in electronic form only. The E-Guardian 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 regulator, 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 Consumer Council, 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.

Alternatives to courts

The RBF's Guideline does not create any alternative to courts. The proven alternative is a 'Financial Ombudsman'. Unfortunately, the RBF is opposed to creation of a financial ombudsman. It, thus, becomes the responsibility of the legislature to make such a provision.⁵ 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. However, there are legitimate concerns about the RBF itself acting as a Financial Ombudsman Service; the RBF's predominant objective is prudential regulation, which overrides all other considerations, including legitimate consumer complaints. Routledge

⁵ The Consumer Council is of the view the policy guideline should not be a guideline only, but become a regulation, as it is issued under Section 14(3) of the Banking Act of 1995.

writes:

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 (2010: 17).

Rutledge concedes that where the prudential regulator also takes the consumer protection role, it may find 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.

Consumer protection has more to just dealing with individual complaints; there are systemic issues that need to be addressed as well. 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 could then enforce the Consumer Credit Act and also streamline financial, administrative, and other nonfinancial issues.

The recourse mechanism for consumer complaints that is appropriate to a country depends on the level of its financial development. Fiji has only a few financial institutions; the stock market is not a vibrant one; the variety and number of financial instruments is not large, and customers of financial services deal largely with products such as deposits, loans, and insurance. But financial institutions and products that do exist are as sophisticated as in any developed country. Under these circumstances, the level of financial development in Fiji can be categorised at least at the top end of 'medium' as per Rutledge's categorisation shown in the following table. As such, if legislators decide that a financial ombudsman service created by statute is inappropriate at this stage, then it must insist on a 'financial service unit' in a 'consumer protection agency. RBF certainly is not a consumer protection agency; as such there is compelling reason for

consumer complaints to be taken out of the jurisdiction of the RBF.⁶

Finally, a fundamental gap in the Guideline is redress or compensation for those whose complaints are successful. There is neither any provision in the Guidelines on this, nor has any aggrieved party so far received any compensation for costs incurred.

The RBF Guideline, thus, is a good first step in addressing some of the concerns of consumer advocates. However, as the discussion above shows, it has some fundamental deficiencies that need to be addressed.

Table 1: Levels of Recourse/ Mechanisms Level of Development	
Level	Measure
Low	Requirement that each financial institution have a designated complaints department or officer.
Medium	Alternative dispute resolution system based on mediation services, arbitration courts or conciliation committees. A financial services unit in the consumer protection agency to deal with complaints related to financial services.
High	A financial ombudsman set up by statute or through the professional associations.

(Source: Rutledge, 2010: 30)

Major Problem Areas

Complaints about the quality of services provided by banks and interest rates and fees charged emerge often in public and private forums. 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 on mortgages, particularly where mortgaged properties are sold well below the valuation of the properties.

⁶ It should be noted that the Banking Ombudsmen's Office in India is 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, comprehensive analysis of complaints received.

Fees Charges and profits

Since the two major banks making up over 70% of the market share, have their parent companies in Australia, 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 2 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.⁷

Table 2: Net profit after tax - Australia and Fiji, 2004-2008

	Major 4 Australian Banks	ANZ Fiji	Westpac Fiji
2004	0.20%	2.52%	3.51%
2005	0.19%	2.56%	3.74%
2006	0.17%	3.24%	3.41%
2007	0.17%	2.23%	2.94%
2008	0.16%	2.75%	4.11%

(Source: APRA, RBF)

The table shows that on average over the five year period, ANZ's net after tax profit as a percentage of total assets was fifteen times more in Fiji than that of the four major banks in Australia. For Westpac, the figure was over 20 times more in Fiji. The regulator has not been able to explain the reason for this difference, but claimed in its response to the draft report on which this paper is based, that figures available to it show that for the year 2007 for the four major banks in Australia the ratio was 1.0% and for 2005 for Westpac Fiji it was 3.15%. The sources of data have not been released, but even then, the RBF's own data sources show that Fiji had a far higher profitability than Australian banks.

The ABIF, on the other hand, did not have any issue with the figures; it justified the differences in terms of 'perception of credit risk', and the cost of complying with prudential regulations. These factors do not explain the differences; if anything, the latter would have reduced the profitabilities, while the former was debunked by the 1999 Committee of Enquiry referred to earlier.

Bank profits are derived largely from interest income and fees and

commissions. Table 3 compares net interest income as a percentage of total assets for the Fiji operations of ANZ and Westpac with those of the four major banks in Australia.

Table 3: Net interest income as a percentage of total assets

	Major 4 Australia	ANZ Fiji	Westpac Fiji
2004	0.43%	4.31%	4.52%
2005	0.43%	4.13%	4.80%
2006	0.44%	4.35%	4.64%
2007	0.39%	4.49%	4.79%
2008	0.40%	5.31%	5.05%

(Source: APRA and RBF)

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 4 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.

Table 4: Net fee/commission revenue as % of total assets

	Major 4 Australia	ANZ Fiji	Westpac Fiji
2004	0.27%	2.83%	2.63%
2005	0.24%	2.66%	1.98%
2006	0.23%	2.15%	1.74%
2007	0.21%	1.91%	1.42%
2008	0.15%	1.97%	1.48%

Risk of doing Banking Business: Fiji & Australia

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

⁷ The 4 major banks in Australia are ANZ, Commonwealth Bank of Australia (CBA), National Australia Bank (NAB), and Westpac.

debts. But 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 5 shows these ratios.

Table 5 shows clearly that the risk of doing banking business in Fiji is lower compared to that in 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 Fiji has institutional support for 'riskier lending' through institutions like the Fiji Development Bank and Housing Authority. Whatever the case may be, banks 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 need for a review of these criteria, and for the regulator to pay closer attention to this matter.

As noted above, 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 ill placed. 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 Fiji's banking sector. Licensed financial institutions are required by the Banking Act to 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.

The 'perceived' risk of doing banking business in Fiji, therefore, does not justify either the excessive interest rates charged or the exorbitant fees and commissions levied.

Table 5: Net bad and doubtful debts as % of net loans and advances

Year	Bad & doubtful debts less recovered: P&L	Net loans and advances	Bad & Doubtful debts/Average Net loans
Major 4 banks Australia (\$m)			
2004	-476	848798	-0.06%
2005	-374	924253	-0.04%
2006	-551	1037094	-0.05%
2007	-710	1201462	-0.06%
2008	-4458	1490044	-0.30%
Total net bad & doubtful debts	-6569		
Average net loans & advances		1100330	
Medium term risk ratio			-0.60%
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		85505	
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 & doubtful debts	10170		
Average net loans & advances		639903	
Medium term risk ratio			1.59%

Interest rate spread

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, since financial conditions have been tight for some time now, 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 did seem to have come down to about four per cent.

Table 6 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 than those in Australia and New Zealand, as well as in island neighbours Tonga and Vanuatu, and a similar island nation in the Caribbean (Trinidad and Tobago).

Table 6: Interest rate spreads

Country	2004	2005	2006	2007
Australia	5.2%	5.4%	5.5%	3.5%
New Zealand	3.6%	3.8%	4.1%	3.9%
Fiji	6.8%	6.4%	6.6%	8.1%
Papua New Guinea	11.5%	10.6%	9.6%	8.7%
Tonga	5.7%	5.5%	5.4%	5.4%
Vanuatu	5.9%	5.5%	6.3%	6.8%
Solomon Islands	13.3%	13.1%	12.9%	13.4%
Singapore	4.9%	4.9%	4.7%	4.8%
Malaysia	3.0%	3.0%	3.3%	3.2%
Mauritius	12.9%	13.8%	11.5%	10.1%
Trinidad and Tobago	6.5%	6.9%	6.1%	5.9%

(Source: IMF)

Jayaraman & Sharma (2003) come to a similar conclusion on interest spread: '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' (2003: 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 per cent. 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). The 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.

S41 of the Reserve Bank Act provides the Reserve Bank with the

power to regulate and monitor interest rates charged by banks. These include power on setting the maximum and minimum rates of interest chargeable in respect of making of advances, whether by loans or overdrafts and investments; discounting of bills of exchange, promissory notes and other commercial or financial paper; issuing of letters of credit; and granting of acceptances and other forms of credit. It does monitor all interest rates charged. This is done through monthly gathering of statistics on interest rates on deposits (through RBF Form M-2), and rates of interest on loans and advances and leases (through RBF Form M-4).

The outcome is that the RBF has now been able to reduce the interest rate spread. However, given the exorbitant revenues earned by banks in Fiji through interest and fees and charges, what needs to be also 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, on the other hand, there is a daily penalty with a monthly limit while, Westpac Australia charges \$9 per occurrence.

Fee on \$200 overdraft excess for one day (relevant \$)

Australia		Fiji	
ANZ	Westpac	ANZ	Westpac
6	9	25	100

The ABIF defends the differentials in terms of the deterrent effects of high charges: '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 are tantamount to fee gouging. The Commerce Commission, an entity charged with examining and monitoring fairness of prices, has so far not cast its attention to this matter.

The more interesting response to the differentials and the high fees and charges comes from the regulator itself: 'We feel strongly that there is

no need for [rate fixing] 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 the regulator is of great concern for a variety of reasons. First, the RBF presumes that the banking market in Fiji is competitive, with Adam Smith's invisible hand automatically leading to just and fair prices. This is despite ample evidences that the industry is not 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, seeming unconcerned about some of the exorbitant fees and charges like dishonoured cheque fees and overdraft fees levied by banks, seems to endorse the systematic siphoning of funds from consumers to multinational financial institutions. Fourth, the RBF seems to be uncomfortable about an independent arbiter scrutinizing services that the regulator itself should be monitoring.

It is clear that so far the RBF has not understood or accepted 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 is required by law to not only be an advocate for the financial sector and banks in particular. The will to tackle exploitative, if not predatory, behaviour of large corporations is certainly lacking in the RBF.

An attempt was made to examine the basis on which different fees, charges and commissions are set by banks. Banks responded as follows:

- **Bank of Baroda:** The fees, charges and commissions are set to cover operational costs and are market driven.
- **Westpac:** Fees are set according to cost of transactions and market pricing
- **BSP:** We have different products that attract different fees, charges and commissions. We have an internal committee that reviews and recommends the appropriate fees, charges and commissions.
- **ANZ:** 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.

The only credible responses were from Baroda and Westpac, both of which referred to costs and the market. However, 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 uncompetitive, more so in Fiji than in Australia, it is highly likely that higher fees, charges and commissions are be-

ing determined as firms determine their prices in an oligopolistic market. There is a strong case to regulate this aspect of the industry.

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. Thus requires all licensed financial institutions to 'fully disclose all fees and charges on all the services and products they offer to members of the public', with such disclosure being in the form of brochures, leaflets, pamphlets or booklets and their placements in a conspicuous position in each of its offices and branches (s3.1). The policy further requires the brochures to 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 (for example, on a display board or shelf). It also requires that upon enquiry for a banking service or product, LFI personnel should encourage customers to study/examine the LFI's 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 (s3.2).

This Policy Statement goes a long way in ensuring that information is provided to consumers of banking services. It, however, is still not sufficient. The major problem is the lack of comparability of the fees/shares/commissions between banks.

A survey of banks in Nadi, Namaka, and Lautoka conducted in 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 in May 2010 in Lautoka revealed that only the BSP had the 3 brochures, while ANZ had only the brochure on international fees and charges. The non-compliance by Westpac, Baroda and ANZ has been ignored by RBF. The lack of compliance with policy directives by banks indicates the casual nature of the regard which these banks have of the RBF. That RBF is also unconcerned about this is a poor reflection on the integrity of its staff, management and board.

The RBF has powers to deal with non-compliances. If, for example,

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. Under this, if the RBF survey on compliances finds that an institution is not fully disclosing its fees and charges, it 'will first request the institution to comply with the disclosure standard within 30 days', and if the institution fails to adhere to the RBF's 'request' then the RBF could take appropriate actions under S15 of the Banking Act 1995.

Inspections are conducted only once a year. Presumably banks get to know of this before the inspection. It is suggested that the RBF should carry out compliance surveys more often than annually, as well as eliminate the grace period provision from all institutions which are older than 3 years in Fiji. It is also suggested that the penalty under s15 of the Banking Act 1995 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, charges and interest rates together with other conditions, on their websites. Information provided electronically, however, is sketchy. The following table, taken from the ABIF website, indicates the significant gaps that are present in this disclosure.

Description of Fee or Charge	ANZ	Baroda	BSP	CNB	Westpac
First inspection; percentage on Limit/Loan Approval fee (min \$50)	20%	N/A	\$50	\$40	\$50
Subsequent visits (max of 6 visits) \$/visit	\$50	N/A	\$25		\$80
Fee when 6 inspections exceeded; \$/visit	N/A	N/A	N/A	N/A	\$90
First Drawdown fee	N/A	N/A	N/A	N/A	\$30
Subsequent Drawdowns (max: 6 draws)	N/A	N/A	N/A	N/A	\$80
Fee when 6 draws exceeded; per visit	N/A	N/A	N/A	N/A	\$40
Where transport is provided by the Client;	N/A	N/A	N/A	\$40	N/A
Where transport is provided by the bank:					
- within 20km of the Bank Branch;	N/A	N/A	N/A	\$60	N/A
- outside 20km of the bank Branch.	N/A	N/A	N/A	\$60 + \$0.50/ km	N/A

Consumers of banking services also need to know what information banks are required to disclose. Consumers in Fiji, even large commercial enterprises, do not generally read RBF policy statements. It is a responsibility of a responsible regulator to provide information on the obligations

it places on entities providing services, to the public in accessible formats and locations; this may include a requirement that banks provide a declaration to all their customers on what the RBF requires them to disclose.

Savings accounts

Savings deposits comprise a significant part of total deposits of banks, estimated at 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 accounted for, 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.

Consumers can also lose values in nominal terms as the following example illustrates. Suppose a person earns \$600 per month (\$150 per week), and plans to save \$40 per month, withdrawing four times a month. If she were an ANZ customer, she could choose to have a Progress Saver Account or a Rural Savings Account or can maintain a transactions account (e.g. Rural Everyday Account) and a savings account. The following losses will be made by the customer given the above behaviour:

Account type	Loss/year
Progress Saver Account	\$174.75
Rural Savings Account	\$138.12
Rural Everyday Account for Salary and \$40/month into Progress Saver Account with no withdrawals	\$34.89

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 as well as save, incurs a net loss in all situations. In such situations, the discerning consumer would tend not to choose a savings account only, and would gain nominally if wages are received in cash and 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.

Conclusion

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 regulator 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.

This study finds that 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. It also finds that the banking sector is highly uncompetitive. 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. The interest spread is higher than in the developed neighbours and immediate island neighbours.

The study also finds that the penalty fees on overdraft excess and dishonoured cheques is exorbitantly high. The regulator 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 guide-

line. Some bank branches do not display their disclosure brochures on fees and charges as mandated by the guidelines. The ABIF has made an attempt to tabulate comparative information on fees and charges but 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.

It is further established that those wishing to transfer money within Fiji using banks also have to suffer high costs if they use facilities other than FijiClear.

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 such as Home Loans from different banks.

The study also establishes that 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.

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. 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.

There is also 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 RBF's policy guideline on complaints management is a good first attempt at improving banking services for the benefit of consumers but needs significant refinement

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