EDITORIAL

GROWTH DESPITE FEES, CORRUPTION

This year, CAPRI celebrates its 10th anniversary. This mark 10 years of providing evidence-based research and recommendations geared at informing policy decisions for advancing national interest and improving the lives of all. This quarter’s issue of the Think Tank continues to shed light on key issues of concern to Jamaicans and shares some of our findings and recommendations from our current research.

Since embarking on a 4-year IMF agreement in 2013, the Jamaican economy has seen major improvement. With determination, successive administrations have harmonised their efforts and successfully implemented a range of fiscal and structural reforms, that have produced balanced budgets. Commendably, all the targets and benchmarks were met. The new programme continues this trend, as it directs focus towards growth and social initiatives.

Our most recent report addresses the corruption issue in Jamaica. Corruption is often labelled the source of the country’s woes and there is widespread agreement that addressing corruption will address these other challenges which continually confront the country. A high perception of corruption in Jamaica exists, both locally and internationally. The country consistently performs poorly on global corruption indices; with other governance indicators citing corruption as a major problem for the country. Polls done domestically reveal similar views on corruption in the country with many locals regarding key institutions in the country as being highly corrupt. The report reviewed innovations used to strengthen integrity in countries around the world, with a view to recommending one such innovation to strengthen Jamaica’s own integrity. What innovation does the existing anti-corruption framework of Jamaica allow? We explore this issue further on page 4.

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As we grapple with the drag of corruption, there has been a recent outcry in Jamaica against the high and increasing fees and charges being levied by banks on some of their services. Jamaica’s largest bank, NCB, made a record-breaking $14.4-billion in profits last year, up 17-percent from the previous year. The second largest bank, Scotia, made $11.6 billion in net profit up to October last year – a 14% increase. With numbers like these, it’s hardly surprising that members of the public have been crying foul. This issue seeks to inform the debate, by widening the scope of analysis to look at international trends in banking fees. Are these fees too high? What can or should the regulators do about it? Where can we go from here? See page 17 for CAPRI’s analysis and recommendations.

Housing solutions also continue to be important and relevant today as it was umpteen years ago. The National Housing Trust (NHT) was established in the belief that homeownership could be facilitated by a public mortgage body that built homes and subsidised the loans to purchase them. Given the current housing conditions of the poor, an examination of the effectiveness of the Trust was long overdue. CAPRI, therefore, thought it important to investigate whether the country is getting the best value for this enormous cost. The report “An Assessment of the NHT” presents the findings to these questions, published in May 2016, sparked much public debate. A lot has happened since its launch and we provide an update on the discourse over the months which followed (See story on page 8).

As this issue offers up evidence and analysis of these national concerns, we continue to keep track of the IMF’s structural benchmarks outlined in the new IMF agreement.

All CAPRI’s reports are available online for free at capricaribbean.org/publications.

We invite you to follow us @ capricaribbean on our Facebook and Twitter accounts to keep abreast of CAPRI’s activities and upcoming events.
Corruption has long been a major concern for Jamaica and is quite often cited as the cause of much of the island’s economic and social challenges. Consequently, a high perception of corruption in Jamaica exists, both locally and internationally. The country consistently performs poorly on global corruption indices. In fact, over the last decade, the country averaged a paltry score of 35 in Transparency International’s Corruption Perception Index, where below 50 is regarded a failing score as 0 indicates extreme levels of corruption and 100 suggests a country is very clean. Other governance indicators like the Global Competitive Index have also cited corruption as a major problem for the country. Polls done domestically reveal similar views on corruption in the country with many locals regarding key institutions including the police and parliament as being highly corrupt.

The country suffers from systemic corruption as corruption is shown to exist at all levels of the society and pervades several public institutions, especially the police and customs. Notably, 12% of the Jamaican population surveyed admitted to paying a bribe to the police with an astounding 86% responding that the police was extremely corruption\(^1\). Meanwhile, in recent times, several customs employees have been brought before the court on corruption-related charges.

PERVERSIVE PERCEPTION

Jamaica’s anti-corruption framework is viewed as one of the most extensive in the region as many laws and institutions exist to address various areas of corruption. Despite an extensive framework, the perception

\(^1\) Global Corruption Barometer, 2013
remains of pervasive corruption (Jamaica ranks ninth out of the 11 English-speaking Caribbean countries on the 2016 Corruption Perception Index). This paradox suggests a need for other approaches to be used to strengthen the fight against corruption.

As an apparent need for a multifaceted approach to tackling corruption exists, the report reviewed innovations used to strengthen integrity in countries around the world. This was done with the objective to recommend one such innovation to strengthen Jamaica’s own integrity. Having assessed the corruption situation in Jamaica and examined what the existing anti-corruption framework allows, it was found that any innovation implemented in the country must address certain contextual criteria.

LACK OF DATA COLLECTION

As corruption was seen to be pervasive across all levels of society, any innovation would have to engage all members of society in order to effect real change. Additionally, during consultation with several anti-corruption institutions on the island, it was found that a major downfall of the innovations they currently use, is a lack of data collection which is necessary to assess their effectiveness. Consequently, initiatives used in Jamaica should allow for clear target-setting and quantification of results. Furthermore, given the resource constraints, and in general, the economic challenges the country faces, innovations should be cost-effective and sustainable. Notably, Jamaicans have a strong inclination to technology and innovation and thus, the initiative should also be technologically inspired as this may spur on the uptake by the public.

With those criteria in mind, the Citizen Feedback Monitoring Program (CFMP), an innovation used in Pakistan, was found to be the most suitable. The CFMP is a complaint system whereby the government is proactively reaching out to citizens after accessing public services, to seek feedback via recorded call and SMS. This program allows the government to collect highly targeted information so that key problem areas within state agencies can be appropriately and effectively addressed. The program is far-reaching, engaging the entire citizenry and it is technologically driven. Furthermore, the program is relatively low cost to install and it requires very little maintenance after initial set up and is therefore sustainable.

ENCOURAGING CITIZENS

Exemplary cases of public officials being dismissed as a result of feedback from citizens provides an incentive for other officials to become more transparent and efficient in the exercise of their duties. Another advantage is that it does not rely on citizens to...
be proactive, but instead reaches out to citizens encouraging them to report their complaints. Lasting reform comes from empowering citizens to insist on their basic rights and holding those in authority accountable. Through the proposed “feedback monitoring programme”, citizens are encouraged to participate in the fight against corruption. This approach acknowledges that the problem of corruption affects the entire society and therefore requires the efforts of all to adequately address the issue.

A summary of the recommendations made for the effective implementation of the CFMP in Jamaica are listed below.

**SUMMARY OF RECOMMENDATIONS**

- Government to take the Lead on implementation of CFMP.
- Obtain best practice by liaising with the Pakistani Government throughout implementation.
- Carry out long-term financial plan/assessment for CFMP.
- Consult with stakeholders on the implementation of the program.
- Set Clear and Specific Targets to be achieved from implementation.
- Set up Monitoring and Accountability systems.
- Strengthen anti-corruption laws and institutions to facilitate effective implementation of the CFMP.
- Begin with pilot project before application across all government agencies.

The full report can be accessed on CAPRI’s website at: www.capricaribbean.org.

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THE PROBLEM OF CORRUPTION AFFECTS THE ENTIRE SOCIETY AND THEREFORE REQUIRES THE EFFORTS OF ALL TO ADEQUATELY ADDRESS THE ISSUE.
CAPRI’S RECENT EVENTS

CAPRI Executive Director, Dr. Damien King, breaks down the 2017/18 Budget for the audience of “Money Talks”. This CAPRI forum, held in Mandela Park (Half Way Tree) on March 23, sought to provide citizens with both the tools for further understanding of the budget discussions, and a platform to comment on tabled expenditure and revenue collection measures.

CAPRI Research Officer, Ms. Desiree Phillips, shares the findings of “Strengthening Integrity Through Innovation”. The report, launched on May 29, recommended Pakistan’s Citizen Feedback Monitoring Program (CFMP) model as a most suitable way to reduce corruption in Jamaica, by “harnessing the power of the crowd” to complement existing anti-corruption legislation.

IMF Mission Chief for Jamaica, Uma Ramakrishnan, responds to CAPRI Research Officer, Ms. Shanike Smart’s crime-focused presentation on the new IMF agreement, at a once quarterly, now biannual IMF Town Hall held by CAPRI at the University of the West Indies’ Regional Headquarters, on February 28.

National Security Advisor, Major General Antony Anderson, Former Ambassador of Jamaica to the US, Ralph Thomas and Executive Director of the NIA, Professor Trevor Munroe, listen keenly at the launch of CAPRI’s “Transforming Citizen Security A Yaad”. The launch was held on Monday, June 19 at the Worthington Building in New Kingston. It introduced the two-year project’s structure and deliverables, and featured four presentations on the nature of violent crime in Jamaica.
The National Housing Trust (NHT) was established in the belief that homeownership could be facilitated by a public mortgage body that built homes and subsidised the loans to purchase them. Given the current housing conditions of the urban poor, however, an examination of the effectiveness of the Trust was long overdue. The NHT is funded by a “tax” on formal employment equal to five percent of wages, which exacts a high cost to the economy in terms of both financial resources and resource allocation distortion. CAPRI, therefore, thought it important to investigate whether the country is getting the best value for this considerable cost. Towards informing that enquiry, CAPRI sought to answer three questions: (i) How much money does the NHT really need to carry out its mandate in the way it has been doing? (ii) Is the NHT executing its mandate adequately? (iii) Is it using the right approach to delivering on its mandate?

The report "An Assessment of the NHT" which presented the findings to these questions, published in May 2016, sparked much public debate. The debate gave rise to a correction of the report’s quoted mandate of the NHT. CAPRI welcomed the robust debate, as indicated in our Gleaner feature article, since stimulating an informed discussion on national policies is a key part of CAPRI’s raison d’etre. Following new information gleaned from the debate, the report was revised in July.

Further to the report’s revision, CAPRI met with a team from the NHT to discuss points raised by the NHT from their review of CAPRI’s report. CAPRI thanks the NHT for its interest in the report’s findings which

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1 Article Published in the Gleaner on June 19, 2016. URL: http://jamaica-gleaner.com/article/focus/20160619/imani-duncan-price-and-damien-king-nht-rethink-key-housing-fix
can only benefit all involved and ultimately increase
the accuracy and improvement of policy for increased
standards of living.

Notwithstanding the above sentiments, the findings
of our report and the recommendations advanced are
still warranted and relevant.

INFINITELY SUSTAINABLE

An analysis of the financing requirements to
fulfil its current scale of operations reveals that
the Trust actually requires far less money than
it currently receives. The NHT’s present level of
housing construction and mortgage financing remains
feasible if, as an example, employer contributions are
reduced to 2 percent, and employee contributions are
eliminated entirely. At that level of contributions, the
NHT is infinitely sustainable. The remaining 3 percent
of the wage bill that the Trust would no longer receive
could then either be left in the pockets of employees
and employers (to boost disposable income and returns
on investment), or it could be converted to income
taxes to support the programme of fiscal consolidation.

MORE ANALYSIS NEEDED

CAPRI highlighted the excess by which the NHT
revenue exceeded its expenditure, which demonstrates
that it could deliver its existing obligation with less
contribution. Less contribution, that which the NHT
would rightly be concerned about, would starve it of
the cash/liquidity it would need to do so. One solution
to that constraint would be for the NHT to not hold
on to mortgage they have issued, but to resell to third
parties. Understandably, more analysis will need to be
done to determine the extent to which this strategy will
boost the housing supply while ensuring sustainability
of the fund.

THE WAY FORWARD

How can the NHT do better? The way forward
involves finding new strategies to divert financing
to low-income earners by tackling, in turn, issues of
housing finance, the rental market, land titling, and
subsidies. One way to increase the share of low-
income households that access mortgage financing
is to make loan prerequisites more suited to their
particular circumstances. Since the income of the poor
is often sporadic and insecure, they prefer to build
incrementally, rather than purchase a complete house
which requires a long-term financial obligation.

Poor households rightly avoid exposure to such long-
term obligations which may mean the loss of the entire
house when payments cannot be maintained even for
a short period. Housing finance should accordingly be
structured to accommodate an unstable income pattern.
Since owning the required plot of land is beyond the reach of the poorest households, and getting access to other individual’s property is very unlikely, rental housing is a better solution because it averts the need for land-access or land-ownership.

Diversified Mix of Solutions

Although the NHT has diversified its mix of housing solutions by including serviced lots and first step homes (one room units with basic amenities, targeted to the poor), the serviced lots do not include a house, and the first step homes require the contributor to own land or have permission to build on someone’s else’s registered residential property. Since owning the required plot of land is beyond the reach of the poorest households, and getting access to other individual’s property is very unlikely, the poorest and neediest have no choice but to be in the rental market.

The NHT’s traditional methods of intervening in the housing market – financing housing construction on the supply side and subsidizing mortgages on the demand side – are flawed for two reasons. The primary concern with publicly-built housing is the absence of an incentive for efficiency. Whereas the drive for profits increases the likelihood of efficiency in the private sector, there is no such motive or incentive for the public housing institution. The second concern is that government expenditure on housing may simply be crowding out equivalent investments by private builders. Further, to the extent that the NHT’s presence in the housing market, which is quantitatively significant, raises demand (and discourages private sector suppliers), it will raise housing prices. This would push housing further out of the reach of the poorest NHT contributors.

In short, adopting strategies that deal with issues related to housing finance, the rental market, land titling, and subsidies are important to improving the service provided to society’s neediest by the NHT. Satisfying the mandate of the NHT requires a well-functioning housing market that allows private housing providers to thrive. This will result in a diversified mix of housing solutions for a wider cross-section of households. As a result, more Jamaicans will be able to access housing at competitive prices, while, at the same time, enabling the NHT to focus on providing solutions only for those who are too poor to participate in the housing market effectively.

The long-term goal of the government should be to use the NHT as a regulator and facilitator of the housing market (including rentals), rather than as merely an additional supplier.

The full report can be accessed online at: www.capricaribeean.org/publications.

The NHT’s management has since given considerable consideration towards advancing the implementation of some of the recommendations. In addition, CAPRI’s Executive director Damien King was appointed as a member of the review committee of the NHT that was mandated by the Prime Minister in July of 2016. That committee’s recommendations have now been forwarded to the Prime Minister.
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JAMAICA’S STRUCTURAL BENCHMARKS

LAST QUARTER (JAN – MAR 2017)

MONETARY POLICY AND FINANCIAL SECTOR

Objective: Issue for public comment a consultation paper for the resolution framework
Action: Draft Consultation Paper which describes draft legislation
Deadline: February 28, 2017
Status: Completed

FINANCIAL INCLUSION

Objective: To oversee the implementation of the strategy to increase financial inclusion
Action: Establish a financial inclusion council to implement the cabinet-approved umbrella financial inclusion strategy for the period 2016-20
Deadline: March 31, 2017
Status: Completed

PUBLIC SECTOR TRANSFORMATION

Objective: To establish a more transparent and rules-based framework for public employment and compensation
Action: Complete the employment verification exercise for all entities in the central government wage bill
Deadline: April 30, 2017
Status: No information was found

THIS QUARTER (APRIL – JUNE 2017)

MONETARY POLICY AND FINANCIAL SECTOR

Objective: Instituting mechanisms to ensure full compliance with the provisions of the Securities (Retail Repurchase Agreement) s that require “retail repos” to be governed by a MRRA that is signed by both the dealer and the client.
Action: Institute mechanisms to facilitate compliance with Securities
Deadline: May 30, 2017
Status: No information was found

PUBLIC SECTOR TRANSFORMATION

Objective: To improve control and oversight over the wage bill.
Action: Informed by the compensation review results from end-March 2017, submit public sector wage negotiation framework to Cabinet for approval.
Deadline: April 30, 2017
JAMAICA’S STRUCTURAL BENCHMARKS (CONT’D)

**PUBLIC SECTOR TRANSFORMATION**

**Objective:** Identify positions that will be affected due to the implementation of shared corporate services in human resources and quantify the implications through the development of a costed transition plan and schedule.

**Action:** Conduct Assessment.

**Deadline:** May 30, 2017

**Status:** No information was found

**PUBLIC SECTOR TRANSFORMATION**

**Objective:** To facilitate a public sector pension system which is more affordable and sustainable for the Government while providing adequate pension benefits.

**Action:** Institute rules prohibiting the rehiring of participants in the early retirement program into the public sector for at least 5 years unless the person returns the incentive.

**Deadline:** May 30, 2017

**Status:** Proposed

**PUBLIC SECTOR TRANSFORMATION**

**Objective:** To facilitate a public sector pension system which is more affordable and sustainable for the Government while providing adequate pension benefits.

**Action:** Submit to the Governor General through Cabinet rules and standards for the Public Service Commission for limiting the approval of continued employment after retirement age, including as contract officers.

**Deadline:** May 30, 2017

**Status:** Proposed

**PUBLIC SECTOR TRANSFORMATION**

**Objective:** To reduce inefficiencies in government expenditure allocation

**Action:** Submit to parliament all necessary legislative changes to direct all earmarked revenues from the Jamaica Civil Aviation Authority, the Tourism Enhancement Fund, and the CHASE Fund to the consolidated fund.

**Deadline:** June 15, 2017

**Status:** Proposed

**UPCOMING NEXT QUARTER – (JULY- SEPTEMBER 2017)**

**PUBLIC SECTOR TRANSFORMATION**

**Objective:** To enhance the efficiency, quality and cost effectiveness of public services.

**Action:** Submit to Cabinet a time-bound plan to reintegrate eligible public bodies into central government, consistent with the public financial management principles of the policy on public bodies.

**Deadline:** July 31, 2017

**Status:** Proposed

**PUBLIC SECTOR TRANSFORMATION**

**Objective:** To establish a more transparent and rules-based framework for public employment and compensation

**Action:** Submit to Cabinet a medium-term policy and implementation plan to revise the performance-based merit increases to make them more meaningfully related to the performance management appraisal system.

**Deadline:** September 30, 2017

**Status:** No information was found

**PUBLIC SECTOR TRANSFORMATION**

**Objective:** To establish a more transparent and rules-based framework for public employment and compensation

**Action:** Submit to Cabinet a proposal to institute clear rules for hiring, promotion and exit.

**Deadline:** September 30, 2017

**Status:** Proposed
Jamaicans have always displayed a fair degree of social capital – that sense of cooperation and trust that exist between the private individuals and the government. Jamaican citizens have continuously recognised that cooperation is essential to solving the problems which the country faces and largely determines the extent to which the success of the economy can improve.

This social capital has been evident in the continuous willingness displayed by Jamaican investors to hold low valued government bonds, despite evidence of a poorly performing economy.

**DEBT RESTRUCTURING**

This sense of cooperation has also been seen in the willingness of Jamaicans to engage and support the government in two debt restructuring programmes (JDX & NDX) that affected the participants themselves. This became more evident with the birth of the Economic Programme Oversight Committee (EPOC), which consisted of members of the private and public sector as well as civil society. This committee was born purely out of individual interest and commitment to working along with the government in ensuring that agreed targets under the programme were achieved and to facilitate transparency by advising the public of any concerns or developments.

The continued trust in Jamaica has been seen in its ability to still gain access to credit at relatively high discounted rates despite our high debt, poor economic indicators, and high probability of default.

**ECONOMIC CHALLENGES**

Notwithstanding the trust and cooperation that Jamaica has engendered over the years, the economy has been facing several challenges. Jamaica sustained budget deficits for 18 years prior to 2013 with public debt soaring to 145% of GDP in 2012. Between 2001 and 2012, inflation recorded a high double digit average and real GDP growth has averaged less than 1%.

In response to the challenges and unsustainability of fiscal and debt dynamics, in May 2013, the Government entered into a 4 year programme with the IMF under its Extended Fund Facility (EFF). This programme brought with it financial assistance of US$932 billion, and much more of its technical expertise and support. The primary objective of this IMF monitored reform programme was to address the imbalances and weaknesses in Jamaica’s policy framework to create an economic environment for engendering growth. This came with a focus on fiscal and debt consolidation, which required the ushering in of some much needed fiscal discipline, itemizing clear time bound key structural reforms and quantitative targets.

Familiar? Up to May 2013 Jamaica has entered into numerous economic reform programmes with the IMF with a very similar objective and of a very similar structure. In fact, Jamaica has had relations with the IMF as early as the 1960’s, marking almost fifty years of receiving financial assistance and support. Yet none had taken Jamaica out of its precarious fiscal and debt position.

So what was different about this programme? What made this programme work? Notwithstanding the increased difficulty that came with this programme, CAPRI has identified three key differences this time around which were important ingredients to the success of the reform programme.

Firstly, the finance minister established a coordination and implementation unit with sole responsibility for overseeing the implementation of the programme targets. This ‘delivery unit’ reported to the Minister himself; giving it the necessary authority. The unit was headed by Judith Green, whose financial
compensation was borne by the private sector.

Secondly, the widespread and meaningful consultations pursued by the GOJ with various stakeholders, which facilitated the cooperation and “buy-in” from public and private partners in owning and supporting the Government’s initiatives for this programme.

Thirdly, the unified message and technical support that came from all three multilateral partners – IMF, World Bank and IDB – speaking to the government in one voice, facilitated a unified objective and consequently unified results in the most effective and efficient manner.

In recognising these critical factors, we also recognise the political risk associated with fiscal prudence or austerity measures of any sort, particularly with long term returns. The potential conflict between policies which are popular, or at least acceptable, at home and those which maintain the confidence of international investors is hardly new. In fact, the implementing governments don’t normally survive an election, and therefore no incentive exist for the new administration to continue reform efforts.

This programme however survived two successive government administrations which continued ownership and commitment to fiscal implementation; assisting in achieving clear improvements today.

Over the course of the programme there has been clear evidence of an improving economy.

Growth has been slowly picking up. While averaging less than 1% over the duration of the programme, third quarter of 2016 showed expansion of 2.2% over the previous year, the strongest in 9 years. The budget’s expenses did not exceed revenues for the first time in 18 years in 2013, and maintained a modest deficit over the remainder of the programme. Public debt has fallen by more than 25 percentage points. Inflation recorded historic lows and its lowest – 1.7 percent at the end of 2016. The current account deficit shrunk by more than 2/3rds, NIR has more than doubled since 2012 and the Stock Market’s main index has been soaring.

This improvement in fiscal performance and debt reduction has translated into reduced borrowing costs which has facilitated room for increased social expenditure. Greater confidence has also been shown both locally and internationally. Locally, business confidence index is up 12 % since 2015. Abroad, Moody’s upgraded Jamaica’s Sovereign Credit ratings in Nov 2016 to B3 from Caa2.

Notwithstanding these developments, the country is still vulnerable to adverse domestic and international developments. Public debt while falling remains precariously high. Moreover, Jamaica’s growth, while positive, remains weak. Unemployment, while declining
is still high (at 13% in July of 2016), and 1/5th of the economy remains in poverty. Therefore it is crucial that fiscal discipline be maintained. However, fiscal consolidation, while crucial, does not address all the economy’s problems. Key among these problems are crime and security. With Jamaica’s murder rate being the 6th highest worldwide, crime acts as a major deterrent to investment in economic activity, and represents a cost to businesses and society.

In light of these issues, the GOJ has entered into a new standby agreement with the IMF. The IMF’s increased confidence in the Jamaica’s programme implementation has resulted in reviews being done semi-annual. The programme’s financial assistance is intended to guard against economic shocks while focusing reform efforts on the growth agenda, job creation and social protection.

Strengthening the social net initiative is particularly important to maintain social cohesion, and improve productivity. Staying the course with continued fiscal discipline is critical to further reduce debt and create the fiscal space needed for spending in priority areas such as education, water access, and crime.

CAPRI continues its support for positive reform and looks forward to continued improvements in 2017.

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**LEGISLATIVE TRACKER**

**BANK OF JAMAICA ACT**

**Objective**: Promoting operational autonomy of the BOJ and enhance BOJ’s governance framework.

**Action**: To submit revisions of the BOJ Act to Parliament to address any shortcomings in legal provisions with regard to the make-up of the BOJ Board, dividend arrangements, and the provision of financing to the GOJ.

**Deadline**: September 30, 2017

**Status**: Proposed.
Are bank fees too high?

Jamaica’s largest bank, NCB, made a record-breaking $14.4-billion in profits last year, up 17-percent from the previous year. The second largest bank, Scotia, made $11.6-billion in net profit up to October last year – a 14-percent increase. With numbers like these, it’s hardly surprising that members of the public have been crying out against high banking fees.

Exacerbating the effect, was the $1,385 fee Scotiabank began charging to cash a cheque from other banks in November – an almost 900 percent increase from its previous fee. This was subsequently revised to $385 in December of the same year, due to public outcry. This along with anomaly of charges levied on fairly commonplace activities have led many observers to cry foul. But are bank fees actually too high?

CAPRI, in 2014, released a study on the issue, seeking to provide clarification by highlighting the driving forces behind trends in Jamaican bank fees and charges. This study demonstrated that in Jamaica, since the mid to late 2000s, income earned by banks from fees and commissions has increased significantly, as has been the case in many Western economies since the early 1990s. The data presented provided some preliminary support for the conjecture that Jamaican banks increased fees in a bid to maintain profit levels amidst declining interest revenues. The trends suggest that decreasing net interest income and net fees and commissions caused profits to fall in 2006, to which banks responded by increasing both net interest income, and net fees and commissions in 2007.

Although providing little comfort, the data (2010-2011) also supports the fact that fees charged by Jamaican banks are not generally significantly higher than those of banks in other parts of the world.

How do we explain the current bank fees?

CAPRI’s assessment indicates that the international trend of increased profits from heightened bank fees is partially due to a proliferation of relatively large banks and banks that operate in more than one market. Banks which have been impacted by lowered interest revenues have also been shown to profit more from fees charged, reinforcing a popular perception of such banks as opportunistic.

Other results, however, provide a more nuanced
picture. In spite of having relatively low interest revenues, the banks that earn the most profit from their fee-based services tend to be well-managed institutions, maintaining high standards of efficiency, solvency and liquidity. These banks also seem to have positioned themselves to focus on fee-based activities, as they were shown to spend relatively large sums of money on building the technological capacity needed to offer extensive fee-based services. In addition, where banks incur increased costs in providing services, these costs are typically passed on to consumers through higher fees, with an ease relative to the degree of competition in the financial sector. The results indicate that bank fees tend to be higher in financial sectors in which a few large banks control the larger share of the total assets of the industry, as in the case of Jamaica.

CAPRI found that in Jamaica, as it is internationally, the tendency towards higher bank fees also reflects customers’ demands for increasingly sophisticated financial services, and the availability of said services.

**Where can we go from here?**

Regulators can do very little about the tendency of multinational banks to earn higher profits from fees. Very few would seek to expel such banks from the market in an attempt to lower fees, and even if they did, the consequence would be lowered competition in the local banking sector, which has been shown to cause heightened fees. In addition, although higher standards of efficiency, solvency and liquidity, along with greater sophistication of the services supplied by the banking sector have been shown to be associated with higher profits from fees, regulators clearly would have no desire to reduce any such standards.

*THESE BANKS ALSO SEEM TO HAVE POSITIONED THEMSELVES TO FOCUS ON FEE-BASED ACTIVITIES, AS THEY WERE SHOWN TO SPEND RELATIVELY LARGE SUMS OF MONEY ON BUILDING THE TECHNOLOGICAL CAPACITY NEEDED TO OFFER EXTENSIVE FEE-BASED SERVICES.*

While these fees remain a pressing concern, CAPRI’s findings and analysis warns against the proposals to cap fees. This proposal have wisely been rejected in most countries. Regulators do not have any control over how banks internally allocate their costs between different products and services. Just as how the data showed that reduced net interest income led to increased reliance on fee income, a cap on fees is likely to cause banks to increase lending rates in a bid to maintain overall returns, in turn incurring higher borrowing costs. The results also suggest that popular efforts to force banks to provide customers with increased and more accurate and accessible information on fees, while increasing the cost of service provision, may precipitate an increase in fees, as banks seek to pass on the increased costs to consumers.

The analysis suggests that lobbying efforts by powerful persons and groups in society can yield some fruit in countries where such groups are highly regarded, as can increased assertiveness by local consumers. Ultimately, however, increased competition in the banking sector is needed if fees are to be lowered on a sustained basis.
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