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Office of Consumer Affairs

The Cost of Banking

Annual Report 2002

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INTRODUCTION

This fourth annual report on financial service charges, now called *The Cost of Banking Annual Report 2002*, tracks the changes in the service fees charged by Canada's major banks, trust companies, credit unions and caisses populaires. In the report, Industry Canada's Office of Consumer Affairs provides a review of changes in the cost of banking for specific types of consumers, and records which institutions are increasing or decreasing fees and for what services.

Current and past issues of the report are available by visiting the Office of Consumer Affairs Web site (www.consumer.ic.gc.ca).

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HIGHLIGHTS

- Averaged across institutions, service charges remained stable in 2001 for those who maintained monthly balances of less than \$1000, but fell significantly for many who kept more than \$1000 in their accounts.
- There were significant changes at some institutions:
 - In-branch use has generally become cheaper, due to the introduction of low-fee accounts at eight banks and the elimination of the in-branch bill payment handling fee at four banks.
 - There have been some new fees and increases in existing fees for electronic or self-serve transactions.
- Using another institution's automated banking machine (ABM) is becoming more expensive:
 - CIBC and Royal Bank have increased their Interac® fee (also known as Interac® fee) from \$1.25 to \$1.50 per withdrawal at another institution's ABM.
 - Both banks have also introduced surcharges for non-clients at off-premise (e.g. retail outlet) ABMs, in addition to account and Interac® fees charged by your institution. So, for example if you are a Scotiabank customer, and use a Royal or CIBC machine at a convenience store, the transaction may cost you \$2.24 or more above the regular transaction cost.
- The number of white-label ABMs has also grown:
 - White-label ABMs now represent about a third of all ABMs in Canada.
 - When using white-label ABMs, consumers must pay extra fees (referred to as "convenience fees") on top of Interac® fees and other transaction fees they pay their financial institution for completing a transaction. The difference between using their own institution's ABM and a white label ABM can be \$2.50 or more per transaction.
 - As part of a pilot project some white label point-of-sale terminals have also started adding a surcharge to debit card purchases, on top of the regular fees the consumer pays for using the card.
- At many of the surveyed institutions, having a minimum monthly balance of \$1000 can result in a significant reduction in service charges.

-
- Virtual banks still offer competitive pricing for consumers who do not need to use in-branch services.
 - Conclusion:
 - It is getting more expensive for convenience consumers, and they may benefit from comparison shopping.
 - Things are getting better for consumers (often those with low incomes) who use basic banking at the Big Five Banks.
 - On average costs for those with a minimum monthly balance of \$1000 fell, largely because of changes at CIBC.

The Five Profiles

The figures in this report are based on the same five typical consumer profiles used in previous years:

1. Minimal Transaction Consumer
2. Average Transaction Consumer
3. Convenience Consumer
4. Connected Consumer
5. Prosperous Branch Consumer

In addition this year, we have drawn on opinion polling figures from the *Goldfarb Report 2001* and from figures on banking habits from the Canadian Bankers Association.

1. Minimal Transaction Consumer	2. Average Transaction Consumer
<p>Consumer Habits:</p> <ul style="list-style-type: none"> • Does a small number of transactions per month • Does not use electronic transactions • Visits the bank branch on an average of once a week <p>Branch Transactions:</p> <ul style="list-style-type: none"> • 3 Withdrawals • 4 Bill Payments <p>Other Transactions:</p> <ul style="list-style-type: none"> • 2 Cheques <p>Total Transactions = 9</p>	<p>Consumer Habits:</p> <ul style="list-style-type: none"> • Does some electronic transactions • Visits the bank branch an average twice a month <p>Branch Transactions:</p> <ul style="list-style-type: none"> • 2 Withdrawals • 2 Bill Payments • 2 Transfers <p>ABM Transactions:</p> <ul style="list-style-type: none"> • 2 Withdrawals • 2 Bill Payments • 2 Transfers <p>ABM Transactions at Other Institutions</p> <ul style="list-style-type: none"> • 2 Withdrawals <p>Other Transactions:</p> <ul style="list-style-type: none"> • 5 Cheques • 5 Interac® Direct Payments • 2 Pre-authorized Debits <p>Total Transactions = 26</p>

3. Convenience Consumer	4. Connected Consumer
<p>Consumer Habits:</p> <ul style="list-style-type: none"> • Multiple transactions • High user of Interac® services • Does not visit the bank branch <p>ABM Transactions:</p> <ul style="list-style-type: none"> • 7 Withdrawals • 4 Bill Payments • 4 Transfers <p>ABM Transactions at Other Institutions:</p> <ul style="list-style-type: none"> • 8 Withdrawals <p>Other Transactions:</p> <ul style="list-style-type: none"> • 3 Cheques • 2 Direct Deposits • 15 Interac® Direct Payments • 2 Pre-authorized Debits <p>Total Transactions = 45</p>	<p>Consumer Habits:</p> <ul style="list-style-type: none"> • Does transactions electronically <p>ABM Transactions:</p> <ul style="list-style-type: none"> • 5 Withdrawals <p>ABM Transactions at Other Institutions:</p> <ul style="list-style-type: none"> • 2 Withdrawals <p>Telephone Transactions:</p> <ul style="list-style-type: none"> • 6 Bill Payments • 6 Transfers <p>Other Transactions:</p> <ul style="list-style-type: none"> • 3 Cheques • 2 Direct Deposits • 8 Interac® Direct Deposits • 3 Pre-authorized Debits <p>Total Transactions = 35</p>
5. Prosperous Branch Consumer	A Note on +\$1000 and -\$1000 Balances Consumer Habits:
<p>Consumer Habits:</p> <ul style="list-style-type: none"> • Does not do any transactions electronically • Generally has money <p>Branch Transactions:</p> <ul style="list-style-type: none"> • 3 Withdrawals • 5 Bill Payments • 3 Transfers <p>Other Transactions:</p> <ul style="list-style-type: none"> • 7 Cheques • 2 Direct Deposits <p>Total Transactions = 20</p>	<ul style="list-style-type: none"> • Several financial institutions offer lower service charges to consumers who retain a minimum balance of \$1000 each month. • To reflect this difference in service charges, we've created two separate analyses in our Annual Report: one for consumers who maintain a minimum monthly balance of \$0, and one for consumers who maintain a minimum monthly balance of \$1000.

Report Card on Financial Institutions

This table presents the fee changes (from 2000 to 2001) to the “least expensive accounts” for each profile and balance. The purpose is to summarize the changes in fees for each financial institution in 2001.

Changes in Fees, by Consumer Profile, 2001										
Balance: \$0 Change in Fees, 2000-2001 (by Profile)						Balance: \$1000 Change in Fees, 2000-2001 (by Profile)				
1	2	3	4	5	← PROFILE →	1	2	3	4	5
-5.50	-1.00	n/c	n/c	-1.50	Bank of Montreal	-9.00	-1.00	n/c	n/c	-5.00
-6.00	-4.85	+11.70	+4.20	-10.80	CIBC	-10.00	-13.85	-5.80	-7.30	-16.30
—	—	n/c	n/c	—	Citizens Bank	—	—	n/c	n/c	—
—	—	—	+0.20	—	CS CO-OP	—	—	—	+0.20	—
n/c	n/c	n/c	n/c	n/c	Desjardins	n/c	n/c	n/c	n/c	n/c
n/c	n/c	n/c	n/c	n/c	HSBC	n/c	n/c	n/c	n/c	n/c
+0.55	+1.05	+5.40	-0.60	+0.55	Laurentian Bank	n/c	+1.05	+2.05	+1.05	n/c
+1.00	+1.25	-0.20	n/c	+1.00	Metro Credit Union	n/c	+0.15	-0.20	+0.90	n/c
n/c	+2.70	-3.15	-0.25	n/c	National Bank	-0.75	2.00	n/c	-3.00	n/c
—	—	n/c	n/c	—	PC Financial	—	—	n/c	n/c	—
n/c	+0.50	+2.00	+0.50	n/c	Royal Bank	n/c	+0.50	+2.00	+0.50	n/c
-4.00	n/c	-3.00	-3.00	n/c	Scotiabank	-4.00	n/c	-3.00	-3.00	n/c
-3.00	—	—	n/c	n/c	Canada Trust*	-4.00	—	—	n/c	-2.95
-4.65	+0.95	+10.95	+7.95	-2.05	TD Bank*	-2.20	+4.40	+2.95	+10.45	+0.50
+1.50	—	—	-7.50	+0.50	VanCity Savings Credit Union	+1.00	—	—	-13.50	+1.25

All analysis based on least expensive accounts, 2000 and 2001.

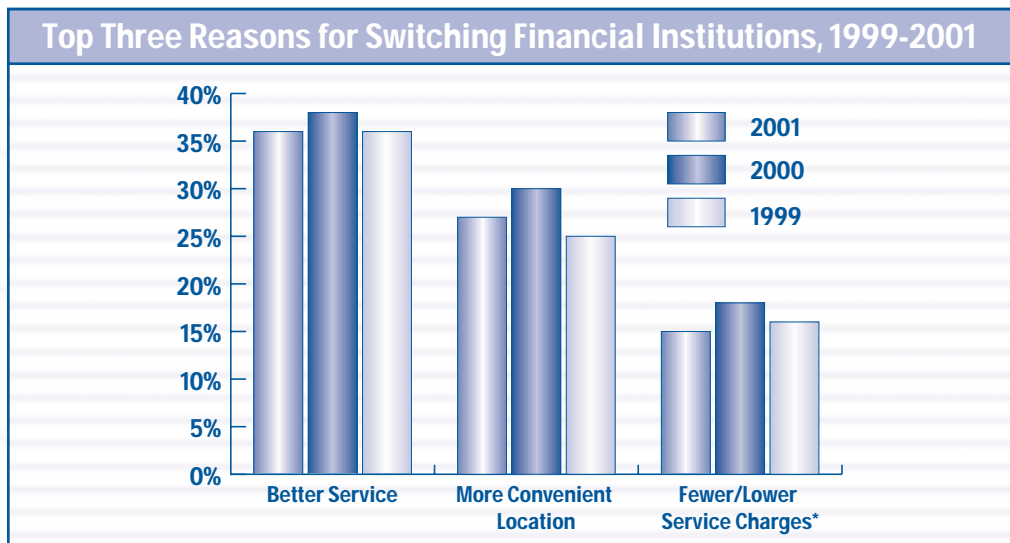
n/c = no change from the previous year.

* now TD Canada Trust

Consumer Behaviour and Attitudes²

A 2001 consumer survey reported that half of Canadians believed bank charges increased in 2001, while 42 percent believed they had stayed the same. Canadian attitudes on bank charges varied by age group. Less than a quarter (24 percent) of Canadians aged 65 or over believed that service fees had increased in 2001, suggesting that elderly Canadians may be taking advantage of special offers or discounts. Conversely, Canadians in their prime earning years were significantly more likely to report that bank service charges had increased in 2001 (60 percent for those aged 35-44 and 62 percent for those aged 45-54).

Three in ten Canadians reported switching financial institutions at least once in the last five years and 8 percent reported switching at least twice in that time frame. Of those who have switched institutions over the past five years, the search for better service (36 percent) and a more convenient location (25 percent) have consistently been the top two reasons for switching. The third most cited reason was fewer or lower service charges (16 percent) and better interest rates on loans or mortgages (16 percent).



For Canadians who have switched financial institutions at least once in the last five years, this graph shows the top three cited reasons for doing so.

* Fewer or lower service charges and better interest rates on loans/mortgages were tied for the third most popular response in 2001.

² Goldfarb Report 2001.

Behaviour Related to ABM Surcharges³

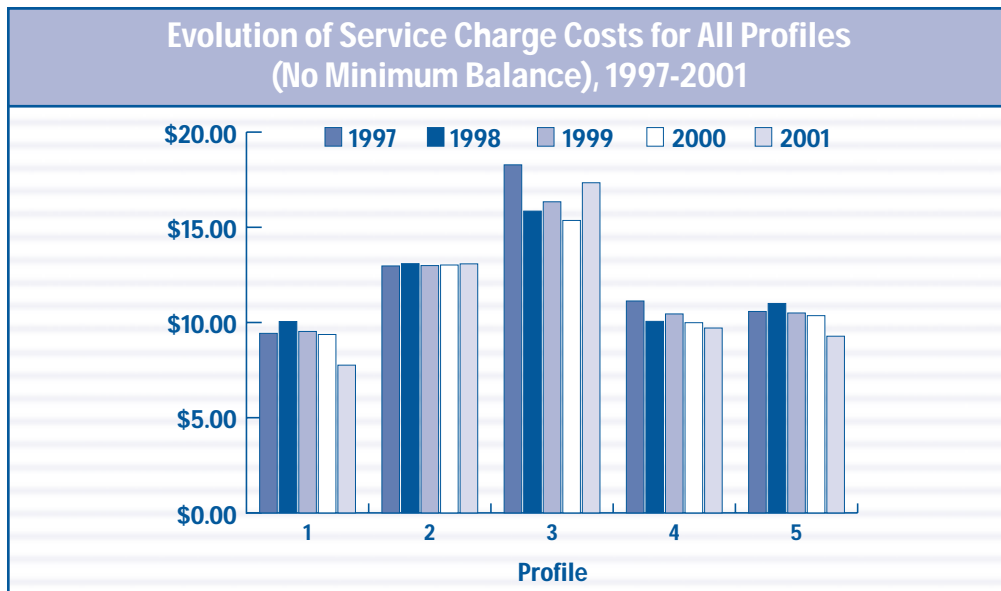
White-label ABMs now account for about one third of the 35 000 ABMs deployed in Canada. Despite significant surcharges applied to transactions at these machines, 35 percent of Canadians report using them, while 9 percent report using them more than six times monthly.

In comparison, 53 percent of Canadians report using ABMs belonging to financial institutions other than their own, while 17 percent report doing this more than five times a month.

Summary of Findings

Those who hold a balance of less than \$1000⁴

Those who primarily use in-branch services (Profile 1 and Profile 5) have seen average costs drop by over a dollar since last year. This change is largely a result of agreements reached in 2000 between the federal government and most major banks to provide a basic bank account with a low service fee and the elimination for this profile of handling fees on in-branch bill payments at the Big Five Banks. On the other hand, “convenience” consumers (Profile 3) have experienced an average increase of almost \$2.00 over the last year (exclusive of the effects of ABM surcharges, which users in this profile are more likely to incur). This average was driven by significant fee increases at three institutions. There was virtually no change in the average costs for the other profiles.



³ Christmas Shopping and Buying: What's in the Window and How People Will Pay For It. Ipsos-Reid (December 18, 2001).

⁴ Analysis based on evaluating all profiles with a minimum monthly account balance of \$0.

Profile 1: Minimal Transaction Consumer

No Minimum Monthly Balance

In January 2001, a memorandum of understanding was implemented between the federal government and eight federally regulated financial institutions⁶. The financial institutions agreed to provide a low-fee, basic account with certain minimum features (e.g. offer a debit card, no charge for deposits, some in-branch transactions and a free monthly statement or passbook). In addition, the Big Five Banks also eliminated the handling fee associated with in-branch bill payments for this profile over the last 20 months. Together, these changes have resulted in some very positive news for low-balance consumers with basic banking needs. As a result of these changes, the least expensive account option for low-balance, minimum-transaction consumers is found at one of the Big Five Banks and the Metro Credit UUnion.

Least Expensive Accounts for Profile 1 (Less Than \$1000 Balance), 2000 and 2001			
Institution	2001	2000	Handling Fee for Each In-Branch Bill Payment, 2001
Bank of Montreal	\$3.50	\$9.00	—
CIBC	\$4.00	\$10.00	—
Royal Bank*	\$4.00	\$4.00	—
Metro Credit Union**	\$6.95	\$5.95	\$1.00
Scotiabank	\$6.95	\$10.95	—
TD Canada Trust	\$6.95	\$11.60***	—
TD Canada Trust	\$6.95	\$9.95****	—
National Bank	\$8.75	\$8.75	\$2.00
VanCity Savings Credit Union**	\$9.30	\$7.80	\$1.50
HSBC	\$11.50	\$11.50	\$1.35
Laurentian	\$11.50	\$10.95	\$2.00
Desjardins	\$11.95	\$11.95	\$1.75

* Royal Bank introduced a low-fee account in late 2000.

** Metro Credit Union and VanCity Savings Credit Union do not charge a separate transaction fee for an in-branch bill payment.

*** TD Bank 2000 pricing

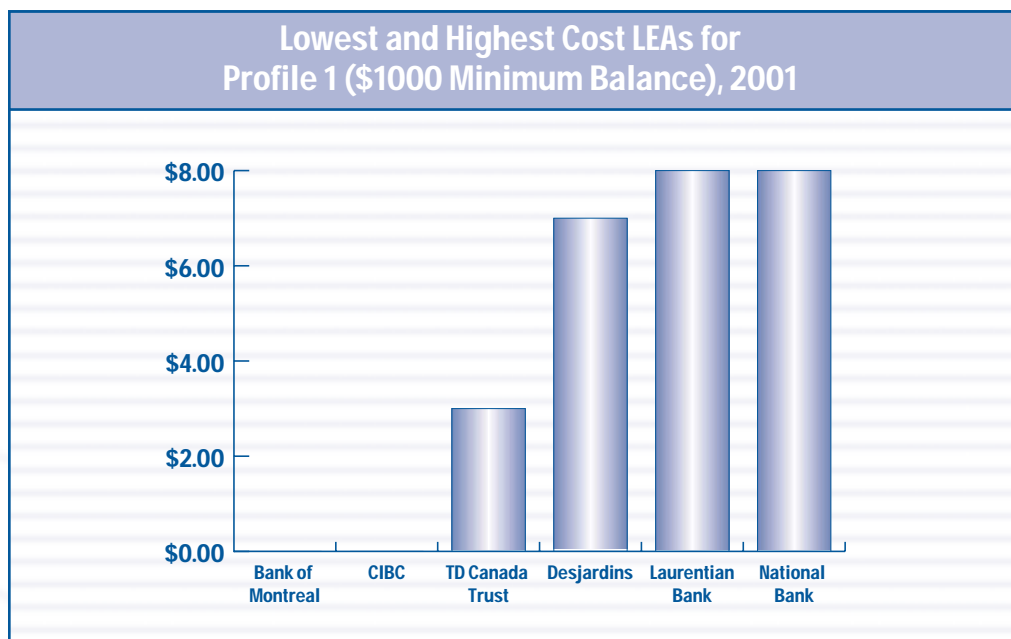
**** Canada Trust 2000 pricing

⁶ See "Low Fee Accounts" for more information on this agreement.

The elimination of the handling fee associated with in-branch bill payments at the Big Five Banks has significantly lowered service fees for those consumers who regularly undertake this activity. Of the remaining financial institutions in our survey, the handling fee varies from \$1.00 to \$2.00 for *each* in-branch bill payment. This charge is often *in addition* to any applicable transaction fee.

\$1000 Minimum Monthly Balance

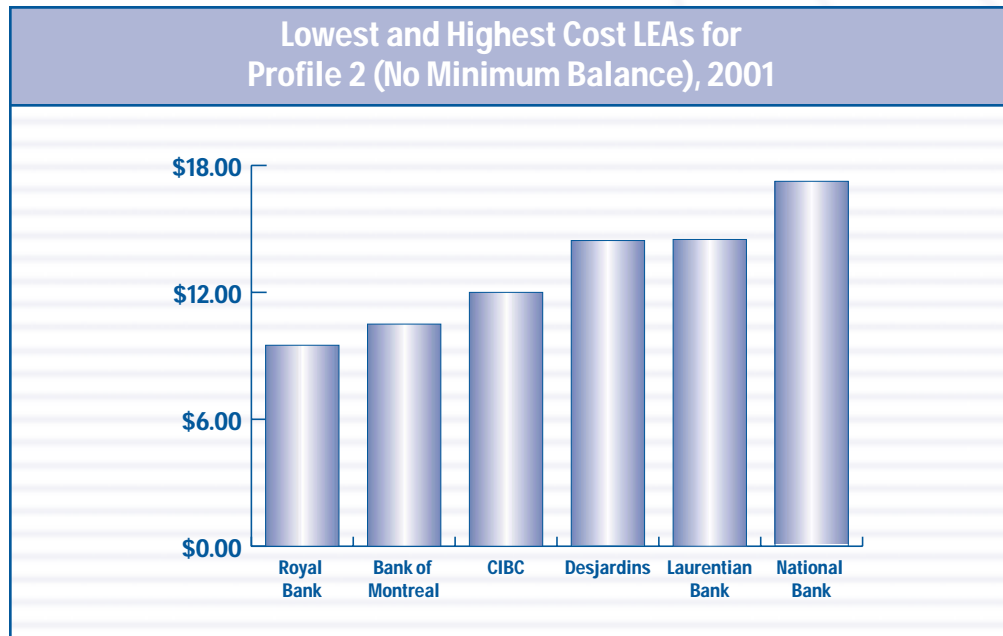
In general, Profile 1 captures low-income consumers with basic banking needs. Consequently, few Canadians who fall within this profile will carry a minimum monthly balance of \$1000.



Profile 2: Average Transaction Consumer

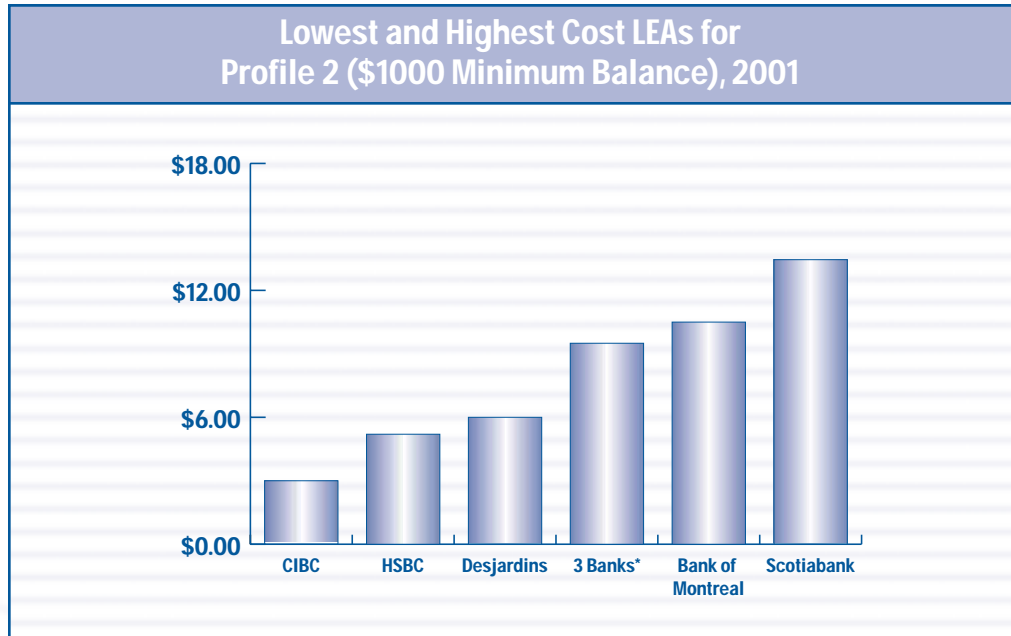
No Minimum Monthly Balance

For the third consecutive year, the average cost to consumers in this profile who maintain low account balances has remained virtually unchanged. Between 1997 and 2001, the average cost for this profile has varied from a low of \$12.99 in 1998 to a high of \$13.09 in 1997 (the average was \$13.08 in 2001). By far, the most significant decline occurred at CIBC: -\$4.85 to \$12.00. Five institutions increased costs in 2001, lead by National Bank: +\$2.70 to \$17.25, while two reduced charges and three did not change.



\$1000 Minimum Monthly Balance

For the first time since the launch of the annual report, the average cost for high-balance consumers in this profile declined from its peak of \$9.28 in 2000, to \$8.20 in 2001. The most significant changes occurred at: CIBC (-\$13.85 to \$3.00) and TD Canada Trust (+\$4.40 to \$9.50).



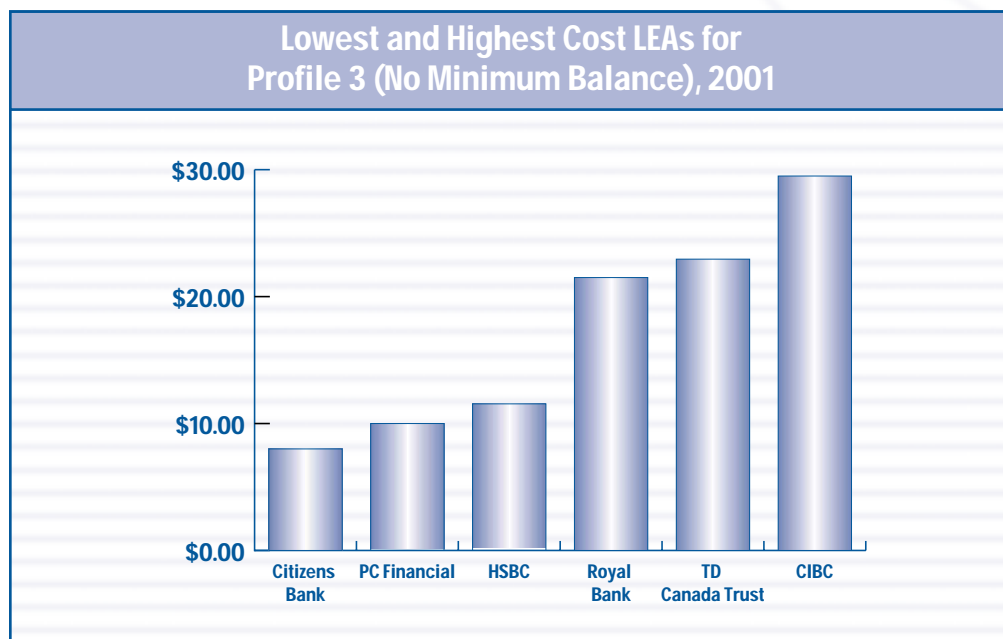
*Three Banks are TD Canada Trust, Laurentian Bank and Royal Bank.

Profile 3: Convenience Consumer

Convenience consumers are the heaviest users of ABMs and are most likely to be users of the growing number of white-label ABMs and to be affected by new Royal Bank and CIBC surcharges at off-premise ABMs⁷. White-label ABMs are typically \$1.25 to \$1.50 per transaction in addition to Interac® fees, for all users. The new Royal Bank and CIBC fees do not apply to their own customers. Non-customers pay \$0.99 to \$1.50 in addition to Interac® fees.

No Minimum Monthly Balance

Low-balance consumers in Profile 3 witnessed an average increase of almost \$2.00 in the last year. This was primarily due to very steep fee hikes at three institutions: CIBC (+\$11.70 to \$29.50), TD Canada Trust (+\$10.95 to \$22.95) and Laurentian Bank (+\$5.40 to \$20.50). For the fourth consecutive year, Citizens Bank offers the lowest-cost account in this category, at \$8.00.

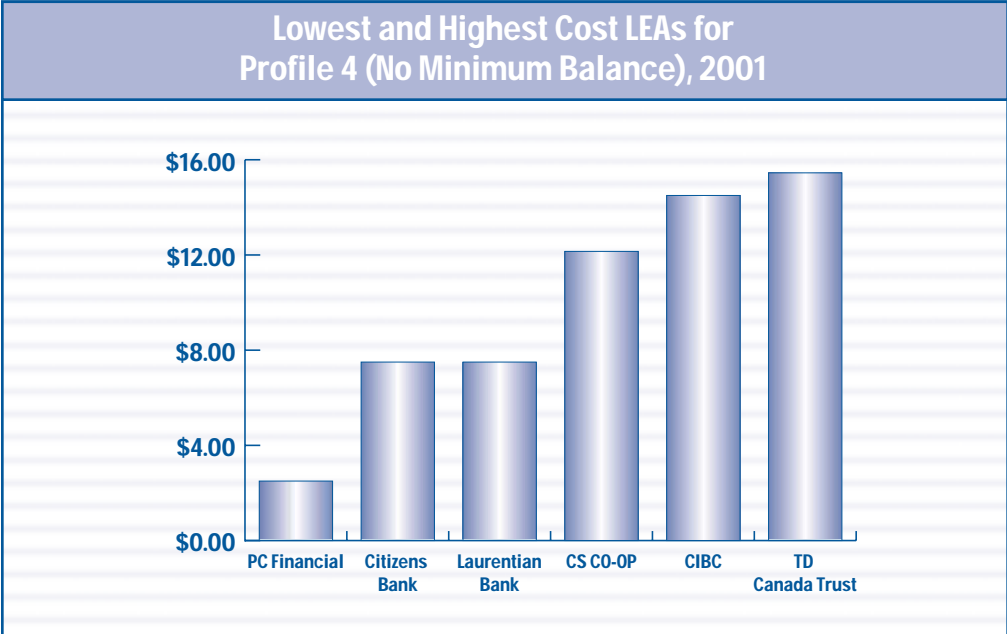


⁷ For more information on white-label ABMs and consumer-related issues, please refer to the companion document produced by the Financial Consumer Agency of Canada, entitled: *Consumer's Guide to Basic Banking Services*.

Profile 4: Connected Consumer

No Minimum Monthly Balance

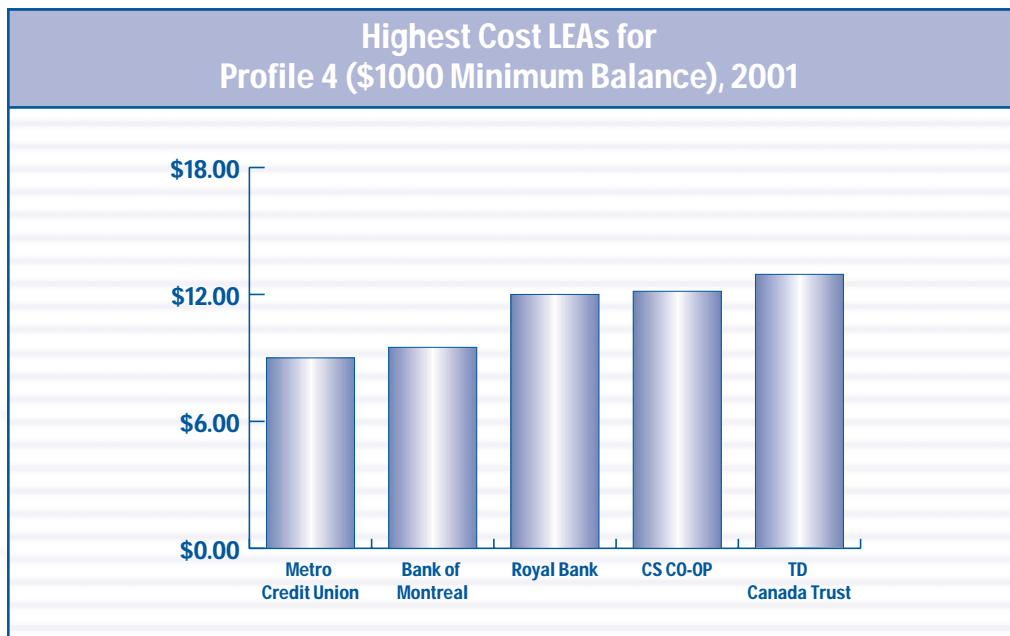
The biggest changes for low-balance connected consumers occurred at the VanCity Savings Credit Union (-\$7.50 to \$8.50) and TD Canada Trust (+\$7.95 to \$15.45). Continuing a three-year trend, the least expensive accounts are found at the virtual banks.



\$1000 Minimum Monthly Balance

The average cost charged to high-balance, connected consumers fell by \$1.36 in 2001, due to significant price reductions at four institutions: VanCity Savings Credit Union (-\$13.50 to \$2.50), CIBC (-\$7.30 to \$3.00), National Bank (-\$3.00 to \$4.75) and Scotiabank (-\$3.00 to \$8.00). The only institution to significantly increase costs was TD Canada Trust (+\$10.45 to \$12.95).

For the fourth consecutive year, Citizens Bank offers an account with no service fees for connected consumers maintaining a \$1000 minimum monthly balance. As long as the minimum balance is maintained, this account waives all transaction and Interac® fees.



Profile 5: Prosperous Branch Consumer

No Minimum Monthly Balance

Generally speaking, Profile 5 reflects individuals who use in-branch banking exclusively. This profile tends to capture older consumers (who rely much less on electronic banking) who often carry minimum monthly balances over \$1000. For those carrying no minimum monthly balance, the most significant change occurred at CIBC (-\$10.80 to \$5.50).

