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Canada Canada

Office of **Consumer Affairs**

Financial Service Charges: 3rd Annual Report

Feb. 20, 2001

<http://consumerconnection.ic.gc.ca>



Overview

This year, the Annual Report looks at:

1. **Canadian Attitudes Towards Financial Service Charges**
2. **Results: Highlights from the Consumer Profiles**
3. **Major Fee Structure Changes Introduced in 2000**
4. **The TD – Canada Trust Merger**
5. **The Canadian Virtual Banks**



The 3rd Annual Financial Service Charges Report

This is the 3rd annual report on bank service charges.

The purpose of the annual report is to keep track of changes in bank service charges over time.

It records:

- **which institutions are increasing or decreasing fees and for what services; and**
- **how different types of consumers are faring in terms of price increases or decreases.**





Part 1

Canadian Attitudes Towards Financial Service Charges



Financial Service Charges: 3rd Annual Report, 2001

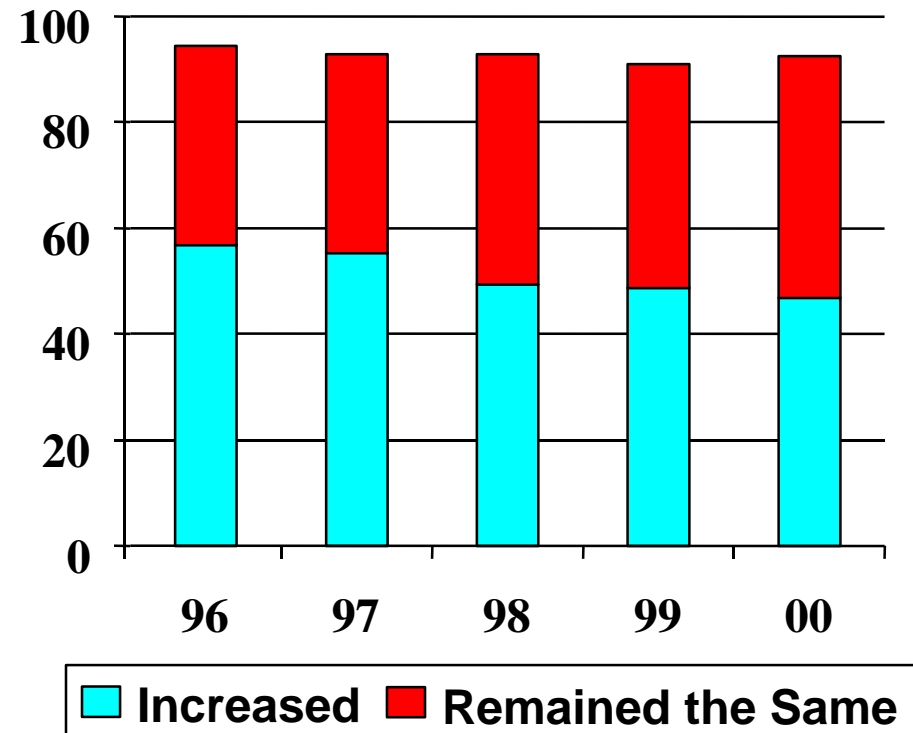


Public Perception of Service Charges

More Canadians view service charges as beginning to stabilize:

In each of the last five years, fewer Canadians have perceived that service charges have increased.

In the past year, financial service charges have...



Source: The Goldfarb Report, 2000

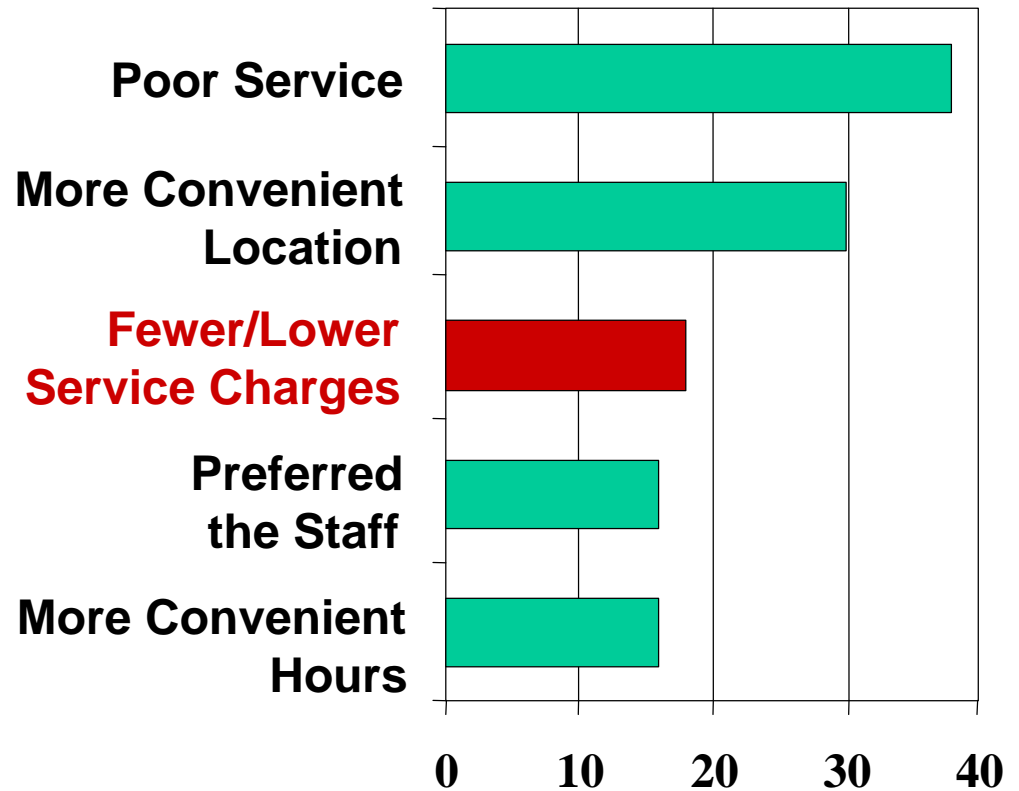
Switching Financial Institutions

Almost one-third of Canadians reported switching financial institutions at least once in the last five years.

Most are concerned with service or convenience.

But “fewer/lower service charges” was the third most cited reason for changing institutions.

Top Reasons for Switching Financial Institution in the Last 5 Years, 2000



Source: The Goldfarb Report, 2000

Part 2

Results: Highlights from the Consumer Profiles



The Results: Where the Numbers Come From

Figures are based on 5 typical profiles of consumer use:

Profile 1: **Minimal Transaction Consumer**

Profile 2: **Average Transaction Consumer**

Profile 3: **Convenience Consumer**

Profile 4: **Connected Consumer**

Profile 5: **Prosperous Branch Consumer**

The figures presented are based on the lowest cost service package available from each institution.

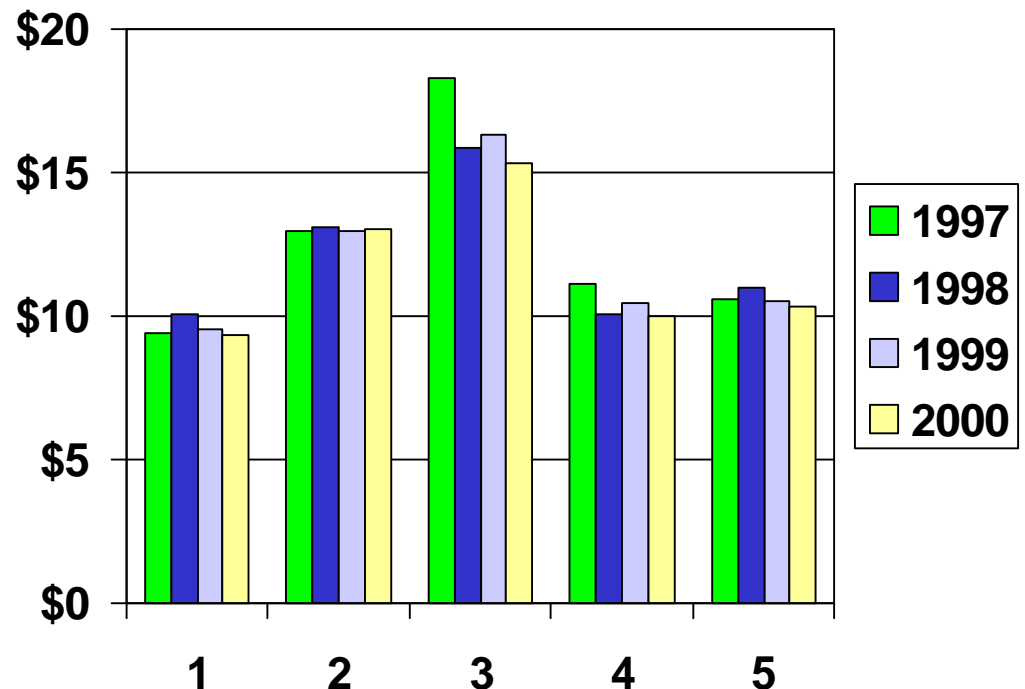
Overview: Stable Costs for < \$1000 Balances

Average fees remained stable in 2000 for all profiles.

8 of the 15 institutions made no changes to their fee structure.

Five institutions lowered fees for at least 2 profiles, whereas two institutions raised fees for at least 3 profiles.

Service Charge Costs for Account Balances less than \$1000, 1997 - 2000



This graph shows the average monthly price of the lowest cost accounts.

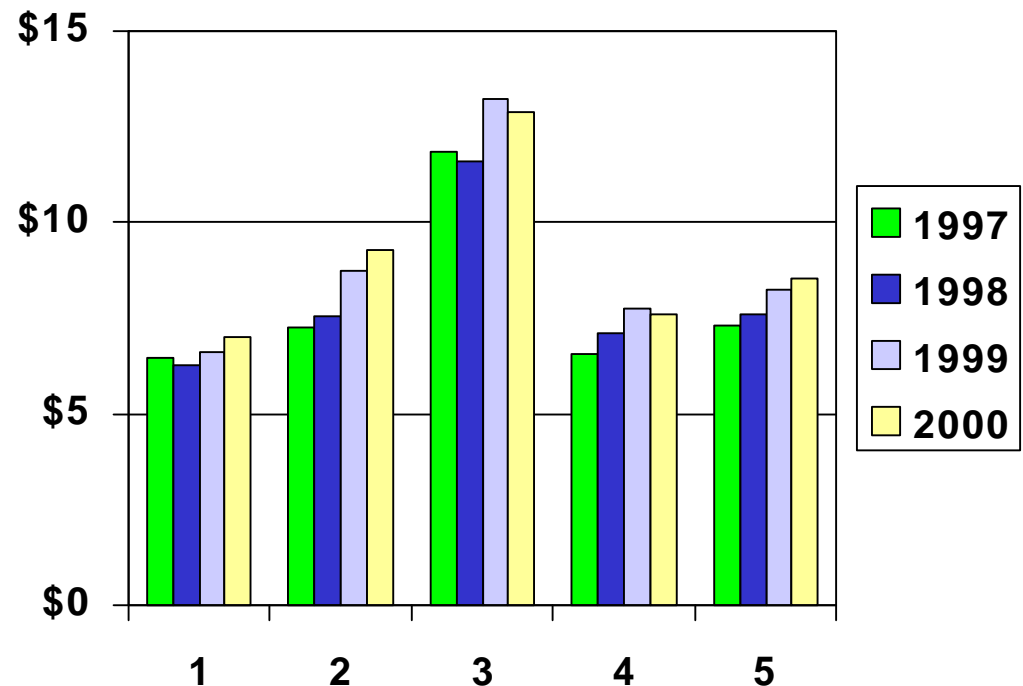
Overview: Higher Costs for Some \$1000 Balances

Average fees again increased marginally for 3 of the 5 profiles in 2000.

7 of the 15 institutions made no changes to their fee structure.

Four institutions raised fees for Profiles 1 and 5, whereas six institutions lowered fees for profile 4.

Service Charge Costs for Account Balances of \$1000, 1997 - 2000



This graph shows the average monthly price of the lowest cost accounts.

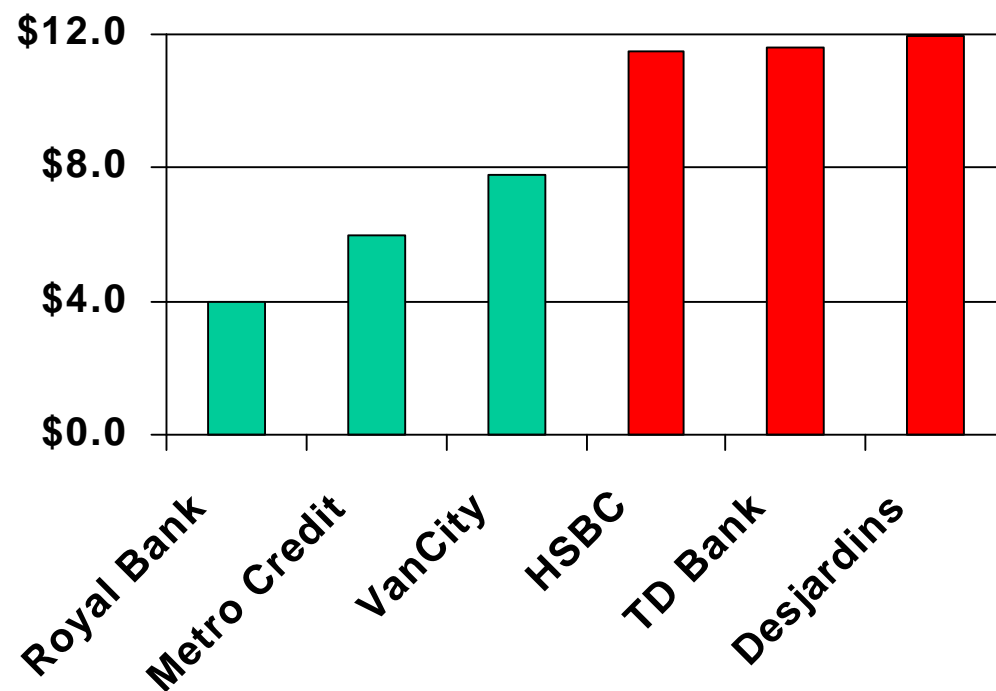
Profile 1: Minimal Transaction Consumer

Over the last four years, service charges have remained quite steady for this profile.

For those with less than a \$1,000 balance, costs ranged from \$4.00 at Royal Bank to \$11.95 at Desjardins in 2000.

Royal Bank significantly reduced fees for this profile in 2000.

Service Charges for Low Volume Users (<\$1,000 Balance), 2000



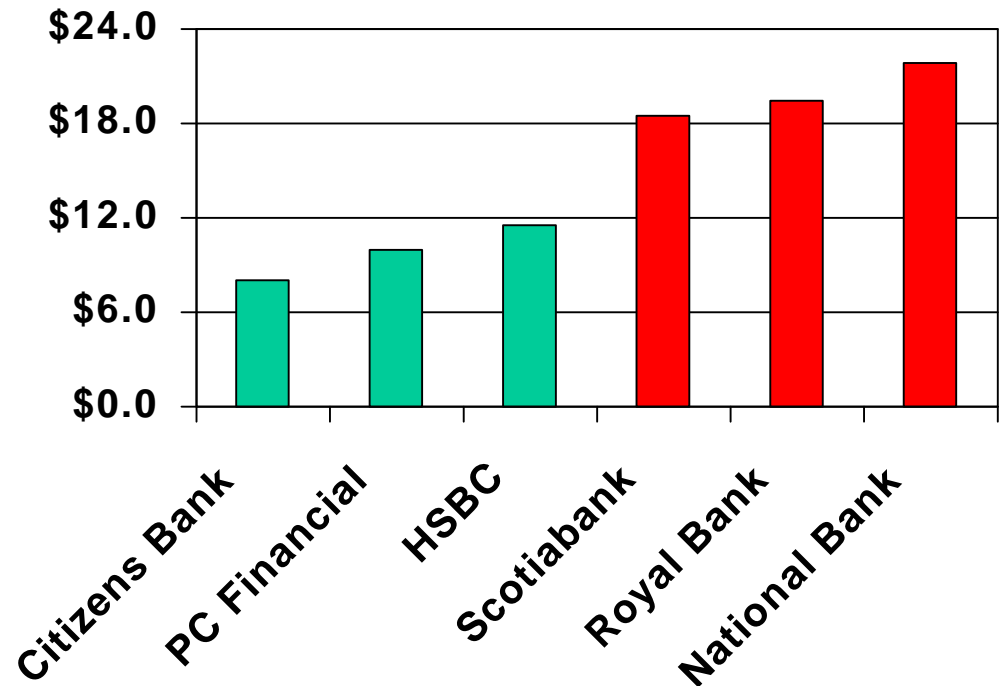
This graph shows the 3 cheapest and 3 most expensive lowest cost accounts for profile 1 with balances under \$1000.

Profile 3: Convenience Consumers

Regardless of balance held, convenience consumers pay the highest service fees:

Those with less than a \$1000 balance can spend upwards of \$20 per month. These consumers will find the lowest costs at one of the virtual banks.

Lowest* and Highest Costs for Convenience Users (<\$1000), 2000



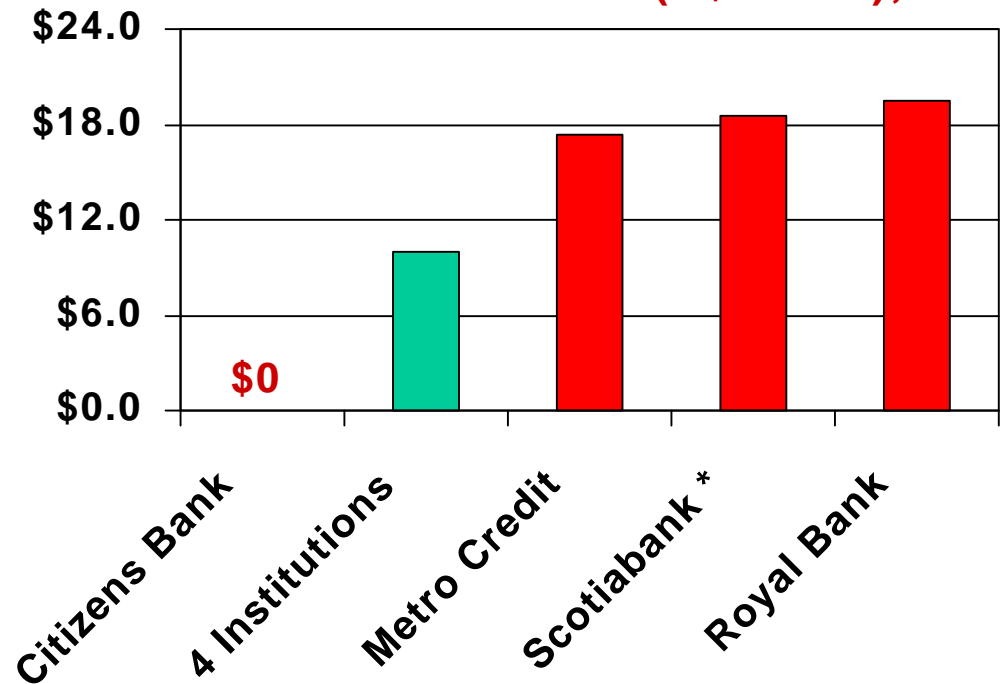
This graph shows the 3 cheapest and 3 most expensive lowest cost accounts for convenience users with balances under \$1000. *An account for \$10.10 is offered to Laurentian customers living outside Quebec.

Profile 3: Convenience Consumers

For \$1000 balance holders, Citizens Bank is the only bank in Canada to offer unlimited free (i.e. no monthly fees and no transaction fees) use of the Interac Service*.

*This offer is available at some other institutions if a substantially higher minimum monthly balance is maintained.

Lowest and Highest* Costs for Convenience Users (>\$1000*), 2000



This graph shows the 3 cheapest and 3 most expensive lowest cost accounts for convenience users with balances over \$1000. * Scotiabank fee is reduced to \$10 for those holding a \$2000 balance. Laurentian offers an account for \$9.45 to customers outside Quebec.

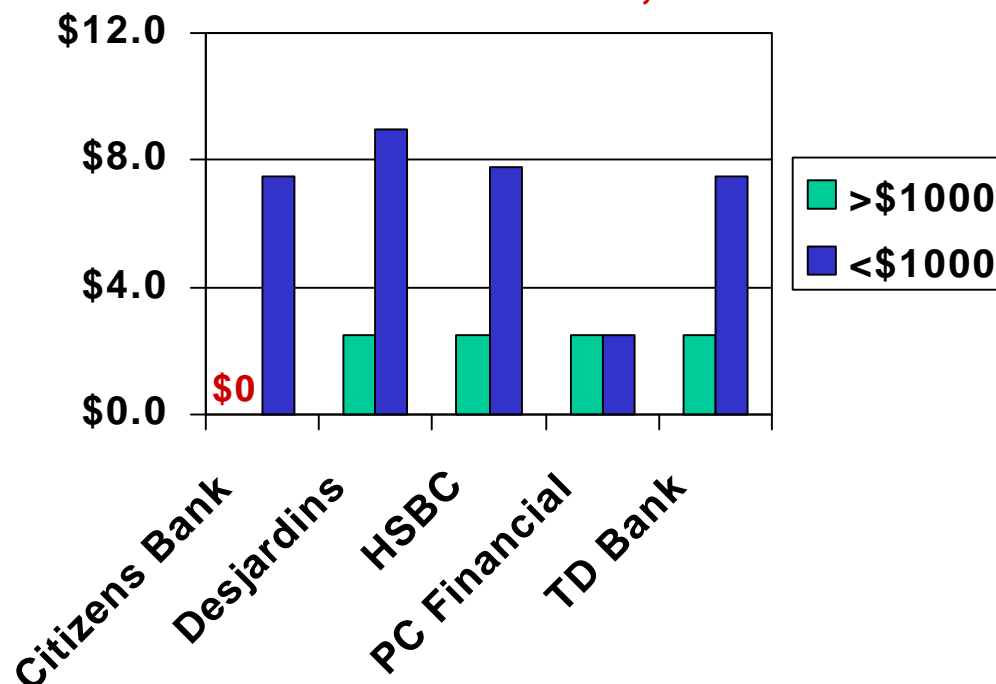
Profile 4: Connected Consumers

Overall, electronic banking offers some of the lowest cost accounts.

For less than \$1,000 balance holders, PC Financial offers the cheapest account.

For those with a \$1,000 balance, Desjardins and HSBC reduced fees significantly in 2000.

Lowest Costs for Connected Users* , 2000



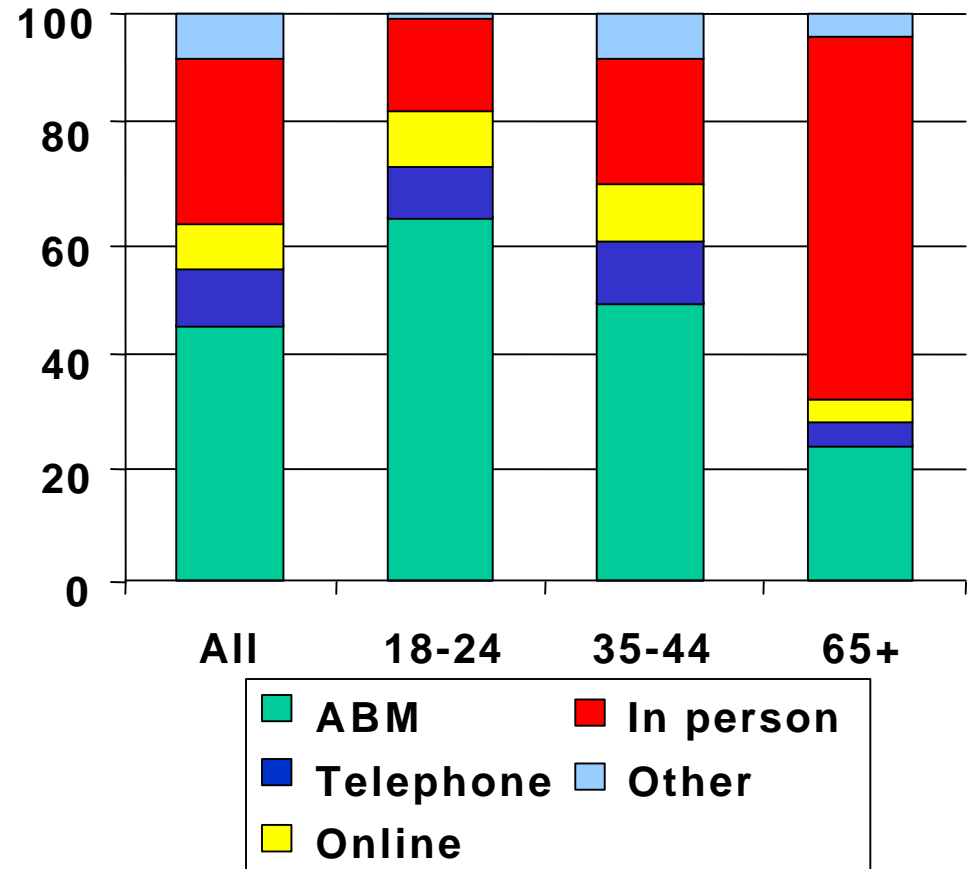
This graph shows the 5 cheapest lowest cost accounts for connected users with a minimum \$1000 balance. *Scotiabank charges \$2.50 with a minimum \$2000 balance.

Profile 4: Connected Consumers

Low costs for online banking is good news for younger Canadians:

The Canadian Bankers Association reports that 83% of Canadians aged 18 to 24 report e-banking as their primary means of conducting financial transactions.

Primary Means of Conducting Majority of Financial Transactions



Source: Canadian Bankers Association.

Summary: Shopping Around Pays Off !

For each profile, a wide range of prices exist between the lowest cost accounts at the 15 financial institutions.

But for consumers that do not wish to switch banks, significant savings can also be realized by choosing the most appropriate account at your current bank.

Annual Savings for Choosing the Cheapest Account – Same Institution, 2000



This graph shows an example of the potential savings (at a typical full serve bank) by choosing the most appropriate account.

Part 3

Major Fee Structure Changes Introduced in 2000



Major Fee Structure Changes Introduced in 2000

Although the average fee charged by the 15 institutions did not change dramatically for any profile, there were some important developments at individual institutions:

Royal Bank* significantly reduced monthly fees for three of the five consumer profiles.

Scotiabank* increased the threshold on their Minimum Monthly Balance (MMB) fee waiver to \$2000 (from a MMB fee waiver of \$1000 in 1999).

This move by Scotiabank follows a recent trend among the Big 5 banks to eliminate fee waivers or to increase their threshold.

*See annex for more details.

Part 4

The TD – Canada Trust Merger



TD – Canada Trust Merger

TD Bank and Canada Trust pledged to freeze fees in 2000. They lived up to this promise. However, TD will adopt the Canada Trust fee structure on March 1st, 2001.

The impact these changes will have on current TD customers is complicated, and will depend on 3 factors:

- 1. What account they are switched to;**
- 2. Their monthly transaction behaviour; and**
- 3. The minimum monthly balance they hold.**



The New Account Fee Structure

Some general observations on the new account structure:

The price of most individual transactions (in-branch or electronic) will increase.

Higher minimum monthly balances* must be maintained to waive monthly fees for unlimited use.

Low balance holders that do a high number of transactions will likely experience higher fees.

High balance holders will likely experience lower fees. (e.g. those holding \$5,000 will pay no monthly fee and no transaction fees).

*See annex for more details.

The Impact on Fees for the 5 Consumer Profiles

	Minimum Balance = \$499			Minimum Balance = \$1000		
	TD 2000 ¹	TD - CT 2001 ²	Preferred Chequing ³	TD 2000	TD - CT 2001	Preferred Chequing
Profile 1	\$11.60	\$6.95	\$10.00	\$5.20	\$3.00	\$0.00
Profile 2	\$12.00	\$12.95	\$20.50	\$5.10	\$9.50	\$2.50
Profile 3	\$12.00	\$22.95	\$33.50	\$10.00	\$12.95	\$10.00
Profile 4	\$7.50	\$15.45	\$21.00	\$2.50	\$12.95	\$2.50
Profile 5	\$12.00	\$9.95	\$16.50	\$6.50	\$7.00	\$0.00

¹ The lowest cost account available to new customers of TD in 2000.

² The lowest cost account available to new customers of TD as of March 1st, 2001.

³ The Preferred Chequing Account is offered to current TD customers with the Money Manager, Moneybuilder and Personal Chequing Account. This account will no longer be offered for sale to new customers after March 1st, 2001.

Part 5

Focus on Canadian Virtual Banks



Focus on Canadian Virtual Banks, 1997+

In the last 5 years, electronic banking has become increasingly popular with Canadian consumers. Traditional institutions have implemented telephone and computer access to satisfy demand for this type of service.

In addition to traditional banks, new virtual banks have entered the market in the last 5 years – these virtual banks offer increasing choice in the Canadian market and appear to be filling a niche market for electronic services.



Virtual Banks: Lower Costs and Expanding Services

Virtual banks offer lower costs and expanding services for customers who do not need to use in-branch services:

Regardless of balance, the two virtual banks in our sample of 15 ranked the lowest and 2nd lowest costs for Profile 3 (Convenience) and Profile 4 (Connected).

Cost and Ranking of Virtual Banks for Convenience and Connected Consumers, 2000

	Profile 3: Convenience		Profile 4: Connected	
	< \$1000 Cost : Rank	\$1000+ Cost : Rank	< \$1000 Cost : Rank	\$1000+ Cost : Rank
Citizens Bank	\$8.00 : 1 st	\$0.00 : 1 st	\$7.50 : 2 ^{nd*}	\$0.00 : 1 st
PC Financial	\$10.00 : 2 nd	\$10.00 : 2 ^{nd*}	\$2.50 : 1 st	\$2.50 : 2 ^{nd*}

*Represents a tie in ranking.

Virtual Banks: Filling a “Niche” Market

In addition to offering very competitive bank accounts, PC Financial and Citizens Bank offer an increasing range of services – such as personal loans, mortgages and RRSPs.

In addition, these banks also offer unique/niche services:

PC Financial offers the ability to earn “PC points” which can be redeemed for groceries.

Citizens Bank publishes a comprehensive ethical policy which is used to guide investment decisions.



ING DIRECT

Another prominent virtual bank in Canada is ING DIRECT. This institution is not included in our sample because it does not meet the requirements of any of our 5 profiles (e.g. bill payments, cheques, etc.).

ING DIRECT, which entered the Canadian scene in 1997, initially offered a high-rate savings account (with an interest rate comparable to those obtained for GICs).

ING DIRECT has since expanded to offer other services, including mortgages, personal loans and GICs.





CONCLUSION



- 1. On average, fees remained stable in 2000.**
- 2. But these averages masked significant changes that occurred at individual institutions in 2000:**
 - some fees have been reduced, in one case significant across the board reductions have been made;**
 - others have increased fees for services or types of accounts; and**
 - costs have remained stable for “minimal transaction” (often low income) consumers and have fallen for connected consumers.**
- 3. In an increasingly common trend among the Big 5 banks, one institution raised the threshold to their minimum monthly balance required to benefit from reduced fees.**



- 4. The impact of the new account structure on fees resulting from the TD – Canada Trust merger is complex – some customers will be better off, some will not be.**
- 5. The new virtual banks offer targeted services that can yield significant savings – if they suit your banking habits.**
- 6. The bottom line: there is a lot of choice and you can save by shopping around – but getting an inappropriate account can incur significant costs.**
- 7. Canadians seem to be getting the message about shopping around – in recent years the proportion of consumers citing service fees as the reason for switching financial institutions has grown.**



Annex



Financial Service Charges: 3rd Annual Report, 2001



Annex 1: Scotiabank

Impact of Increase to the Minimum Monthly Balance (MMB) Fee Waiver on Service Fees at Scotiabank, 2000

Profile	<u>1999</u> Minimum Balance of \$1000	<u>2000</u> Minimum Balance of \$1999	<u>2000</u> Minimum Balance of \$2000
1: Minimal	\$5.20	\$10.95	\$6.00
2: Average	\$5.10	\$13.45	\$5.50
3: Convenience	\$10.00	\$18.50	\$10.00
4: Connected	\$2.50	\$11.00	\$2.50
5: Prosperous Branch	\$6.50	\$10.95	\$7.50

Annex 2: Royal Bank

Impact of New Pricing Structure* on Service Fees at Royal Bank, 2000

Profile	Lowest Cost Account in 1999	Lowest Cost Account in 2000
1: Minimal	\$9.20	\$4.00
2: Average	\$12.00	\$9.00
3: Convenience	\$19.50	\$19.50
4: Connected	\$12.00	\$11.50
5: Prosperous Branch	\$9.50	\$4.50

*Royal Bank does not offer an incentive to hold minimum balances. Hence, the above figures apply to all Royal Bank customers regardless of their minimum monthly account balance.

TD: Minimum Balance versus Monthly Transactions

Account	NEW	FEE	Min. Bal. To Waive Fee	TRANSACTIONS
Money Manager ¹		n/a	\$1000	Unlimited Self OR Full Serve
TD Access Plan ²		\$5.00	n/a	Unlimited Self Serve
Value³	X	\$3.95	\$1000	10 Self Serve; 4 Full Serve
Self Serve³	X	\$6.95	\$1500	20 Self Serve
Full Serve³	X	\$9.95	\$2000	25 Self Serve OR Full Serve
Infinity³	X	\$12.95	\$3000	Unlimited Self Serve
Select	X	\$24.95	\$5000	Unlimited Self OR Full Serve

¹ No monthly fee – transaction fees are waived if \$1000 balance held; otherwise self-serve are 40 cents each and full-serve and cheques are 60 cents each.

² Monthly fee of \$5.00 cannot be waived. Unlimited self-serve (regardless of balance; full-serve are 60 cents each (first two are free and 2 free per payroll credit).

³ Monthly fee is waived if minimum balance is held. All accounts charge 50 cents for additional self-serve and \$1.00 for additional full-serve except the Infinity account which charges an additional 50 cents per transaction for exceeding limit.



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