Competition in Canadian Retail Banking

Proposals for market reform

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Summary

Regulators and firms within the Canadian banking sector maintain a stable and secure financial system, which provides enormous benefit to the Canadian economy. However, regulators and the major retail banks (the 'Big 5') are failing to provide Canadians with competitive retail banking services which is costing Canadians hundreds of dollars extra per year for inferior services and slow innovation.

We analyse the Canadian retail banking market with a comparative analysis of the retail banking markets in the UK and Australia. We demonstrate that Canadian retail banking customers incur higher fees, are provided inferior services with slow innovation relative to customers in the UK and Australia. We conclude that these outcomes demonstrate instances of market coordination between Canada's major retail banks.

We provide regulatory proposals to improve competition in retail banking. We find that current Canadian regulatory expenditure is inadequate to achieve sufficient competition oversight and that increasing regulatory expenditure will generate significantly more in savings for Canadian consumers.

About us

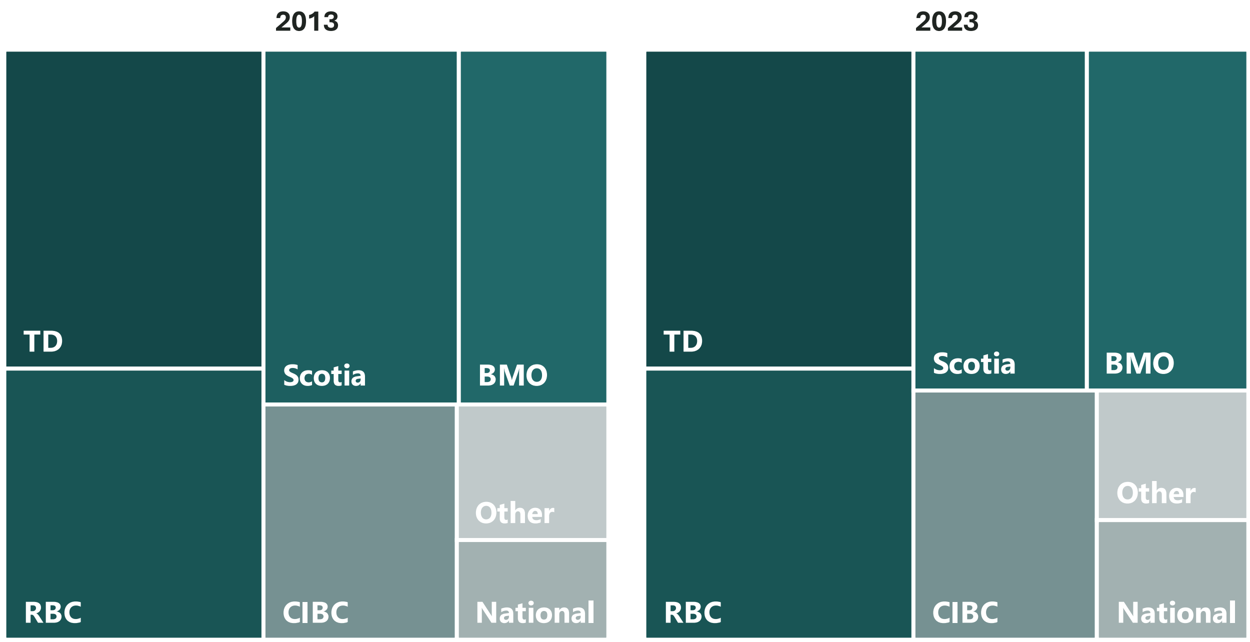
North Economics is an economic consultancy based in Alberta, Canada. This report is part of our efforts to realise greater competition across key Canadian sectors.

Retail banking in Canada

Canada's Big 5 dominate the retail banking market

The Canadian retail banking market is dominated by the '*Big 5*' banks, which hold 90% of Canadian deposits and have remained the dominant incumbents in the retail banking market for a long time (see Figure 1).[1]

Figure 1: Banking deposit market shares, 2013 and 2023



Source: OSFI.

The Canadian Bankers Association (CBA), the industry association for Canadian Banks, states:[2]

> *"For consumers and businesses, Canada's competitive banking system provides good value, ready access and wide choice"*

However, the Competition Bureau recently wrote that it finds Canadian financial markets are typically highly concentrated with high barriers to entry and expansion, and that conditions in these markets "*may facilitate coordinated behaviour among firms*".[3] Moreover, the Deputy Prime Minister and Minister of Finance recently described non-sufficient funds (payment failure) fees as "*junk fees*" due to their excessive level and has signalled an intention to see them reduced (this has not yet happened at the time of publishing).[4]

In this paper, we show that multiple retail banking market outcomes reflect coordinating rather than competitive behaviours. We use comparative analysis to retail banking markets in the UK and Australia. We also propose regulatory interventions and reforms to better promote competitive market outcomes.

Market conditions that allow coordination among firms to occur

Oligopolistic coordination refers to cooperative rather than competitive behaviours between a small number of large firms in a market. An unregulated monopoly can charge high prices and generate substantial profits where high barriers to entry into a market exist. Therefore, in highly concentrated markets with high barriers to entry, a small number of large incumbent firms can generate higher profits if they can coordinate their market actions to achieve outcomes akin to a monopoly rather than if they compete among themselves on prices and service offerings.

Coordination does not require active agreements between incumbents (which is unlawful). For example, there can be a leader-follower understanding between firms or an expectation of consensus action in which each firm expects the others to react similarly. These expectations, if not made through explicit agreements, can form where a limited number of large incumbents remain in a market for a long time.

Coordination can occur when service offerings are principally homogenous and are public knowledge, when firms have credible deterrent strategies to deviations (i.e. intense competition), and where external factors cannot (or do not) interfere, e.g. there are high barriers to entry and expansion, and insufficient regulatory oversight. The Canadian retail banking market has characteristics that enable coordinated behaviours to exist between the incumbents.

Market outcomes of oligopolistic coordination

The expected market outcomes of coordinated behaviours across dominant incumbents can be best understood by comparing against the expected market outcomes of competitive market actions.

Prices – Competitive pricing is strategic decision-making in which a firm expects other firms to undercut its prices, if possible, i.e. where their costs would allow it to do so profitably. Even in markets with few, large incumbents if a firm expects another to undercut it if possible, or that a new entrant would be able to successfully undercut their prices, then competitively set market prices will reflect (to varying extents) the incremental costs of supply. These are the lowest possible prices at which firms are willing to supply consumers in the long run.

By contrast, coordinated pricing is strategic decision-making in which a firm expects other firms to react similarly even if it is possible to undercut. Therefore, coordinated pricing can sustain market prices above incremental supply costs and generate higher profits for all firms.

Goods/ service offerings – a competitive strategy would try to constantly improve the quality of its service offerings given pricing constraints, innovate new products, or effectively differentiate offerings from other firms in the hope of gaining customers, even in the short-run.

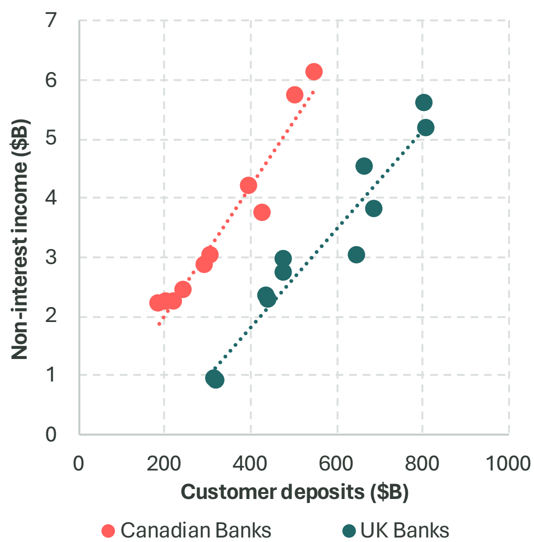
By contrast, a coordinating strategy would seek to maintain existing service offerings and closely match other firms' offerings. A coordinating strategy would not seek to aggressively attract customers from other firms.

In summary, sustained coordination can lead to high prices, little meaningful choice between firms and low levels of innovation.

High fees

The Big 5 generate significantly higher customer fees than UK major retail banks

Figure 2: Retail bank non-interest income and consumer deposits, 2021 and 2022



Source: 2022 annual reports.

Retail banks make revenues through two primary streams: (i) **interest income** is the difference between the interest received on loans made and the interest paid on sources of funding (e.g. customer deposits), (ii) **non-interest income** is primarily generated from customer fees for retail banking services.[5]

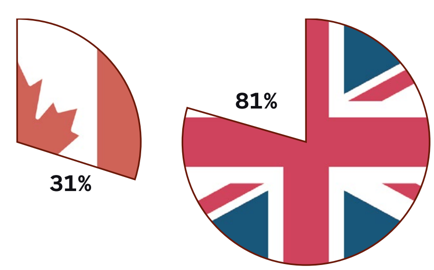
Figure 2 plots non-interest income and average customer deposits for the Big 5 and major UK retail banks. The Big 5 make significantly higher customer fees, relative to the size of customer deposits, than major UK banks. For example, an institution holding $400 billion of consumer deposits earns fee-related revenues of $2 billion in the UK but $4 billion in Canada.

The rest of this section describes some of the ways in which the Big 5 make significantly more in customer fees. The following section reviews some of the service offerings provided by the Big 5.

Chequing account service fees are far more prevalent in Canada than the UK

The CBA reports that 3 in 10 Canadians pay no service fees for their chequing accounts.[6] The study that estimated the 3 in 10 statistic (31%) include zero-fee offers for specific demographics that are unavailable to general consumers (seniors, students, youths, new Canadians) and also counts those customers who meet their bank's eligibility requirements to waive monthly service fees, i.e. holding multiple products or maintaining a minimum account balance. It is highly likely, therefore, that less than 3 in 10 Canadians use zero service fee chequing accounts. In fact, we are confident that this is highly likely because none of the Big 5 offer a zero-service fee chequing account option that is generally available to all customers.

Figure 3: Proportion of consumers that do not pay service fees for chequing accounts



Source: CBA 2023/ Abacus Data, 2016; and UK Financial Conduct Authority, Financial Lives 2022.

By contrast, 8 in 10 consumers in the UK do not pay service fees for a chequing account. UK consumers do not expect to have to pay service fees for a chequing account. Moreover, UK consumers are offered materially better account services than Canadian consumers whether comparing zero fee or fee-paying chequing accounts. In Australia, three of the four major retail banks offer zero service fee chequing accounts to all consumers.

Payment failure fees are considerably higher than in the UK or Australia

Figure 4: Payment failure fees, C$ per instance

Source: Bank websites.

The Minister of Finance and Deputy Prime Minister, the Honourable Chrystia Freeland, announced in October 2023 that the Canadian government has "*issued direction* [to Banks] *to lower NSF fees*". NSF fees ('non-sufficient funds' fees) are a ***per transaction*** charge issued to customers when their account balance is too low for a debit transaction to be met. This can occur with lapses in financial management (e.g. failing to move money into a chequing account in time for a monthly bill); but can often occur for consumers that live paycheque-to-paycheque.

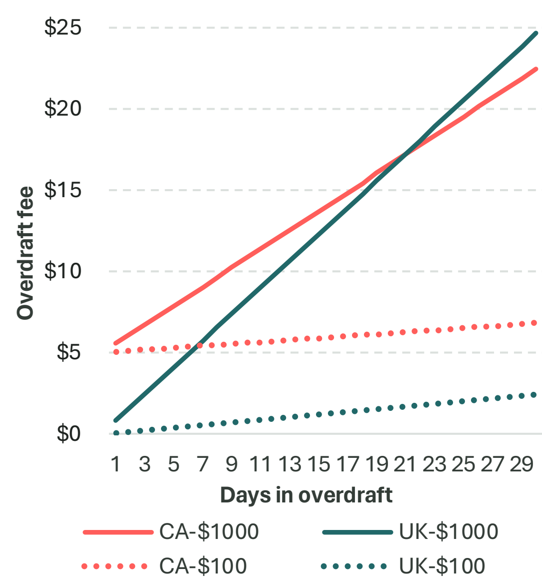
The Big 5 have set NSF fees at either $45 or $48 per instance. This is an extremely high level and a narrow range. By comparison, major retail banks in Australia and the UK have set equivalent fees to between $0 and $5 (see Figure 4).

In the UK in 2019, the banking regulator (the Financial Conduct Authority, 'FCA') explicitly required UK banks to set payment failure charges (called 'refused payment' fees) at a level that "*reasonably correspond to the costs of refusing payments*". Consequently, most of the major UK retail banks have set these fees at $0 with some banks charging around $4 per instance.

Big 5 overdraft facilities result in significantly higher overdraft costs

The Big 5 offer near-identical arranged overdraft fee structures. These consist of a fixed charge component and a variable interest component. Canadians can typically choose between a monthly fixed charge of $5 whether the overdraft is used or not, or a $5 *per instance* fixed charge, i.e. 5 debits with an account balance in the arranged overdraft will result in a total of $25 in fixed overdraft fees. Current variable interest is charged at an annual rate of 21% or 22%.[7]

Figure 5: Monthly overdraft fee scenarios, one debit transaction per month



Source: North Economics calculations.

Figure 5 describes total overdraft fees for a single debit transaction into an arranged overdraft of $100 or $1,000 for Canadian and UK consumers. Canadians pay substantially higher overdraft fees than UK consumers except in a scenario where a large single debit transaction into an overdraft persists for more than 20 days. The UK regulator banned fixed overdraft charges in 2020 so that UK consumers face only a variable interest rate component when using an arranged overdraft.[8]

Table 1 shows typical annual overdraft fees under various consumer scenarios using the two Canadian fixed charge options and a typical UK overdraft facility (some UK banks offer zero interest on initial overdraft amounts up to £500, this is not reflected in these calculations).[9] Canadian overdraft fees include fixed charges and variable charges at an (simple annual) interest rate of 22%. UK overdraft fees consist only of a variable charge using an (simple annual) interest rate of 33.5%, which is the upper range of the overdraft interest rates charged by major UK retail banks.

Consumers are materially worse off with Canadian overdraft facilities, except for individuals under severe financial pressures, for whom UK banks are required to develop and implement a strategy to reduce repeat overdraft use.[10]

Table 1: Total annual overdraft fees

Scenario	**Canada**		**UK**
	$5 monthly charge	*$5 per debit charge*	
Never use arranged overdraft	$60	$0	$0
One debit into overdraft each month to $200, paid in 3 days each time	$64	$64	$7
Three debits into overdraft each month to $1,000, paid in 7 days each time	$111	$232	$77
Five debits into overdraft each month to $2,500, paid in 14 days each month	$315	$557	$388

Notes: Assumes Canada variable interest rate of 22% and UK variable interest rate of 33.5% (39.9% APR). UK calculation assumes no zero-interest initial overdraft amount.
Source: North Economics calculations.

High fees across retail banking products are symptomatic of market coordination

The Big 5 extract significantly more fees, relative to the customer deposits held, than major UK retail banks. This is drawn from a significantly higher propensity of fee-paying chequing accounts, and higher service charges in Canada (in some cases, substantially).

Most Canadians pay monthly service fees for their chequing accounts; none of the Big 5 offer a zero-fee chequing account option that is available to all customers (but do offer fee waive conditions). Most UK chequing account holders do not pay monthly service fees. We expect that a significant amount of the Big 5's non-interest income comes from monthly service fees.

Monthly service fees also provide a significant financial deterrent for consumers to hold multiple chequing accounts across the Big 5. UK consumers hold 1.9x chequing accounts per person on average: many UK customers will hold accounts across two or more of the major retail banks, which makes it simpler for UK consumers to switch out their primary banking institution.[11] Consumer switching behaviour is an important component of competitive markets. Other major impediments for consumer switching behaviour exist in Canada, for which solutions have been implemented in other jurisdictions, e.g. see discussion on consumer switching processes below.

Competitive markets prevent prices from significantly exceeding the cost of supply for identical or highly similar services due to competitive behaviours that would undercut excessively high prices until prices reached towards incremental supply costs. Payment failure (NSF) fees are an example of Canadian retail banking fees that do not reasonably reflect service costs. Therefore, this is a clear example of sustained oligopolistic coordination in the Canadian retail banking sector.

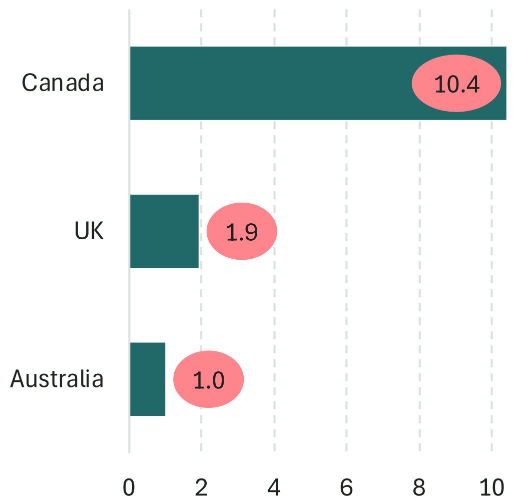
UK banks are required to justify to the regulator that payment failure fees correspond to the direct costs of refusing a payment. This is regulatory oversight intended to achieve an outcome expected of competitive markets. This regulatory requirement was instituted in 2019, most major UK banks no longer charge for failed payments given that the process is almost entirely automated. Payment failure fees are at similar levels in Australia.

Overdraft facilities are another example of where the Big 5 are likely to collect higher fees than UK retail banks. The fixed charge component that each of the Big 5 use will generate significant overdraft fees for temporary overdraft usage. Each of the Big 5 typically offer two varieties of fixed overdraft charges – a monthly $5 charge or a $5 per debit charge. The monthly option means that consumers will pay at least $60 per year whether the overdraft facility is used or not, while the per debit option creates a significant financial risk for consumers from multiple overdraft debit instances. Fixed overdraft charges create disproportionate costs for consumers for borrowing small amounts across short time periods. UK banks are not permitted to charge fixed overdraft fees.

Inferior services and slow innovation

Canada relies on cheques far more than the UK or Australia

Figure 6: Cheques processed per person per year, 2022



Source: Payments Canada 2023, UK Finance 2023, Australian Government Treasury 2023.

The first known recorded use of a cheque was in the 17th century. These are an analogue payment system that the UK and Australia have almost entirely moved away from. Figure 6 shows **5x** more cheques per person were processed in Canada than in the UK in 2022 and over 10x more than in Australia. Canada processed 405 million cheques in 2022; this was 129 million in the UK and just 27 million in Australia.[12]

Canadian federal rules allow banks to hold funds deposited by cheque for 4 to 8 business days before it is cleared into an account. Banks can choose to extend credit to an account beforehand, but this can be recalled if the cheque does not clear. In the UK, cheques have been largely replaced by the digital "*Faster Payments System*". Online banking payments clear within hours (often instantaneously) with daily transaction limits between $30,000 and $170,000 without transaction fees (for domestic transactions).[13]

The nearest equivalent digital payment system in Canada is the Interac e-*Transfer* system.[14] Canadian banks typically impose much lower daily and per transaction value limits, e.g. $3,000 per day and $30,000 per 30 days.[15] In 2022, the Interac e-Transfer system processed 1.04 billion payments, while the UK's Faster Payments System processed 3.89 billion payments.[16]

Chequing account service offerings are inferior in Canada

Table 2 shows typical available-to-all chequing account service offerings from the major retail banks in Canada, the UK and Australia. Each of the Big 5 offer a very similar schedule of four chequing accounts: with the two cheapest accounts offering restricted free debit transactions. All chequing accounts offered by the Big 5 require a monthly service fee. By contrast, zero service fee accounts are widely available (and commonplace) in the UK and Australia.

Fee waiver conditions in Canada are on worse financial terms than in the UK and Australia. Canadian banks waive monthly service fees when a minimum balance is maintained throughout the month. This represents an interest loss for Canadian account holders (because interest is not paid on positive chequing account balances). By contrast, fee waive conditions in the UK and Australia require a minimum monthly deposit amount, i.e. incentives to maintain active use of the account, rather than a minimum balance in the account. Moreover, UK fee-paying accounts will often pay interest on positive balances.

Across these markets, it is only in Canada that any chequing accounts have monthly restrictions on the number of free debit or electronic transactions. Unlimited free debit and electronic transactions are provided as standard in the UK and Australia. Consequently, it is only in Canada that "*unlimited debit/ e-transfer transactions*" are used in marketing materials for chequing accounts.

The higher service fee tiered accounts in Canada offer fewer benefits. UK chequing accounts with monthly service fees around $17 (around £10) provide positive balance interest and insurance products for travel (often for an entire family), roadside vehicle assistance and cellphone damage and repair. The highest tiered chequing accounts in the UK provide these services plus additional services such as airport lounge access and a 24/7 concierge service, i.e. to find and book cheaper concert/ cinema tickets, restaurant reservations and vehicle rentals, etc.

Table 2: Indicative chequing account service offerings in Canada, UK, and Australia

	Monthly fee	Fee waive condition	Debit transaction fee	E-transfer fee	Purchase reward schemes	Better interest rates	Rebates on other service fees	Balance interest	Insurance (travel, roadside, phone)	Airport lounge access	24/7 concierge service
Canada											
Basic	$4	-	12p/m@$0, $1.25	$0-$1.50	N	N	N	N	N	N	N
Better	$7-$12	Balance ($3K-4K)	12-25p/m@$0, $1.25	$0	Y	N	N	N	N	N	N
Preferred	$17	Balance ($4K)	$0	$0	Y	Y	N	N	N	N	N
Premium	$30	Balance ($5K-$6K)	$0	$0	Y	Y	Y	N	N	N	N
UK											
No fee	$0	-	$0	$0	N	N	N	N	N	N	N
Low fee	$3	Deposit ($3.5K)	$0	$0	Y	Y	Y	Y	N	N	N
Mid fee	$17	-	$0	$0	Y	Y	Y	Y	Y	N	N
High fee	$30-$50	-	$0	$0	Y	Y	Y	Y	Y	Y	Y
Australia											
No fee	$0	-	$0	$0	N	N	N	N	N	N	N
Fee	$5	Deposit ($2K)	$0	$0	Y	N	N	N	N	N	N

Notes: Accounts available for all retail customers.

Source: Personal banking information from major retail banks' websites, December 2023.

Switching banks is more difficult and riskier for Canadian consumers

Switching banks in Canada requires consumers to undertake the switching process themselves. This includes opening a new account, arranging fund transfers from old to new accounts, switching all pre-arranged payments and receipts to the new account, and closing the old account. Failure to update any pre-arranged payment or receipt can lead to incurring penalty charges, e.g. NSF fees. Canadian banks do often provide financial incentives to switch to their institution; however, banks typically also charge closure fees. Canadian are encouraged to maintain written records of account closures.[17] In its 2023 RBC-HSBC Canada merger review, the Competition Bureau identified that Canadians are highly reliant on their primary banking relationship for everyday transactions and face "*significant costs and risks associated with potential disruptions upon switching providers*[18]".

By contrast, major UK retail banks offer the "*Current Account Switch Service*", which places the task and liability for correctly and fully switching payments and receipts, transferring balances, and closing old accounts onto the banks themselves (see Figure 7). UK banks also provide financial incentives to switch banks, while most UK banks do not charge to close bank accounts.

Figure 7: The UK Current Account Switch Service guarantee

Source: Pay.UK

Big 5 ATM surcharges are another barrier to entry

While the number of cash transactions is in decline, it remains an important payment option for many Canadians. The Interac ATM network is the largest in Canada and includes the ATMs of the Big 5.

Customers of a Big 5 bank may be charged to use an ATM at their own bank (in most instances they are not). However, they are charged to use another bank's ATM; the Big 5 each charge non-customers a '*convenience fee'* of between $1 and $5 (typically $3).[19] A customer's own bank may also charge a *'network access fee'* of between $2 and $3 per transaction to use another bank's ATM.[20] The Canadian government recognises that using a another bank's ATM will cost a consumer between $1 and $9 per transaction[21]; which is typically between $3 and $6 given standard '*convenience fees'* charged by each of the Big 5. Consequently, the largest free-to-use ATM networks in Canada are the ATM networks offered by each of the individual Big 5 banks (see Figure 8).

By contrast, customers in the UK and Australia are not charged to use the ATMs of other major retail banks, which creates much larger free-to-use ATM networks. In 2017, Australia's largest banks agreed to drop ATM charges for non-customers; previously, Australians were charged A$2 to use another bank's ATM.[22]

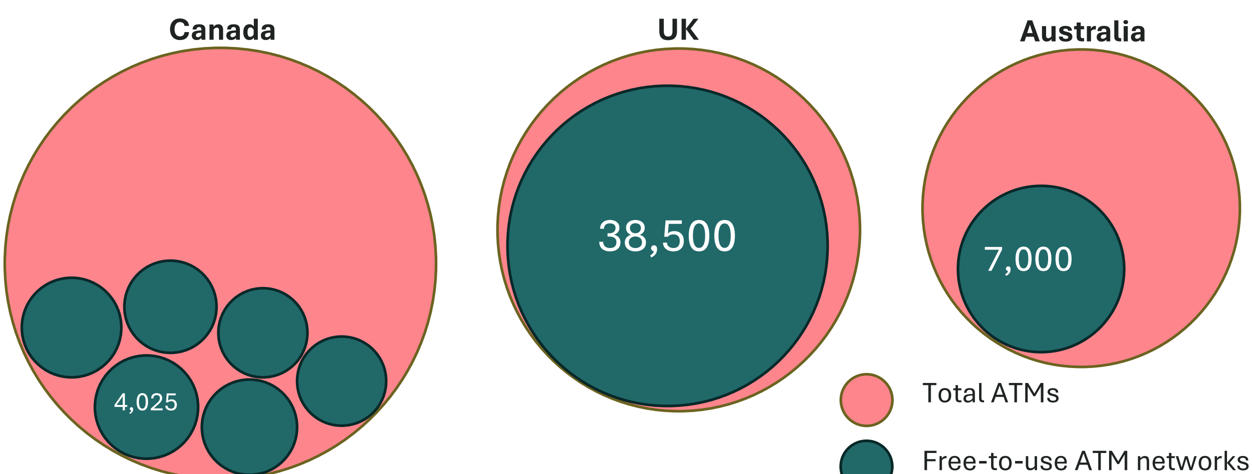
Such is the expectation of access to free ATM services in the UK, that the UK Treasury published a policy statement in August 2023 seeking to ensure free access to cash withdrawal and deposit services within five kilometres (three miles) of homes for 95% of the population.[23] 78% of all UK ATMs are free to use by any domestic customer.[24]

ATM operators incur costs to provide cash withdrawal and deposit services and appropriate compensation at the wholesale level must be achieved, i.e. between the customer's financial institution, payment network operator and ATM owner/ merchant. Canadian ATM operators already receive an interchange fee from the debit card issuer when a customer uses an ATM not belonging to their bank – set at $0.75 per transaction on the Interac network[25]. Interac describes this as:[26]

> *"intended to compensate the ABM Acquirer or ABM owner/operator for the service of providing cash to the Issuing FI's customer."*

The (significantly higher) additional '*convenience fee*' charged by the Big 5 as an ATM operator to a non-customer is not, therefore, a cost recovery charge. However, it acts to dissuade individuals from using ATMs not operated by their bank. This represents another barrier to entry in the retail banking market as customers of new entrants will not realistically have a network of free-to-use ATMs available to them.

Figure 8: Size of total ATMs and free-to-use ATM networks by country



Source: Canadian Bankers Association, 2022 annual reports, Reserve Bank of Australia, UK Parliament.

A way forward...

Canadians could save $8.5 billion per year from a more competitive market. Canada should significantly increase funding for financial services regulation

Using the performance of major UK retail banking operations as a competitive benchmark, we calculate that more effective retail banking competition can save Canadian retail customers more than $8.5 billion per year in fees, equivalent to $250 per adult Canadian per year (see Table 3).

Table 3: Calculation of excess retail customer fees in Canada, 2022

2022	**Big 5 CAD million**	**UK major retail banks GBP million**
Total retail non-interest income	18,014	9,604
Total retail customer deposits	1,707,626	1,595,295
Income/ Deposit Ratio (retail non-interest income/ deposits)	0.01055	0.00602
Big 5 retail non-interest income at UK Income/ Deposit Ratio (0.00602 x $1,707 billion)	10,280	
Excess retail non-interest income (Big 5)	7,734	
Big 5 total retail market share	90%	
Excess retail non-interest income (whole market)	**8,593**	

Source: 2022 annual reports for major Canadian and UK retail banks.

The total operating budgets of Canada's federal financial market regulators was approximately $400 million in 2022. The total of the operating budgets of the major provincial securities and capital market regulators is similar. By contrast, the operating budgets of the UK's financial market regulators was over $1,600 million, or around double the Canadian total. Funding for federal financial regulation could be increased dramatically from current levels and achieve multiple times more in consumer savings by overseeing more competitive market outcomes in Canadian financial markets, specifically retail banking.

Table 4: Annual operating budget/ costs of financial market regulators in Canada and the UK

2021/22 operating cost/ budget, CUR millions	Canada		UK	
Prudential	OSFI	$213	PRA	$505 (£297)
Consumer protection	FCAC	$37	FCA	$1,044 (£614)
Competition oversight	-	-		
Securities and capital markets (Provincial oversight)	OSC AMF (Quebec) BCSC ASC	$147 $148 $68 $44		
Anti-money laundering	FINTRAC	$77		
Payment systems	Payments Canada/ BoC	X	PSR (subsidiary)	$32 (£19)
Deposit insurance	CDIC	$69	FSCS	$165 (£96)
Competition investigations (general)	Competition Bureau	$60	Competition and Markets Authority	$200 (£117)

Sources: 2022 annual reports.[27]

Reorganise banking regulatory oversight with an explicit objective to monitor and promote competition

The main responsibility for Canadian financial services regulation is split across two regulators each of which ultimately report to the Ministry of Finance: (i) Office of the Superintendent of Financial Institutions (OSFI); and (ii) the Financial Consumer Agency of Canada (FCAC). The Bank of Canada has regulatory oversight responsibilities for certain financial market infrastructures including key payment systems; and the Competition Bureau can review proposed mergers and investigate anti-trust behaviours across the Canadian economy.

The OSFI is tasked with the prudential regulation of financial markets. They are required to monitor and moderate systemic risks to maintain strong and resilient financial markets. The FCAC's core responsibility is "*the protection of financial consumers*", which it describes as: (i) promoting, monitoring, and enforcing compliance of market conduct obligations on the part of regulated institutions; and (ii) strengthening the financial literacy and resilience of Canadians.

The OSFI ensures the Canadian banking system remains a stable and reliable institution for all Canadians and has an annual operating budget of over $200 million. FCAC is primarily focused on ensuring that banks correctly follow financial market procedures with its operating budget of $37 million, e.g. proper disclosure of financial product fees and charges, correct calculations of interest payments, and maintaining accurate records of consumers' financial transactions.

It is evident that monitoring and promoting effective competition by addressing coordinating behaviours and outcomes is not well-defined within either of these regulators' core responsibilities.

By contrast, one of the three statutory objectives of the UK's FCA is *promoting competition*.[28] Its three statutory objectives are:[29]

1. Protect consumers – secure an appropriate degree of protection for consumers;
2. Enhance market integrity – protect and enhance the integrity of the UK financial system;
3. Promote competition – promote effective competition in the interests of consumers.

Canada is missing a banking regulator that explicitly monitors and promotes competition across financial markets. The Canadian parliament should reorganise financial services regulatory oversight to include competition as a key objective. It should also provide greater regulatory powers and resources to address competition-related issues across financial services markets.

Reduce barriers to entry and expansion to increase competitive pressures on incumbents

Credible threats of market entry from new competitors incentivise incumbent firms to act more competitively. Significant barriers to entry reduce the new entrant threat and leave coordinating incumbents with little incentive to operate competitively. Similarly, barriers to expansion ensure that large incumbents face little competitive pressures from existing smaller institutions. There will always be entry barriers into financial markets that relate to mitigating systemic security risks, i.e. for access to key payment systems. Here are two recommendations to reduce important entry/ expansion barriers with no (minimal) issues around systemic security risks.

Reduce consumer risks and costs for switching primary banking supplier

Canadians incur costs (e.g. account closure fees, wire transfer fees) and material financial risks (i.e. switching all automatic payments/ deposits across to a new account) to switch primary banking supplier. This will discourage many customers from switching suppliers. Consequently, new entrants must expect attracting new customers will be slower and more costly than it could be otherwise.

The Canadian government should take lessons from the UK's *Current Account Switching Service* and ensure an account switching process is established to automate chequing account switching between financial institutions and transfer the responsibility and liability of account switching to the banks and away from customers.

Prohibit ATM convenience charges to reduce point-of-use ATM charges for non-bank customers

Big 5 customers can use their bank's ATMs for free at the point of use. New entrants into the retail banking market will not be able to offer an extensive ATM network to provide free at the point of use ATM services to its customers. The use of *'convenience charges'* by ATM operators to non-customers, which are not primarily a processing cost recovery fee, act as a deterrent to customers of new entrants from obtaining cash.

The Canadian government should enable new entrants the ability to offer free at the point of use ATM usage to its customers of new entrants by prohibiting '*convenience charges'* to non-customers.

ATM operators must be able to recover the costs of providing ATM services to non-customers from wholesale interchange fees charged to the customer's financial institution; and financial institutions should be able to charge their own customers for using other banks' ATMs if they wish to do so. However, a competitive new entrant may choose not to do so and absorb the interchange fee and other associated costs to provide their customers with access to free-to-use ATMs.

Require banks to demonstrate charges and fees are aligned with the cost of providing services

Markets with effective competition result in prices that reflect the incremental cost of providing a good or service. Therefore, it is appropriate for governments and regulators to assess whether charges for specific financial services reflect the incremental cost of providing those services.

Payment failure charges have been labelled "*Junk fees*" by the Deputy Prime Minister and Minister of Finance for their evident excessiveness.[30] Payment failure fees in the UK and Australia are between $0 and $^{1}/_{8}$th of Canadian charges. UK banks are required to demonstrate that these fees represent the direct incremental costs of processing failed payments.

Fixed overdraft charges can lead to disproportionate costs of borrowing for customers. We have shown that Canadians will incur significantly higher overdraft fees for most overdraft facility usage than UK customers because of the presence of fixed overdraft charges. The Canadian Government should review whether fixed overdraft charges reflect the incremental cost of providing an overdraft facility to customers.

Sources

1 These are BMO, CIBC, RBC, Scotiabank, and TD.
2 Canadian Bankers Association, Focus: Banks and Consumers – Focus sheet, October 2023.
3 Competition Bureau, Report to the Minister of Finance Regarding the Proposed Acquisition of HSBC Banks Canada by Royal Bank of Canada, ¶7.5.
4 Ministry of Finance, 2023 Fall Economic Statement, pg. 37.
5 customer fees include regular account fees, overdraft fees, transaction-related fees, foreign exchange fees, and payment processing fees.
6 Focus: Banks and Consumers | Focus: Banks and Consumers (cba.ca)
7 As of December 2023.
8 FCA confirms biggest shake-up to the overdraft market for a generation | FCA
9 Premier Bank Account | Premier Debit Card – HSBC UK
10 FCA confirms biggest shake-up to the overdraft market for a generation | FCA
11 Strategic Review of Retail Banking Business Models: Annexes to the Final Report 2022 (fca.org.uk)
12 Australian Government Treasury, Winding Down Australia's cheques system, December 2023
13 Online banking new/third-party payment daily limits: Natwest - £20,000; Nationwide - £25,000; Barclays - £50,000; HSBC - £25,000
14 There are some important differences between the UK Faster Payments System and the Interac E-transfer system including: (i) the technical transaction value limit is lower - $25,000 (Interac) versus £1,000,000 (Faster Payments); (ii) Interac requires active receipt (automated receipt can be set up) with penalty charges for non-delivery & expiry.
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