Report on the Banking Sector Study

THE GAMBIA COMPETITION & CONSUMER PROTECTION COMMISSION

GCCPC

Leveling the Field for Development

GCCPC Banking Report Study B.indd 1 02/02/2017 10:56

Table of Contents

EXECUTIVE SUMMARY **2**

INTRODUCTION **2**

Purpose and Scope of the Study 2

Study Methodology 2

Market Definition 3

The Banking Sector in The Gambia 3

Market Structure 5

Market share 5

Market concentration 7

FINDINGS AND DISCUSSION **8**

Existence of tied agreements 8

Identical fees/charges/interests 9

Delays in real-time gross settlement systems (RTGS) 9

High and unexplained service charges 9

Unjustified switching costs 10

Information asymmetry 10

Other Major Consumer Complaints 10

CONCLUSION **11**

RECOMMENDATIONS **12**

GCCPC Banking Report Study B.indd 1 02/02/2017 10:56

EXECUTIVE SUMMARY

The importance of the banking sector in The Gambia's economy, and its impact on other sectors, necessitates that it operates as efficiently and competitively as possible, so that consumers are not encumbered by artificially high prices, and capital markets become innovative and efficient.

The GCCPC carried out a market study of the banking sector, in line with Section 15 (k) of the Competition Act 2007 and Section 16 (1) (j) of the Consumer Protection Act 2014, to understand how the banking sector operates and to determine whether the operations of banks contravene any provision of the two Acts. The study looked at the scope of banking operations, the varied services and products banks offer customers, the market structure and the degree of competition and consumer satisfaction or otherwise.

Personal interviews were conducted with the management of all the banks operating in the country; management of The Central Bank of The Gambia which is the sector regulator; a number of businesses, and customers of banks. Questionnaires were administered using random sampling techniques. Relevant documents were also reviewed to provide secondary information.

The study found existence of tied agreements, delays in real-time gross settlement systems (RTGS), high and unexplained service charges, unjustified switching costs and information asymmetry. The Herfindahl-Hirschman Index (HHI) result revealed that the industry was moderately concentrated between 2012 and 2014.

In light of the findings, it is recommended that (1) an in-depth investigation be carried out on the issue of tying of retail loans to insurance policies; (2) financial guidelines be developed for the banking sector; and (3) a code of conduct which will enable customers to easily switch personal accounts from one bank to another be introduced.

INTRODUCTION

Purpose and Scope of the Study

The Secretariat of the Gambia Competition and Consumer Protection Commission (GCCPC), a statutory body established to enforce the Competition Act 2007 and administer the Consumer Protection Act 2014, conducted a market study of the banking sector, in line with section 15 (k) of the Competition Act 2007 and section 16 (1) (j) of the Consumer Protection Act 2014, to determine if the operations of banks contravened any of the provisions of the two Acts, and the extent to which the goods and services banks provide are favorable or adverse to consumers' interests.

The study was sparked by a growing public outcry over non-competitive interest rates, high bank charges and inadequate disclosure of information to customers. It was also intended to provide a thorough knowledge of the banking sector in The Gambia and to identify any anti-competitive practices and factors in the sector which negatively affected competition and adversely affected consumers.

The scope of banking operations in the country, the varied services and products banks offered customers, the market structure, barriers to entry into the sector, and the degree of competition, were the issues focused on by the study. Practices that consumers considered disadvantageous were also reviewed to determine whether they violated the Consumer Protection Act 2014. The study was limited to the period 2012 to 2014.

Study Methodology

Primary data for the study was obtained through personal interviews with the management of the banks, the sector regulator - Central Bank of The Gambia, businesses, banking consumers, and through

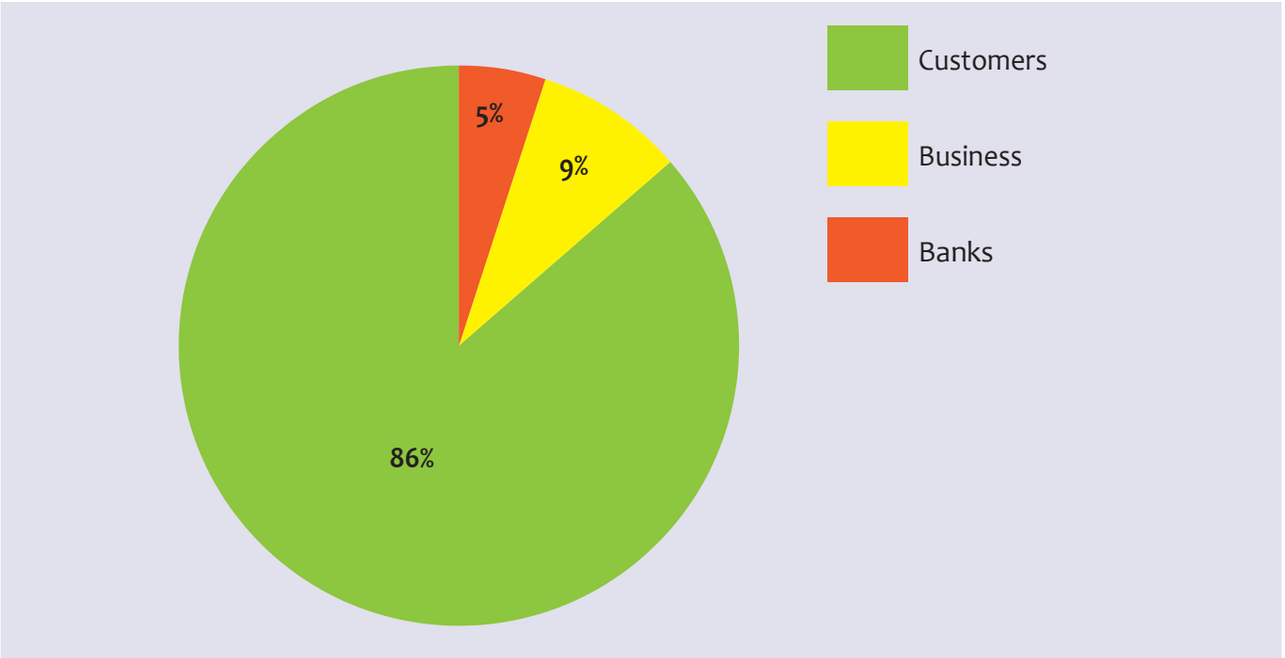
GCCPC Banking Report Study B.indd 2 02/02/2017 10:56

questionnaires administered using random sampling. The review of available relevant documentation obtained from the Central Bank of The Gambia and other banks, as well as the internet, provided the secondary information the study required.

Three sets of questionnaires were used: one for the banks, one for businesses, and one for consumers. Of the two hundred and thirty-two (232) completed questionnaires received and analyzed, two hundred (86% of respondents) were from individual account holders, twenty (9% of respondents) from business owners and twelve (5% of respondents) from the banks operating in the country. **(See Figure 1)**

The study analyzed the market share of individual banks for a possible monopoly situation. It also computed the market concentration using the Herfindahl-Hirschman Index (HHI) to determine the market structure.

Figure 1: Distribution of respondents



Data derived from completed questionnaires.

Market Definition

The market is defined by the product or service provided and the geographical space in which it is marketed or provided. In this case, the service is banking and the geographical market is The Gambia as an entity.

The Banking Sector in The Gambia

The banking sector in The Gambia has experienced significant growth over the years, most of the new entrants being subsidiaries of Nigerian banks. With a slow growing economy that is largely agriculture-based, and a relatively small population (about 1.9 million people), The Gambia presently has twelve different banks, a number which is disproportionate to the country's economic strength and the bankable population.

Of the twelve banks, eleven are conventional commercial banks and one operates on Islamic banking principles and practices. They provide a variety of goods and services which include trade finance and credit, dealings in foreign exchange and equity participation and deposits. Four banks dominate the banking sector, namely: Trust Bank Ltd., Standard Chartered Bank, Guaranty Trust Bank, and Ecobank. Trust Bank Ltd. is the leading/largest bank with 19% of assets and 25% of deposits held by it in 2014.

GCCPC Banking Report Study B.indd 3 02/02/2017 10:56

The profit recorded by the industry was **D166, 916,000, (D103, 086,000)** and **D469, 711,000** in 2012, 2013 and 2014, respectively. The total asset was **D17, 526,757,519, D20, 376,576,000** and **D24, 214,956,000** for 2012, 2013 and 2014, respectively. (See Table 2)

Table 2: Net Profits/Losses, 2012-2014

Banks/yr	2012 D'000	2013 D'000	2014 D'000
	Income	Income	Income
Zenith	32,135	1,994	36,248
FIB	3,093	14,500	5,380
Access Bank	(10,357)	(28,042)	27,808
Trust bank	109,466	113,926	161,102
GTBank	58,456	94,487	104,924
BSIC Bank	(50,958)	3,210	10,754
AGIB	11,728	1,392	12,711
FBN Bank	10,915	14,046	7,977
Mega Bank	(100,305)	(378,831)	(63,027)
Standard Chartered Bank	88,958	39,441	84,425
Skye Bank	3,686	(11,390)	(7,860)
Ecobank	10,099	32,181	89,269
TOTAL	166,916	(103,086)	469,711

Data derived from Banks' financial reports for the period.
Income means profit/loss after tax.

Since the 1980s, the need for competition in the banking sector has been emphasized to ensure that valuable services are provided to consumers, among other things. The political will to introduce and engender competition and protect consumers has been amply demonstrated by The Gambia Government through the enactment of the Competition Act in 2007 followed by the Consumer Protection Act in 2014.

In an effort to be competitive and ensure customer satisfaction, some banks are investing considerably in research and development, broadening their range of products, and differentiating their products and services from those of their competitors. Banks which have introduced Automatic Teller Machines (ATMs), internet banking facility, credit cards and other payment facilities at supermarkets, have been able to augment their customer base. Some banks are deploying considerable resources to reach out to more customers in as many neighborhoods and strategic locations as possible.

The importance of regulating the sector cannot be overemphasized. The Central Bank of The Gambia as the regulator of the sector has been vigilant and stringent in this regard. Its supervision activities have been reinforced and significant reforms introduced. The introduction and establishment of a Credit Reference Bureau (CRB) by the Central Bank is intended to bring about strong and transparent competition among banks and enable open and non-discriminatory access to credit data. Good quality credit data is required by banks to overcome an imbalance of information when assessing whether to lend to potential borrowers. However, some weaknesses exist in the CRB which can weaken competition. If customers' credit histories are not updated regularly and adequately, it makes it difficult for banks to know if a facility is fully repaid or not, which affects decision on credit requests. Not all banks adequately update information on the CRB in a timely manner.

The Gambia Bankers Association (GBA) plays an important role in the sector by serving as a liaison between the banks and Government, and providing a platform for banks to engage with each other to address issues affecting them.

GCCPC Banking Report Study B.indd 4 02/02/2017 10:56

Market Structure
Market share

The market share is used to determine an enterprise's power within an industry which serves as a litmus test of dominant/monopoly situation under the Competition Act 2007.

Table 2 shows the percentage each bank holds in terms of deposits and assets for the period under review.

There existed a monopoly situation in 2012 as defined by section 31 of the Competition Act 2007, which states that ***"a firm with 30% or more market share in a particular sector is deemed to be in a monopoly situation"***. Trust Bank Ltd. enjoyed a monopoly situation in 2012 on deposits.

With regard to the banks' share of the industry's assets, no bank enjoyed a monopoly between 2012 and 2014. The largest market share was 25% which was held by Trust Bank, and which does not qualify to be termed a monopoly situation under the Competition Act 2007.

Table 2: Bank Market Shares

Banks/yr	2012		2013		2014	
	Deposits	Assets	Deposits	Assets	Deposits	Assets
Trust Bank	30%	25%	25%	23%	25%	19%
Standard Chartered Bank	21%	21%	18%	20%	20%	18%
GTBank	13%	12%	15%	14%	17%	13%
Ecobank	9%	10%	15%	14%	7%	17%
Access Bank	6%	6%	5%	4%	5%	5%
Zenith Bank	5%	5%	4%	5%	6%	6%
AGIB	4%	4%	3%	4%	4%	4%
BSIC Bank	3%	3%	3%	3%	3%	3%
FIBank	4%	4%	4%	4%	4%	5%
FBN Bank	2%	0%	2%	3%	2%	3%
Mega Bank	1%	7%	5%	4%	5%	5%
Skye Bank	1%	2%	1%	2%	2%	2%
Total	100%	100%	100%	100%	100%	100%

Data derived from Bank's financial statements.

GCCPC Banking Report Study B.indd 5 02/02/2017 10:56

Table 3 below shows banks deposits and assets in monetary terms for the period under review.

Table 3: Deposits and Assets 2012-2014

Banks/yr	2012 D'000		2013 D'000		2014 D'000	
	Deposits	Assets	Deposits	Assets	Deposits	Assets
Zenith Bank	573,366	905,203	653,506	1,031,396	942,579	1,338,481
FIBank	493,913	748,397	582,667	844,062	696,082	1,110,091
Access Bank	772,801	993,165	845,240	810,412	808,101	1,182,931
Trust Bank	3,688,642	4,335,718	4,085,945	4,629,850	4,103,505	4,662,239
GTBank	1,686,434	2,070,602	2,377,856	2,763,446	2,733,257	3,199,840
BSIC Bank	375,732	581,128	412,411	645,117	407,914	646,970
AGIB	498,371	782,742	476,805	823,613	628,061	921,943
FBN Bank	303,469	570	332,932	620,063	352,331	659,977
Mega Bank	144,727	1,296,496	860,775	785,080	757,834	1,295,672
Standard Chartered Bank	2,660,824	3,769,063	2,970,000	4,044,000	3,296,000	4,426,249
Skye Bank	184,034	375,112	226,975	484,019	334,551	564,431
Ecobank	1,380,094	1,668,562	2,478,790	2,895,518	1,162,233	4,206,132
Total	**12,762,407**	**17,526,758**	**16,303,902**	**20,376,576**	**16,222,448**	**24,214,956**

Source: Banks' Annual Reports for 2012, 2013 and 2014

GCCPC Banking Report Study B.indd 6 02/02/2017 10:56

Market Concentration

Market concentration is used to determine a market structure and the level of competition within an industry. It is measured with the HHI and is divided into three regions that can be broadly characterized as unconcentrated (HHI below 1000), moderately concentrated (HHI between 1000 and 1800), and highly concentrated (HHI above 1800).

Concentration within an industry is the degree at which a small number of firms control large part of market. If the concentration is low, it simply means that no firm can influence the market production and price and the industry is considered to be highly competitive. On the other hand, if the concentration is high, it means that one or few firms can influence the production and prices in the market and the industry is said to be oligopolistic or monopolistic (non-competitive).

Table 4: Market Concentration

Banks/yr	2012		2013		2014	
	Deposits	Assets	Deposits	Assets	Deposits	Assets
Trust Bank	900	625	625	529	625	361
Standard Chartered Bank	441	441	324	400	400	324
GTBank	169	144	225	196	289	169
Ecobank	81	100	225	196	49	289
Access Bank	36	36	25	16	25	25
Zenith Bank	25	25	16	25	36	36
AGIB	16	16	9	16	16	16
BSIC Bank	9	9	9	9	9	9
FIBank	16	16	16	16	16	25
FBN Bank	4	0	4	9	4	9
Mega Bank	1	49	25	16	25	25
Skye Bank	1	4	1	4	4	4
Total	1699	1465	1504	1432	1498	1292

The table above shows the calculated market concentration using the Herfindahl-Hirschman Index (HHI). The computed Concentration Indexes for deposits were **1699** for 2012, **1504** for 2013, and **1498** for 2014. The Herfindahl-Hirschman Indexes for the assets were **1465, 1432 and 1292** respectively. The figures indicate that the banking industry was moderately concentrated during the period under review, implying that the level of competition within the sector was inadequate.

Collectively, the four major banks (Trust Bank, Standard Chartered, Guaranty Trust and Eco Bank) held **73%** of the banking sector's deposits in 2012 and 2013 and **70%** in 2014. For assets, they held **68%** in 2012 and 2014, and **70%** in 2013. What this means is that these top four banks have the potential to influence pricing decisions in the sector.

GCCPC Banking Report Study B.indd 7 02/02/2017 10:56

FINDINGS AND DISCUSSION

With such a rapid increase in the number of players in the sector, one would expect competition for market share and customers to be very keen and intense, taking into account the small size of the bankable population, and rightly so.

With so many banks operating in such a small country, and with a small-sized economy and banking population, one would expect consumer mobility to be high due to the wide range of choices, and access to services to be easy, at the least possible cost. Customer choice and mobility are catalysts for a competitive and vibrant banking sector.

One key finding of the study that contravened both the Competition and Consumer Protection Acts is the practice known as "tying agreements". Similarities in fees and charges and interest rates were highlighted as possible competition issues. Other findings were largely consumer welfare issues which are not in consonance with the Consumer Protection Act 2014.

The following were found by the study:

- Existence of tied agreements;
- Delays in real-time gross settlement systems;
- High and unexplained service charges;
- Unjustified switching costs; and
- Information asymmetry.

Existence of tied agreements

Two banks' experience with bad and non-performing loans have compelled them to introduce 'tied credit insurance', mostly on personal loans, which requires a customer to obtain insurance from an insurance company of the bank's choosing before a loan can be granted. This requirement, known as 'tying agreement', is in contravention of Section 11 (2) (c) of the Consumer Protection Act 2014 which states that ***"A supplier or provider shall not adopt or indulge in a trade practice that requires a consumer to buy, hire or avail of any goods or services as a condition to buying, hiring or availing of other goods or services."***

Some consumers claim that the insurance premiums are added to the loan without them being informed. They only get to know this when the loan documents are presented to them. The insurance premium is deducted from the client's account and credited to the insurer's account. It was revealed that one of the only two insurance companies providing credit insurance pays its banking partners a commission based on the amount of premium they receive monthly. Banks that are involved in this arrangement can be considered as agents of the insurance firm.

The tying agreements deny the consumers the freedom to make a choice of an insurance company even though they pay the insurance premium. The Commission's Secretariat views the practice as coercion of the consumer to take out insurance with an insurer that is not preferred. These agreements benefit the bank and the insurer and not the customer. Such an arrangement enables the bank to recover its money from the insurer in the event of a default while the insurer gets customers through the bank without any competition.

Consumers are seriously disadvantaged by these agreements; they neither have the liberty to select an insurer of their choice nor do they have negotiating power on the premium which is determined by the bank and its insurance partner. Since the consumer is responsible for paying the full premium, the bank should not tie or bundle them to a particular insurer or premium paid. The Commission has received complaints from consumers who felt that if they had the choice of insurer, it would have enabled them pay lesser

GCCPC Banking Report Study B.indd 8 02/02/2017 10:56

premiums than they are required to pay.

Tying arrangements violate Section 11(2) (c) of the Consumer Protection Act 2014, and Section 31 of the Competition Act 2007 in the case of monopolies. It prohibits banks from requiring consumers to purchase insurance policy when a consumer is seeking a loan. Tied agreements cause distortion in the credit insurance market. Ideally, insurers should get clients based on satisfactory customer service or competitive prices, but not through tying agreements. In the long-run, these arrangements make insurance companies involved very inefficient and costly because of the monopoly they enjoy, made possible by the banks they cooperate with in these arrangements.

Identical fees/charges/interests

Some of the fees, charges and interest rates, particularly for retail customers, are strikingly similar and uncompetitive. The study revealed that 83% percent of the commercial banks benchmark their fees, charges and interest rates with those of their competitors. They tend to increase or decrease their fees, charges and rates based on their findings and not solely on their cost structure. This means consumers are at the risk of being charged very high prices, as banks, regardless of cost structure, are charging similar fees, charges and interest rates. These smack of concerted practices within the sector which contravene Section 25 of the Competition Act 2007, calling for further examination.

Delays in real-time gross settlement systems (RTGS)

The RTGS is a system of direct debiting or crediting of customers' accounts merely by instructions. The system is centralized with the Central Bank's Core Banking Applications (CBA) in which transactions from all other systems converge and interface to determine the overall balance of each participating bank. All banks in the country subscribe to the system. However, not all banks are fully interfaced with the CBG in this regard.

Though the system is intended to facilitate interbank fund transfers, some consumers banking with other banks other than their employers' bank, have reported experiencing undue delays in receiving their salaries despite the system's existence. They claim that sometimes it takes up to 72 hours for their accounts to be credited, compared to colleagues sharing the same bank with their employers who receive their salaries on same day the instructions are communicated to the CBG.

Delays in the receipt of salaries frustrate competitors' clientele and violate Section 11 (2)(a)(b) of the Consumer Protection Act 2014. Section 11(2)(a)(b) of the Act provides that ***'A supplier or provider of services shall not adopt or indulge in a trade practice that brings about manipulation of price or conditions of delivery or effect the flow of supplies in the market relating to goods or services in such a manner as to impose on consumers unjustified costs or restrictions; delays beyond the period agreed to by a supplier in the supply of goods or in providing the services which has led or is likely to lead to a price increase.'*** These consumers get so frustrated with their banks, to the extent that they view them as inefficient, and resort to closing or moving their accounts to their employer's bank in order to receive their salaries on time.

High and unexplained service charges

Levyinghighchargesonconsumerswithoutanexplanationornotprovidingthemwithsufficientinformation is a violation of Section 7(1)of the Consumer Protection Act 2014, which relates to non-disclosure of information, and Section (5)(a), which states that ***"Consumers are entitled to true, sufficient and timely information on technology, goods and services offered in the market as well as on prices, characteristics, quality, and risks that might be involved in the consumption thereof."***

A significant number of individuals (47%) and business owners (64%) regarded the current interest rates

GCCPC Banking Report Study B.indd 9 02/02/2017 10:56

as too high. A small percentage (6%) of the consumers and 40% of businesses surveyed complained of high and unjustifiable fees being levied on their accounts, such as ledger fees, closing fees, interest rates, charges for network services on electronic payments, charges on payment of processing debit cards. High interest rates, perhaps, explain why access to finance is one of the major issues hampering the growth and development of the country's economy.

Unjustified switching costs

A closing charge, a direct switching cost in the banking sector, influences the consumers' decisions on whether to close their bank accounts and switch to another bank or to maintain them. Most consumers surveyed lamented being compelled to maintain their accounts once the closure fees, which can be up to D500, were made known to them. These fees, which according to the consumers surveyed, are not disclosed to them at the time of opening an account with the bank. This is of great concern to low salary earners especially, for whom such an amount constitutes about 20% of their monthly take-home pay.

The study revealed a high degree of customer dissatisfaction with the account closure fee banks charge, a significant proportion considering it unjustified and nothing but a "lock in" principle to retain their customers. The banks justification for charging closure fees is to cover administrative expenses.

Information Asymmetry

The study found that there is an imbalance of information (information asymmetry) between the banks and their customers, as they rarely know the actual cost of the products and services offered by the banks. Most customers do not have the opportunity to compare services and prices because of the lack of relevant information. This is a breach of Section 7(1) of the Consumer Protection Act 2014 which provides that ***"Where a supplier or provider enters into a contract with a consumer, the terms of the contract shall be clear and understandable to both parties, with references to rules, practices or documents in the public knowledge or are made available to the consumer prior to or upon execution of the contract."***

Lack of transparency or information asymmetry prevents the consumers from knowing the real costs of the goods and services they have purchased, thus making it difficult for them to compare goods and services provided by different banks. This has made consumer switching difficult and has led to the common notion among consumers that all banks in the country are the same.

Other Major Consumer complaints

Other major consumers' complaints which the study found, though some of which may not directly infringe the Consumer Protection Act 2014, should be considered by banks and improved upon for better consumer services and satisfaction. These include:

- Long queues in banking halls during peak period;
- Poor customer services;
- Difficulty in obtaining money from ATMs;
- Difficulty in accessing finance, cumbersome procedures, and turnaround time in accessing key / urgent services.

GCCPC Banking Report Study B.indd 10 02/02/2017 10:56

CONCLUSION

The study has revealed that the banking sector is not as competitive as it should be as indicated by the HHI result. There has been improvement in the level of competition, but this remains inadequate given the number of banks operating in the country relative to the size of the economy and the banking population.

Overall, consumer satisfaction and quality of goods and service delivery have improved, but excellent service delivery is still lacking, as very few banks have been innovative in the kinds of products and services they offer.

Most of the findings highlighted in the study centered on consumer welfare issues which are not in consonance with the Consumer Protection Act 2014. The Secretariat as a result, developed financial guidelines to aid financial institutions satisfactorily fulfill their responsibilities and obligations to consumers, and to curtail and manage most of the consumer complaints highlighted in the study.

The guidelines are designed to:

- Promote fair and equitable financial service practices by setting minimum standards for dealing with consumers;
- Increase transparency, in order to inform and empower consumers of financial services; foster confidence in the financial services sector; and provide efficient and effective mechanisms for handling consumer complaints relating to the provision of financial products and services.

Regarding pricing of goods and services banks provide, there is very limited competition given that the fees and charges and interest levied on personal accounts are similar. The similarity in charges leads to the conclusion that there is conscious-parallelism in the sector's pricing of goods and services. What this means is that most banks just follow the prices set by others rather than factoring in their actual cost. This comes at the expense of competitive pricing.

The lack of access and the high cost of banking services for employees in the low and middle-income categories are largely as the result of weaknesses in the competitive environment, including high switching cost (high closure fees) and transparency issues (information asymmetry).

There is considerable dominance in the sector by four major banks which collectively hold more than a third of the sector's market share. These four major banks tend to have a strong influence over pricing decisions in the sector. However, our analysis of the situation indicates that there is a gradual decline in market share percentages as smaller banks become more competitive.

GCCPC Banking Report Study B.indd 11 02/02/2017 10:56

RECOMMENDATIONS

In the light of the findings of the banking sector study, the Secretariat recommends:

- Conduct of an in-depth investigation focusing on the tying of retail loans to insurance policies as it deems this a violation of the Consumer Protection Act 2014.
- Adoption and enforcement of the financial guidelines developed by the Commission.
- Establishment of a Code of Practice on switching personal accounts to enable customers to easily switch accounts, save time and money in the process and also foster transparency. Such a code will boost competition which in the long term could lead to the offering of more choices to customers, provision of higher quality products and services at the least possible price.
- The Central Bank looks into the rationale for certain bank charges, for example, commission on turnover charged in addition to monthly maintenance fees.

GCCPC Banking Report Study B.indd 12 02/02/2017 10:56

The Gambia Competition & Consumer Protection Commission

36 Kotu East, Off Bertil Harding Highway The Gambia
Tel: 220 446 67 93/ 220 446 67 91
Email: www.gcc.gm