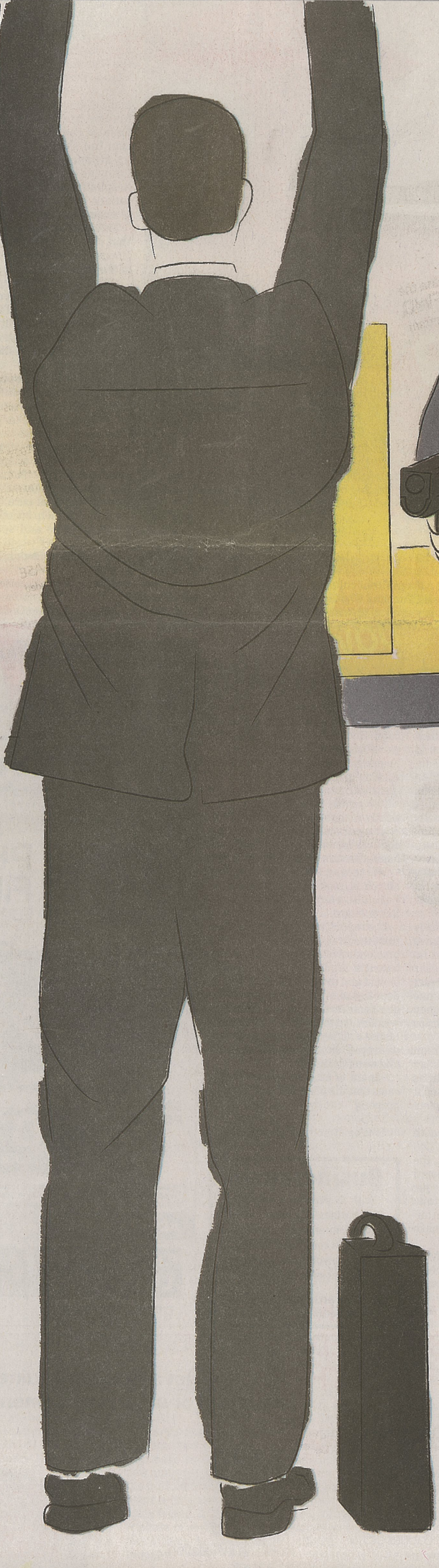

SUSAN FERGUSON THE GAZETTE

Fed up with fees

Hit with myriad transaction charges seemingly every time they access their money, many customers feel at the mercy of the banks

PHILIP FINE SPECIAL TO THE GAZETTE

Have you read your monthly bank statement recently? Just looking at it, you likely got charged $2 for the paper statement that was mailed to you or $1 for the printout from your teller. And if you were banking online and were curious about cheque No. 178 listed among all your transactions, viewing the electronic image would likely have cost another $1.50.

You're not alone. There are millions of Canadians, customers of the seven major banks, reading the list of their transactions on paper or online, with some fuming over a $50 withdrawal fee for transferring their RRSPs to another bank or a 25 per cent interest charge for a cash advance from a credit card. There are others, too, frustrated over large increases in the cost of a safety deposit box or that their lines of credit suddenly rose to a 9 per cent interest rate, with the increase having nothing to do with their credit standing.

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Many have listened to their banks, who said they could have their fees waived by setting aside large balances. But even customers with $5,000 sitting there untouched can be charged $25 to $29.95 per month just to have an account. Providing your bank with money to lend out to other clients while paying as much as $359 a year still gives you no power to come up against the untouchables, namely the fees for finding yourself with insufficient funds to cover a payment ($42.50), stopping a payment ($12.50 to $17.50) or transferring funds by email ($1 to $1.50).

Yes, there are some banks who will offer incentives; one waives most of its fees if you take out a mortgage and credit card. Nevertheless, you'll still only be able to make 15 transactions a month and then be charged 65 cents for every subsequent one.

And you won't find any solace in daily interest, when it's as low as .05 per cent and only reaches as high as 0.5 per cent per year.

If all this has frustrated you to the point of wanting to close your account, be ready for the fact that most banks charge $20 for that transaction.

Welcome to the modern Canadian bank, where nickel and diming is the norm. Despite grumbling that can be heard across the country, the big banks appear to be continually increasing their transaction fees.

How did this happen? Wasn't there a time when customers were simply paid interest for putting money in their bank accounts, with the choice of either a savings or chequing account and no monthly plans or wide spreadsheet of added fees?

Well, you can place most of the blame for this new user-pay model on low interest rates, some more blame on increased competition in the financial sector, a little more on slow regulatory authorities and quite a bit of blame on banks needing to look for ways to continue making the kind of profits to which their shareholders have grown accustomed.

According to Reena Atanasiadis, who worked extensively in the banking sector before taking up her current role as a lecturer at the John Molson School of Business, the banks used to be able to simply make their money through net interest income, meaning the difference between what they charged in loan interest and what they paid out to customers to access their savings. She says what used to make up 100 per cent of their revenues now accounts for half, with the other half of earnings coming from other non-interest sources, such as management fees for RRSPs, fees to prepare large commercial loans and all manner of transaction fees for retail customers. According to the Canadian Bankers Association (CBA), transaction fees make up only five per cent of total banking revenue.

Laurence Booth, a professor of finance at the Rotman School of Management, says that compounding that is the fallout that takes place in the market following a central bank announcement of another cut in the prime lending rate. "Every time interest rates go down, the bank stocks get hit."

While competition has come in the form of new players offering banking services, Atanasiadis sees an even bigger competitor for the high-end commercial clients and another lost revenue stream for the banks: "You want to borrow $100 million? It used to be that you would go to your banker. Today, you go straight to the market."

Competition usually brings down prices of goods, but in the Canadian banking sector it appears to have simply forced the banks to look for alternative means of making money. "There is a profit embedded in what they do. The question is: Is it gouging? And the answer is 'No,' " Atanasiadis said.

Atanasiadis admits that banks could use a little nudge from the regulatory authorities to help bring down some fees. She sees them moving too slowly on certain fronts, such as leaning on banks to change the old practice of freezing funds until cheques are cleared. "Don't tell me the technology of 10 years ago is the same technology of today. You can clear a cheque a lot faster."

Despite their narrowing margins of interest and diminished commercial borrowing, the banks are still displaying robust profits when compared to most other sectors of the economy. In March, profit earnings for RBC, TD, BMO, CIBC and Scotiabank were released and showed a combined profit of $6.71 billion in just three months, a period that ended Jan. 31. That was up 6 per cent from $6.34 billion in profit in the same quarter the previous year. The National Bank of Canada, meanwhile, reported a first-quarter profit of $332 million and the Laurentian Bank of Canada showed more modest gains, with a net income of $32.9 million for the first quarter of 2012. This week, RBC, TD and BMO have reported earnings of $4.28 billion, with CICBC and Scotiabank set to report next week.

Despite the profits, BMO spokesperson Sarah Bensadoun said revenue from the fees helps offset the increased costs her bank has to pay. When asked whether she thought some banking fees could eventually be lowered or eliminated, she responded: "I don't suspect that some will be eliminated or lowered, since the costs required to provide banking services are not going down." The CBA says that between 1996 and 2009, the six largest banks invested $55.8 billion in technology to "ensure a convenient and secure banking system."

The CBA has defended the banks against the public anger over transaction fees by pointing out that there are accounts available for as little as $4 and that in 2011, 60 per cent of Canadians paid $15 or less per month on service fees. The CBA put the fees in context, noting that Canadians pay on average $23 a month for lottery tickets and $53 for cable television.

But what might seem like a minor financial inconvenience to the middle and upper classes, those on lower fixed incomes feel a bigger hit.

Laurent Solomon earns $750 a month. The 62-year-old Plateau Mont Royal resident holds an account with the National Bank. According to his most recent monthly statement, the bank took off $7.50, despite him only making eight transactions, five of which involved no teller or bank machine. He spoke to The Gazette at the Mile End Mission, a place that provides him with a free lunch three days a week. He says it would be good if the monthly fee he pays for the account would be more commensurate with the few services he requires. "It should be somewhere around a dollar."

A few institutions, namely ING Direct, Ally, Canadian Tire Financial Services and President's Choice Financial, have transformed frustrated banking customers from the seven majors into new banking customers of their own. The most successful institution appears to be the Dutch giant, ING, a mostly online bank that has been able to grab a 3 per cent market share in Canada since entering the country 15 years ago. The key to their success appears to be a low overhead, with no brick-and-mortar branches, save for a few "cafés" and much fewer employees than the traditional banks.

"Our business model allows us to not charge fees," said president and CEO Peter Aceto, though there is no escaping the earlier mentioned untouchables (except they do allow for one free stop-payment per year, with subsequent ones costing only $10) and admits that ING does not offer the array of products found at the major banks.

While some clients may still feel reluctant to hold an online account, Aceto agrees that ING has been able to capitalize on how comfortable people now feel – thanks to the big banks – doing their banking on the Internet. Recent statistics show that 44 per cent of Canadians bank online. "People are feeling more at ease and that has contributed a lot to our growth and our business option."

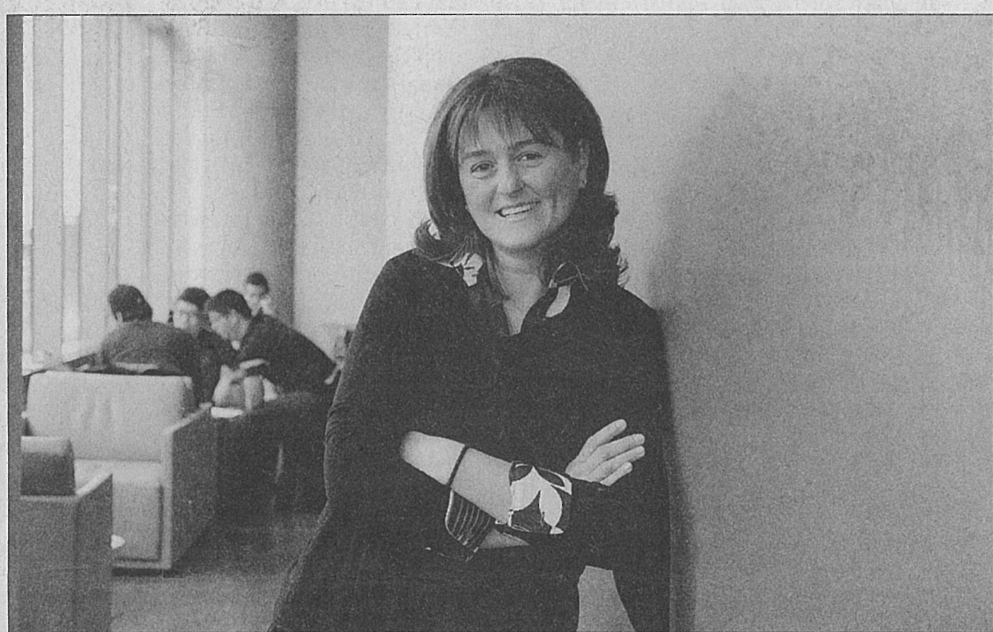
For Booth, the finance professor from Rotman, competition is good but there are stress points. The U.S., after all, has had a highly competitive banking sector, with that competition playing a contributing factor to high-risk practices by banks always looking to get a leg up. "Canada is more predictable and less risky."

So, while ING recently put out a release stating that the 100,000 Canadians who now hold its Thrive account saved Canada $18 million in bank fees, the major banks that control most of the banking in this country may continue on in their predictable way, amassing profits through a lot of nickels and dimes.

EILEEN TRAVERS
HELPED RESEARCH THIS ARTICLE.

J.P. MOCZULSKI REUTERS FILE PHOTO

While ATM withdrawal fees might seem like a minor financial inconvenience to the middle and upper classes, those on lower fixed incomes feel a bigger hit.



ANNA GUNARATNAM JMSB, CONCORDIA UNIVERSITY

Reena Atanasiadis worked extensively in the banking sector before taking up her role as a lecturer at the John Molson School of Business. She says banks could use a little nudge from the regulatory authority to help bring down some fees.

Ways to keep bank charges low

Find out about minimum balance options. Most banks will waive many of their transaction fees if you keep anywhere from $1,500 to $5,000 in your account.

Find the bank that's best for your needs. The federal government has a developed a calculator (http://www.fcac-acfc.gc.ca/eng/resources/toolCalculator/banking/index-eng. asp) that allows you to type in information and find out what best suits your banking habits, while banking blogger banknerd.ca offers comprehensive comparisons of various bank fees in several tables and posts.

Explore no-fee accounts. There are several banks, including ING Direct Canada, Ally, Canadian Tire Financial Services and President's Choice Financial that offer no-fee accounts, though you can expect a lower number of services.

Complain to your bank. Most individual banks have some discretion to wipe off certain charges you find unfair.

Pay with a credit card instead of debit. Most banks only allow a certain number of free transactions per month, while credit card payments have no limit. Just make sure you pay off your credit card balance each month to save the money on transactions.

Avoid white-label machines. Bank machines found in restaurants, bars and gas stations charge $1.50 to $2.50 on top of the fee your bank normally charges you.

Know your plan. Be familiar with how many transactions you can make per month before your extra fees set in.

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