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Banking Fees in Canada: Patterns and Trends

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Executive Summary

Overview

The purpose of this report is to provide policy makers, supervisory agencies, researchers, industry stakeholders and the general public with a systematic analysis and broad understanding of the trends related to the banking fees levied on consumers' deposit accounts in Canada.

In recent years, service charges in the financial sector have been the subject of growing interest among a wide variety of stakeholders. As Canada's banks have grown and prospered, questions have been raised about the competitiveness of the fees levied on consumers' deposit accounts. The Government of Canada's economic policy has traditionally emphasized competition as the primary way to ensure fair prices in the marketplace. The relatively high level of concentration observed in Canada's banking sector creates the perception that the market for financial services is not as competitive as it could be; and by extension, there is some concern that a lack of competition might be contributing to fees that are less than optimal for consumers.

The principal finding of our research is that the increases in the monthly fees levied on consumers' deposit accounts have been quite moderate. More precisely, the monthly fees levied on chequing plans increased below the rate of inflation. However, there were significant increases in the variable fees for transactions that exceed the limits of a consumer's plan or are not covered by it. These findings support the need for financial literacy tools that can help consumers to make informed choices about the chequing account plans that best suit their needs.

This report also includes an analysis of the evolution of low-cost accounts (LCAs). In 2003, the Government of Canada entered into memoranda of understanding with eight banks, which agreed to offer LCAs. We examine whether the LCA guidelines remain adequate to achieve the original goal of providing Canadians with the opportunity to acquire basic banking services for a reasonable monthly fee. Our findings show that demand for LCAs remains robust and has increased since their introduction to the market. The increase in the monthly fees levied on LCAs has been moderate. However, half of the eight participating banks have reduced the maximum number of transactions allowed with their LCA plan, a step that can be considered an indirect monthly fee increase. Although the LCAs remain within terms set out in the memoranda, our analysis leads us to conclude that a review of the LCA guidelines may be warranted. This recommendation is reinforced by the emergence of close substitute plans which offer consumers more generous transaction limits at prices comparable to LCAs.

In sum, we found that the evolution of banking fees did not entirely conform to our expectations. The fee increases on monthly chequing plans have been moderate, whereas the charges associated with variable fees have increased significantly. It will be important to expand our definition of banking fees in future research to assess the evolution of other charges, such as non-sufficient funds and overdraft charges, which were beyond the scope of the current analysis.

The evolution of banking fees: summary of key findings

Concentration, contestability and competition in the Canadian banking sector

Concerns over competition and banking fees are closely related. Research in the discipline of economics has tended to support the hypothesis that competition enhances the efficiency of markets, and efficient markets have been found to create more favourable outcomes for consumers. Because Canada's banking sector is regarded as highly concentrated, concern has arisen over the potential for consumers to be negatively impacted by less than optimal prices for retail financial services.

The contemporary economic research reviewed in our report suggests that the relationship between concentration and competition is more complex than commonly appreciated. There are intervening variables—for example, the size of the market, participating firms and the type of regulatory framework—that can allow concentrated markets to be highly competitive.

The most influential economic theory now proposes that contestability—that is, the absence of significant regulatory and economic barriers to market entry and exit—is the factor that most profoundly influences the level of competition in a given market. In other words, incumbents will behave in a competitive manner so long as the regulatory landscape allows new firms to enter and compete for market share.

The current academic consensus is that the banking sector in Canada is “monopolistically competitive” or “imperfectly competitive,” which is consistent with research findings in other developed countries; and research on contestability has also led to the rejection of the hypothesis that banks exercise monopoly power in Canada (Claessens & Laeven, 2004; Allen & Liu, 2007; Nathan & Neave, 1989). This means that we should expect to find relatively favourable terms for financial consumers in Canada, but it also suggests that market participants might not necessarily compete on the basis of prices.

Supply-side analysis: market trends in the price of chequing account plans

Banking fees did rise during the period examined in this report. The average monthly fee (AMF) levied on chequing account plans rose by 13.6 percent from 2005 to February 2013. However, the increase was quite moderate relative to the 14-percent inflation rate.

In general, the maximum number of self-serve transactions covered by chequing account plans has been rising. When considered on a per-transaction basis, the AMF declined 19 percent in real terms from 2005 to 2013. “Premium” plans are the exception to this trend: the price per transaction rose by 14-percent in nominal terms over the eight-year period examined (although the fees assessed per transaction remain significantly lower for premium accounts than for other types of accounts, aside from no-fee electronic chequing account packages).

The minimum balance that consumers need to maintain in their chequing accounts so that their monthly fees will be waived has been rising. These increases have not translated into higher indirect fees because the opportunity costs associated with minimum balances are tied to prevailing interest rates, which have remained at historic lows.

Finally, the variable fees associated with conducting transactions that exceed, or are not covered by, the parameters of a consumer's plan have increased significantly.¹ A nominal rise of 46 percent was observed in the average price for variable transactions from 2005 to 2013. In 2005, the variable fees charged by financial institutions ranged from \$0.50 to \$0.75 per transaction. By 2012, variable fees ranged from \$1.00 to \$1.50 per transaction. For example, in 2005 financial institutions charged from \$0.50 to \$0.75 for each banking machine transaction made outside of a consumer's chequing account plan. By 2013, they were charging from \$0.65 to \$1.50, a nominal increase of 51 percent. Our research found that 15.6 percent of plan holders reported either occasionally (12.7 percent) or frequently (2.9 percent) making more transactions than the number authorized by their chequing account plan each month. To the extent that substantial increases in banking fees can be observed, variable fees were the primary cause and the evolution of these fees deserves more attention in future.

Demand-side analysis: patterns of household spending on chequing accounts

When we examined the cost of the average chequing account from the perspective of consumers, we once again found a moderate upward trend. The average monthly fees reported as paid by Canadian households for their chequing account plans rose by 11 percent in nominal terms from 2004 to 2012.

It is worth highlighting the similarity between the trends observed on the supply-side and the demand-side. If consumers were reporting significant increases in their costs while only moderate increases could be observed in the average price of chequing account plans, it could mean that consumers are not taking full advantage of the opportunities provided by the market. Instead, we found a high degree of similarity between the moderate increase in average monthly fees (13 percent²) and the rising cost of chequing account plans reported by consumers (11 percent). This finding suggests that consumers are not concentrated in the plans, or categories of plans, which had higher-than-average fee increases. It also could mean that consumers are reasonably well informed about their options and able to choose competitively priced chequing account plans.

We expected to find fewer households able to have their monthly fees waived by maintaining a minimum balance in their chequing account, given the significant increase in the balances required. In fact, the proportion of households that avoided direct fees in this manner declined only slightly, from 8.9 percent in 2004 to 7.2 percent in 2012.

Finally, it is interesting to note the slow take-up of no-fee electronic banking accounts. No-fee electronic banking would appear to be a cost-effective option, given the trend towards self-serve banking, rates of high-speed Internet penetration and the willingness of Canadian consumers to adopt new technology. Only 8.6 percent of banked households reported having at least one account with an online financial institution in 2012, up from 6.1 percent in 2004. Generally, consumers who open no-fee electronic plans

¹ Variable fees are typically assessed on each additional transaction consumers make once they have reached the maximum provided by their plan. Variable fees can also be charged when consumers make a type of transaction not covered by their chequing account plan (e.g. *Interac* email transfers).

² The rate of inflation as measured by the Consumer Price Index was 13 percent from 2004 to 2012, which is the period of time examined in the demand-side analysis. The time frame for the supply-side analysis is from 2005 to 2013, and the rate of inflation during this period was 14 percent, according to the Consumer Price Index.

retain at least one fee-based chequing account with a financial institution that provides traditional bricks-and-mortar branches. This finding is important because contestability will only enhance the efficiency of the market if consumers are willing to seek out and adopt new products and services when it is in their interest to do so. In addition, our research found that Canadian consumers were generally reluctant to change their chequing account plan. The slow migration toward no-fee electronic chequing account packages appears to provide further evidence of this reluctance on the part of consumers.

Low-cost accounts: market trends and consumer demand

While competitive markets are expected to generate positive outcomes for consumers, an efficient market could still exclude economically disadvantaged segments of the population. Recognizing this reality, the Government of Canada introduced access to basic banking services legislation and entered into memoranda of understanding with eight banks, which committed to begin providing low-cost chequing account plans (LCAs) that meet the basic retail banking needs of consumers for a reasonable monthly fee. FCAC is responsible for supervising this public commitment and we undertook an analysis of LCA trends as part of our research into the evolution of banking fees.

Our study finds cause to conclude that a review of the LCA guidelines may be appropriate. While demand for LCAs has remained strong since their introduction in 2003, several banks have reduced the maximum number of transactions allowed in their LCA plans and/or have raised their price. At the same time, close substitutes have emerged offering comparable or more generous transaction limits for similar monthly fees³. These observations are important because the fees associated with transactions not covered by consumer's chequing plans have been increasing at a high rate. A review of the LCA guidelines is therefore necessary to ensure that these accounts remain suitable to provide financial consumers with access to basic banking at a nominal cost.

Conclusion

During the last 10 years, increases in the fees for retail banking services have been moderate. There have been noteworthy increases in the fees associated with certain types of plans, but the cost of the more basic chequing account packages actually fell relative to inflation. In general, financial institutions have increased the maximum number of transactions covered by each plan, and this has led to decreases in the average price per transaction. This finding is important given that the main purpose of chequing accounts is to allow consumers to safely and conveniently make transactions. Our research highlighted several issues that could be addressed in the future to allow FCAC to enhance its monitoring of the evolution of banking fees.

³ Close substitutes are chequing accounts with monthly fees comparable to LCAs, which are offered by financial institutions that have not signed a memorandum of agreement with the Government of Canada.

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1. Introduction

Part of the mandate of the Financial Consumer Agency of Canada (FCAC) is to conduct research into emerging trends and issues that impact financial consumers. This report presents the findings of a research project examining the evolution of banking fees in Canada from 2003 to 2013. The purpose is to provide policy makers, government departments and agencies, researchers, industry stakeholders, and the general public with a systematic analysis and broad understanding of the main trends related to the fees levied on chequing accounts.

Service charges in the financial sector have attracted growing interest from a wide variety of stakeholders as Canada's banks have grown and prospered. More specifically, questions have been raised about the competitiveness of the fees levied on consumers' chequing accounts. The Government of Canada's economic policy has traditionally emphasized competition as the primary way to ensure fair prices in the marketplace. The relatively high levels of concentration observed in Canada's banking sector create the perception that the market for financial services is not as competitive as it could be; and by extension, there is some concern that concentration might contribute to fee levels that are less than optimal for consumers.

Research on banking fees in Canada is scarce, and there is virtually no academic research on the relationship between the structure of the banking sector and the evolution of banking fees. Most of the academic literature focuses on the correlation between the degree of competitiveness in the market, bank profits, interest rates and lending practices. One reason may be that, while the pricing schedules of financial institutions are publicly disclosed, it is difficult to obtain reliable micro-raw data⁴ about the banking fees that consumers pay each month. Our research addresses this gap in the literature by using the pricing information collected by FCAC from the federally regulated financial institutions, information from major credit unions, and extensive raw data acquired from Ipsos Reid's Canadian Financial Monitor survey (CFM). In addition to these key sources, we make use of data from responses to questions included in a CFM "return to sample" survey, which was specifically designed to provide supplemental data for this research.

The analysis in this report is organized into four sections. As noted earlier, the Government of Canada has emphasized competition as the main vehicle for ensuring that markets provide consumers with fair prices. Section 2 reviews mainstream economic theories about competitive markets and widely cited research on the structure of the banking sector in Canada. Theories of competitive markets have shifted from a focus on levels of concentration to contestability. The consensus is that the level of concentration in Canada's banking sector is high, but most academic research has also concluded that

⁴ Micro-raw data refers to primary data collected from a source prior to processing or manipulation in which the basic unit of analysis is the household or consumer.

the market for financial services in Canada is relatively competitive. Later in this report, we discuss evidence suggesting that the market for chequing account services in Canada is contestable.⁵

In Section 3, we analyze the supply side, or the evolution in the price of chequing accounts. We consider structural changes to the features, the transaction types and the maximum number of transactions included with the chequing account plans offered by ten of the largest banks in Canada. We examine the average fees on accounts with fixed monthly rates, as well as the variable fees charged by financial institutions for transactions in excess of monthly limits or transactions of a type not covered by consumers' monthly fees. We examine the trends in the indirect fees and opportunity costs (i.e., value forgone) associated with plans that require account holders to maintain a minimum balance. Finally, we analyze the evolution of fees between and within five separate categories of chequing account packages.

In Section 4, we report the demand-side analysis. An additional contribution of this research project is its analysis of data on banking fees from the perspective of consumers. We examine the trajectory of the fees that Canadian households reported paying for their chequing account plans. We further examine these trends by dividing households into quartiles, based on the fees they pay. We also examine trends with respect to the proportion of consumers who are able to avoid direct fees by maintaining the requisite minimum balance in their chequing account. Finally, we interpret data about consumers' behaviours and attitudes toward their chequing accounts; how satisfied consumers are with their chequing accounts and their monthly fees; and whether consumers have recently changed their chequing account package or would consider switching financial institutions.

Section 5 examines in detail trends in the use and effectiveness of low-cost accounts (LCAs). The pattern of LCA holdings is analyzed, from their introduction in 2003 up to the present. We look into changes that have been made to the fee schedules and features (e.g., transaction limits) offered with LCA plans. To assess which population segments are being served by the plans, we consider the demographic and socio-economic characteristics (e.g., age, income, occupation) of LCA holders. Finally, we study the implications of the emergence of close substitutes⁶.

⁵ A contestable market has a relatively small number of firms that tend to behave competitively because of the threat posed to incumbents by new market entrants. Contestability requires an absence of significant regulatory and economic barriers to market entry and exit.

⁶ Close substitutes are chequing account plans with fee schedules similar to LCAs, which are offered by financial institutions that have not signed a low-cost account memorandum of agreement with the Government of Canada.

2. Literature review

This section examines influential research on the Canadian banking sector. It introduces the prevailing economic theories used to explain the evolution of prices and provides definitions of key concepts.

The literature examining the efficiency of the Canadian banking sector is extensive but dated. According to prevailing economic theory, efficiency is the result of competition, and competitiveness should translate into favourable terms for consumers of financial services. The focus of the existing literature is on the relationship between the structure of financial markets and the market power of banks (Northcott, 2004). Studies have found that the structure of the market in Canada is highly concentrated, with six major banks accounting for more than 90 percent of all banking assets.⁷ Despite this, the general consensus is that the market for financial services in Canada is quite competitive (Allen & Engert, 2007; Nathan & Neave, 1989; Shaffer, 1993). Research has not supported the hypothesis that the concentrated structure of the Canadian financial market gives its larger banks monopoly power. Instead, the Canadian banking sector has been found to behave in a manner consistent with either “perfect competition” (Shaffer, 1993) or “imperfect competition” (Nathan & Neave, 1989).

The literature suggests that the market for retail banking services in Canada is competitive, which means that we should expect to find prices that are favourable to consumers. Nevertheless, very little is actually known about the evolution of banking fees in Canada. The pricing schedules of financial institutions are available, but there are few household surveys that collect comprehensive information about the banking fees paid by consumers each month. For this reason, the issue of banking fees has received little attention in the literature.

2.1. Concentration

Inquiries into the efficiency of the banking sector typically focus on the structure of the market and, more specifically, its competitiveness. Traditional economic theory proposes that competitive markets lead firms to become “price-takers,” meaning that the prices of their goods and services fall toward a level that is considered optimal and more favourable to consumers. In less competitive markets, firms are expected to become “price-makers”: they are able to maximize their profits by fixing prices well above the average cost of providing a service (Northcott, 2004). In other words, more competition between banks should generate better outcomes for financial consumers, while less competition allows banks to withhold credit, offer lower interest rates on deposits and, at least in theory, charge higher fees for chequing account services (Berger & Hannan, 1989; Hannan, 1991).

Until recently, the analysis of efficiency has been informed by a theory known as structure-conduct-performance (SCP). SCP suggests that greater numbers of firms in a market will mean higher levels of competition. It assumes that there is a causal relationship moving from the structure of the market to pricing, and then to profits and market power (Northcott, 2004, p. 18). When a small number of firms control a large share of a market, that market is typically defined as concentrated and thought to be less competitive. Because the banking sector in Canada is highly concentrated, research informed by the SCP

⁷ The “big six” banks are TD Canada Trust, RBC, Scotiabank, BMO, CIBC, and National Bank (Allen & Engert, 2007).

perspective will tend to predict relatively high fees, large profits and “price-making” power for the financial institutions that control the bulk of the country’s banking assets.

In a widely cited study, leading researchers attempted to test whether banking competition is “good” from a societal and consumer perspective (Berger, Demirguc-Kunt, Levine, & Haubrich, 2004). Employing a meta-analysis of primary research conducted during the early 1990s in the United States, they confirmed that banks in more concentrated local markets charge higher interest rates on loans and pay lower rates on retail deposits. They also found that the competitive advantages of small and large banks are different. Smaller banks take advantage of “soft information” based on relationships with clients; and they use this information to make loans to individuals and smaller firms that tend to be riskier, more opaque borrowers. Larger banks take advantage of “hard-information-based” analytical tools; they use the resulting information to service corporate clients or larger, safer and more transparent customers. The authors concluded that the outcome of market concentration can vary according to the type of customer and the size of the banks.

When analyzing the effect of market concentration, it is essential to consider key variables, such as size and geography. Hannan (2001), for example, studied the effects of the entrance of large multi-market financial institutions into geographical areas of the United States that have historically been local banking markets. The study demonstrated that large multi-state U.S. banks charge significantly higher fees than single-state banks (Hannan, 2001). For all of their services, large banks (with assets exceeding US\$1 billion) were found to charge significantly more than small banks (with assets of less than US\$100 million). This is because multi-market financial institutions tend to offer the same interest rate and charge the same retail banking fees in each of the local markets they serve, even though some geographical areas can be more profitable than others. This means that the relationship between levels of market concentration and the average interest rate offered on deposits becomes weaker as more large multi-market financial institutions enter an area. Multi-market banks are less responsive to changes in the levels of concentration in different markets. Using data sets on retail banking fees, Hannan (2005) later confirmed the hypothesis that multi-market banks are less sensitive to changes in the market conditions of specific areas.

Because the banking market in Canada is considered to be highly concentrated, the inquiries of SCP-informed research into the effects of market structure are particularly relevant. SCP researchers expect to find a positive relationship between market concentration and the profits of market participants. A positive correlation between concentration and profit is considered proof of less efficient markets and, by extension, less favourable outcomes for consumers buying goods and services (Shaffer, 1993, p. 50).

The empirical results of SCP research into the effects of market concentration have been mixed. Some researchers have succeeded in establishing a positive correlation between concentration and profits, but very often this relationship cannot be verified. Further, there has been a general failure to determine what the benchmark for competitive profits should be, and this fact casts doubt on the ability to draw conclusions about efficiency (Shaffer, 1993, p. 51). Questions have also been raised about whether accounting data can reliably measure profits and, in turn, “price-making” power. It is likewise difficult to define the geographical boundaries of markets in order to determine their specific levels of concentration. It is hard to distinguish between products and services as well; the financial sector

consists of many overlapping markets and both differentiated and substitutable products, a considerable number of which are also offered by non-banks (Northcott, 2004). Finally, even when a strong positive correlation can be established between concentration and profits, a new theory—the “efficient-structure hypothesis,” or ES—has gained considerable support and offers a competing explanation for the same phenomenon.

The ES approach also endeavours to explain the effect of market concentration on prices. However, ES-informed research proposes that strong positive correlations between market concentration and profits are a reflection of greater efficiency, not market power or “price-making.” The argument is that larger firms are more efficient and productive, and therefore have lower costs. The lower costs can be translated into higher profits, which in turn can be used to acquire market share as well as market power. In other words, from the ES perspective, concentration is the result of greater efficiency rather than inefficient markets or price-fixing. The acquisition of market share is seen as attributable to the performance of firms, sound business management and the overall efficiency of their operations (Northcott, 2004). This is particularly relevant to Canada because it means that strong profits and high concentration levels in the banking market could be the result of highly efficient banks that have gradually acquired market share. If this is the case, we should expect fee schedules to be favourable to consumers, even though profits and market concentration might be relatively high.

The empirical results of research conducted on market concentration according to the ES model have been mixed as well. Market concentration has been found to be negatively correlated with the returns reported by the banking sector overall, contradicting the hypotheses of both SCP and ES. Greater market share, however, does appear to be related to higher profits on a firm-by-firm basis, a finding that is consistent with the predictions of both ES and SCP. On the other hand, there seems to be a weak positive correlation between efficiency and profits, which provides a measure of support for the ES approach (Northcott, 2004). In conclusion, research attempting to explain the prices of financial services with reference to market concentration, market power or efficiency of large firms has not tended to generate very satisfying empirical results. Research also suggests that concentration has even less significant effects in smaller countries with lower regulatory burdens—a finding that might be pertinent to an examination of the Canadian banking sector. Clearly, the ES and SCP approaches both omit some variables that influence banking fees.

2.2. Contestability

In view of the difficulties outlined in Section 2.1, the principal concern of research into the efficiency of the financial sector has shifted from concentration to contestability. Markets are defined as contestable when there are no significant legal or economic barriers to entry, and when exit is also relatively costless (Nathan & Neave, 1989, p. 578). Researchers Bresnahan (1982) and Lau (1982), and Panzar and Rosse (1987) have developed theoretical models that are widely used to empirically analyze the relationship between market efficiency (i.e., competitiveness) and contestability. The most widely cited model with respect to research on the Canadian banking system is the Panzar-Rosse *H*-statistic. The *H*-statistic measures the relationship between changes in the prices of inputs and the revenues earned by specific banks (Allen & Liu, 2007, p. 2). Firm-specific data can then be aggregated to assess the degree of contestability in a market. According to the Panzar-Rosse theory, there are three types of markets:

monopoly, monopolistic or imperfect competition, and perfect competition. Under certain restrictive assumptions,⁸ the H -statistic can be interpreted as a continuous and increasing measure of the overall level of competition prevailing in a given market. This means that when $H = 0$, the Panzar-Rosse model would say that firms are colluding to fix prices and maximize profits; in other words, a zero value for the H -statistic indicates that firms behave like monopolists. However, when $H = 1$, the market is perfectly competitive. Statistical values of H ranging between 0 and 1 (e.g., $H = 0.52$) therefore mean that the market is characterized by monopolistic or imperfect competition (Allen & Liu, 2007, p. 6).

There has been considerable research into the contestability of the banking sector in Canada (Northcott, 2004, p. 21). Some of this research is dated. However, the structure of the Canadian banking sector is regarded as remarkably stable, and the market has changed little in terms of concentration and contestability since the research was conducted. Alli Nathan and Edwin H. Neave (1989) performed a cross-sectional Panzar-Rosse test on the banking, trust and mortgage industries in Canada for the years 1982 to 1984. Their analysis led them to reject the hypothesis that the Canadian banking sector is monopolistic or that its firms behave in a collusive fashion. Instead, they found that changes in firms' revenue were consistent with monopolistic competition in each of the years under examination, and perfect competition could not be ruled out in 1982 (Nathan & Neave, 1989, p. 586).

This method of analysis was later extended and largely confirmed by Sherrill Schaffer (1993). The overriding purpose of Schaffer's research was to evaluate the efficiency of Canada's relatively concentrated banking sector in light of ongoing mergers and acquisitions in the United States. In other words, his interest in Canada was principally motivated by the fact that six banks had more or less "dominated the Canadian financial sector since the 1930s" (Shaffer, 1993, p. 50). Using annual revenue data, Schaffer performed a time-series regression analysis of Canada's banking sector over two decades. His research uncovered "vigorous competition among Canadian banks," leading Schaffer to conclude that Canada's banking sector approached a "perfectly competitive" structure from 1965 to 1980, and that competition appeared to increase after the passage of the *Bank Act* in 1980 (Shaffer, 1993, p. 58).

More recently, Jacob A. Bikker and Katharina Haaf (2002) employed the Panzar-Rosse H -statistic test to 23 countries over a decade (1988 to 1998). Their findings are consistent with monopolistic competition for all of the countries examined, including Canada. This result is quite typical for the Panzar-Rosse approach to contestability, which has led to some suspicion that the H -test systematically overestimates competitiveness. According to Bikker and Haaf, the banking sector in the Netherlands is the most competitive, and competition is generally stronger in Europe than in the United States, Canada or Japan. Low concentration is typically related to high levels of competition, but this relationship is weak since some countries with lower levels of concentration also have relatively low levels of competition (e.g., the United States). In general, competition appears to be strongest among large banks that operate predominantly in the international market, while it is found to be weakest among smaller banks that operate mainly in local markets (Bikker & Haaf, 2002, p. 2211). Claessens and Laeven (2004) have since extended this study across 50 countries in an effort to isolate the factors that best explain contestability. They conclude that contestability is positively related to the presence of foreign banks, fewer restrictions on the types of financial services in which banks can engage (e.g., securities, insurance, real

⁸ These assumptions are described in more detail in Panzar and Rosse (1987).

estate), and less onerous regulatory burdens for firms that are entering the market (Northcott, 2004, p. 23).

Most recently, Jason Allen and Ying Liu (2007) used the *H*-statistic to measure the contestability of the banking sector in Canada from the second quarter of 2000 to the first quarter of 2006. The authors correct for several problems identified in previous studies, which may have led researchers to overestimate competitiveness in empirical applications of the Panzar-Rosse model. Allen and Liu are able to establish that the Canadian banking system is characterized by “imperfect” or “monopolistic competition.” Their finding is consistent with earlier research. Their specific concern was for adverse effects related to high levels of concentration, and the authors were able to reject the null hypothesis that Canadian banks exercise monopoly power (Allen & Liu, 2007, p. 12).

Research informed by the ES approach has found that more regulatory restrictions on competition from foreign banks are associated with “bad” outcomes, such as less favourable prices for customers. Conversely, reducing barriers to the foreign ownership of banks and easing the burden of entry for foreign banks are both generally associated with more favourable prices for customers (i.e., “good” outcomes). State ownership of banks is generally associated with less access to credit and a reduction in the stability of the financial system (i.e., “bad” outcomes). Therefore, policies that restrict bank competition—regulation, barriers to foreign bank participation, and direct state control of banking resources—tend to be associated with “bad” outcomes and diminished overall efficiency in the banking sector. In short, the literature reviewed provides considerable evidence that competition is “good” from a social perspective (Berger, Demirguc-Kunt, Levine, & Haubrich, 2004).

The salient finding of the ES literature on contestability is that imperfect or monopolistic competition is typical of banking sectors across the developed world. To define a sector as imperfectly competitive is to assert that it combines certain features associated with both perfectly competitive and monopolistic markets (Allen & Engert, 2007, p. 40). Like perfectly competitive markets, imperfectly competitive markets have a number of sellers offering comparable services; other firms can legally enter and exit in a manner that is not economically prohibitive. At the same time, among the common features of monopolistic competition are significant investments by firms in intangibles such as branding, customer loyalty and product differentiation. The investments create a market in which customers do not behave as though the services offered by the different firms are perfect substitutes, even though objectively the services are identical. This means that firms compete less on the basis of price and concentrate more on differentiating their products and services, and customers are less likely to switch providers for the sake of lowering their costs. In more advanced economies, monopolistic competition is the most prevalent market structure (Allen & Engert, 2007, p. 40).

2.3. Banking fees and the Canadian market

The literature we have reviewed is almost exclusively concerned with the relationship between the structure of the market for financial services, on the one hand, and the revenues reported by banks, their lending practices, and the interest rates offered on deposits, on the other. While most researchers agree that the banking sector in Canada is highly concentrated, the consensus emerging from the literature is also that its market for financial services is relatively competitive. There are no academic

investigations or systematic research into the relationship between the structure of the Canadian market for financial services and the banking fees paid by consumers. Furthermore, most of the limited research on banking fees in Canada does not go beyond analyzing the supply side, or the market price for banking services (e.g., Mintel Compremedia 2011; Canadian Bankers Association, 2013). This study makes a contribution toward filling this gap in the literature. Our report uses data from the Canadian Financial Monitor survey to examine the demand side and to determine how the fees actually paid by consumers for financial services are evolving.

In a recent report, Mintel Compremedia (2011) describes the Canadian financial market as a small, tightly regulated industry, dominated by a handful of domestic players that together control more than 90 percent of the market. Mintel goes on to contend that the market is difficult for outsiders to enter. In relative terms, Mintel argues that the banking market is much less competitive in Canada than in the United States and, as a result, retail banking services tend to be more expensive in Canada. Finally, Mintel argues that lower-priced alternatives exist but it is difficult to get Canadian customers to switch banks. When surveyed by Mintel, most Canadians affirmed that they have no intention of switching financial institutions for any reason.

Other studies have found that Canadian consumers are willing to switch banks for the sake of an improved experience. Ernst and Young (2013) recently commissioned a survey to explore the attitudes of over 2,400 Canadian consumers toward their banks on a range of topics, including their willingness to switch banks. The survey found that approximately 14 percent of customers have switched their main bank or credit union in the past five years. Moreover, 70 percent of the consumers who switched reported that changing banks was easy and straightforward.

The perception that the market for financial services is much less competitive in Canada than in the United States is not consistent with most of the research that has been conducted. While the market is significantly more concentrated in Canada than in the United States, most economists now regard contestability as a more important predictor of competitiveness. Bikker and Haaf (2002, p. 2202), for example, attributed an *H*-statistic of 0.54 to the United States and 0.60 to Canada, indicating that Canada's market for financial services is more contestable than the U.S. market. Ernst and Young (2012) also found a rise in the number of new entrants to Canada's financial market. The new entrants include subsidiaries of foreign-owned banks and newly created domestic banks controlled by non-financial entities. It is also important to note that banks compete with non-bank providers of financial products and services, such as ATB Financial, Desjardins and credit unions (Canadian Bankers Association, 2013). The "Big Five"⁹ banks have about 68 percent of retail deposit accounts in Canada, but their market share varies significantly by province. In Manitoba, smaller banks and credit unions have 45 percent of retail deposit accounts, while in Ontario the Big Five have 96 percent of the market.

The Canadian Bankers Association (CBA) recently conducted research on banking fees in Canada (Canadian Bankers Association, 2013a). The CBA found the market for financial services to be highly competitive, citing the fact that there are more than 100 different account packages offered in the market and more than 40 firms offering financial products and services. This finding is more consistent

⁹ The "Big Five" is comprised of TD Canada Trust, RBC, Scotiabank, BMO, and CIBC.

with the consensus in the academic literature than that of the Mintel study. The CBA also maintained that consumers have a large measure of control over the banking fees they pay. The CBA found that 31 percent of financial consumers in Canada pay no banking fees at all because (i) they hold no-fee account packages offered by firms such as ING Direct and President's Choice Financial; (ii) they take advantage of special discounts on account packages, such as those offered to students and seniors; or (iii) the fees are waived by their financial institution on the condition that they maintain a specified minimum balance in their chequing account. Of course, consumers who maintain a minimum balance incur opportunity costs, such as the interest their savings would have generated in a higher-yield savings account. Accounts that require consumers to maintain a minimum balance are not no-fee accounts but rather account packages for which consumers incur indirect costs. The CBA does not attempt to analyze how banking fees vary across different types of households; such an analysis would yield more relevant insights about who pays higher banking charges and why.

The main issue with the existing research on banking fees in Canada is that it cannot explain the evolution of the prices consumers pay for financial services. How have monthly fees evolved in comparison to the rate of inflation for other goods and services? How do changes in monthly fees vary across different segments of the population? These are some of the questions not sufficiently answered in the existing literature. We will begin to address them in the following section.

3. Supply-side analysis: market trends in the price of chequing account plans

In this section, we analyze the evolution of the market price for chequing accounts in Canada. This price includes the fixed monthly fees applied to consumers' chequing plans, the variable fees charged by financial institutions for transactions in excess of monthly limits or for transactions of a type not covered by a chequing plan (e.g., withdrawals from the automated teller machines of other banks), and the indirect fees (i.e., the opportunity costs) associated with minimum balance plans. The price does not include other charges, such as non-sufficient funds charges and overdraft fees, because of the lack of adequate micro-raw data on these charges.

Our findings are broadly consistent with the academic consensus reported above in the literature review. The research discussed in Section 2 focuses almost entirely on the profits and lending practices of financial institutions, and the interest rates offered by them. It is generally agreed that the banking sector in Canada is imperfectly competitive. In terms of chequing account services, the market offers considerable choice. The market is contested in the sense that there are more than 100 different account packages offered and more than 40 firms offering financial products and services. However, the market is also concentrated because the great majority of consumers have an account at one of the "Big Six" banks (i.e., TD Canada Trust, RBC, Scotiabank, BMO, CIBC, and National Bank). The concentrated and contested character of Canada's banking sector is consistent with the concept of imperfect competition, as defined by mainstream economic theory. The fact that financial institutions are observed competing in terms of both price and services (e.g., the number of authorized transactions, reward programs) is also consistent with mainstream economic theories of imperfect competition.

Section 3.1 briefly describes how the characteristics of chequing account plans have evolved from 2005 to 2013. Section 3.2 scrutinizes average monthly fees (AMF). We then compare the trend in the nominal price for chequing accounts with the Consumer Price Index (CPI) in order to determine the extent of the real rise (or decline) in monthly banking fees relative to inflation. In Section 3.3, we examine the evolution of prices more closely by studying the trends in average monthly fees across five different categories of chequing account packages. Next, Section 3.4 considers the changes in the maximum number of transactions authorized by chequing account packages, in order to analyze how fees have evolved in terms of the price per transaction. Last, Section 3.5 more closely examines the trends for variable fees, which are applied to transactions not covered by chequing account plans.

3.1. Changes in the characteristics of transaction account plans

Before turning to the evolution of market prices, it is important to set out a working definition of chequing accounts and briefly describe how their features have changed over the period analyzed for this report. We focus on the key features of the chequing account plans offered by ten financial institutions—the Big Six plus Desjardins, Laurentian Bank, ATB Financial, and Vancity—which together serve the vast majority of the market in Canada. We examine these features for the years 2005 and 2013, and then compare them. This helps us get a better sense of the extent to which financial institutions compete on the basis of price versus service, brand and product differentiation. As we have

noted, competition in modern industrial economies is frequently “imperfect.” Under imperfectly competitive market conditions, financial institutions tend to compete less through pricing and more in terms of service—for example, the number of authorized transactions, reward programs and other features. Consumers typically do not understand financial products and services as being perfectly substitutable; therefore, competition can often be based on branding, product differentiation, or changing the features associated with products and services.

The main purpose of chequing accounts is to allow clients to access their funds securely and conveniently through an array of different channels. Chequing accounts are designed to facilitate transactions rather than saving. The interest earned on chequing account deposits is marginal. Instead, banks and other financial institutions typically charge consumers a monthly fee in exchange for a package that authorizes a specified (or, increasingly, an unlimited) number of transactions.¹⁰ A smaller proportion of chequing account packages charge consumers per transaction rather than on a monthly basis.¹¹

In addition to this core function, chequing accounts have a wide variety of features that financial institutions have modified during the last 10 years. Here we identify the most common types of changes, several of which are salient to a systematic analysis of the evolution of banking fees.

Discounts in place of no-fee chequing. A number of financial institutions have been moving away from providing no-fee chequing accounts to particular market segments, such as seniors or youth. Instead, the trend has been to offer these consumers a special discount, ranging from \$4.00 to \$9.95 per month, on standard account packages.

Electronic transfers. Over the last eight years, most financial institutions have introduced an important new feature allowing consumers to email or electronically transfer money to other persons. *Interac* email money transfers are typically offered to customers with chequing accounts, for a fee varying from \$1.00 to \$1.50 per transaction. For most financial institutions, the charge per email transfer is 50 percent higher than the fee assessed on in-branch transactions, withdrawals from banking machines or telephone transfers.¹²

Fees for telephone banking. All forms of telephone banking used to be categorized as self-serve transactions. This meant that consumers incurred minimal or no fees to transfer money, pay bills or access information about their deposits over the phone. During the last eight years, some financial institutions have created two categories of telephone banking: fully automated and assisted. The fees associated with fully automated telephone banking (e.g., phone trees, interactive voice response) have not changed significantly since it is still largely classified as self-serve. On the other hand, when a consumer speaks to a live customer service representative, the transaction is now defined as assisted

¹⁰ In 2005, we found 23 chequing account packages with no limit on the number of authorized transactions. By 2011, the number of unlimited packages had reached 43.

¹¹ According to an Ipsos Reid survey commissioned by FCAC, 78.6 percent of fee-based chequing accounts held by consumers have fixed monthly fees, while 21.4 percent have monthly fees that vary according to the number of transactions consumers make each month.

¹² One exception is the Scotiabank, which charges the same \$1.00 fee on all transfers.

telephone banking. This type of transaction is not covered by chequing account packages and is subject to a range of new fees.

Higher minimum balance. Financial institutions have raised the minimum balance that consumers must maintain for their monthly fees to be waived. As mentioned earlier, there are opportunity costs involved in maintaining a minimum balance in a chequing account to avoid monthly fees. One type of opportunity cost is the interest that could have been earned by consumers had they deposited their money in a high-yield savings account. More important is the accumulated interest that consumers could have avoided had they used their money to pay down outstanding debt instead of maintaining a minimum balance in their chequing account. These opportunity costs can be interpreted as indirect fees because the charges are not levied directly on the consumer by financial institutions. Since minimum balance requirements have not increased to the same extent that interest rates have fallen, the trend has not yet translated into higher opportunity costs. Most consumers have not experienced an indirect fee increase as a result of higher minimum balance requirements, and this is especially true for consumers who are the least encumbered by high-interest debt. If prevailing interest rates on products such as mortgages begin to rise, consumers with chequing account fee waivers tied to minimum balance requirements will be affected. It takes considerable competence in financial planning and management to calculate the opportunity costs associated with maintaining a minimum balance to avoid monthly fees versus paying monthly fees and investing or paying down debt. At the very least, this trend toward higher minimum balance requirements points to the need for financial literacy tools that help consumers to make informed and responsible decisions.

Higher variable fees. The variable fees applied to transactions not covered by chequing plans have increased significantly. There are three instances in which variable fees might be applied; 1) transactions that are not included in a chequing plan (for example, *Interac* email money transfers); 2) transactions that exceed the prescribed limit of a plan; 3) transactions made with chequing accounts that have per-transaction monthly fee structures and no authorized transaction limit. We define the fees for these transactions as variable because they vary considerably based on the plan and type of transaction. They may also vary from month to month depending on the number of transactions that exceed or are not covered by the parameters of a consumer's plan. In 2005, the financial institutions reviewed for this analysis charged from \$0.50 to \$0.75 for every transaction not covered by a consumer's chequing account plan. By 2012, the same financial institutions charged from \$1.00 to \$1.50 per transaction.

Maximum number of transactions allowed. Financial institutions have significantly increased the maximum number of transactions allowed with several chequing account packages. The total number of authorized transactions has risen, but in addition financial institutions are increasingly letting consumers decide how these transactions are distributed between self-serve and in-branch options. Eight years ago, it was more common for financial institutions to place stricter limits on the maximum number of in-branch transactions covered, particularly for less expensive chequing account packages. The recent increase in flexibility could reduce variable fees for consumers who tend to make more in-branch transactions. To determine what these structural changes mean in terms of trends in the market price of chequing accounts, we now examine the evolution of average monthly fees.

3.2. The evolution of average monthly fees

We now turn to the average monthly fees (AMF) levied on chequing accounts. Between 2005 and February 2013 these fees trended upward, but the rise was moderate relative to the rate of inflation. To establish the general pattern, we created a comprehensive list of all the different chequing account packages offered by the largest financial institutions in the Canadian market over an eight-year period. We then calculated the AMF in 2005, 2010, and 2013, for all of the plans that met the criteria.

The AMF for chequing account plans rose by 13.6 percent from 2005 to 2013 (see Table 1 and Chart 2). The observed increase is not unreasonable when compared to the 14-percent rise in the CPI over the same period. In fact, the AMF for chequing accounts rose at a slower pace than the principal index for measuring the rate of increase in the prices of other key goods and services. At the same time, the changes were very different at either end of the fee distribution. The AMF for the least expensive plan rose nearly 50 percent between 2005 and 2013, while the AMF for the most expensive plan decreased by 14 percent over the same period. This finding raises questions about whether there are important differences in the evolution of fees for different types of packages, with the cost of basic plans rising while the cost of premium plans falls. The AMFs calculated to trace the evolution of market prices in this section have not been weighted to

reflect the number of households with each type of plan. It is possible that consumers are concentrated in plans which have experienced a sharp drop in monthly fees. The reverse could also be true. As noted in Section 3.1, there is a wide array of chequing account packages, with a wide variety of features, services and prices. It is important, therefore, to learn whether the wider pattern of a moderate increase holds true for all of the different types of chequing accounts.

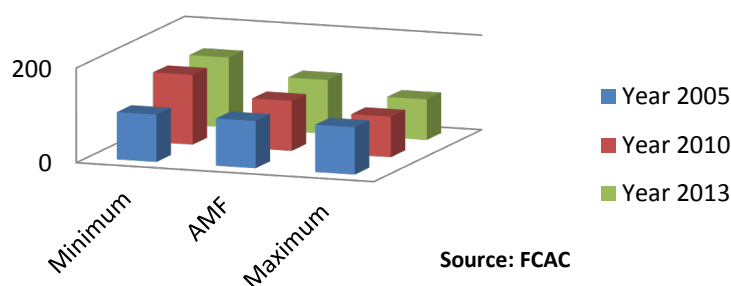
Table 1: Average monthly fees, 2005–13

Year	Total number of plans	Average monthly fees
2005	59	\$8.32 (100)*
2010	60	\$8.82 (106)
2013	57	\$9.45 (113.6)

Source: FCAC

* Values in parentheses provide the index of the average monthly fees, starting with a base of 100 in 2005.

Chart 2: Trends in the monthly fees for chequing accounts



Source: FCAC

3.3. Comparative analysis of average monthly fee trends across five categories of chequing account plans

To perform a more detailed analysis of monthly fees, we grouped chequing account plans into five categories, and analyzed the trends in the average monthly fee associated with each.¹³ The accounts are categorized on the basis of the monthly fee, the minimum balance required for the fee to be waived, and the maximum number of transactions authorized per month. The categories are designed to reflect the different tiers of plans offered by major financial institutions. To a certain extent, the five categories are arranged in ascending order. The “value” plans (i.e., category one) have the lowest fees and are the most limited in the type and number of transactions covered. The “premium” accounts (i.e., category four) offer the most extensive service and have the highest monthly fees on average. Category two is called “basic” and category three is “intermediate.” Category five covers “no-fee” chequing accounts, such as those offered by President’s Choice Financial and ING Direct, which provide unlimited self-serve transactions. Because this category has no monthly fee attached to it, it has been excluded from the analysis. Finally, the movement in the price of the plans in the five categories also needs to be placed in the context of wider economic trends. The evolution of the AMF for each category is therefore compared with the CPI to determine whether the rise in fees is significant relative to increases in the price of other goods and services.

Table 3: Comparative analysis of chequing account plan categories in 2013

Category	Average monthly fee	AMF range		Minimum balance	Maximum number of authorized transactions
		Lowest	Highest		
1) Value	\$3.91	\$2.95	\$5.00	\$1,000–1,500	7–20
2) Basic	\$8.07	\$6.00	\$10.95	\$2,000–2,500	20–30
3) Intermediate	\$9.95	\$8.95	\$10.95	\$3,000–3,500	30–50
4) Premium	\$15.85	\$6.50	\$30.00	\$4,000–5,000	50–unlimited
5) E-banking	No-fee e-banking chequing account plans				Unlimited

Source: FCAC

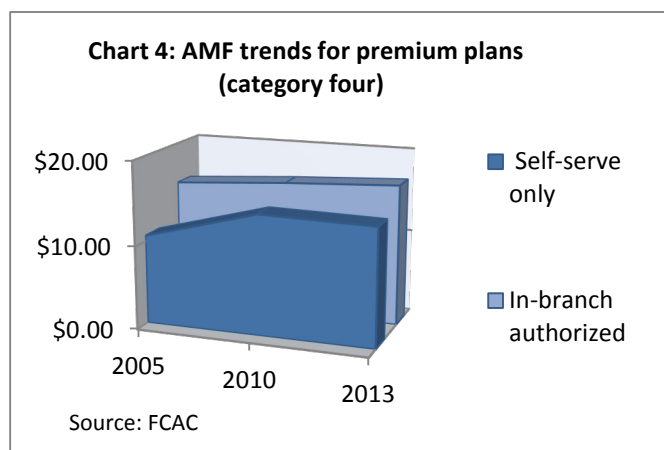
Notable differences can be found in terms of the AMF trends for different categories during the eight-year period observed (see Table A3 in the Annex). Prices rose and fell for certain categories and remained constant for others. The AMF of the value plans found in category one increased by only 4 percent in nominal terms from 2005 to 2013 (see Table A3 in the Annex). This means that in real terms, the average cost of the value packages actually declined by 10 percent, after the AMF is adjusted for inflation. Similarly, the rise in the average price of the intermediate plans in category three did not keep pace with inflation. A nominal increase of only 10 percent was observed for the intermediate packages, which translates to a 4-percent drop in real terms when the AMF is adjusted for the 14-percent rise in the CPI. However, our analyses of the basic and premium plans uncovered significant increases that outpaced the inflation rate from 2005 to 2013. The AMF for basic plans rose 18 percent,

¹³ For the purposes of the supply-side analysis, the average monthly fee is the sum of the monthly fees for a sample of chequing account plans divided by the number of plans used in the sample.

which translates into a real increase of 2 percent after the CPI is taken into account. The AMF for premium plans rose 16 percent or 2 percent after the CPI is taken into account.

Last, fees have risen most sharply for the least expensive options within the categories themselves (see Table A3 in the Annex). In other words, there are unique pricing trends within the different categories based on the stipulations financial institutions make

concerning self-serve and in-branch transactions. On average, fees rose more steeply for chequing account plans that authorize only self-serve transactions and exclude in-branch service options. The AMF for self-serve-only basic packages (category two) increased by 31 percent from 2005 to 2013; the AMF for self-serve-only intermediate packages increased by 17 percent; and finally, the AMF for premium self-serve-only packages rose by 32 percent. It might appear counterintuitive that fees rose much faster for account packages that did not cover in-branch transactions. To a certain extent, however, the increases can be interpreted as merely closing the gap between self-serve-only packages and plans that authorize consumers to conduct both in-branch and self-serve transactions. In fact, the average price of self-serve-only packages remains lower than that for mixed-transaction packages across all of the categories, despite higher rates of fee increases recently. For example, while the AMF for premium self-serve plans rose 32 percent, the average price of those plans was only \$14.09 in 2013 compared to \$16.62 for packages that offered consumers both self-serve and in-branch options (see Chart 4). The gap probably existed because in 2005 financial institutions were still trying to move consumers away from in-branch banking and toward conducting more self-serve transactions. Now that this transition is largely complete, the difference in the price of self-serve versus in-branch transactions is narrowing. The next section analyzes the relationship between transactions and average monthly fees in greater depth.



3.4. The evolution of per-transaction fees

Over the last decade, financial institutions have made a series of amendments to the features offered with chequing account plans (see Section 3.1), and these could change the monthly fees associated with certain packages. Per-transaction fees have remained highest with value plans and lowest with premium plans. In this section, we analyze the impact of the specific changes made to the maximum number of transactions authorized per month. In general, we observed a pattern of rising transaction limits. For financial consumers, this trend could reduce the monthly fees levied on chequing plans on a per-transaction basis even though the monthly fees have gradually risen, tracking the inflation rate.

Referring to the same comprehensive list of chequing account plans used to analyze average monthly fees, we found that the average cost per transaction decreased by 5 percent in nominal terms from 2005 to 2013 (see Table 5). When the trend is evaluated relative to inflation as measured by the CPI, the

decline in per-transaction fees becomes even more significant. The average fee assessed per transaction on chequing plans declined almost 19 percent in real terms over the eight-year period we examined.

Table 5: The evolution of per-transaction banking fees

Year	Average fee per transaction		Average fee per transaction, by category			
	Number of plans	Mean	(1) Value	(2) Basic	(3) Intermediate	(4) Premium
2005	59	\$0.26 (100)*	\$0.35 (100)	\$0.32 (100)	\$0.21 (100)	\$0.14 (100)
2010	60	\$0.25 (97)	\$0.34 (97)	\$0.28 (89)	\$0.22 (105)	\$0.15 (107)
2013	57	\$0.24 (95)	\$0.33 (95)	\$0.28 (89)	\$0.20 (95)	\$0.16 (114)

Source: FCAC

* Values in parentheses provide the index of the average fee per transaction, starting from a base of 100 in 2005.

The pattern of per-transaction charges also varies across the four categories (see Table A4 in the Annex). In the case of the value plans (category one), the real (i.e., adjusted for inflation) decline in per-transaction fees is approximately 19 percent from 2005 to 2013, which is in line with the overall trend. Nonetheless, the average fee per transaction remains the highest for value plans, at \$0.33. The per-transaction costs associated with the basic packages (category two) decreased by 11 percent in nominal terms and by 25 percent in real terms when the CPI is taken into account. In other words, the increase in the maximum number of authorized monthly transactions for basic plans was sufficient to compensate for the moderate rise in average monthly fees. The only exceptions to this trend were the premium plans (category four), for which per-transaction charges increased by an average of 14 percent. However, this increase is stated in nominal terms. Inflation was 14 percent from 2005 to 2013, which means that in real terms per-transaction fees remained constant for chequing account plans in category four. Furthermore, the fees levied per transaction for premium plans were already the lowest, at less than half the prices observed for the value plans.

3.5. Variable fees

The variable fees charged by financial institutions increased substantially from 2005 to 2013.¹⁴ This upward trend contrasts with the moderate increases observed in the AMF for chequing account plans. Our analysis of variable fees found an average nominal rise of 46 percent. More than one third of the

¹⁴ As mentioned in Section 3.1, variable fees may apply to transactions that: (1) are not included in a chequing plan; (2) exceed the prescribed limit of a plan; or (3) are made with chequing accounts that have per-transaction monthly fee structures. According to a recent Ipsos Reid survey commissioned by FCAC, 21.4 percent of chequing accounts offered by the industry have a per-transaction fee structure. On the other hand, about 15.6 percent of fee-based chequing plan holders reported exceeding the prescribed limit of their plan.

nominal increase (i.e., 18 percent) in variable fees occurred between 2005 and 2010, while two thirds of the increase occurred between 2010 and 2013. In 2005, financial institutions charged from \$0.50 to \$0.75 per banking machine transaction made outside of chequing account plans. By 2013, they were charging from \$0.65 to \$1.50 per extra-plan bank machine transaction. This means that variable fees related to transactions conducted via banking machines increased by 51 percent nominally between 2005 and 2013. The variable fees related to transactions made in-branch, by phone, online or by other means have also increased considerably (see Table 6).

Table 6: Variable fee trends

		2005	2010	2013
Variable fees index components	Banking machine	100*	122	151
	In-branch	100	129	161
	Phone and Internet	100	110	146
	Others**	100	111	127
Variable fees index		100	118	146
AMF of chequing plans (Section 3.2)		100	106	113.6
Financial services sub-index of Consumer Price Index		100	113	129
Consumer Price Index***		100	109	114

Sources: FCAC estimations, using a comprehensive list of the different bank account packages offered by the principal financial institutions

* Values represent the index of the average variable fee per transaction, starting from a base of 100 in 2005

** This category includes the variables fees levied on cheques, direct deposit, debit and pre-authorized debit, *Interac* network fees for transactions conducted in the United States, network fees for transactions conducted outside Canada or the United States, and *Interac* email money transfers.

*** Statistics Canada, CANSIM, Table 326-0021

Remarkably, the rise in variable fees was systematically higher than the CPI as well as its financial services sub-index component.¹⁵ In a “return to sample” survey of 1,000 CFM respondents, FCAC commissioned Ipsos Reid to ask questions directly pertaining to these issues. Respondents were asked how often they exceeded the maximum number of monthly transactions allowed by their chequing package. Roughly 83.4 percent of households with monthly plans reported never exceeding the prescribed limit. Another 15.6 percent of plan holders reported having either occasionally (12.7 percent) or frequently (2.9 percent) made more transactions than the number allowed by their chequing account plan.

¹⁵ The financial services sub-index of the CPI was introduced in January 2003. It tracks the changes in the price of monthly banking fees, variable fees, stock and bond commissions, financial administrative and management fees, and other financial services.

3.6. Supply side: concluding remarks

For this section, we performed our analysis from the perspective of the firms that supply chequing account services to financial consumers. Average monthly fees applied to chequing account plans have increased moderately. However, there has been a sharper rise in the variable fees applied to transactions made outside the terms of account packages. As a result, certain consumers may have experienced a significant increase in their banking fees, especially if they frequently make transactions that exceed the terms of their chequing account package. This means that it is increasingly important for consumers to ensure that their chequing account plan suits their needs.

Our analysis of banking fees has thus far set aside the behaviour of financial consumers. In other words, it is still possible that consumers are paying more for chequing account plans today than they were in 2005. Large numbers of consumers migrating to more expensive account packages, for instance, would cause banking fees to rise for the average household even though the average price of a chequing plan has not increased significantly in the market.

The purpose of this section was to analyze the evolution in terms of market trends. Separating the demand- and supply-side analyses allows us to discern to what extent the evolution of banking fees can be explained by market trends or consumer behaviour. This distinction is crucial to FCAC's financial literacy mandate. If the market price for chequing plans is unchanged but the cost borne by consumers is rising, it is reasonable to suppose that consumers are not making optimal use of the opportunities provided by the market. The reason could be that consumers lack awareness about how to select an account that suits their needs, or it could be that consumers are not using the plan they hold effectively. Section 4 adopts the perspective of consumers to assess how their banking fees have evolved on the demand-side.

4. Demand-side analysis: patterns of household spending on chequing accounts

This section examines the evolution of banking fees from the perspective of consumers. From 2004 to 2012, Canadian households reported a moderate increase in the cost of holding a chequing account plan. In Section 4.1, we take a closer look at the proportion of Canadian households that have chequing accounts, the number of accounts that households typically own, and the fee structure of those accounts. Section 4.2 examines changes in the fees reported as paid by Canadian households. We perform a weighted analysis of average monthly fees, in which the weight of each chequing account plan towards the calculated average reflects the estimated number of households that hold each plan. This allows us to determine whether consumers are disproportionately concentrated in chequing account packages for which fees are rising or falling. We then divide households into quartiles based on their monthly fees in Section 4.3 to establish the average monthly fee trends across different segments of the banked population. In Section 4.4, we shift our focus to the total monthly expenditures reported as paid by banked households for their chequing plans. Finally, we analyze survey data concerning consumers' attitudes toward their financial institutions, the banking fees they pay, and their willingness to pursue different financial services options provided by the market. We also attempt to gauge the extent to which consumers are making informed and responsible choices based on the type of plan they have and the number of transactions they typically make each month.

4.1. Trends in chequing account ownership

A relatively high proportion of Canadian households have at least one chequing account. Ownership of a chequing account is a standard measure for counting a household among the banked segment of the population. Households without at least one chequing account are considered unbanked. According to the Canadian Financial Monitor survey data, 95.7 percent of Canadian households were banked in 2012.¹⁶ The proportion of households with chequing accounts in Canada compares favourably to the United States. A national survey conducted by the Federal Deposit Insurance Corporation found that approximately 10 percent of U.S. households do not have a chequing account. The survey also discovered a pattern in which the proportion of unbanked households was steadily rising at a national

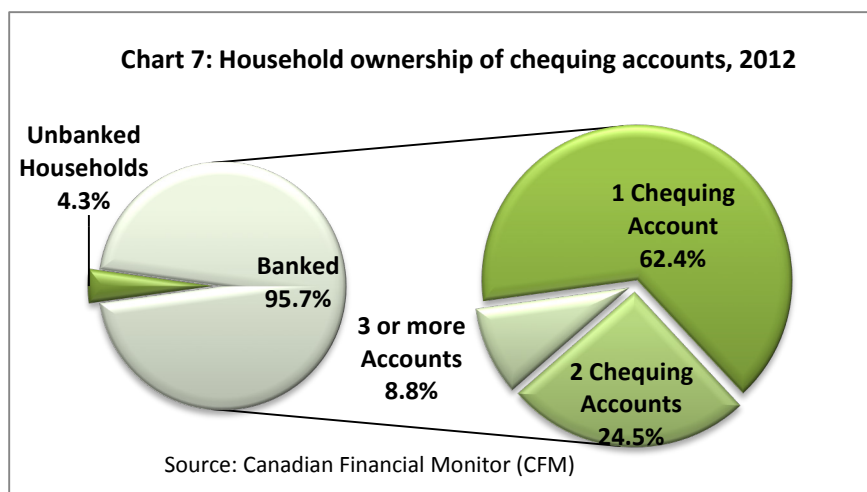
¹⁶ This figure has been confirmed in a recent World Bank study entitled "Measuring Financial Inclusion," which found that 96 percent of Canadians are banked (Demirguc-Kunt & Klapper, 2012). The figure has remained relatively stable over the last 15 years. Research conducted in 1998 for the Task Force on the Future of the Canadian Financial Services Sector estimated that the banked population was then approximately 97 percent. In 2004, FCAC commissioned Ipsos Reid to conduct a survey that also put the banked population at 97 percent (McKinsey & Company, 1998; Buckland, 2008). Not every person who has reached the age of majority within a household always has adequate access to that household's chequing account(s); accordingly, the unit of analysis employed here probably leads us to slightly underestimate the size of the unbanked population. However, it is also reasonable to assume that a number of those households that report not having a chequing account do own a deposit account of another type and are not, therefore, unbanked. Another reason to suspect that the proportion of unbanked Canadians could be higher is that financially disadvantaged households are widely thought to be under-represented in phone surveys such as CFM because those households are less likely to have landlines (Buckland, 2011).

level (Federal Deposit Insurance Corporation, 2012). Financial inclusion refers to the ability of economically disadvantaged households to access basic banking services. Rapid increases in monthly fees could put these services out of reach for the economically disadvantaged, which is a key reason why FCAC closely monitors trends in banking fees. The high proportion of Canadian households with at least one chequing account suggests that the market is not putting basic banking services out of reach for the vast majority of consumers.

Nearly two thirds of banked households owned a single chequing account in 2012 (see Chart 7). In addition, one third of banked households had multiple accounts. This finding is important because it means that total household expenditures on banking fees could be rising faster than the average monthly fees reported as paid by households for each account. We examine this possibility further in Section 4.4. The average number of chequing accounts held by Canadian households (1.5) changed very little from 2004 to 2012 even though the market expanded considerably, with low-cost accounts emerging in 2003 and then close substitutes, such as no-fee electronic banking, entering shortly thereafter.¹⁷ Approximately two thirds of banked households in Canada report paying direct monthly fees for their chequing account. The proportion of the banked population that owned fee-based accounts rose slightly from 65.7 percent in 2004 to 66.9 percent in 2012 (see Table A5 in the Annex). A closer examination of the CFM survey data clearly shows that no-fee electronic accounts have become more attractive to consumers. Approximately 8.6 percent of banked households reported having at least one account with an online financial institution in 2012, up from 6.1 percent in 2004.

Usually, consumers who open no-fee electronic chequing account plans retain at least one fee-based chequing account with a financial institution that provides traditional bricks-and-mortar branches. There has not been a significant migration away from fee-

based accounts to the newer no-fee electronic banking packages, such as those offered by President's Choice Financial or ING Direct. Only a small fraction of the banked population (3.5 percent) exclusively used no-fee electronic account packages from online financial institutions in 2012, compared to 2.4 percent in 2004.¹⁸

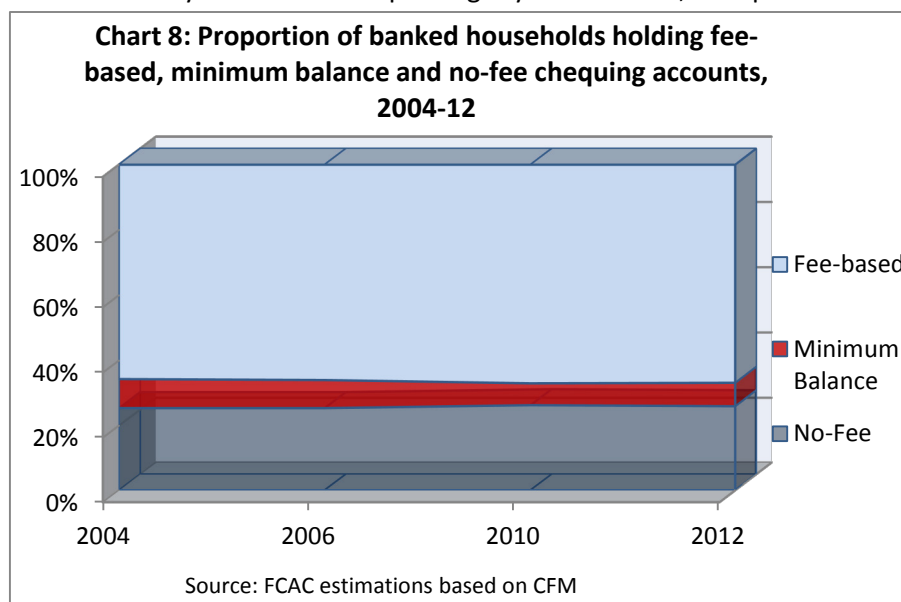


¹⁷ For a more detailed analysis of low-cost chequing account plans, see Section 5.

¹⁸ FCAC commissioned Ipsos Reid to ask a sample of 1,000 households why they do not bank with financial institutions that offer no-fee electronic chequing accounts, such as the plans offered by ING Direct and PC Financial. The most important reasons stated by respondents were: (i) high satisfaction with their current financial

Nearly one third of banked households were able to avoid paying direct monthly fees in 2012 because they held no-fee plans targeting seniors or students, banked with online financial institutions that offered no-fee electronic plans, or managed to maintain the minimum balance required for the monthly fees to be waived (see Chart 8 and Table A5 in the Annex). As expected, based on the preceding description of the trends relevant to fee-based accounts, the proportion of banked households that did not pay direct fees has remained remarkably stable over the past eight years. In 2012, 33.1 percent of

banked households paid no monthly fees, a marginal decrease from 34.3 percent in 2004. The proportion of banked households that held minimum balance packages and were able to avoid fees by meeting their minimum balance requirements fell by only 1.7 percent, from 8.9 percent in 2004 to 7.2 percent in 2012. Less than one tenth of banked



households are in a position to avoid fees by maintaining the required minimum monthly balance as stipulated by their financial institution. The Canadian Bankers Association typically includes minimum balance accounts in its assessment of the proportion of Canadian consumers who do not pay monthly fees (see Section 2.4) (Canadian Bankers Association, 2013a).

Nonetheless, it is important to distinguish between no-fee and indirect fee accounts. While plans with minimum balances offer consumers the possibility of avoiding direct fees, these accounts are more accurately described as having indirect fees rather than no fees because of the opportunity costs associated with maintaining a minimum balance in a chequing account. These opportunity costs vary according to prevailing interest rates and household debt levels. In light of the trend toward rising minimum balance requirements over the past eight years (see Section 3.1), we expected to find a noticeable decline in the proportion of households able to have their monthly fees waived by maintaining the required minimum balance in their chequing account. The downward trend was actually quite limited.

In contrast, there was a marginal increase in the proportion of households that had no-fee, senior or student account packages, rising from 25.4 percent in 2004 to 26 percent in 2012. This might appear not to be in line with the structural changes made by some financial institutions, which involved reducing

institution, 15.9 percent; (ii) reluctance to switch banks for any reason, 9.8 percent; (iii) preference for in-branch transactions, 9.5 percent; and (iv) lack of awareness about the existence of financial institutions offering no-fee electronic chequing accounts, 7.7 percent.

the number of no-fee accounts for particular market segments and replacing them with special discounts on regular packages (see Section 3.1). Contrary to this wider trend, several financial institutions are still offering no-fee account plans to seniors. It is evident that demographics have a role to play in explaining the upward trend in holdings of no-fee or “special” accounts, since an aging population would increase the proportion of financial consumers eligible for seniors’ accounts. Furthermore, there has been a slight shift toward no-fee electronic banking packages, with a portion of the consumers who paid fees in 2004 now taking advantage of the no-fee plans offered by President’s Choice Financial and ING Direct. The proportion of consumers who exclusively have no-fee electronic chequing account packages increased from 2.4 percent in 2004 to 3.5 percent in 2012.

4.2. Average monthly fees paid by households per chequing account plan

The fees Canadian households reported paying for each of their chequing account plans increased by an average of 11 percent from 2004 to 2012. Our analysis is based on information gathered by Ipsos Reid’s annual Canadian Financial Monitor survey. The average fee increase of 11 percent is weighted based on the survey’s practice of using demographic and geographic variables to build a sample of 12,000 banked households, which is designed to be representative of the Canadian population. The CFM asks selected respondents to name their financial institution and estimate the monthly service charges they pay for each chequing account held by their household, choosing from a dollar range—for example, \$11.00 to \$15.00. We then combined their responses with the administrative data provided to FCAC by financial institutions to determine which packages respondents have, as well as the precise fees associated with these chequing account plans. As noted in Section 4.1, approximately one third of Canadian households have more than one chequing account, so the average fee per account was calculated for each household. Finally, the appropriate weight of each household’s average fee toward the calculation of the overall mean was informed by the CFM’s sampling. In this way, we were able to establish that the weighted average of the monthly fees paid by households for each plan increased by 11 percent from 2004 to 2012.

This upward trend is moderate when adjusted for the 16-percent increase in the Consumer Price Index over the same period. In real terms, households actually paid 5 percent less per month for each chequing account in 2012 than they did in 2004.

There is a notable similarity between the trends observed on the supply side and the demand side. The average price of chequing accounts in the Canadian financial services market rose by 13 percent from 2005 to 2013 (see Section 3). This trend was not uniform, however, with the price of certain categories of chequing account plans increasing to a greater extent and the price of others falling. The supply-side analysis necessarily set aside the question of which chequing account packages tended to be held by the largest proportion of banked households; instead, it examines how the prices of all of the different plans made available in the market have evolved. These steps needed to be separated so that we could evaluate how the full range of chequing account options evolved in terms of their monthly fees as well as to begin to assess consumers’ choices. In other words, it was possible that consumers were paying considerably more for chequing account plans today than they were in 2005 even though prices had risen only slightly overall. Large numbers of consumers could have held packages for which the fee increases were highest. Our analysis of the demand side suggests that this is not the case. Households

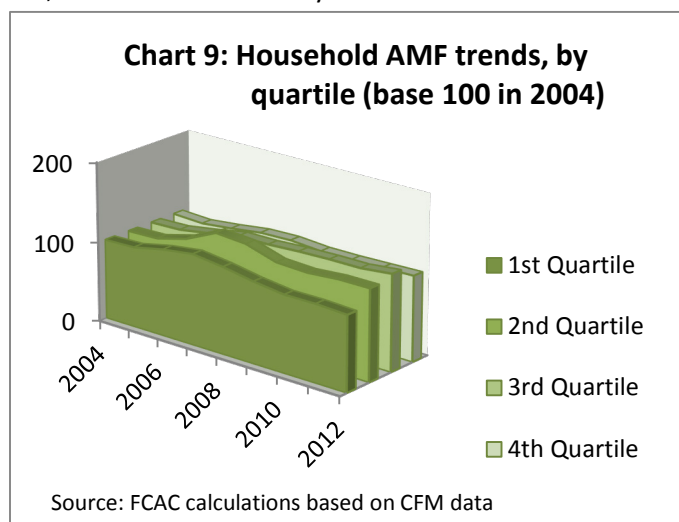
report a nominal increase of 11 percent in the fees they pay, which is less than the 13-percent rise in prices over a similar period. In essence, the similarity between these two trends indicates that consumers are taking advantage of market opportunities and making informed choices that serve to keep their fees down. This does not rule out the possibility that consumers hold chequing plans that are less than optimal in terms of the range of services included in the plan versus the types of services they require.

Of course, it is also possible that the moderate increase in the average fees paid by households for each chequing account is disguising significant increases or decreases in the fees paid by certain segments of the population. To examine this scenario, in Section 4.3 we split the population of banked households into four equal quartiles and then trace the trajectory of the fees paid for chequing account plans in each quartile.¹⁹

4.3. Households' average monthly fees, by quartile

To determine whether the moderate nominal increase in fees was consistent across the banked population, we divided banked households into quartiles based on their average monthly fees. We ranked the quartiles in ascending order, from quartile one with the lowest fees to quartile four with the highest. We tracked fees over a nine-year period at five intervals between 2004 and 2012. Once again, we compared these trends to the rate of inflation as measured by the CPI to get a sense of their relative importance.

Several interesting differences were observed between quartiles (see Chart 9 and Table A6 in the Annex). On the one hand, fees on chequing account plans declined in real terms for approximately three quarters of the banked population. On the other hand, fees rose considerably in real terms for one quarter of the banked population. More specifically, fees declined at a rate of 9 percent relative to the CPI for banked households in quartile four. This observation is in line with the supply-side analysis that found only an 11-percent nominal increase in the price of premium accounts in category four. Banked households in the first quartile experienced a nominal decline of 5 percent in average monthly fees and a real decline of 21 percent when the average is adjusted for inflation. Closer examination of this significant downward trend in the fees paid by the first quartile reveals that these households benefited from a sharp decline in the indirect fees associated with minimum balance plans, as a result of a decline in interest rates. Banked households in quartile two experienced a nominal



¹⁹ Because of the limitations of the CFM data, we could not perform the same exercise for monthly fees charged on per-transaction accounts and transactions that exceed the prescribed limit of chequing plans.

increase of 15 percent in their average monthly fees, but this upward trend is not significant in real terms when considered relative to inflation.

The moderate overall increase in the average fees paid by households for each chequing account did mask notable increases and decreases in the fees paid by certain segments of the population. Banked households in quartile three reported a nominal AMF growth rate of 21.5 percent, which is greater than the 16-percent rise of the CPI from 2004 to 2012. We can also determine that the households in quartile three tended to be disproportionately concentrated in the chequing account packages having the highest price increases from 2004 to 2012. This increase was primarily driven by the rising cost of the plans held by these households. It could also mean that banked households in quartile three are not taking full advantage of the range of chequing account plans provided by the market. The discovery of a significant increase in the cost of owning a chequing account for one quarter of the banked population holding fee-based accounts also raises questions about the consequences for household budgets.

4.4. Patterns of household expenditures on chequing accounts

The finding that one third of households have more than one chequing account led us to question whether total household expenditures were evolving differently from the average monthly fees reported as paid by households for each account. In this section we report first on the pattern of household expenditures for chequing account plans. We then compare the findings to trends in household income over the same period. Learning about how trends in expenditures on chequing account compare to the evolution of household income can help us to assess the capacity of consumers to make informed and reasonable decisions about financial services.

Based on our analysis, we are able to conclude that increases in the average cost of a chequing account plan were moderate relative to the increase observed in average household budget income from 2004 to 2012. This conclusion holds true even for the households in quartile three, which experienced the greatest growth in their average monthly fees for chequing plans. To determine the consequences of this trend, we analyzed the evolution of household expenditures on chequing account packages from 2004 to 2012 and then compared it to the rate of growth of average household income over the same period. Average monthly household expenditures on chequing accounts grew at a rate of 8 percent, from \$13.30 in 2004 to \$14.40 in 2012. This is relatively consistent with the 11-percent nominal growth in the average fees paid by households for their chequing accounts on a monthly basis (see Section 4.2). However, average annual household income grew by 22 percent in Canada over the same period.²⁰ This means that the share of household income typically dedicated to chequing account fees shrank considerably during the eight-year period examined. The upward trend in household expenditures was once again steepest for the third quartile of the fee-paying and banked population, but even here the rate of expenditure growth was outpaced by the rise in average annual household income (see Table A7 in the Annex).

²⁰ Statistics Canada, Household Income Index, CANSIM, Table 326-0202.

Table 10: Comparison of chequing account expenditures and household income index

	2004	2006	2010	2012
Average monthly household expenditures	\$13.30	\$14.32	\$14.25	\$14.4
Rate of increase as ratio (base 100 in 2004)	(100)	(108)	(107)	(108)
Household income index*	100	104	114	122

Source: FCAC calculations based on CFM data

* FCAC calculations, using CANSIM table 326-0202 of Statistics Canada

4.5. Consumer attitudes toward financial institutions and banking fees

To better understand banking fees from the perspective of consumers, FCAC commissioned Ipsos Reid to conduct a survey of Canadians' level of satisfaction with their deposit accounts in terms of banking fees, convenience of banking locations and hours of operation, and service quality. The economic theory covered in Section 2 suggests that markets will operate efficiently and provide optimal outcomes only if consumers are willing to enable competition by pursuing lower prices and/or better financial services when these are available. In this section, we analyze the survey data concerning consumers' attitudes toward their financial institutions and the banking fees they pay each month. We then seek to determine whether these attitudes are related to a willingness on the part of consumers to switch accounts when they decide that a better option is available. Finally, we try to gauge the extent to which consumers are making informed and responsible choices about chequing account packages relative to the number of transactions they typically make each month.

An interesting finding is that 95 percent of Canadians surveyed report that they are satisfied with their financial institution; 51 percent reported being very satisfied (see Table 12).²¹ The remaining respondents are either somewhat dissatisfied (3.5 percent) or extremely dissatisfied (1.5 percent). Respondents were also asked to rate their level of satisfaction regarding service quality, location, hours of operation, and banking fees on their deposit accounts. While Canadians did report high levels of satisfaction overall, they were less satisfied with banking fees. Approximately three in four consumers

²¹ The high level of satisfaction with financial institutions reported by Canadian consumers has been confirmed in other studies. Ernst and Young (2013) found that approximately 70 percent of customers are very satisfied with their primary financial institution. Further, CapGemini's World Retail Banking Report (2013) ranks Canada first among more than 30 countries in the Customer Experience Index, which measures consumers' satisfaction with different aspects of their financial institution's products and services, such as payment channels and problem resolution.

reported high levels of satisfaction with the quality of service, branch location and hours of operation. However, the proportion of satisfied respondents falls to 64.1 percent when the questions concern banking fees. Of the 35.9 percent of consumers who did not express satisfaction with banking fees, three in five reported that banking fees are nonetheless fair.

Table 11: Consumer attitudes about their financial institution(s)

	Financial institution	Banking fees	Service quality	Location	Hours of operation
Very satisfied	51%	42.9%	57.1%	62.6%	55.5%
Somewhat satisfied	44%	21.2%	27.2%	14.9%	21.4%
Fair	N/A	20.8%	8.4%	12.1%	13%
Somewhat dissatisfied	3.5%	8.4%	3.5%	4.6%	5.6%
Very dissatisfied	1.5%	6.2%	3.6%	5.4%	4.1%
Not stated	0%	0.5%	0.2%	0.4%	0.4%
TOTAL	100%	100%	100%	100%	100%

Source: FCAC calculations, based on CFM's "return to sample" data (2013)

Of course, this high consumer satisfaction level could be a product of consumers pursuing chequing account plans that are optimally suited to their needs or of a general lack of awareness that better options exist. To find out which one of those factors prevails, we need to know whether consumers are willing to switch plans and change banks.

We found that approximately one in four Canadians had recently opened a new chequing account. The "return to sample" survey (2013) asked consumers whether the new chequing account they had opened was intended to replace their principal account; 24 percent of respondents reported that it was. The data does not allow us to discern which consumers switched financial institutions when they changed their principal accounts. The main reason given for switching accounts was to reduce service charges (15.7 percent). Other frequently cited reasons were: (i) poor customer service or lack of satisfaction with their financial institution, 14.6 percent; (ii) a change of residence or place of work, 12.2 percent; and (iii) location, 9.8 percent. Of the 76 percent of Canadians who did not switch accounts, only 8.9 percent indicated that they planned to switch accounts in the near future. Once again, the primary reason provided by respondents was the high level of banking fees (33.7 percent). The desire to obtain a better interest rate was the second most important reason given for the plan to switch accounts (21 percent).

4.6. Demand side: concluding remarks

From the perspective of consumers, the cost of the average chequing account plan is rising. Relative to the rate of inflation as measured by the Consumer Price Index, total monthly fees associated with both chequing account plans and per-transaction accounts (i.e., variable fees) increased by 4 percent overall

in real terms from 2004 to 2012. However, if we focus only on plans with fixed monthly fees—which represent about four in five of the chequing accounts held by Canadians—the average monthly fees that consumers reported paying for their plan decreased by 5 percent in real terms from 2004 to 2012. Our examination of the pattern of household expenditures on chequing accounts is consistent with the trends observed on the demand and supply sides. Household expenditures on chequing plans increased, but the rate of increase was moderate relative to the increases observed in average household income between 2004 and 2012.

5. Low-cost accounts: market trends and consumer demand

To ensure that the financial market does not create unacceptable obstacles to the acquisition of a basic deposit account, in 2003 the Government of Canada signed memoranda of understanding with eight banks whereby those institutions made a public commitment to provide Canadians with the option of opening a low-cost account (LCA). This section analyzes LCA offerings from the perspective of consumers. The aim is to explore whether the guidelines are still adequate to achieve the original goal of providing Canadians with access to basic retail banking services for a reasonable monthly fee.

5.1. What are low-cost accounts?

LCAs are accounts that meet the specific guidelines of banks' public commitments and are designed to ensure that they respond to the basic banking needs of consumers, particularly economically disadvantaged Canadians. FCAC supervises these public commitments. The accounts must offer the following features:

- 8 to 15 debit transactions (including Internet and telephone banking) per month, at least two of which can be in-branch transactions
- a maximum monthly fee of \$4.00, commensurate with the number of authorized in-branch and overall debit transactions (accounts that provide relatively few in-branch and overall transactions must have a correspondingly low monthly fee)
- for extra debit transactions beyond the monthly limit, reasonable charges that are not out of line with charges for "extra" debits on other fixed-fee accounts at the bank
- no charge for deposits
- a debit card included
- a free monthly statement or passbook record keeping
- and cheque writing privileges

5.2 How have low-cost accounts changed since 2003?

Our research has uncovered notable changes to LCAs over the last decade (see Table 12). With respect to prices, Laurentian Bank, National Bank and BMO have increased the monthly fee on their low-cost option by an average of 15 percent (typically from \$3.50 to \$4.00). More than one-third of the eight participating banks (TD, RBC and HSBC) have reduced the maximum number of transactions allowed with their LCA package, which should be considered an indirect monthly fee increase. These institutions have reduced the monthly authorized transactions provided to LCA holders by 20 to 50 percent. This reduction in transaction limits could increase the likelihood that consumers will incur variable fees. Another important consideration is flexibility. LCA transactions are categorized as self-serve or in-branch. Half of the LCAs offered now allow consumers to decide how many of their authorized transactions will be performed in-branch.²² And the other half of the LCAs offered (Laurentian, National,

²² Self-serve transactions are performed by consumers (e.g., withdrawals from automated bank machines, point-of-sale debit purchases, or automate telephone banking). In-branch transactions (e.g., withdrawals, transfers, or

Scotiabank, and TD) set strict limits on the number of authorized transactions that can be performed in-branch, and of these banks only Scotiabank offers more in-branch transactions than the minimum of two stipulated in the LCA guidelines. The lack of flexibility to choose between in-branch and self-serve transactions could also increase the likelihood that consumers will incur variable fees for making more in-branch transactions than authorized by their LCA.

Table 12: Low-cost accounts offered by federally regulated financial institutions

Institution (account name)	2003				2013			
	Monthly fee	Authorized transactions			Month ly fee	Authorized transactions		
		Total	In- branch	Self- serve		Total	In- branch	Self- serve
BMO (Practical)	\$3.50	10	Flexible		\$4.00	10	Flexible	
CIBC (Everyday)	\$4.00	10	Flexible		\$3.90	10	Flexible	
HSBC (Performance)	\$4.00	12	4	12	\$4.00	10	Flexible	
Laurentian Bank (Transact a little)	\$2.95	6-8	2	6	\$3.50	6-8	2	6
National Bank (Accessible)	\$3.50	10-12	2	10	\$3.95	10-12	2	10
RBC (Day to day)	\$4.00	15	Flexible		\$4.00	10	Flexible	
Scotiabank (Basic)	\$3.95	12	4	12	\$3.95	12	4	12
TD Canada Trust (Minimum)	\$3.95	10	4	10	\$3.95	8	2	8

Source: FCAC data

5.3 The emergence of close substitutes for low-cost accounts

Some financial institutions offer account packages with features that fit within the parameters of the LCA guidelines, even though the institutions have not signed an LCA memorandum of understanding with the federal government. We define “close substitutes” as chequing account plans with monthly fees of \$5.00 or less and service features that are reasonably comparable to those offered with LCAs.

bill payments) are performed by employees or representatives of a financial institution, either in a branch or while speaking to a live customer service agent over the telephone.

Table 13: Close substitutes for low-cost accounts

	2003			2013		
	Authorized transactions			Authorized transactions		
	Monthly fee	In-branch	Self-serve	Monthly fee	In-branch	Self-serve
Alterna Savings* (Basic)	\$5.00	20		\$4.00	20	
Desjardins (Economy)	\$2.00	0	7	\$2.95	0	7
Desjardins (Economy Plus)	\$3.50	12		\$3.95	12	
President's Choice Financial (No Fee Bank Account)	\$0.00	0	Unlimited	\$0.00	0	Unlimited
Vancity (Basic)**	\$4.00	12		Cancelled		
Affinity Credit Union (CU-PAC 10)	Not available			\$4.00	10	
Affinity Credit Union (e-PAC 25)				\$5.00	0	25
ATB Financial (Basic)				\$3.95	0	15
Canadian Western Bank (Standard)				\$4.00	8	
Coast Capital Savings (Free Chequing, Debit & More)				\$0.00	Unlimited	
ING Direct (THRIVE)				\$0.00	0	Unlimited
Meridian (Convenience)	\$5.00	15				

Source: FCAC Data

* Bill payments via banking machine are not available.

** In March 2013, Vancity still offered its "Basic" plan to customers but has since cancelled it. According to Vancity customer services representatives, the plan was cancelled because of lack of consumer interest. Customers are now directed to Vancity's "E-Package," for which the monthly fee (\$7.00) exceeds the parameters of our definition of close substitute plans.

In 2013, there were no LCA packages offering the 15-transaction maximum stipulated in the guidelines, but a number of close substitute account packages meet or exceed this threshold.

Approximately half of the close substitutes offered distinguish between self-serve and in-branch transactions, while the other half give customers the flexibility to choose how they will conduct their allowance of monthly transactions. It is important to note that none of the close substitutes that distinguish between in-branch and self-serve transactions offer consumers a monthly allowance of in-branch transactions. As illustrated in Table 13, the cost of the majority of close substitute accounts meets the \$4.00 maximum monthly fee provided by the LCA guidelines. Some institutions (e.g., President's Choice Financial, ING Direct) also offer close substitutes in the form of no-fee electronic

banking packages, which provide unlimited self-serve transactions free of charge. The no-fee electronic accounts have emerged as attractive substitutes to the LCAs for consumers who primarily bank online.

In sum, close substitutes have emerged as an option that can be advantageous for many consumers, given the higher number of allowable transactions, flexibility to choose the transaction method, and lower prices. Although the monthly fees on LCAs have risen slightly, they remain within the \$4.00 threshold set out in the original guidelines. At the same time, indirect charges have increased on more than half of the eight LCAs as a result of reductions in the number of authorized transactions provided by these plans. It also appears that the provision of in-branch transactions is an important driver of monthly fees for LCAs. Most of the close substitutes with the highest transaction limits do not offer any in-branch transactions. As this review shows, there are marked differences in the costs and other features (e.g., number of allowed transactions) between LCAs and the e-banking options, which permit only self-serve transactions. Because Canadians are among the most “connected” consumers in the developed world (Chinn & Fairlie, 2007; OECD, 2013; World Bank, 2013), it may be inferred that the additional costs associated with in-branch transactions may outweigh the value of that feature for many financial consumers. In turn, this may have undermined the relative value proposition of low-cost accounts compared to their close substitutes. In the next section, we examine the extent to which the popularity and use of low-cost accounts have varied in recent years.

5.4. Trends in consumer demand for low-cost accounts

To assess the extent to which LCAs continue to meet the banking needs of Canadians, it is crucial to learn how the demand for LCAs has evolved over time. For this purpose, we analyzed the trends in the proportion of households using LCAs. We found that the proportion of banked households holding LCAs was remarkably stable, at approximately 19 percent from 2008 to 2012 (see Table 14).²³ The number of LCA users increased by 5 percent over the same period, roughly parallel with the overall rise in the banked population.

The CFM data is not designed specifically for this kind of analysis because the survey does not include any explicit question about the LCAs. However, the CFM results include variables that indicate the name of the financial institution and the dollar range of the monthly fee. From this data, we were able to infer that chequing accounts are LCAs when the reported monthly fees are in the \$1.00–\$5.00 range and the account is with a financial institution that has signed the memoranda of understanding public commitment. However, this means that the figures reported here do not necessarily reflect the exact evolution in the demand for LCAs; instead, they offer an approximation of the trend.

To validate our findings, we asked the six largest banks that signed memoranda of understanding to provide FCAC with the historical variations in the number of LCAs, using an index base of 100 in 2008. Table 15 presents our analysis of the data we received from the banks. While the CFM surveys show a moderate 7-percent increase in the number of LCAs between 2008 and 2012, the figures obtained directly from the banks reveal an impressive 29 percent increase in LCA ownership over the

²³ CFM survey results do not allow us to estimate the proportion of households that held LCAs before 2008.

same period. Given that LCA holders are not necessarily well covered by CFM surveys, it is important to consider the strong upward trend illustrated in the figures provided by banks.

Table 14: Household ownership of low-cost accounts

	2008	2010	2012
Yes	2,445,274	2,460,589	2,568,726
	(19.2%)*	(18.7%)	(19%)
No	10,300,489	10,681,026	10,961,826
	(80.8%)	(81.3%)	(81%)
All banked households	12,745,763	13,141,615	13,530,552
	(100%)	(100%)	(100%)

Source: FCAC calculations, using CFM data

* Values in parentheses indicate the proportion of the banked population.

Since their introduction, demand for LCAs has been robust. The number of LCAs held with the six largest banks increased by 78 percent from 2004 to 2012. During the same period, the banked population increased by only 15 percent. This suggests that over the last eight years, LCAs have attracted more customers than there were new entrants to the banked population. In other words, the upward trend of LCA ownership is significant even when the overall growth in the banked population is taken into consideration. Some consumers increased the number of chequing accounts they held by opening an LCA, while others replaced their traditional banking package with an LCA.

Table 15: Evolution in the number of low-cost accounts

	Data source	2004	2006	2008	2010	2012
Number of accounts (index base of 100 for 2008)	CFM	N/A*	N/A*	100	101	107
	Six largest banks**	73	85	100	117	129
Size of the banked population (index base of 100 for 2008)		92	95	100	103	106

Source: FCAC calculations based on data provided by CFM and financial institutions.

* CFM data does not allow us to estimate the number of LCAs before 2008.

** TD Canada Trust, RBC, Scotiabank, BMO, CIBC, and National Bank.

5.5. Consumer awareness of low-cost accounts

In a 2013 survey commissioned by FCAC about chequing account ownership, fee structure and attitudes toward financial institutions, Ipsos Reid asked respondents two specific questions about LCAs. The questions were related to consumers' satisfaction with their chequing accounts.

First, an LCA was defined for respondents as "a chequing account that charges a low monthly service fee for some basic account features (usually with 10 to 12 transactions per month)." Respondents were then asked whether anyone in their household owned an LCA with any Canadian financial institution.

Only 9.4 percent of banked households reported holding LCAs, after weighting to compensate for over-

and under-sampling. This estimate is once again much lower than what would be expected based on the number of LCAs reported by the six largest banks. The proportion is even lower than the 19-percent estimate from the 2012 CFM survey, which is also understated. This could mean that as many as one in two holders of LCAs are not aware that they have a chequing account plan from this category.

Table 16: Consumers' reasons for not holding an LCA

Why has no one from your household considered a low-cost account?	Percent
Satisfied with what I have / No need	32.0
Already have low- or no-fee accounts	26.9
Not aware of the availability of LCAs	16.3
Doesn't meet my needs	4.0
Other	16.9
Not stated	3.9
Total banked households reported not holding an LCA	100

Source: FCAC calculations, based on CFM's "return to sample" data (2013)

We then attempted to examine the reasons why most households choose not to hold LCAs. While lack of awareness was mentioned as a key factor in the decision-making process for approximately 16 percent of respondents, it is not the most important factor that emerged (see Table 16). More than one quarter of respondents indicated that they were "already paying low monthly fees."

5.6. Conclusion

Our analysis finds sufficient cause to favour a review of the LCA guidelines. While demand is strong and the fees have remained within the guidelines set out in the original memoranda of understanding, the maximum number of transactions allowed with LCAs has been static or falling. Generally, we have observed rising transaction limits and falling per transaction costs with chequing plans across the rest of the Canadian market. The transaction limit reductions for LCAs are the equivalent of an indirect fee increase. The LCA guidelines stipulate the authorization of 8-15 self-serve transactions, but none of the LCAs offered reach the high-end of 15 and only one LCA authorizes more than 10 self-serve transactions. At the same time, close substitute accounts have emerged and many offer more transactions, especially self-serve transactions, for comparable or even lower monthly fees. The relatively low transaction limits associated with LCAs are important because of the increases observed in the variable fees assessed on transactions that exceed the number authorized by consumer's plans (see Sections 3.5 and 4.5). Taken together these findings prompt us to conclude that a review of the LCA guidelines may be warranted to ensure that they continue to meet the objective of providing Canadians with the opportunity to acquire basic banking services for a reasonable monthly fee.

6. Conclusion

During the past decade, banking fees rose but the increases were relatively moderate. The price of some of the more basic chequing account packages actually fell relative to inflation, while there were more substantial increases in the prices of intermediate plans. In general, financial institutions have increased the maximum number of transactions covered by each plan, leading to decreases in the average price per transaction. Because the main purpose of chequing accounts is to facilitate secure and convenient transactions, it is certainly significant that per-transaction prices are falling. At the same time, it is important to recognize that consumers who can afford premium chequing account packages pay less than half as much per transaction as consumers who have low-cost plans.

From the demand-side perspective, in real terms households paid 5 percent more overall in fees on their chequing accounts in 2012 than they did in 2004. Since 2005, the minimum balance that consumers must maintain in their chequing accounts to have their monthly fees waived has risen considerably. To date, the increases have not translated into higher indirect fees. In fact, indirect fees have decreased. This is because the opportunity costs associated with minimum balances are tied to prevailing interest rates and household debt levels. Interest rates have fallen to historical lows. Household expenditures on chequing accounts grew by approximately 8 percent in nominal terms, while average annual household income grew by 22 percent over the same period. It is worth noting the importance of rising variable fees, which are applied to transactions not covered by consumers' chequing account plans. The price of variable fees is rising much faster than the monthly fees levied on plans. Between 2005 and 2013, the average price of variable fees increased by 46 percent in nominal terms. This finding highlights the need to educate consumers about the relatively high cost of variable fees, as well as how they can keep their variable fees to a minimum by selecting suitable plans.

Competitive financial markets require informed consumers who choose products and services that fit their needs. Our research found that Canadian consumers were generally reluctant to change their chequing account plan. Less than one quarter of consumers reported that they had changed their primary chequing account package during the previous five years. When we inquired into why consumers were loyal to their current bank, we found that the overwhelming majority of consumers (95 percent) were satisfied with their financial institution. More than one third of consumers surveyed reported that they were not satisfied with their banking fees, but three in five of these consumers nevertheless regarded their banking fees as fair or reasonable. In sum, to make the market for financial products and services more efficient, consumers ought to have access to more information about opportunities to acquire new and different products that might better suit their needs and wants. FCAC provides consumers with a [banking package selector tool](#) that helps them to select the best chequing account package for their banking needs. Since these kinds of tools are vital to enhancing the efficiency of the financial market, more resources should be invested in promoting and raising awareness about them.

Our analysis of the evolution of low-cost accounts led us to conclude that a review the guidelines may be warranted. The Government of Canada encouraged banks to publicly commit to providing LCAs in order to ensure that financial consumers could acquire access to basic banking services at a nominal

cost. Since the introduction of LCAs in 2003, a series of chequing account plans that we defined as close substitutes have emerged. Most offer more generous transaction limits for comparable monthly fees. At the same time, the transaction limits authorized by LCAs have been static or falling. This is important because the fees associated with transactions that exceed or are not authorized by monthly plans have been growing rapidly. It is therefore advisable to conduct a review of LCAs to assess the adequacy of the guidelines.

Our research has underlined several issues that should be addressed in the interest of future research on the evolution of banking fees. First, there is a need for new and more extensive research on the structure and competitiveness of the banking sector in Canada, informed by the most current economic theories (e.g., efficiency-structure hypothesis). This project investigated trends in prices and costs, but it necessarily relied on dated information about the structure of the market that produced the trends. Given the stability of the banking sector in Canada, our way of proceeding was justifiable in this instance. However, the most recent research is now based on data sets that are nearly seven years old.

Second, comparative analysis would help us to better appreciate the trends observed in Canada. While only moderate increases were observed here, it is possible that banking fees in Canada were already high relative to our trading partners in 2003–04. It would be particularly beneficial to examine markets in which the banking sector is less concentrated, such as the United States; but it would also be useful to examine markets that are regarded as more competitive, such as the Netherlands.

Third, there is a need for research of greater scale and scope into household expenditures on banking fees. The analysis of fees from the perspective of consumers is one of the more important contributions made in this paper. Generally speaking, academic research ignores the question of banking fees because of inadequate micro-level data about what consumers actually pay. To address this gap, we used the Canadian Financial Monitor survey. However, while Ipsos Reid strives to build a representative sample, the 12,000 respondents surveyed are still drawn from a pool of only 30,000 consumers. Economically disadvantaged consumers who are less likely to have landlines or Internet connections are probably poorly represented in the CFM. More surveys should be conducted to acquire more information about the fees consumers pay. This would enable us to improve our understanding of the demand side.

Finally, it is important to expand our analysis in future studies. The definition of banking fees should be expanded beyond the present focus on the monthly fees associated with chequing account plans. Given that there are financial institutions offering no-fee chequing account plans, it is possible that these packages can serve as a kind of “loss leader” designed to bring in customers who will purchase more profitable products and services. It is clear that variable fees deserve greater attention. A recent white paper drafted by the U.S. Consumer Financial Protection Bureau, for example, has highlighted concerns related to rising overdraft fees. Although only a small segment of the population incurs overdraft charges, the fees are sufficiently high to constitute a significant share of banking sector revenue and to cause serious financial harm to the consumers who tend to pay overdraft penalties on occasion (Consumer Financial Protection Bureau, 2013). Non-sufficient funds charges have also been on the rise recently in Canada. More research is needed to assess the trends associated with these and other types of banking fees.

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Annex

Section 3: Supply side

Table A1: Unlimited chequing account plan fees at 9 large (assets over \$170 billion) U.S. banks

Name (checking account plan)	Monthly fee	Total number of transactions per month, including in-branch and self-serve	Minimum balance needed for monthly fees to be waived
JP Morgan Chase & Co. (Chase Total Checking)	\$12.00	Unlimited	\$1,500
Bank of America Corp (MyAccess Checking)	\$12.00	Unlimited	\$1,500
Citigroup Inc. (Citibank Basic Checking)	\$10.00	Unlimited	\$1,500
Wells Fargo Bank (Way2Save)	\$10.00	Unlimited	\$2,000
HSBC Bank U.S. (Choice Checking)	\$15.00	Unlimited	\$1,500
PNC Financial Services Group Inc. (Performance)	\$15.00	Unlimited	\$2,000
TD Bank U.S. Holding Co. (Convenience)	\$15.00	Unlimited	\$100
Branch Banking & Trust Corp. (Bright Banking)	\$10.00	Unlimited	\$1,500
SunTrust Banks Inc. (Everyday Checking)	\$7.00	Unlimited	\$500
Average	\$11.78		\$1,344

Source: FCAC data

Table A2: Unlimited chequing account plans at 12 large Canadian financial institutions

Financial institution	Basic chequing monthly fee	Total number of transactions per month		Minimum balance needed for monthly fees to be waived
		In-branch	Self-serve	
TD Canada Trust	\$14.95	Unlimited		\$3,500
BMO	\$13.95	Unlimited		\$3,000
HSBC	\$13.95	Unlimited		\$4,000
Desjardins	\$13.95	Unlimited		\$4,000
CIBC	\$12.95	Unlimited		—
Laurentian Bank	\$12.50	Unlimited		—
National Bank	\$12.25	—	Unlimited	—
RBC	\$10.95	Unlimited		—
Vancity	\$7.00	—	Unlimited	\$1,000
ING Direct	\$0	—	Unlimited	\$0
President's Choice Financial	\$0	—	Unlimited	\$0
Averages	\$10.37			\$1,916

Source: FCAC data

Table A3: Evolution of average monthly fees

Category 1				
	Year	Mean	Least expensive	Most expensive
Self-serve transactions Up to 20 transactions \$1,000 minimum balance	2005 [8]	\$3.61 (100)	\$2.00 (100)	\$4.00 (100)
	2010 [8]	\$3.91 (108)	\$3.50 (175)	\$4.00 (100)
	2013 [8]	\$3.78 (105)	\$2.95 (148)	\$4.00 (100)
In-branch only or mix Up to 20 transactions \$1,000 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [9]	\$3.80 (100)	\$2.95 (100)	\$4.00 (100)
	2010 [10]	\$4.02 (103)	\$3.50 (119)	\$5.00 (125)
	2013 [10]	\$4.02 (103)	\$3.50 (119)	\$5.00 (125)
Combined options of category 1 Up to 20 transactions \$1,000 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [17]	\$3.71 (100)	\$2.00 (100)	\$4.00 (100)
	2010 [18]	\$3.97 (105)	\$3.50 (175)	\$5.00 (125)
	2013 [18]	\$3.91 (104)	\$2.95 (148)	\$5.00 (125)
Category 2				
Self-serve transactions 20–30 transactions \$1,500–\$2,000 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [4]	\$5.86 (100)	\$5.00 (100)	\$6.95 (100)
	2010 [6]	\$7.08 (121)	\$5.50 (110)	\$8.95 (129)
	2013 [7]	\$7.66 (131)	\$6.00 (120)	\$9.95 (143)
In-branch only or mix 20–30 transactions \$1,500–\$2,000 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [3]	\$8.15 (100)	\$6.00 (100)	\$9.95 (100)
	2010 [3]	\$7.82 (96)	\$6.00 (100)	\$8.95 (90)
	2013 [6]	\$8.55 (105)	\$6.00 (100)	\$10.95 (110)
Combined options of category 2 20–30 transactions \$1,500–\$2,000 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [7]	\$6.84 (100)	\$5.00 (100)	\$9.95 (100)
	2010 [9]	\$7.33 (107)	\$5.50 (110)	\$8.95 (90)
	2013 [13]	\$8.07 (118)	\$6.00 (120)	\$10.95 (110)

Table A3: Evolution of average monthly fees (continued)

Category 3				
	Year	Mean	Least expensive	Most expensive
Self-serve transactions 30–50 transactions \$2,000–\$3,500 minimum balance	2005 [5]	\$7.60 (100)	\$6.50 (100)	\$9.00 (100)
	2010 [2]	\$7.75 (102)	\$7.00 (108)	\$8.50 (94)
	2013 [1]	\$8.95 (117)	\$8.95 (138)	\$8.95 (99)
In-branch only or mix 30–50 transactions \$2,000–\$3,500 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [6]	\$10.24 (100)	\$8.00 (100)	\$11.95 (100)
	2010 [2]	\$9.98 (97)	\$9.95 (124)	\$10.00 (83)
Combined options of category 3 30–50 transactions \$2,000–\$3,500 minimum balance	2013 [2]	\$10.45 (102)	\$9.95 (124)	\$10.95 (91)
	Year	Mean	Least expensive	Most expensive
	2005 [11]	\$9.04 (100)	\$6.50 (100)	\$11.95 (100)
2010 [4]	\$8.87 (98)	\$7.00 (108)	\$10.00 (84)	
	2013 [3]	\$9.95 (110)	\$8.95 (138)	\$10.95 (92)
Category 4				
Self-serve transactions 50+ transactions \$3,000–\$5,000 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [8]	\$10.66 (100)	\$6.50 (100)	\$12.95 (100)
	2010 [15]	\$14.33 (134)	\$7.00 (108)	\$28.00 (216)
In-branch only or mix 50+ transactions \$3,000–\$5,000 minimum balance	2013 [7]	\$14.09 (132)	\$6.50 (100)	\$24.50 (189)
	Year	Mean	Least expensive	Most expensive
	2005 [16]	\$15.17 (100)	\$11.00 (100)	\$35.00 (100)
2010 [14]	\$15.94 (105)	\$9.95 (90)	\$30.00 (86)	
	2013 [16]	\$16.62 (110)	6.50 (59)	\$30.00 (86)
Combined options of category 4 50+ transactions \$3,000–\$5,000 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [24]	\$13.67 (100)	\$6.50 (100)	\$35.00 (100)
	2010 [29]	\$15.11 (111)	\$12.95 (199)	\$30.00 (86)
2013 [23]	\$15.85 (116)	\$6.50 (100)	\$30.00 (86)	

Table A4: Evolution of the average cost per transaction

Category 1				
	Year	Mean	Least expensive	Most expensive
Self-serve transactions Up to 20 transactions \$1,000 minimum balance	2005 [8]	\$0.34 (100)	\$0.17 (100)	\$0.35 (100)
	2010 [8]	\$0.34 (100)	\$0.30 (176)	\$0.35 (100)
	2013 [8]	\$0.33 (95)	\$0.25 (147)	\$0.33 (94)
In-branch only or mix Up to 20 transactions \$1,000 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [9]	\$0.35 (100)	\$0.26 (100)	\$0.35 (100)
	2010 [9]	\$0.34 (99)	\$0.30 (115)	\$0.35 (100)
2013 [9]	\$0.33 (95)	\$0.29 (112)	\$0.33 (94)	
Combined options of category 1 Up to 20 transactions \$1,000 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [17]	\$0.35 (100)	\$0.17 (100)	\$0.35 (100)
	2010 [17]	\$0.34 (97)	\$0.30 (176)	\$0.35 (100)
2013 [17]	\$0.33 (95)	\$0.25 (147)	\$0.33 (94)	
Category 2				
Self-serve transactions 20–30 transactions \$1,500–\$2,000 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [4]	\$0.27 (100)	\$0.23 (100)	\$0.32 (100)
	2010 [6]	\$0.26 (98)	\$0.21 (91)	\$0.34 (106)
2013 [7]	\$0.25 (94)	\$0.21 (91)	\$0.36 (113)	
In-branch only or mix 20–30 transactions \$1,500–\$2,000 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [3]	\$0.39 (100)	\$0.28 (100)	\$0.46 (100)
	2010 [3]	\$0.33 (83)	\$0.23 (82)	\$0.34 (74)
2013 [6]	\$0.32 (81)	\$0.21 (75)	\$0.39 (85)	
Combined options of category 2 20–30 transactions \$1,500–\$2,000 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [7]	\$0.32 (100)	\$0.23 (100)	\$0.46 (100)
	2010 [9]	\$0.28 (89)	\$0.21 (91)	\$0.34 (74)
2013 [13]	\$0.28 (89)	\$0.21 (91)	\$0.39 (85)	

Table A4: Evolution of the average cost per transaction (continued)

Category 3				
	Year	Mean	Least expensive	Most expensive
Self-serve transactions 30–50 transactions \$2,000–\$3,500 minimum balance	2005 [5]	\$0.18 (100)	\$0.15 (100)	\$0.21 (100)
	2010 [2]	\$0.19 (106)	\$0.18 (120)	\$0.21 (100)
	2013 [1]	\$0.18 (100)	\$0.18 (120)	\$0.18 (86)
In-branch only or mix 30–50 transactions \$2,000–\$3,500 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [6]	\$0.24 (100)	\$0.19 (100)	\$0.28 (100)
	2010 [2]	\$0.25 (104)	\$0.25 (132)	\$0.25 (89)
2013 [2]	\$0.21 (86)	\$0.20 (105)	\$0.22 (79)	
Combined options of category 3 30–50 transactions \$2,000–\$3,500 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [11]	\$0.21 (100)	\$0.15 (100)	\$0.28 (100)
	2010 [4]	\$0.22 (105)	\$0.18 (120)	\$0.25 (89)
2013 [3]	\$0.20 (95)	\$0.18 (120)	\$0.22 (86)	
Category 4				
Self-serve transactions 50+ transactions \$3000-\$5000 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [8]	\$0.11 (100)	\$0.07 (100)	\$0.13 (100)
	2010 [15]	\$0.14 (127)	\$0.07 (100)	\$0.28 (215)
2013 [7]	\$0.14 (127)	\$0.07 (100)	\$0.25 (192)	
In-branch only or mix 50+ transactions \$3,000–\$5,000 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [16]	\$0.15 (100)	\$0.11 (100)	\$0.35 (100)
	2010 [12]	\$0.16 (107)	\$0.10 (91)	\$0.30 (86)
2013 [14]	\$0.17 (113)	\$0.07 (64)	\$0.30 (86)	
Combined options of category 4 50+ transactions \$3,000–\$5,000 minimum balance	Year	Mean	Least expensive	Most expensive
	2005 [24]	\$0.14 (100)	\$0.07 (100)	\$0.35 (100)
	2010 [27]	\$0.15 (107)	\$0.07 (100)	\$0.30 (86)
2013 [21]	\$0.16 (114)	\$0.07 (100)	\$0.30 (86)	

Section 4: Demand-side

Table A5: Distribution of banked households, by account type (fee-based and no-fee chequing accounts)

	2004	2006	2010	2012
Banked households that did not incur any direct fees				
Free account	2,970,215	3,068,739	3,459,643	3,515,084
	(25.4%)*	(25.4%)	(26.3%)	(26.0%)
Minimum balance account	1,038,537	1,037,162	874,668	969,814
	(8.9%)	(8.6%)	(6.7%)	(7.2%)
Total number of households that did not pay direct fees	4,008,752	4,105,901	4,334,311	4,484,898
	(34.3%)	(34.0%)	(33.0%)	(33.1%)
Banked households that incurred direct fees				
Fee-based accounts / Missed minimum balance	7,690,914	7,986,993	8,807,304	9,045,654
	(65.7%)	(66.0%)	(67.0%)	(66.9%)
Banked households				
Total number of banked households	11,699,666	12,092,894	13,141,615	13,530,552
	(100%)	(100%)	(100%)	(100%)

Source: FCAC calculations, using CFM data

*Values in parentheses indicate the proportion of the banked population in the pertinent year.

Table A6: Evolution of average monthly fees, by quartile

	2004	2006	2010	2012
Average for 1st quartile Households	\$3.79	\$4.11	\$3.66	\$3.60
	(100)*	(110)	(97)	(95)
Average for 2nd quartile Households	\$6.24	\$6.94	\$6.96	\$7.20
	(100)	(111)	(112)	(115)
Average for 3rd quartile Households	\$9.71	\$10.40	\$11.41	\$11.80
	(100)	(107)	(117)	(122)
Average for 4th quartile Households	\$17.80	\$18.11	\$18.67	\$19.06
	(100)	(102)	(105)	(107)
Consumer Price Index, base 100 in 2004				
Consumer Price Index**	100	104	111	116

Source: FCAC estimations, using CFM data

*Values in parentheses indicate the ratio of the current value to its level in 2004.

** Statistics Canada, CANSIM, Table 326-0021

Table A7: Evolution of total expenditure on chequing accounts

	2004	2006	2010	2012
Average, 1st quartile	\$4.23	\$4.67	\$3.93	\$3.77
	(100)*	(110)	(93)	(89)
Average, 2nd quartile	\$8.45	\$9.26	\$9.12	\$9.52
	(100)	(110)	(108)	(113)
Average, 3rd quartile	\$12.9	\$13.9	\$14.3	\$15.0
	(100)	(108)	(111)	(116)
Average, 4th quartile	\$27.6	\$29.4	\$29.7	\$29.3
	(100)	(106)	(107)	(106)
Households' nominal income index base 100 in 2004				
Household income index**	100	104	114	122

Source: FCAC calculations, using CFM data

*Values in parentheses indicate the ratio of the current value to its level in 2004.

** FCAC calculations, using CANSIM table 326-0202 of Statistics Canada

Table A8: Profiles of holders of different account types in 2012

	(a) LCAs only	(b) Close substitutes only	(c) Accounts with monthly fees > \$6 only	Other (seniors' plans or any combination of a to c)
Canada-wide level				
Population size	1,330,743	1,393,660	5,952,099	4,854,050
(%)	(9.8)	(10.3)	(44.0)	(35.9)
By household characteristics				
Household income	52,355	55,220	73,960	65,960
% with a skilled occupation	7.9	8.8	53.2	30.1

Source: FCAC estimations, using 2012 CFM survey