

Do Banks have Substantial Market Power?

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Abstract

The financial sector plays a critical and pivotal role in the growth and development of any country. One of the critical factors that affects the role of this sector is the market structure in which financial institutions operate. If the market structure provides substantial market power to one or few firms, then it is likely that these firms would produce results that are not optimal. This study examines the banking sector in Fiji and assesses whether banks have substantial market power. Results show that indeed banks do hold substantial market power.

Introduction

The financial sector of any country plays a vital role in the economy by mobilizing financial savings and channelling these into productive investments. These savings are further mobilized and are channelled across the society for balanced growth of the entire country. It provides not only payment services but also enables firms and households to cope with economic uncertainties by hedging, pooling, sharing and pricing risks. It also provides a service as intermediary in the capital and debt markets and is responsible for transferring funds from investors to companies. Ultimately, it is a major facilitator in raising the standard of living in a country.

Studies show a positive causal relationship between financial sector and economic growth. Goldsmith (1969), for example, discussed the nature of the relationship between financial sector and economic growth. King and Levine (1993a,b) used data for over 77 countries to examine the nexus, as well as considered control factors (like income per capita, edu-

cation level, political stability, indicators of exchange rate, and other variables which measure the macroeconomic policy stance of the country) that may have conditioning impacts on the relationship. The study concluded that there exists a strong relationship between financial sector development and economic growth. Atje and Javanovic (1993) and Levine and Zervos (1998) added stock market measures as other indicators of financial sector development. Demirg-kunt and Levine (2008) demonstrated that a more developed financial system leads to greater economic growth, especially for countries that have large, private owned banks and provide credit to the private sector. They also argue that countries with more stock market liquidity grow more than countries with less liquid stock exchanges. Following these studies, a number of studies were done which focused on the use and appropriateness of various econometric techniques to model the relationship.

There, however, is literature which shows that there is not much relationship between financial institutions and economic growth (see Lucas, 1988; Miller, 1998). In a recent study, Liang, *et.al.* (2012), demonstrate that the influence of liquid liabilities on economic growth is enhanced when the relevant policy related factors are in existence.

There have been no such study for small economies. Such economies are in a more vulnerable position due to limited diversification of their production and export sector, a high degree of openness, limited access to external capital markets and proliferation of firms operating in imperfect markets. Furthermore, the inherent limited market size in these economies are a disincentive for more operators to enter the market, thus maintaining the status quo of an imperfect market with related economic and social woes.

The ability of the financial sector to provide cost effective services depend on a large number of factors, including the level of competition in the relevant market.

Competition in the financial system can be defined as the extent to which financial markets are contestable and the extent to which consumers can choose a wide range of financial services from a variety of providers. Competition is often a desirable feature because it normally leads to increased institutional efficiency, lower costs for clients, and improvements in the quality and range of financial services.

Competition in Fiji's financial sector, particularly the banking sector, or the alleged lack of it thereof, has attracted substantial attention in recent times. Advocates for consumers and the private sector have called for greater surveillance and regulation of the financial sector until such

time the sector deepens and becomes competitive.¹ The financial sector, on the other hand, has always defended its position arguing that the nature of business in small economies entails high unit costs and thus any additional regulations will make it difficult for them to operate; the argument is that while they seem to be operating in an imperfect market, their conduct is not an impediment to increased savings and investment, and thus, economic growth. There are, however, compelling rebuttals as demonstrated by the prevalence of high fees, charges and interest rates.

One must, therefore, examine if the key players in the market hold substantial market power. If they do, then the necessary condition for abuse of market power could be established. This study examines whether key players in Fiji's financial sector hold substantial market power.

Previous Studies on Fiji's Financial Sector

The issues on financial sectors interest rates, fees and charges, unfair contractual terms and other related issues has been a cause of concern for consumers and other stakeholders for a considerable time period. Studies have been conducted on this issue, but the recommendations made have not generally been implemented. This has resulted in continuous consumer exploitation and increasing cost of carrying out financial transactions in Fiji. These impede the prosperity of the economy.

The *Committee of Inquiry into Financial Services in Fiji* (Parliament of Fiji, 1999) examined several issues and made a number of recommendations. The Committee confirmed:

- High interest rate margins and spreads;
- Very high level of profits by foreign banks compared to their global performance;
- Consumer dissatisfaction on interest rates;
- Lack of a sufficiently proactive approach to information provision by banks;
- Competition being uneven and delivering mixed results to consumers;
- Two banks - ANZ & Westpac - having the market power to effectively increase and/or dictate the level of fees and charges; and,

¹ The Consumer Council of Fiji has made formal submissions to the Commerce Commission alleging that Banks in Fiji have abused their market power by imposing exorbitant charges, fees and unreasonable conditions which have become impediments to investment and growth in Fiji.

- Inequitable distribution of pricing arrangements in Fiji's financial system.

Dulare's report for Consumer Council of Fiji (2011) also raised serious concerns in regards to the conduct and manner in which banks in Fiji were carrying out their transactions and engaged in levying exorbitant fees and charges. The major findings of the Dulare report were:

- Almost all of the findings of the 1999 Committee of Inquiry in Financial Services report remain true today;
- The banking sector remains highly uncompetitive;
- Profits as a percentage of total assets are between 15 to 20 times more in Fiji than for the four major banks in Australia; and interest income 11 times greater, and fee and commission revenue 8 to 10 times greater, but bad and doubtful debts were lower in Fiji;
- The interest spread is higher than in the developed neighbours and immediate island neighbours;
- The penalty fees on overdraft excess and dishonoured cheques are exorbitantly high;
- Average consumers aiming to save and engage in transactions find using banking services costly;
- The fees charged for loan approval and establishment is high and arbitrary and varies between banks;
- Services are not uniform and are generally substandard;
- Terms and conditions for loans are not fully disclosed to customers; and,
- Customers are not always notified of changes to terms, fees, charges and interest rates.

The present study examines market power of financial institutions in each of the three relevant product markets identified using the Herfindahl-Hirschman Index(HHI) and Concentration Ratio as a guide to access competition in the relevant markets.

Structure and Overview of Fiji's Financial Market

Fiji has the most developed and extensive financial market in the Pacific Region. It comprises three major sectors: the commercial banks (most of which are foreign owned), other non-bank financial institutions (NBFI's), and the insurance industry. Appendix 1 provides a list of all fi-

financial institutions in Fiji.

Commercial banks are financial institutions that primarily inter-mediate between the savers and the borrowers in an economy. They also buy and sell foreign currencies and facilitate trade and the transfer of payments both domestically and across international borders. The four commercial banks are Australian and New Zealand Banking Group Limited (ANZ), Westpac Banking Corporation (WBC), Bank of South Pacific (BSP), and Bank of Baroda (BOB). A new commercial bank (Bred Bank) is also beginning its operations in Fiji later this year. Another bank, the 'Asset Management Bank of Fiji' is alive, but not actively involved in normal banking activities; it was established after the collapse of the National Bank of Fiji to manage the latter's assets.

Non-banking financial institutions play a vital role in the mobilization of financial savings. These institutions engage in specialized activities. Most of them do not accept deposits from the public, thus are neither licensed nor supervised by the RBF; they are not considered to be doing banking business. Nonetheless, all operations of these institutions are still exercised under bank regulation. NBFIs facilitate bank-related financial services, such as investment, risk pooling, contractual savings and market brokering, etc. Examples of these include insurance firms, pawn shops, cashier's check issuers, check cashing locations, currency exchanges, and micro loan organizations. The non-bank financial institutions in Fiji include 8 Insurance companies, Brokers, the Merchant Finance and Investment Co. Ltd, Credit Corporation (Fiji) Limited, Home Finance Company Limited, Dominion Finance, Wesram Finance, Handy Finance, and Finance Pacific. The list also includes over 30 credit unions, and some 20 microfinance groups. The microfinance groups are mainly new, having been formed recently under the government's microfinance pilot scheme. The Government also recently provided grant funding to establish the National Centre for Small and Micro Enterprise Development, a central body for training and advice to individuals and organizations in establishing and operating a small business.

There are a number of government-owned financial organizations. The Fiji Development Bank provides loans to individuals and companies, including housing and personal loans. The Housing Authority of Fiji provides loans to low income earners (below \$6,500 per year) but has now expanded its product offering to all sectors of the home finance market. The Unit Trust of Fiji invests mainly in bonds and sells units to the public. The Fiji National Provident Fund (FNPF) finances most of the government's debt and provides some equity and mortgage financing to individuals and companies. Since 1997, its operations have been larger than

the combined operations of the commercial banking sector.

Apart from the above listed non-banking financial institutions, numerous money lenders, both licensed and non-licensed, are also involved in lending money in Fiji.

Examination of Market Power

The first step when analyzing the competitive position of any firm or firms in an industry is to define the relevant market in which it operates. This is an important step in the process since it defines the relevant arena of competition on which the key variables of market structure, size and competition can be measured.

Definition of Relevant Market: The Geographic Market

There are several, closely related definition of what a market is. The Commerce Commission Decree 2010 provides a definition of a market as follows: '...a market in Fiji and, when used in relation to any goods or services, includes a market for those goods or services and other goods or services that are substitutable for, or otherwise competitive with, the first mentioned goods or services'. This definition states Fiji as the geographical boundary. Application of this definition means that consumers of banking products will be unable and or unwilling to switch to suppliers outside of Fiji in response to an increase in the prices of the financial products in Fiji.

However, for a small proportion of the large national or multinational corporations, the loan market can almost certainly be both national or global in scope. The market for providing retail banking services (for example, transactions accounts and small loans) to all the large and small businesses and households is certainly Fiji.

The geographic market is defined as the area in which all of the relevant sources of supply are located and to which buyers/users would turn should the prices of local sources of supply be raised. In establishing Fiji as the relevant geographic market, consideration was given to the following:

- The convenience to customers to accessing alternative sources of supply;
- The cost of switching to alternative sources of supply (including transport cost);
- The extent to which the prices of a product in different locations

move in unison;

- The extent to which a product is shipped into and out of a particular area; and
- The geographic scope and spread of advertising by market participants.

The thirteen (13) financial institutions under the scope of this study have one hundred and two (102) branches, and hundred and seventy five (175) ATM's spread over Fiji, mostly confined to the urban centres. In every area in which a financial institution is located, there is at least one other financial institution in the near vicinity. Financial institutions in Fiji operate throughout the entire nation including providing financial services to the smaller islands and interior villages as well, and are regulated either by the Reserve Bank of Fiji under other separate legislation or supporting legislations. Given the above characteristics, the geographic market is defined as whole of Fiji.

Definition of Relevant Market: Demand and Supply Side Substitution Possibilities

The concept of substitution is important in the analysis of the relevant market. Substitution possibilities within a market can take one of two forms: those through the actions taken by consumers (the demand side), or those through actions taken by producers (the supply side). Demand side substitution occurs when consumers switch to a substitute product in response to an increase in the price of the product in question. The willingness of consumers to switch to some alternative or substitute product implies that those products compete in the same market. Similarly, supply side substitution occurs when suppliers switch from supply of one activity to another while maintaining or having a better return on capital. The ease of substitutability and the time taken determines whether this is possible hence versatility of the production technology and investment plays a critical role on whether supply side substitutability is possible.

In this 'substantial Market Power' (MP) study, determination of the relevant market requires an assessment of the types of products that financial institutions forming part of this study sell, the locations in which their stores/branches are situated, the primary function of the financial institutions, and the time it may take for demand or supply substitution to occur. Financial institutions in Fiji sell a variety of products and/or services including personal savings accounts, secured loans, unsecured

loans, corporate accounts, chequing facilities, overdraft facilities, international transactions, foreign exchange, real estate financing, mortgage finance and other related products. The product range varies from supposedly low income earners products' to executive and corporate firm's products; Appendix 2 provides further details on this.

The purpose of defining relevant markets is to identify the suppliers which compete with each other. Each relevant market includes all substitute products and services to which consumer's likely turn in response to a significant and non-transitory price change. The products are placed in separate product markets if consumers are unwilling and/or unable to switch from one to the other in response to a change in relative prices. When defining relevant product markets, behaviour of buyers, products' physical and technical characteristics, costs incurred by buyers in switching from one product to another, and differences in relative prices, were considered.

Financial institutions supply products that generally fall into one of the following categories: deposits, loans, mortgages, credit cards, brokerage services, and other services, such as wealth management. Within each of these categories, there may be separate products or groups of products, differentiated from other products that constitute relevant markets. Financial institutions may move resources amongst the broad category but generally not outside the broad categories given the industry specific capital investment that they have made. Hence there is an absence of supply side substitutability.

The subset of products that constitutes a relevant market depends on whether customers are willing and/or able to substitute products. The boundaries of the relevant product market, therefore, separate the products. In relation to the significant and non-transitory price increase, large firms could negotiate price changes. That is, a large business may not be a price taker. This power, emanating out of their business size, is termed 'countervailing power'. A large number of unorganized small businesses and households may not have any noteworthy countervailing power, thus would remain price takers.

Consumers switching their consumption from one product to another in response to changes in relative prices is not certain. As an example, loans that differ in their size, amortization, collateral, etc, may not be close enough substitutes to merit inclusion in the same relevant market. Similarly, deposits that differ in their characteristics, such as size, maturity, and risk, may be in separate product markets. Deposits with different characteristics will be considered to be in the same relevant market if a sufficient number of depositors are likely to switch to other types of de-

posits in response to a significant decrease in the interest rate offered. The grouping of banking products constitutes a relevant market when the individual components purchased separately are not a close substitute for the grouping for a significant number of customers.

This will be the case when consumers will not, in response to an increase in the price of a grouping, purchase the various components separately from different institutions. This may be because of the transactions costs associated with using a number of suppliers (physical transportation costs, the time taken to make several applications, etc.) and economies of scope. Hence an absence of demand side substitutability.

Broadly defining, the activities of financial institutions in Fiji can be broken down into three major segments. These are personal, Small/Medium Enterprises (SME), and Commercial/Corporate. These can be further broken down into smaller segments. Each of these segments require services in the areas of transactional banking, savings and investment, lending, and foreign exchange/trader finance. Arguably, each of these segments together with each service area could be defined as a separate market.

In light of the above, taking into account the three market segments in Fiji, the relevant product market definition can now be further refined as the market for all financial services offered in Fiji that falls in either of the three broad segment of Personal, SME and Commercial/Corporate activities with each of these segments requiring services in the areas of transactional banking, savings and investment, lending, and foreign exchange/trader finance.

The importance of this product definition is that it encompasses all possible sources of demand and supply side substitution. While many individual products/services, especially the differences in the products between banking and non-banking financial institutions falling within this definition, may not in fact be substitutes for one another, its generic characteristics is necessary to capture the full range of supply and demand side substitutes. For example, lack of transparency, typically demonstrated through the inability of customers to compare services effectively, has contributed to low levels of customer mobility in Fiji. Consumers in Fiji are faced with information asymmetry. As such demand side substitutability becomes a problem. For instance, many rural dwellers are aware of only the banks being a lending institution, with access and knowledge about other credit institutions being absent. As such, their ability to substitute their transactions from the banking sector to the non-banking sector is limited. Additionally, financial institutions in Fiji have made it costly and difficult (including lengthy processes for customers when they

do decide to switch) to actually switch. As a consequence, it is not uncommon for customers to lose payments when switching. This represents a constraint on demand side substitutability.

Differentiation of Relevant Product Markets

This product market definition as given above covers the entirety of financial market products and services (with the exemption of superannuation and insurance) for Fiji. Relevant suppliers that would be included in the market include banking sector, which stock almost all similar type products by definition, smaller competitors such as credit institutions, (who supply only a small proportion of the products supplied by the dominant bank sector), and small scale, single branch institutions (for example, Wesram Finance, Handy Finance, Finance Pacific, etc.) who stock , say, just a single product (e.g. personal unsecured/of loans).

To differentiate between the differences that may exist in terms of the functions, products and services and geographical coverage of the Financial Institutions in Fiji, further segmentation of the financial institutions into specific relevant markets has been done. This segmentation is provided in Table 1 below.

Table 1: Relevant Product Markets for Financial Products in Fiji

Relevant Market	Description	Institutions Covered
1	Banking Financial Institutions that provide all products and services to all types of consumers.	ANZ,BSP, WB and BOB
2	Non banking Financial Institutions provides differentiated product services to certain group of consumers. It comprise of insurance companies, provident and pension funds, trust and custody accounts, real investment schemes, other pooled investment schemes, and compulsory savings schemes.	DF, MFL, FPL, WF, HF, HA, HFC and CCL
3	Autonomous statutory body that provides loan funds for Agricultural, Small and Medium Enterprises, Corporate and Micro projects	FDB

The thirteen major participants that this study has identified are: Bank of Baroda, ANZ, BSP, Fiji Development Bank, WestPac, Merchant Finance, Dominion Finance, Finance Pacific, and Credit Corporation of Fiji, Home Finance Company Ltd, Housing Authority, Handy Finance and Wesram Finance. It is also noted that there are a number of other smaller participants (such as money lenders) in the market, each offering a limited range of products but which do not provide much direct competition to the powerhouse players.

Having defined the relevant market which concerns transactional banking, savings and investment, lending and foreign exchange/trader finance over the jurisdiction of Fiji, this study will examine the SMP with substitution possibilities that may occur over the longer term period.

Dominance and Market Concentration

Having SMP in a market will result in dominance of a firm or group of firms in the relevant market over the geographically defined market. The dominant firm will have a high degree of market power over the defined market both by space and product type. A firm possesses market power when it can behave persistently in a manner different from the behaviour that a competitive market would enforce on a firm facing otherwise similar cost and demand conditions. While almost every firm in a market will have the ability to price above the cost of supply for a short period or every now and then to be active in the market, dominance requires that the firm be able to price above what may be considered a competitive price for a prolonged period. That is, dominance requires that a firm be able to act free from any constraint of its customers or competitors.

To do so, three factors play a key role: the level of countervailing power of buyers and suppliers; the extent of barriers of entry; and the level of concentration in the market.

While large firms and corporations do have countervailing power and thus are able to negotiate fees, charges and interest rates, the individual income earners, households and consumers do not have any countervailing power. As such they will remain price takers in the market. With respect to entry, the Reserve Bank of Fiji has stringent conditions, thus entry of a firm in this market is quite restricted. Exit from the market, however, is at the will of the firm.

Market concentration refers to both the number and relative size of participants in the market. The most common use and measure of market concentration are the 'Four Firm Concentration Ratio' (CR4) and the 'Her-

findahl-Hirschman Index' (HHI).

The CR4 is simply the sum of the market shares of the four largest firms in a market. CR4 is commonly used to indicate the degree to which an industry is oligopolistic. Concentration ratios are designed to measure industry concentration, and by inference the degree of market control. While there are no 'absolutes' when it comes to evaluating concentration, common levels and corresponding four-firm concentration ratios are presented in Table 2 below.

Table 2: Concentration Level Criteria

Level	HI Ratio	Features
High	80% - 100%	Government and regulators are usually most concerned with firms falling in this category.
Medium	50%-80%	Firms are very much oligopolistic.
Low	0%- 50%	A market with low concentration. Monopolistic competition falls near the bottom of this with oligopoly emerging near the upper end.

Another, more conclusive measure of concentration is the Herfindahl Hirschman Concentration Index (HHI). This is calculated by summing the squares of the market shares expressed as proportions. The measure can vary from 0 representing perfect competition to 1 representing monopoly. A market with X equally sized competitors will have an index of 1/X. The formula used to calculate HHI is expressed as:

$$H = \sum_{i=1}^N s_i^2$$

Where s_i is the market share of firm i in the market and N is the number of firms.

Thus, in a market with two firms that each have 50 percent market share, the Herfindahl index equals $0.50^2+0.50^2=1/2$. The Herfindahl Index (H) ranges from $1/N$ to one, where N is the number of firms in the market. The various levels of concentration and its implication are presented in Table 3.

Table 3: HHI Ratio Classification

Concentration Level	HI Ratio	Features
High	Above 0.25	High concentration
Medium	Between 0.15-0.25	Moderate concentration.
Low	Below 0.15	Unconcentrated index
No -Concentration	Below 0.01	A highly competitive index

A small index indicates a competitive industry with no dominant player. If all firms have an equal share the reciprocal of the index shows

the number of firms in the industry. When firms have unequal shares, the reciprocal of the index indicates the 'equivalent' number of firms in the industry. A HHI index above 0.25 indicates high concentration. The closer a market is to being a monopoly, the higher the market's concentration (and the lower its competition). If, for example, there were only one firm in an industry, that firm would have 100% market share, and the HHI would equal 1, indicating a monopoly.

Market Share/Concentration of Financial institutions in Fiji

Assets, Deposits and Loans-Broad Relevant Product Market

Market share or market share ratios can be calculated on the basis of assets, revenues, volume of goods/products/services or production capacity. Market shares and four firm concentration ratios have been calculated on the basis (a) assets, (b) deposits, and (c) loans. Results are shown in Table 4.

Table 4: Concentration of Financial Institutions in Fiji, 2010

Institution	Assets (F\$m)	Mkt Share	HHI	Loans (F\$m)	Mkt Share	HHI	Deposits (F\$m)	Mkt Share	HHI
BSP	828.4	15.5	0.0240	538.5	14.77	0.0218	671.2	17.39	0.0302
Merchant	119.6	2.24	0.0005	77.1	2.11	0.0004	86.1	2.23	0.0005
Dominion	16.8	0.31	0.0000	15.6	0.43	0.0000	8.5	0.22	0.0000
FDB	378.7	7.08	0.0050	253.9	6.96	0.0049	8.5	0.22	0.0000
ANZ	1,874.1	35.06	0.1229	1,413.4	38.76	0.1503	1,559.4	40.4	0.1632
Fin Pac	1.3	0.02	0.0000	0.7	0.02	0.0000	n/a	0	0.0000
Handy	0.7	0.01	0.0000	0.1	0	0.0000	n/a	0	0.0000
Westpac	1,272.4	23.8	0.0567	873.5	23.96	0.0574	999.1	25.88	0.0670
Baroda	438.9	8.21	0.0067	158.3	4.34	0.0019	394.1	10.21	0.0104
HFC	168.1	3.15	0.0010	145.1	3.98	0.0016	76.0	1.97	0.0004
Credit C.	93.4	1.75	0.0003	82.8	2.27	0.0005	56.8	1.47	0.0002
HA	151.9	2.84	0.0008	86.4	2.37	0.0006	0.0	0	0.0000
Wesram	1.1	0.02	0.0000	0.7	0.02	0.0000	0.2	0	0.0000
Total	5,345.4	100	1.0000	3,646.1	100	1.0000	3,859.9	100	1.0000
Top 3		74.36	0.200		77.49	0.229		83.67	0.26
Top 4		82.57	0.207		84.46	0.234		93.88	0.271

(Source: Annual Reports of various institutions, 2011)

Results using 2010 data show that in terms of *asset base*, ANZ, Westpac and BSP hold 74.36 % of the total market share. Taking into account the four firm concentration, the above three together with Bank of Baroda account for 82.57% of the market share. The HHI for the top three firms is 0.200 and 0.207 for the big four. These depict a highly concentrated market. In terms of *loans*, ANZ, Westpac and BSP hold 77.49 % of the total market share. CR4 ratio is 84.45%. The big three institution and the big four institution HHI are 0.229 and 0.234 respectively. These also show high level of concentrations. In terms of *deposits*, ANZ, Westpac and BSP account for 83.67% of the total market share. CR4 is 93.88%. The HHI for the top three and top four players are 0.260 and 0.271 respectively. These also indicate high concentrations.

Market Share/Concentration for Relevant Product Market I

Market share and HHIs have been calculated for 'Relevant Product Market I'. This is defined as those institutions that provide all products and services to all types of consumers. This market is made up of only the commercial banks. Concentration ratios and the HHI results are provided in Table 5 below.

Table 5: Concentration Ratios and HHI for Total Assets, Total Deposits and Total Loans-Relevant Product Market I

Institution	Assets (F\$m)	Mkt Share	HHI	Deposits (F\$m)	Mkt Share	HHI	Loans (F\$m)	Mkt Share	HHI
ANZ	1,874.10	0.42	0.18	1,559.38	0.43	0.18	1,413.39	0.47	0.224
Westpac	1,272.37	0.29	0.08	999.07	0.28	0.08	873.54	0.29	0.086
BSP	828.38	0.19	0.04	671.25	0.19	0.04	538.47	0.18	0.033
Baroda	438.94	0.1	0.01	394.07	0.11	0.01	158.31	0.05	0.003
2 Firm		0.71	0.24		0.71	0.26		0.76	0.31
3 Firm		0.9	0.3		0.9	0.3		0.94	0.343
4 Firm	4,413.79	1	0.31	3,623.77	1	0.31	2,983.72	1	0.346

(Source: Annual Reports of various institutions, 2011)

Results show high concentrations. The three firm concentration ratio (comprising of ANZ, Westpac and BSP) for assets, deposits and loans market are 90%, 90% and 94% respectively, with respective HHIs of 0.30, 0.30 and 0.31.

Two firm concentration ratios for assets, deposits and loans are 0.71, 0.71 and 0.76 respectively, with corresponding HHIs being 0.24, 0.26 and

0.31. This shows that the two big banks (ANZ and Westpac) are the dominant players in the market.

The high concentration ratio's point to the fact that the bigger banks (namely ANZ and Westpac) are the dominant players in the industry. They have what it needs to deliver an oligopoly market solution.² It is noted that the four Commercial banks are members of the association of Banks in Fiji (ABIF), being the only members.

Market Share/Concentration for Relevant Product Market 2

Relevant Product Market 2 has been defined for the purpose of this investigation as non-bank financial institutions which provide differentiated products/services to certain group of consumers. There are a number of such firms that operate in Fiji. For the purpose of this study only eight have been considered. The Concentration ratio and the HHI results for Relevant Product Market 2 are given in Table 6.

Table 6: Concentration Ratios and HHI - Relevant Product Market 2

Institution	Assets (F\$m)	Mkt Share	HHI	Deposits (F\$m)	Mkt Share	HHI	Loans (F\$m)	Mkt Share	HHI
Merchant	119.6	0.2163	0.0484	86.1	0.3769	0.1444	77.1	0.1887	0.0361
Dominion	16.8	0.0303	0.0009	8.5	0.0373	0.0016	15.6	0.0381	0.0016
Fin Pac	1.3	0.0024	0	0.7	0.0031	0	0.7	0.0018	0
Handy	0.7	0.0012	0	0.1	0.0003	0	0.1	0.0002	0
HFC	168.1	0.3041	0.09	76.0	0.3328	0.1089	145.1	0.3553	0.1296
Credit C	93.4	0.169	0.0289	56.8	0.2487	0.0625	82.8	0.2026	0.04
HA	151.9	0.2747	0.0729	0.0	0	0	86.4	0.2116	0.0441
Wesram	1.1	0.002	0	0.2	0.0008	0	0.7	0.0018	0
2 Firm	0.0	0.5788	0.1629	0.0	0.7097	0.2533	0.0	0.5669	0.1737
3 Firm	0.0	0.7951	0.2113	0.0	0.9584	0.3158	0.0	0.7695	0.2137
4 firm	0.0	0.9641	0.2402	0.0	0.9957	0.3174	0.0	0.9582	0.2498
Total	552.9	1	0.24	228.5	1	0.32	408.5	1	0.25

*Note: Financial Ratios with HHI of Zero represent institutions with *de minimis* market share. (Source: Financial Statements and Data from Individual Firms)

² In oligopolies, a few large suppliers dominate the market resulting in a high degree of market concentration and a large percentage of the market is taken by the few leading firms. Being the dominant players in the industry, they command powers in terms of price setting, leaving the smaller actors with no options but to follow suit. If such is the practice, competition in the market is reduced and consumers are burdened with high prices, and high levies and fees, charges on products and services.

Results show that the market for Relevant Product Market 2 is also highly concentrated. The three firm concentration ratio (comprising of HFC, HA and MFL) for assets is 0.79 with a HHI of 0.21. Four firm (HFC, HA, CC and MFL) concentration ratio for assets is 0.96 with corresponding HHI of 0.24.

Three (HFC, CC and MFL) firm concentration ratio for Deposits is 0.96, with a HHI of 0.32. Four firm (HFC, DFL, CC and MFL) concentration ratio for deposits is 0.99 with corresponding HHI of 0.32.

The three firm (HFC, CC and HA) concentration ratio for Loans is 0.77 with a HHI of 0.21. Four firm (HFC, HA, CC and MFL) concentration ratio for loans is 0.96 with corresponding HHI of 0.25.

The high concentration ratio's point to the fact that the bigger institutions (namely HFC, HA, MFL and CC) are the dominant players in the industry. They have oligopoly powers. If they used these powers, they could dictate to others and to the consumers the interest rates, charges, and fees.

Market Share/Concentration for Relevant Product Market 3

Fiji Development Bank falls in this market and this is a separate market. FDB is an autonomous statutory body that provides loan funds for Agricultural, Small and Medium Enterprises, Corporate and Micro projects. The bank was established under the Act (cap214) in July 1967, with the primary objective of providing funding for projects that contribute to the development of the Fiji economy, and to improve the quality of life for the people of Fiji. Loan funds are provided for Agricultural, Small and Medium Enterprises, Corporate and Micro projects. The Government also uses the FDB as a financial conduit in its development projects/plans and special assistance programs that may be necessary from time to time.

There is clear indication that only one organization falls in this relevant market which has substantial market power. The HHI is 1, indicating it's a monopoly.

Market Share/Concentration by Product Category

The following section presents Market Share/Concentration for different products. These products include Loan Portfolio and Deposits using Reserve Bank of Fiji's reporting format.

Loan Portfolio Market Share/Concentration

The product categories considered by the Commission for the purpose of this Substantial Market power study are Agriculture, Mining & quarrying, Manufacturing, Building & Construction, Wholesale, Retail and Hotels, Real Estate, Transport and Storage, Electricity, Gas & water, Professional & Business services, Private individuals, Non-bank Financial institutions, Public enterprises, Central & local government and others. The results are presented in Table 7 below.

Table 7: Loan Portfolio Market Share/Concentration

Product Category	Top Four Institutions	Market Share	CR4	HHI	Comments
Agriculture	FDB	56.84			High Concentration
	MFL	12.23	83.64	0.35	
	ANZ	8.93			
	Westpac	5.64			
Mining & Quarrying	BOB	30.6			High Concentration
	ANZ	19.98			
	HFC	19.77	83.52	0.19	
	Westpac	13.17			
Manufacturing	ANZ	50.98			High Concentration
	Westpac	20.79	91.65	0.32	
	FDB	12.54			
	BOB	7.35			
Building & Construction	ANZ	60.61			High Concentration
	FDB	19.33			
	Westpac	6.41	92.17	0.41	
	MFL	5.82			
Wholesale, Retail and Hotels	ANZ	40.57			High Concentration
	Westpac	33.96	91.73	0.29	
	BSP & CNB	8.63			
	BOB	8.58			
Real Estate	Westpac	39.85			High Concentration
	FDB	26.66	93.31	0.27	
	ANZ	13.68			
	BSP & CNB	13.11			
Transport and Storage	ANZ	29.55			Medium Concentration
	BSP & CNB	15.5	68.28	0.14	
	MFL	12.51			
	Westpac	10.72			

*Continued***Table 7: Loan Portfolio Market Share/Concentration (cont...)**

Product Category	Top Four Institutions	Market Share	CR4	HHI	Comments
Electricity, Gas & Water	ANZ	88.18			High Concentration
	Westpac	9.73	99.95	0.79	
	CC	1.68			
	DF	0.37			
Professional & Business Services	ANZ	31.27			High Concentration
	Westpac	28.67	87.43	0.22	
	FDB	15.66			
	HFC	11.83			
Private Individuals	BSP & CNB	36.5			High Concentration
	ANZ	26	89.26	0.24	
	Westpac	17.67			
	HFC	9.08			
Non-bank Financial Institutions	HA	96.29			100% Concentration
Private Individuals	BSP & CNB	36.5			High Concentration
	ANZ	26	89.26	0.24	
	Westpac	17.67			
	HFC	9.08			
Non-bank Financial Institutions	HA	96.29			100% Concentration
	BSP & CNB	2.63	100	0.93	
	Westpac	0.66			
	ANZ	0.42			
Public Enterprises	ANZ	53.4			100% Concentration
	Westpac	46.35	100	0.5	
	CC	0.25			
	ANZ	64.64			
Others*	Westpac	17.57	97.2	0.46	High Concentration
	MFL	10.51			
	BSP & CNB	4.48			

* Includes Communication/IT, Entertainment, Automotive Services, Restaurant, Staff Loans etc. (Sources: Financial Statements and Data from Individual Firms)

Loan Portfolio analysis show that the loans/advances market for various sectors of the economy is highly concentrated. The four firm concentration ratio (CR4) ranges from 68.28% to 100%, and the HHIs range from 0.14 to 0.93. For thirteen out of the fourteen categories of loans, the concentration ratio is greater than 80%, while HHI is greater than 0.25 for eight categories.

Results also show that banking institutions are the dominant players in most of the loans categories. The product market in most categories are also dominated by foreign owned financial institutions. Results also show that ANZ and Westpac are the major players in the industry; these two control over 50% of the market in terms of advances/loans to Central and Local Government (60.58%), Public Enterprises (99.75%), Professional Services (59.94%), Electricity, Water and Gas (97.91%), Real Estate (53.53%), Wholesale, Retail and Hotels (74.53%), Building and Construction (79.94%), Manufacturing Sector (71.77%) and Others (82.21%) category.

Deposits Portfolio Market Share/Concentration

The following section presents Market Share/Concentration analysis for Deposits Portfolio based on the Reserve Bank of Fiji classifications. For the purpose of this SMP study, the categories of deposits considered are deposits from Central and Local Government, Non-Banking Financial Institutions, Public Enterprises, Private Sector Business Entities, Private Individuals and others. The results of the analysis are presented in Table 8 below.

Results show that the four firm concentration ratios range from 91.92% to 100%, while the HHIs range from 0.25 to 0.54, depicting that the deposit market in Fiji is highly concentrated. The ANZ and Westpac Bank are the dominant players in this market, with ANZ having the largest market share in four of the six categories of deposits: deposits from public enterprises (71.75%), private sector business entities (41.90%), private individuals (33.49%) and others (67.13%).

Summary and Conclusion

The banking and financial sector plays a critical and pivotal role in the growth and development of any country. A crucial factor that determines the extent to which this sector contributes to this endeavour is the market structure in which these firms operate. If the firms operate in an imperfect market, and if this market structure provides substantial market power to one or few of the firms, then it is quite likely that these firms could abuse the market power and distort a competitive market solution thus depriving the country's full potential.

Table 8: Deposits Portfolio Concentration Levels

Product Category	Top Four Institutions	Market Share	CR4	HHI	Comments
Central and Local Government	BSP & CNB	36.36			High Concentration
	Westpac	30.14	94.55	0.28	
	ANZ	23.44			
	BOB	4.62			
Non-Banking Financial Institutions	BSP & CNB	29.36			High Concentration
	ANZ	28.32	95.38	0.24	
	Westpac	18.98			
	BOB	18.71			
Public Enterprises	ANZ	71.75			High Concentration
	BSP & CNB	9.58	92.81	0.53	
	MFL	8.12			
	HFC	3.37			
Private Sector Business Entities	ANZ	41.9			Medium Concentration
	Westpac	33.2	96.47	0.31	
	BSP & CNB	10.7			
	BOB	10.67			
Private Individuals	ANZ	33.49			High Concentration
	Westpac	28.35	91.92	0.24	
	BSP & CNB	20.03			
	BOB	10.05			
Others	ANZ	67.13			100% Concentration
	Westpac	30.77	100	0.55	
	BOB	2.1			
	BSP & CNB	36.36			

(Source: Financial Statements and data from Individual Firms)

This study examined concentration and marked dominance in the banking and financial sector. Results show that there exists a highly concentrated banking sector in Fiji, with the three banks, ANZ, Westpac and BSP, holding most of the market shares. They hold 74.4% of asset base; 77.49 % of loans and 83.67% of all deposits.

When firms have substantial market power, their ability to abuse the power by unilaterally setting fees and charges at a rate above what would prevail in a competitive market depends, then, on whether consumers have countervailing power and whether there is demand side substitutability. In this regard, apart from the small number of large corporations, the large number of small business and the hundreds of thousands of low income households do not have any countervailing power. The latter are

basically price takers. With respect to demand side substitutability, again, given the market power, the costs and complications (paperwork required, termination charges and long and cumbersome legal process), make demand side substitution extremely difficult. In this regard, the banking sector in Fiji has all that is required to enable them to behave as cartels and in the worst case scenario, to abuse their market powers. Whether they actually do these is a matter for another study.

In light of the fact of substantial market power, the central bank has every reason to play a much wider role in ensuring that the banking sector does not abuse these powers. The Consumer Council's view that there is more than just prudential risk to consider has merit. Risks of misconduct, complexity, performance, market, self regulation, access to redress and self reliance are issues that need to be considered. A possible medium term solution could be to develop a self regulating guideline pegged on relevant sections of the Commerce Commission Decree 2010 which could then become the framework on which the financial sector could base its conduct. The banking and financial sector is too important a sector to be left to market forces when supply side dynamics anchor the market well away from competitive platforms.

Appendix 1: Financial Institutions in Fiji and their country of ownership

Institution Name	Country of Incorporation	Country of Ownership
ANZ Banking Group Ltd.	Australia	Australia
Westpac Banking Corporation	Australia	Australia
Bank of Baroda	India	India
Bank South Pacific	Papua New Guinea	Papua New Guinea
Asset Management Bank Fiji Ltd.	Fiji	Fiji
Credit Institutions		
Home Finance Co. Ltd	Fiji	Fiji
Credit Corporation (Fiji) Ltd.	Fiji	Fiji
Merchant Finance	Fiji	Fiji
Dominion Finance**	Fiji	Fiji
Wesram Finance**	Fiji	Fiji
Handy Finance **	Papua New Guinea	Papua New Guinea
Finance Pacific**	Fiji	Fiji
Superannuation Fund		
Fiji National Provident Fund	Fiji	Fiji
Insurance Companies		
Colonial Health Care (Fiji) Ltd.	Fiji	Australia
Dominion Insurance Co. Ltd.	Fiji	Fiji
Fiji Care Insurance Co. Ltd.	Fiji	Australia
New India Assurance Co. Ltd.	India	India
Sun Insurance Co. Ltd.	Fiji	Fiji
Queensland Insurance (Fiji) Ltd.	Fiji	Australia
Tower Insurance (Fiji) Ltd.	Fiji	New Zealand
Life Insurance Corporation of India	India	India
Brokers		
Aon Risk Services (Fiji) Ltd.	Fiji	Australia
Marsh Ltd.	Fiji	New Zealand
Unity Insurance.	Fiji	Fiji
Connolly Insurance Brokers.	Fiji	New Zealand
Insurance Holdings Fiji Ltd	Fiji	New Zealand, Fiji
Foreign Exchange Dealers		
City Forex (Fiji) Ltd.	Fiji	Hong Kong/Australia
Exchange Finance (Fiji) Pty. Ltd.	Fiji	Singapore/Australia/Fiji
Exchange World (Fiji) Ltd.	Fiji	Fiji/Singapore/Korea
Global Transfers Ltd.	Fiji	New Zealand/ Fiji
Lotus Foreign Exchange Ltd.	Fiji	Fiji
UAE Exchange (Fiji) Ltd.	Fiji	United Arab Emirates
Money Changers		
Argo Foreign Exchange Ltd.	Fiji	Fiji
Natadola Tourism Holdings (Just Exchange)	Fiji	Fiji
Sandalwood Development Ltd.	Fiji	Fiji
Others		
Fiji Development Bank	Fiji	Fiji
Housing Authority of Fiji	Fiji	Fiji

Appendix 2: Products and Services offered by Banks, 2011

Bank and Products	Division	Branches	ATMs
ANZ			
1. Everyday Banking	West	7	23
2. Saving & Investing	North	2	2
3. Rural Banking	Central/E	7	27
4. Electronic banking services			
5. Credit & Debit Cards			
6. Loans			
7. Insurance			
8. Other Services			
<i>ANZ has 70 different products/services in each of the product range above.</i>			
BSP			
Personal Banking:	West	8	25
Money ZONE Account	North	3	4
1. TranXact Account	Central/E	10	49
2. Easy Card Savings Account			
3. Passbook Savings Account			
4. Classic Saver Account			
5. Term Deposit			
Lending:			
1. New Car Loan			
2. Cane Farmer's Loan			
3. Purchase of Residential Land			
4. Secured Personal Overdraft			
5. Second hand Car Loan			
6. Unsecured Personal Loan			
7. Customer Home Loan			
<i>BSP has 55 different products/services, in each of the product range above.</i>			
Westpac			
1. Personal Transaction Accounts	West	9	16
2. Consumer Lending	North	2	2
3. Business Transaction Account	Central/E	9	17
4. Business Lending			
5. International Documentary Products			
6. International Clean Products			
<i>Westpac has 53 different products/services, in each of the product range above.</i>			
Baroda			
1. Asset Products	West	5	5
2. Liability Products	North	1	1
3. Baroda Life Shield (Third party insur-	Central/E	3	4
4. I.T. Products			
<i>Baroda has 22 different products/services, in each of the product range.</i>			

Appendix 3: Range of Products offered by Non-Banking Financial Institutions

Institution	Products and Services	Branches	
HFC	1. Lending Products	West	2
	2. Deposit Products	North	1
	3. Insurance Products	Central/E	1
Credit Corporation	1. Lease and Asset Purchasing Finance	West	2
	2. Fleet Leasing Finance	North	-
	3. Business Finance	Central/E	2
	4. Personal Finance		
	5. Pre-Financed Vehicle		
	6. Investment Facilities		
Merchant Finance	1. Commercial Loans-Hire Purchase	West	2
	2. Personal loans- Bill of sale	North	2
		Central/E	2
Dominion Finance	1. Commercial Loans	West	1
	2. Motor Vehicle Loans	North	-
	3. Personal Loans	Central/E	1
	4. Hire purchase		
	5. Asset Purchase		
	6. Revolving Credit Facility		
Wesram Finance	1. Personal Loan	West	-
		North	-
		Central/E	1
Handy Finance	1. Personal Loans	West	-
		North	-
		Central/E	1
Finance Pacific	1. Short term commercial loan	West	-
		North	-
		Central/E	1
FDB	1. Agriculture & SME loans	West	5
	2. Corporate Loans	North	5
	3. SME Loans	Central/E	2
Housing Authority of Fiji	Products:	West	2
	1. Purchase	North	2
	1. Real Estate Services	Central/E	1
	2. Legal Services - Preparation of Will		
	2. New Construction		
	3. Preparations of Transfer		
	3. Transfer of Shares		
	4. Refinance		
	4. Tenancy Agreement		
	5. Personal Loan		

	5. Preparation of Caveats and Withdrawals		
	6. Quick Repair Loan		
	7. Car Loan		
	8. Village/Rural Housing Scheme		
	9. Home Improvement Loan		
	Services:		
	6. Power Of Attorney		
	7. Redefining Pegs		

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