



Minister of Finance Audley Shaw is advocating for new entrants to the financial sector. He argues that new players would spur competition for borrowers and reduce interest margins.

Shaw, who was addressing the 11th Annual Shirley Playfair Lecture on competition and regulation in the banking sector at The Jamaica Pegasus hotel on Thursday evening, reiterated what he said was his "disquiet" with the slow rate at which commercial banks had been reducing interest rates.

The minister said greater competition would lead to banks pricing their products more competitively, reducing stickiness in lending rates, and an overall lowering of interest margins to more sustainable levels.

According to the finance minister, research carried out by the Bank of Jamaica (BOJ) has shown that there is need for greater competitiveness in the sector.

"Initial work in the area suggests that the behaviour of participants in the banking system mirrors that of monopolistic market behaviour," he said.

"The research suggests that there has been declining competition in the sector for the period 1989 to 2002."

Shaw further pointed out that BOJ's findings showed that there was no evidence of collusive behaviour among major banks but noted that the "stickiness" in lowering lending rates was attributable to the structure of the financial sector.

He said the study showed that the industry became more concentrated after the financial crisis

in the mid-1990s.

"What happened is that you had a lot of banks closing down, few banks remained and, therefore, the potential for an anti-competitive attitude then entered the system," he said.

Shaw, however, believes that new entrants would change the environment.

"Can new entrants spur competition for borrowers - that is to say, new commercial bank entrants - and can they spur the reduction of margin? And I believe, if I might be very blunt, the simple answer is a resounding yes," he said.

Shaw was very quick to point out that new entrants to the sector was not that easy as they would have to have the capital required to enter the market.

proper requirements

"The fact is that new players in the financial sector would have to have the capital required as well as pass the necessary 'fit and proper' requirements of the regulatory authorities, and have the necessary risk-management capacity to manage periods of excess volatility in the economy and the marketplace," he said.

The minister, however, suggested that local players should look to the international community for creative joint ventures in order to meet these strict requirements by the regulatory authorities.

"We have an increasing globalised economy. Nothing is wrong with joint ventures, nothing is wrong with merging our own latent talents with the more developed and experienced talent as well as the capitalisation capacity of foreign potential partners," he said.

Shaw also disclosed that the BOJ had one application before it for commercial bank status.

There are seven commercial banks, four building societies, 45 credit s, and 34 brokerage houses operating in Jamaica.

*Source: Dione Rose. Daily Gleaner, Saturday, September 11, 2010*