ORGANIZATION & STRUCTURE OF

COMMERCIAL BANKING

in

JAMAICA

By

NUGENT MILLER

Institute of Social & Economic Research,
University of the West Indies,
Mona.

June, 1971

ORGANIZATION & STRUCTURE OF COMMERCIAL BANKING in JAMAICA

by

NUGENT MILLER

Institute of Social & Economic Research,
University of the West Indies,
Mona.

June, 1971

ERRATA

Page 10	:	Table 1 to read Table 3.
Page 14	:	Para. 3, lines 2 and 6, Table 9 to read Table 6.
Page 23	:	Line 10, Table 12 to read Table 10.
Page 23	:	Table 7 to read Table 12.
Page 26	:	Table 8 to read Table 13.
Page 28	:	2nd paragraph, line 1 - Table 13 to read Table 14.
Page 28	:	Table 6 to read Table 11.
Page 34	:	Table 11 to read Table 13.
Page 40	:	Line 15 : Table 23 to read Table 24.
Page 46	:	Table 27 to read Table 28.
Page 49	:	Table 1 to read Table 29.
Page 50	:	Table 27 to read Table 29.
Page 52	:	Table 28 to read Table 29A.

C O N T E N T S

INTRODUCTION

For most of their history, bank operations have been a mystery to most people in the Caribbean. This is partly because banks have been operating here either as a small part of the large branch network of an international concern or as part of the international extension of some banking corporations primarily engaged in providing domestic banking services in its home country. These institutions were concerned mainly with the financing of international trade and the administering of international payments. They involved themselves in the local economy by financing those activities which had a direct bearing on international trade and payments, such as export agriculture and commerce, but as bankers they also administered payments, played a significant role in the issue of local currency, and accepted local deposits, these coming primarily from the business community. Little was known or published about their activities except the number of offices which existed, the staff of their principal offices and the note issue.

Since the end of the Second World War considerably more interest has been taken in their activities, as information about the magnitude and pattern of their operations became known with the general recognition in government circles of the need for more information about economic activity in the country. In this period, too, has come significant contributions about the operations of banks in the dependent territories, and since the operation of the Bank of Jamaica in 1961 information on banking and its relation to the rest of the economy has increased tremendously.

For most of its history, too, banking activity has not been subject to state regulations. This came to an end in 1960 when the Banking Law was enacted. This, together with the founding of the Bank of Jamaica meant that the national government had now formally accepted responsibility for monetary and banking policy.

The present effort is an attempt to further the informative and analytic framework with regard to bank operations. Emphasis will be given to the organizational and structural aspects of banking and their relationship to the economy. One of the main criticisms of international productive units is that their international interests take precedence over national interests. The political and intellectual climate in which they operate today, however, is such that this subordination of national to international or private objectives is proving to be a costly yardstick by which to operate. Hence, there is a narrowing of the gap so as to give more priority to operations which would be in the national interest. There has, moreover, been considerable interest recently in Jamaica in business organization and management, and it is hoped that by paying some attention to bank organization, some interest will be stimulated in these areas of banking.

In our enquiry into the structure of the industry we have tried to look as broadly as possible into the composition of the industry and the relationship of the units to each other, to the aggregate industry and to the economy as a whole. Structural questions, are relevant to policy makers. No two banking firms are exactly alike. While their operations may be similar enough to distinguish them from non-commercial banking firms, there may be differences among

them which are sufficiently significant to merit some attention. Although, indeed, most general monetary policies are said to be non-discriminatory, yet if the firms in the industry are sufficiently different, any policy can be discriminatory. The controls on consumer lending imposed in 1969 were intended to discriminate against a certain type of lending not against any individual banking firm. It is also true that banks with spare capacity had recently increased this type of lending. Which type of bank would the regulation have affected more: the bank with spare capacity or the ones which had developed the machinery for the efficient administration and control of this form of business? How do policies which control the interest rate on savings but allow fixed deposit rates to be determined in the market affect the individual firms involved. These examples are taken from recent policy measures. Citing them here is not to criticise them for whatever the variation in their effect on the banking firms there were sound reasons for their introduction. Yet, some consciousness of the possible effect of various policy measures on the types of units most directly involved is relevant.

HISTORICAL BACKGROUND

Banks in Jamaica are predominantly international in character. Commercial banking dates back to 1837 when the English-owned[1] Colonial Bank was founded with Head Office in London and branches in the British West Indies and British Guiana. The main functions of the bank were to discount bills with substantial names as security, to lend money upon cash credits and upon sufficient personal security, to deal in foreign exchange, to issue notes payable in dollars and to engage in business which was conformable to the correct principles of banking.[2] It was intended to establish a principal bank at Kingston in Jamaica and branches at the out-ports whenever these ports developed sufficient business for this facility. The bank shied away from the provision of badly needed agricultural credit,[3] and two local banks were established to serve the planter interests, but these succumbed to the sugar crises in the middle of the century. The Colonial Bank thus remained the only banking institution in Jamaica until the arrival of the Bank of Nova Scotia in 1889.

The existence of a second bank in Jamaica appears to have brought to banking some degree of competition. The Bank of Nova Scotia began issuing notes in 1900 and by 1909 had the larger issue. There

[1] Some proportion of shares were apparently reserved for residents in the colonies, A Banking Centenary, Barclays Bank (Dominion, Colonial and Overseas), p. 27.

[2] Ibid., p. 29.

[3] C.V. Callender, The Development of Capital Market Institutions in Jamaica, ISER, 1965, p. 24.

Table 1

Note Issue of Jamaican Banks Selected
Dates, 1899-1913

December 31	Colonial Bank	Bank of Nova Scotia
1899	£152,251	-
1901	112,789	£48,519
1909	71,462	92,929
1913	54,639	101,178

Source: Handbooks of Jamaica, 1899, 1901, 1909, 1913.

also developed apparently some rivalry with regard to the expansion of the number of bank offices in Jamaica, the Bank of Nova Scotia taking the lead in this respect but being followed readily by the Colonial Bank. The expansion would not appear to have arisen out of competition for deposits as the Colonial Bank found that the demand for advances in the West Indies was small, and for some years about 50 per cent of the funds raised on current and deposit accounts was represented by gilt-edged investments. This was not a desirable situation as from time to time substantial sums were applied direct from profits to write down the value of investments.[1] The Colonial Bank, in keeping with its charter established facilities only in the ports, but the Bank of Nova Scotia also went inland to Mandeville in 1910 and to Spanish Town by 1918.

[1] A Banking Centenary, Barclays Bank (Dominion Colonial and Overseas) p. 58.

Table 2

Number of Commercial Bank Offices in Jamaica, 1905-1939

	1905	1908	1911	1914	1918	1919	1926	1930	1939
Colonial Bank[1]	1	1	2	6	10	10	10	10	10
Bank of Nova Scotia	1	6	6	8	10	10	11	12	13
Royal Bank of Canada			1	1	1	1	1	2	2
Canadian Bank of Commerce						1	1	1	1
Total	2	7	9	15	21	22	23	25	26

Source: Handbooks of Jamaica.

[1]Barclays Bank (Dominion, Colonial and Overseas) from 1926.

Two other Canadian banks established branches in Jamaica in 1911 and 1919, but expansion of offices slowed down thereafter especially in the 1930's, perhaps due to the depressing world economic conditions which prevailed at that period.

In 1926, the Colonial Bank which had extended itself into West Africa was amalgamated with the Anglo-Egyptian Bank and the National Bank of South Africa to form Barclays Bank (Dominion, Colonial and Overseas). Among other things, the union was designed to enable the new bank to coordina its resources to meet seasonal requirements of the various localities in which it carried on business, and to take advantage of prospects for increase

[1]Barclays Bank Ltd. of the U.K. became the major share-holders.

imports and exports between the overseas areas and the United Kingdom.[1] In the meantime, the bank had become heavily involved in export agriculture, and advances in the main were connected either directly or indirectly with this industry through the finance of the growing crops or the movement of agricultural produce to the world's markets.[2]

Some of the other banks operating in Jamaica also expanded their international networks. The Royal Bank of Canada became established early throughout the Caribbean and in South America. The activities of the Canadian Bank of Commerce were more limited with only a few branches in the Caribbean. The Bank of Nova Scotia, however, did not extend its activities to the Eastern Caribbean until well after the Second World War. In addition, all these banks had branches in the U.S.A. and in London. The London offices were important in that they were used for the pooling of surplus funds which they channelled on a seasonal basis to deficit areas or invested in income earning securities in a period when there was an absence of suitable securities in Jamaica.

These four banks did all the commercial banking in Jamaica until 1959 when new international banks entered Jamaica. The post-war period saw a continued expansion of offices by Barclays Bank (D.C.O.), and the Bank of Nova Scotia. In 1959, the other two banks also joined in this type of expansion. In this year, too, the Bank of London and Montreal, an international subsidiary of the Bank of Montreal and the

[1] A Centenary of Banking, Barclays Bank (Dominion, Colonial and Overseas), 1836-1936, pp. 197-198.

[2] Ibid., p. 205.

Bank of London and South America opened a branch in Jamaica. This bank was incorporated in Nassau in 1958 specially for international operations in the Caribbean and South America. By this time, too, the large American banks having extended themselves fully at home, were, among other things, turning to the expansion of their international divisions. The First National City Bank which has an almost world-wide international network of branches established an office in Jamaica in 1960. Local participation in bank ownership came in the 1960's with the reorganization of the Bank of Nova Scotia and the founding of the Jamaica Citizen's Bank. Local banking laws and a Central bank also became a reality in the 1960's, and indications are that the 1970's should see the birth of local control.

GROWTH AND STRUCTURE OF BANK DEPOSITS

Bank productive activities consist primarily of the provision of funds to deficit spending units in the form of loans and advances and of the purchase of securities, the transferring of deposits both domestically and internationally, and the performance of certain services such as the collection and acceptance of bills and the granting of letters of credit. The extent to which they can perform the first of these functions depends on their ability to attract the savings and idle balances of surplus spending units.

Three main sources of bank funds may be considered - deposits, inflows of funds from branches or banks overseas, and equity capital. The last of these has existed only since 1956, and is of minor importance when compared with the volume of deposits. Indebtedness to branches or banks abroad has been of importance to some banks, especially the newer banks. Their presence depends largely on whether the banks involved have built up a lending business more rapidly than their deposit business and on the cost and risk involved in the use of such funds. On the other hand, some banks may have lent to their branches abroad so that the net position may have been either that of net lending or net borrowing.[1] Borrowing from abroad appears to have risen

[1] Most banks may show both balances due in or due out in their balance sheets, but normally a bank with significant figures on one side of the balance sheet would show negligible balances on the other side.

steeply since the last quarter of 1957 and attained a postwar peak in 1965. Latterly these balances have been declining in relation to deposits especially since the 1967 devaluation when it became obvious that the newly independent territories in the sterling area were free to determine their exchange rates independent of the £ sterling. Following devaluation, too, the cost of overseas funds rose to about almost prohibitive levels.

Table 1 shows vividly the overwhelming importance of deposits as a source of bank funds, and it is with this aspect of banking that the remainder of this Chapter will be concerned.

The commercial banks are among the earliest financial institutions established in Jamaica and although their early emphasis appears to have been not so much the mobilization of savings and idle balances as the financing of trade and export agriculture they have become significant mobilizers of savings from a broad cross-section of the business and household community. They appear to have become so for a number of reasons. For one thing their liabilities have a high degree of liquidity; then, they have extended their branches into areas which were formerly served mainly by the Government Savings Banks;[1] third, saving through the commercial bank is more generalized than in some other institutions, for example,

[1] As early as 1836 private savings banks were established for the safe custody of and increase of small savings. They were, however, replaced by post office savings banks later, after a few reverses.

Table 3

Distribution of Selected Liabilities, 1948-1969

$mn.

Year	Equity	Deposits	Balances due to Banks Abroad	Total	Selected Liabilities as % of Total Liabilities
1948		96.8	3.2	100.0	92.1
1949		95.0	5.0	100.0	93.7
1950		96.8	3.2	100.0	92.9
1951		98.2	1.8	100.0	90.7
1952		98.3	1.7	100.0	91.0
1953		97.2	2.8	100.0	92.7
1954		99.4	0.6	100.0	89.2
1955		98.8	1.2	100.0	92.0
1956		98.0	2.0	100.0	91.8
1957		96.6	3.4	100.0	92.5
1958		91.9	9.1	100.0	92.9
1959		90.0	10.0	100.0	94.0
1960		88.1	11.9	100.0	90.7
1961		78.8	21.2	100.0	86.6
1962		78.1	21.9	100.0	90.4
1963		88.0	12.0	100.0	90.8
1964		86.9	13.1	100.0	90.0
1965		82.8	17.2	100.0	86.8
1966	2.8	83.7	13.5	100.0	89.1
1967	3.0	88.5	8.5	100.0	88.3
1968	3.8	91.4	4.8	100.0	86.2
1969	3.1	91.9	5.0	100.0	84.3

Notes: 1948-1954: End of year figures.
1955-1960: Average of end of quarter figures.
1961 : Average of end of May-December
1962-1969: Average of end of month balances.

Source: Dept. of Statistics, Monetary Statistics and Bank of Jamaica Bulletins.

building societies, and less personalized than in others, e.g., credit unions. Moreover, as employment and income increased with industrial and mining growth, and people moved to urban areas and found employment with businesses which used the banks for transactions and credit, they, too, tended to use them for depositing their savings. Finally, the international commercial banks appear to have gained the confidence of savers.[2]

Growth

Statistics with regard to the growth of bank deposits are available since the end of World War II, and rates of growth over the period are shown in current prices over the period 1946 to 1969 in Table 1 and in constant prices over the period 1955 to 1968 in Table 4.

Table 4

Average Annual Rates of Growth of Deposits, Loans and Advances, 1946-1969
(Current Prices)

%

Period	Total Deposits	Demand	Saving	Time	Loans
1946-1949	-0.6	2.9	-3.2	-8.3	33.5
1950-1955	10.6	10.4	9.6	18.4	7.2
1955-1960	11.7	10.2	14.7	8.0	24.3
1961-1969	13.0	8.5	15.5	24.0	12.1

1946-1955: end of year figures; demand deposits unadjusted.
1955-1960: average of end of quarter figures; demand deposits unadjusted.
1961-1969: average of end of month figures; demand deposits adjusted.

Source: Bank of Jamaica

[2] All the other institutions appear to have experienced some degree of failure in their early history. Although the first international bank experienced some difficulties during the 19th century, it survived.

Table 5

Average Annual Rates of Growth of Deposits
(1960 Prices)

%

Period	Total Deposits	Demand	Saving	Time
1955-1960	8.7	7.1	11.8	4.9
1961-1966	9.9	3.4	13.7	23.0

1955-1960: average of end of quarter figures; demand deposits unadjusted.
1961-1969: average of end of month figures; demand deposits adjusted.

A few factors are evident from the tables. In the early post-war period when spending units were adjusting their portfolio in response to the new availability of goods following the resumption of international trade, total deposits, savings deposits and time deposits experienced negative rates of growth. Time deposits had the highest rate of decline. Demand deposits showed a small positive rate of growth, but this was small. At the same time loans and advances grew at an extremely rapid rate. The fact that these advances did not create any net new deposits indicates the high degree of external leakage of bank resources resulting from loans in this period.

Throughout the post war period average rates of growth have been far more stable for deposits than for loans and advances, and rates for deposits seemed to be lowest when that of the latter was

highest. The other point worth noting is that in the 1960's the rate of growth of demand deposits fell relative to the rates experienced in the fifties, but that of both savings and time deposits showed rates more rapid than existed previously. Moreover, demand deposits which grew faster than savings deposits in the early 1950's and more rapidly than time deposits in the late 1950's now had the lowest rate of increase.

There seems to be little doubt that the growth of bank deposits has been largely influenced by the growth of income and employment. Table 6 provides estimates of the rates of growth of G.D.P., G.N.P., and Gross Domestic Saving in the post war period.

If one compares the rates of growth shown in Table 4 with Table 9 it would appear that deposits experienced the highest average rates of growth between 1961 and 1969 when the rates of increase of all three aggregates presented in Table 6 were at their lowest.[1] Indeed, only the rates for demand deposits follow the rates in Table 9 in direction. This seems to indicate that savers may also have been moving away from other forms of saving towards the savings and fixed deposits of commercial banks.

One may postulate that with both income and employment increasing, especially in the urban sector, there will not only be an increase in the number of savers but the average size of savings will increase. This may lead spending units to make greater use of interest yielding securities. Indeed, the net

[1] In the 1950's the deposit rates corresponded more closely to GDP and Gross Domestic Savings Rate.

addition to deposits as a percentage of Gross Domestic Saving has increased from 8.6 percent in 1956 to 31.7 percent in 1969.

Commercial banks are only one of a number of institutions in which spending units invest their surpluses. In some of the more financially developed economies it has been alleged that commercial banks have experienced a slower growth rate than other financial institutions, and that this has been due or at least aided by the fact that of these institutions only commercial banks have been subject to official control. In Jamaica, commercial banks, like other financial institutions, have for the greater part of their existence been free of such control, except that imposed by the banks themselves.

In fact, as the preceding section shows it was after the setting up of the Bank of Jamaica that the industry recorded its most rapid growth. It may be instructive, however, to compare the growth of Jamaica bank savings and fixed deposits with those of other financial institutions. Table 8 shows the average rate of growth of Government Savings Bank savings deposits, shares and deposits of building socieites, credit union shares and deposits and people's co-operative banks. The figures indicate that in the post World War II period the average annual rate of growth of commercial bank deposits was second only to that of Credit Unions which experienced rapid growth in the early years of its operations but slowed down afterwards.[1] The table also indicates that in the

[1] Credit unions began operations in 1940-41.

Table 6

Average Annual Rates of Growth of GDP, GNP, and Gross Domestic Saving

Period	GDP		GNP		Gross Domestic Saving	
	Current Prices	1960 Prices	Current Prices	1960 Prices	Current Prices	1960 Prices
1950-1955	13.1		12.3		15.4	
1955-1960	12.1	11.2	9.4	6.3	17.8	14.1
1961-1969	7.4		7.1		7.0	
1961-1968		5.3		5.5		2.9

Source: Based on data from Department of Statistics publications on National Accounts.

immediate post-war period when spending units were adjusting their portfolios in favour of goods in response to the re-opening of international trade there was also a shift away from commercial bank savings and fixed deposits, and government savings banks deposits, although the liabilities of the other institutions grew at relatively rapid rates. In the 1960's, however, commercial bank savings and fixed deposits grew faster than any of these selected liabilities of financial institutions. These various rates of growth have resulted in the following composition of selected financial assets (Table 19). Between 1945 and 1968 commercial banks improved their percentage of the total of the liabilities.

An important financial asset excluded from the above are the liabilities of insurance companies. These have been excluded for three reasons: inadequacy of the data, they are not as liquid as

Table 7

Change in Deposits as a Percentage of Gross Domestic Saving

Year	Change in Total Deposits as a % of Gross Domestic Saving	Change in Demand Deposits as a % of Gross Domestic Saving	Change in Savings and Fixed Deposits as a % of Gross Domestic Saving
1950	23.3	18.0	5.3
1	19.5	14.9	4.5
2	12.1	2.9	9.2
3	29.8	15.3	14.5
4	17.7	12.4	5.3
5	8.6	4.0	4.6
6	8.6	1.4	7.2
7	13.3	6.5	6.9
8	8.4	3.0	5.4
9	9.8	6.1	3.7
60	11.6	7.5	4.1
1	0	- 4.1	4.1
2	3.8	- 4.7	8.5
3	14.1	1.9	12.2
4	18.6	4.7	13.9
5	10.0	0.9	9.1
6	14.2	2.6	11.6
7	20.4	5.9	14.5
8	26.1	6.3	19.8
9	31.7	9.1	22.6

Source: Department of Statistics, Monetary Statistics, various issues, and National Accounts, various issues. Also Bank of Jamaica, Bulletins.

those included, and, finally, not all non-life insurance companies can be regarded as being directly competitive with commercial banks for the savings of persons. While we may regard a life insurance policy as a deliberate decision of a spending unit to set aside a

Table 8

Average Annual Rates of Growth of Commercial Bank Savings and Fixed Deposits Compared with Selected Liabilities of Other Financial Institutions

Period	Commercial Bank Savings and Fixed Deposits	Government Savings Bank Deposits	Shares and Deposits of Building Societies	Credit Union Shares & Deposits	People's Co-operati Banks Shares
Jan.1, 1946-Dec. 31, 1949	-3.9	-2.4	10.6	35.3	10.2
Jan.1, 1950-Dec. 31, 1955	10.8	6.9	10.7	33.3	7.9
Jan.1, 1956-Dec.31, 1960	13.4	7.8	9.7	31.3	6.9
Jan.1, 1961-Dec. 31, 1969	16.8	7.6	13.3[a]	13.5[b]	4.3[c]
Jan.1, 1946-Dec. 31, 1969	13.0	6.2	10.7[d]	25.5[e]	8.5[f]

[a] January 1, 1961 to December 31, 1968;
[b] January 1, 1961 to December 31, 1968;
[c] January 1, 1961 to December 31, 1966;
[d] January 1, 1946 to December 31, 1968;
[e] January 1, 1946 to December 31, 1968;
[f] January 1, 1943 to December 31, 1966;

All rates based on end of year figures.

Source: Department of Statistics, Jamaica, Monetary Statistics, various issues.

portion of his income in a certain way or to acquire an aaset of a certain nature, some non-life insurance policies are almost automatically acquired when phsyical assets are acquired. The growth of motor vehicle and other property insurance is therefore a function of the growth of these types of property and, in the case of motor vehicles, of the frequency of accidents. Third party insurance on a motor vehicle is in most territories a legal requirement, and spending units normally take comprehensive cover on newer vehicles. Furthermore, these assets are not in any sense liquid, although they may enhance the use of the insured goods as security for obtaining loan funds.

There is little doubt that insurance liabilities are among the most rapidly expanding group of financial assets although statistical data is poor. Indeed, insurance companies are offering an ever wider range of securities. There is the growth of pension plans, industrial insurance, health plans. Insurance securities are becoming associated with those of other financial institutions when they offer life insurance policies linked to commercial bank and building societies savings deposits and insure certain type of loans especially in the expanding instalment credit field.

It is difficult, however, to accept Odle's estimates of the assets of insurance companies on the basis of a 10:1 ratio in respect of non-life companies.[1] The naivety of the estimates can

[1] M.A. Odle, The Significance of Non-Bank Financial Intermediaries in the Caribbean, March, 1970 (Mimeographed). Odle does not state the basis on which these ratios were derived.

be seen by the fact that if premium income amounts to $1 million over the previous year assets will increase by $10 million, and if it increased by $5 million assets would rise by $50 million. It would seem preferable to regard the addition to assets in any year as being approximately equal to premium income + investment income ± capital gains or losses less expenses. Estimates of the growth of income and expenditure of insurance companies are available from 1961 on a panel sample basis and their assets and liabilities have been published since 1964 and it may have been preferable to work the estimates back to derive estimates for the period covered by Odle. For the twelve companies included in the panel sample of the Department of Statistics actuarial reserves grew by 12.1 percent between 1964 and 1968. Premium income of these life insurance companies grew at 10 percent. The insurance companies dominate the non-banks. In 1965 the actuarial reserves of the 12 companies in the sample amounted to $47.0 million compared with $45.7 million for the liabilities of other non-banks included in Table 12. If these life insurance figures are extended to the population of life insurance companies operating and are added to non-life insurance statistics,[1] estimates of the growth of total non-bank institutions

[1] The tremendous growth of property in the post-war period especially motor vehicles, residential and non-residential buildings and inventories has undoubtedly resulted in a high rate of growth for non-life insurance. In addition, there has been growth of industrial insurance, health insurance, etc., and a growing degree of differentiation of insurance activity. Gross income of non-life companies grew at the rate of 18.1 percent between 1965 and 1968.

would undoubtedly be fairly well dictated by insurance rates; and we are tempted to conclude on a priori grounds that in spite of the rapid rate of growth of non-monetary bank deposits, liabilities of non-bank institutions may have kept pace or outstripped them.

The growth argument is sometimes couched in terms of money vis-a-vis non-monetary financial assets. In such a case, if we follow traditional practice and regard demand deposits as the only form of bank money our results would seem to conform with the growth analyses, for, as we noted time and savings deposits of banks have experienced a much more rapid rate of growth in recent years. However, since control of banking activity is not restricted to their use of funds obtained through the creation of demand deposits only, the arguments may be treated as unimportant.

The dominance of commercial banks is, of course, partly the result of the late development of the industrial structure of the economy and the consequential absence of a sophisticated financial structure. The efforts being made in official circles to attract a variety of financial institutions, including development banks, merchant banks, mortgage banks, and investment trusts should lead to a lessening of this superiority.

Structure

The different rates of growth have resulted in a changing composition of deposits, especially in the 1960's. The ratio of

demand deposits to total deposits increased up to 1951 (Table 10), levelled off at a slightly lower rate and fell after 1955. The fall was accelerated between 1960 and 1961 partly because of the transfer of government deposits to the Bank of Jamaica, but the share of private demand deposits fell rapidly up to 1967 and appears to have levelled off. A straight comparison of the 1961 with the 1960 figures is difficult for three reasons. First, only May to December, that is, after the transfer of government deposits, is included in the average. Second, private demand deposits are adjusted for bank float in Table 11 but not in Table 12,[1] and, finally, figures after 1960 represent averages of end of month balances while those for 1955 to 1960 are end of quarter averages. To make our tables more comparable we present in Table 7 percentages based on average end of month balances of unadjusted deposits.

[1] Commercial bank deposits shown are unadjusted prior to 1961 because adjusted figures were not available before May, 1961. This, however, tends to over-estimate the private demand deposits in the system, because entries in customers' accounts may be made before their respective interbank settlements are effected. These entries are of two types: (1) customers deposit cheques made out in their favour in their bank accounts. These may be deposited either in a demand savings or fixed deposit account, but the vast majority of such transactions are for the demand deposit accounts. Indeed, a one-bank sample of debits and credits show that in the years 1961 through 1969 well over 90 percent of credits were to demand deposits accounts. As the funds so credited are not yet at the disposal of the receiving bank these are deducted from private demand deposits. In some cases banks would not allow withdrawal of amounts so credited until the cheque has been cleared; (11) The other type of entry is in respect of certified cheques, bank drafts, and other instruments which are debited to the customers' demand deposit account but for which a transfer of funds to the bank in which they are deposited has not yet been effected. These are added to private demand deposits because they are still the liability of the bank which issues the instruments. In computing the money supply, adjusted deposits, as defined here, are used in preference to unadjusted deposits. However, since the public has neither the use of uncollected deposits nor of savings representing unpaid instruments of transfer it would seem more appropriate to deduct both of these items from unadjusted deposits for this purpose.

Table 10

Composition of Deposits, 1944-1960

Year	Demand (unadjusted)	Saving	Fixed	% Total
1944	52.9	39.5	7.6	100.0
1945	52.0	40.3	7.7	100.0
1946	51.7	41.5	6.8	100.0
1947	55.4	37.8	6.8	100.0
1948	57.2	36.6	6.3	100.0
1949	57.8	36.9	5.3	100.0
1950	60.0	35.2	4.8	100.0
1951	61.6	34.5	4.0	100.0
1952	59.2	35.4	5.4	100.0
1953	58.0	33.8	8.2	100.0
1954	59.3	34.8	6.7	100.0
1955	59.7	33.5	6.7	100.0
1956	56.3	36.4	7.4	100.0
1957	55.0	36.6	8.5	100.0
1958	53.2	39.2	7.5	100.0
1959	54.1	39.8	6.1	100.0
1960	55.3	38.7	6.0	100.0

1944-1954: - Dec. 31, unadjusted
1955-1960: - Average end of quarter

Source: Department of Statistics, Monetary Statistics.

Both tables show that the private sector was holding a smaller percentage of demand deposits. The share of savings deposits increased rapidly to a high of 52.8 percent but has declined since. On the other hand, the proportion of fixed deposits increased steadily throughout the decade. This development is not surprising. Bank offices have been extended to less urban areas, and this should bring more savings into the banking system. As the banking habit spreads and the size of the average deposits increases with the

Table 11

Composition of Deposits, 1961-1969

Year	Total Deposits $mn	Private Demand Adjusted	Government Demand	Saving %	Fixed %
1961	81.5	42.9	3.1	45.4	8.6
1962	88.0	38.4	3.4	46.0	12.2
1963	103.2	35.7	2.3	46.5	15.5
1964	118.6	34.2	1.2	48.8	15.8
1965	132.3	33.5	1.1	50.7	14.7
1966	144.0	29.3	1.1	52.8	16.8
1967	167.9	28.1	1.5	51.9	18.5
1968	205.6	28.0	0.5	50.7	20.8
1969	262.5	28.7	0.7	48.9	21.7

Average end of month balances.

1961: April - December only.

Source: Bank of Jamaica

Table 12

Composition of Deposits (Unadjusted) 1961-1969

Period	Total Deposits $mn.	Demand (Unadjusted) %	Savings %	Fixed %
1961	87.9	50.9	41.9	7.3
1962	91.5	44.0	44.3	11.7
1963	106.3	39.8	45.2	15.1
1964	123.2	37.8	47.0	15.2
1965	134.1	35.5	50.0	14.5
1966	151.0	33.6	50.4	16.0
1967	176.2	32.9	49.4	17.7
1968	213.7	31.3	48.8	19.8
1969	267.9	30.8	47.9	21.2

Average of end of month balances; demand deposits adjusted; for 1961 end of March figures were given a weight of 4, April to December were each given weights of 1.

expansion of income and employment depositors will seek to maximize their income on deposits and thus move to fixed deposits. The decontrol of rates on fixed deposits of six months and over, and the increasing competition for funds by banks at a time when funds are scarce and interest rates are high are likely to intensify this trend. Pressure on financial institutions to utilize their resources locally should add further to the expansion of the banking system. With regard to interest rates, it may be noted that prior to 1961 banks paid higher rates of interest on savings than on deposits fixed for periods of less than 12 months. Deposits for 12 months and over earned the same rate of interest as savings, but the maximum amount in a savings account was limited to £2,000.

Another noteworthy development is the changing composition of fixed deposits in terms of their maturity distribution. As Table 8 shows this has been especially noticeable with regard to the increase in deposits fixed for 12 months and over. It is likely, however, that the decontrol of rates on deposits between 6 and 12 months may reverse the trend, as banks will now offer higher rates for deposits fixed for periods between 6 and 12 months, and since they do not like to commit themselves to high rates for too long a period their rates in this category may be sufficiently attractive.

Table 13

Composition of Fixed Deposits

Maturity Category	1963	1964	1965	1966	1967	1968	1969
3 months	22.6	21.1	18.1	14.5	14.9	14.7	17.4
3-6 months	24.0	21.4	19.9	13.2	14.2	17.6	12.9
6-12 months	53.0	54.7	46.4	36.6	39.5	42.7	45.2
12 months & over	0.4	2.9	15.6	35.6	31.4	25.0	24.5

Percentages are based on average of end of quarter deposit holdings.

Source: Bank of Jamaica.

Relative Importance of Demand Deposits in the Money Supply

Demand deposits and currency are the instruments used in making payments. The former is used principally in large transactions but a growing number of persons are using them for relatively small transactions, and cheques have been becoming increasingly acceptable by most businesses. The level of demand deposits will therefore be affected by the extent to which spending units hold one type of these assets rather than another.

In Table 13 the proportion of demand deposits in the stock of money fell up to 1966 and then rose. The levelling off between 1967 and 1968 and subsequent upturn of the proportion of private demand deposits to total deposits (Table 6) may have been partly affected by this reversal of the trend in preference between the components of the money supply. There are many factors which may affect the ratio. As income and employment increase one expects greater use to be made of demand deposit facilities, but much would depend on the income category of persons receiving the additional income. If a significant proportion of additional income went to the low income category who use currency rather than demand deposits, the ratio of the latter will also decrease. The same considerations arise with regard to the expansion of employment. If new entrants to the labour force were mainly in the lower income category the currency ratio will tend to increase. There has, in addition, been substantial migration of unskilled people from the rural areas into the towns, particularly Kingston. To the extent that money plays

a greater role in exchange in urban areas persons who move into the city will be using money on a large scale. They will almost certainly use currency rather than demand deposits.

Table 14

Ratio of Demand Deposits to Money Supply, 1962-1969

Year	Percent
1962	66.5
3	66.6
4	66.1
5	65.3
6	64.5
7	65.2
8	67.6
9	69.8
1970	67.8

Source: Bank of Jamaica, Bulletin, various issues.

Deposit Velocity

In the preceding sections we have looked at changes in the volume of bank deposits over time. It is also important to examine the rate of turnover of such deposits. Because demand deposits are held principally for making payments and are chequeable, one expects its velocity to be several times greater than that of the other types of deposits. It is also postulated that in dependent economies a significant proportion of savings deposits are in fact held for so short a period that they can be regarded as performing the function of demand deposits.

In order to test this theory we have used a one-bank sample of debits to savings and time deposit accounts. It does not seem useful to carry out the same type of analysis in respect to demand deposits because the use of overdraft facilities which appear as debits to current accounts does not constitute a turnover of existing demand deposits. To obtain an estimate of velocity we divided these debits by the average holdings of deposits by that bank for the year. For 1969 the sample consisted of 29.2 percent of all savings accounts and 23 percent of fixed deposit accounts. This represented 33 percent of savings deposits and 28 percent of fixed deposits. Complete data was available for the years 1963 to 1966, 1968, and 1969, but information for parts of years 1961, 1962 and 1967 show essentially the same relationship between the variables. The results are shown in Table 15. They yield the surprising result that savings deposits turn over more slowly than time deposits. Thus while there may be many withdrawals from savings accounts the great volume of such savings turn over relatively slowly.

The fact that the savings deposits of small savers are genuine savings is also borne out by the relative inactivity of the volume of deposits in the Government Savings Bank, as shown in Table 16. These characteristics also seem to be borne out by the interest rate policy of commercial banks prior to 1961 when interest rates paid on savings equalled that paid on 12-month fixed deposits and exceeded the rates for shorter period contracts. With the recent

Table 15

Comparative Velocities of Saving and Time Deposits

Year	Saving	Time
1961	0.60	1.04
1962	0.51	0.74
1963	0.99	1.21
1964	1.06	1.50
1965	1.07	1.57
1966	1.08	1.23
1967	0.86	0.89
1968	1.12	1.31
1969	1.07	1.47

1961: June to December only.
1962: January to March and July to December only.
1967: April to December only.

Source: Bank of Jamaica.

Table 16

Velocity of Government Savings Bank Deposits 1953-1969

Year	Velocity	Year	Velocity	Year	Velocity
1954	0.72	1960	0.97	1966	0.69
1955	0.73	1961	1.02	1967	0.68
1956	0.74	1962	0.77	1968	0.65
1957	0.79	1963	0.67	1969	0.65
1958	0.77	1964	0.69	1970	
1959	0.83	1965	0.68		

Source: Department of Statistics, Monetary Statistics, various issues.

redistribution of fixed deposits in favour of deposits of 12 months and over however one would have expected the velocity of fixed deposits to slow down relative to that of savings deposits, but this has not occurred yet.

Although the period for which velocity statistics is available is short and there were gaps in the data, we attempted a crude seasonal analysis of the savings velocities; by summing the velocities for each month for the years for which we had complete data, and expressing it as a percentage of the average of the sum of all the velocities. The highest turnover was in December, but there was a concentration of high ratios from October until January, reflecting the rise in household spending at this time of the year, and the necessity to dip into savings in January after the heavy spending period is over.

Table 17

Seasonal Indexes of the Velocity of Savings Deposits

Month	Index	Month	Index
January	107.1	July	99.8
February	90.7	August	97.7
March	100.5	September	88.9
April	85.8	October	106.4
May	93.6	November	112.2
June	87.2	December	130.1

Source: Bank of Jamaica.

Interest Rates on Deposits

Interest rates on bank deposits in Jamaica were not an aspect of competition prior to the 1960's. The banks have traditionally fixed rates for savings and fixed deposits by agreement among themselves. Prior to 1961 the level of these rates appear to have been determined in relation to the Bank of England rediscount rates, but the structure appears to have been a reflection of the velocities discussed above.[1] Table 18 shows the various rates and Table 19 indicates the relationship between changes in the U.K. Bank Rate and the local savings rate.

Table 18

Commercial Bank Deposit & Loan Rates and Bank of England Discount Rates

%

Year	Savings Rates	3 months Time Deposits	6 months Time Deposits	12 months Time Deposits	Loan Rates	Bank of England Rates
1954	1.7	-	1.2	1.7	5.0	
1955	1.9	-	1.4	1.9	5.5	
1956	2.8	1.8	2.3	2.8	6.3	
1957	2.7	2.0	2.5	3.0	6.3	
1958	2.6	1.7	2.2	2.7	6.7	
1959	2.0	1.0	1.5	2.0	5.5	
1960	2.7	1.7	2.2	2.7	6.2	
1961[1]	3.0	2.0	2.5	3.0	6.5	

[1] January - July.

Source: Department of Statistics, Monetary Statistics, 1961.

[1] Since March 1961 the banks have been supplying the Bank of Jamaica with these velocity figures apparently voluntarily.

In this period, too, the changes in the savings rate followed fairly closely on changes in the U.K. Bank Rate. Commercial banks paid no interest on amounts exceeding certain limits in saving accounts. The limit was fixed at £500 prior to May 1952 and at £1,000 between this date and March 1955. Thereafter and up to August 1961 when it was removed the limit was £2,000. Thus persons who had savings exceeding these limits were forced to transfer the excess either to lower interest securities within the commercial banks, to fix them for 12 months and over or to purchase non-bank securities.

Since August 1961 the structure of these interest rates have changed, so that savings deposits now earn the lowest of the rates paid by the banks. This is probably one reason for the change in the structure of time deposits noted in Table 11. Since 10th August, 1966, too, banks have been competing on fixed deposits of periods in excess of 12 months.[1] The restrictions on interest rate competition in a period when banking competition has become increasingly competitive has resulted not only in rate competition for fixed deposits for periods of over twelve months, but in a great deal of differentiation in the types of securities offered. These include bonuses on savings left with the banks for periods exceeding twelve months, provided a certain minimum is maintained in the account; call deposits, which earn special rates of interest if left for periods beyond the period of control. They cannot be normally

1 Bank of Jamaica, Bulletin, September 1966, page 19.

Table 19

Comparison of Changes in Commercial Bank Savings Rates and Bank of England Discount Rates

%

Date of Change	New Bank of England Rates	New Savings Rates
13 May, 1954	3.0	
1st June, 1954		1.5
27 January, 1955	3.5	
24 February, 1955	4.5	
9 March, 1955		2.0
16 February, 1956	5.5	
1st March, 1956		3.0
7 February, 1957	5.0	
1st March, 1957		2.25
19 September, 1957	7.0	
1st October, 1957		3.5
20 March, 1958	6.0	
1st April, 1958		3.0
22 May, 1958	5.5	
1st June, 1958		2.25
19 June, 1958	5.0	
1st July, 1958		2.5
1st September, 1958		2.0
20 November, 1958	4.0	
21 January, 1960	5.0	
1st February, 1960		2.5
23 June, 1960	6.0	
1st July, 1960		3.0
27 October, 1960	5.5	
8 December, 1960	5.0	
25 July, 1961	7.0	
1st August, 1961		3.5

Source: Department of Statistics, Jamaica, Monetary Statistics, Quarter ending December, 1967.

withdrawn without notice ranging from 90 days to 6 months. Savings certificates for longer periods, more commonly three years or five years, and insured savings involving regular savings to a defined

Table 20

Commercial Bank Deposit and Loan Rates,[1] August 1961 - 1970

Year	Savings Rate	3 months Time Deposits	6 months Time Deposits[2]	12 months Time Deposits[3]	Bank Loan Rates	Bank of Jamaica Discount Rate	U.K. Bank Rate
1961[4]	3.5	4.0	4.5	5.0	7.5	6.0	6.5
1962	3.46	4.0	4.5	5.0	7.4	5.9	4.8
1963	2.5	3.0	3.5	4.0	6.4	4.8	4.0
1964	2.1	2.6	3.1	3.6	6.1	4.2	5.2
1965	2.5	3.5	4.0	4.5	7.0	5.0	6.4
1966	3.2	3.75	4.25	4.75	7.25	5.75	6.5
1967	3.4	3.8	4.3	4.75	7.3	5.3	6.2
1968	3.75	4.2	4.5	4.8	7.8	5.7	7.4
1969[5]	3.4	3.9	4.4	4.8	7.7	5.8	7.9
1970[5]	3.5	4.0	6.0 - 7.5	7.0 - 8.0	8.0	6.0	7.2

Source: Bank of Jamaica Bulletin, various issues.

[1] Average of monthly rates.

[2] 6 months but less than 12 months up to August 1966; 6 months but less than 9 months thereafter.

[3] 12 months but less than 15 months up to August 1966; 9 months but less than 12 months thereafter.

[4] August - December only.

[5] February - September.

target, are also offered. More recently banks have been offering to waive ledger fees on demand deposits if a given minimum balance is retained in the account.

The normal structure of rates is for them to rise to a peak on securities maturing in three years and to fall thereafter.[1] Banks

[1] Rates on 2 year savings certificates: 7¼%
Rates on 3 year savings certificates: 7¾%
Rates on 5 year savings certificates and Golden Passbook accounts: 6%
These rates are subject to little variation.

consider it risky to offer very high rates on very long term contracts. Thus in high interest periods the shorter rates are likely to rise over the longer rates. In late 1969, for example, rates on deposits of 12-18 months exceeded the rate paid on three-year savings certificates. With the decontrol of rates between six months and twelve months in 1970 these shorter rates also exceeded the three year rates.

In 1970 high external interest rates were attracting Jamaican deposits abroad. As a result banks were allowed to compete freely for deposits made with them for periods exceeding six months. The effect of this has been a rapid increase in the uncontrolled rates. This appears to have resulted in raising lending rates and hence helping to stem the excessive demand for credit which existed late in 1969. Banks appear to have become highly liquid again, total and local liquid assets being 27.3 percent and 22.3 percent respectively of deposits in March 1971 compared with 21.7 percent and 18.6 percent for the same month in 1970.[1] The high rates appear to be diverting long term funds from long term institutions such as the stock market.[2] There is, moreover, no indication that bank deposit rates or lending rates have fallen in spite of the lowering

[1] Bank of Jamaica, Statistical Digest, May 1971, Table 10.

[2] The Jamaican Investment Fund holds some 30 percent of its assets as fixed deposits. It is suspected that the more established long term institutions are making generous use of the banks' high interest fixed deposit facilities. No information on deposits by sector of holder is available however.

of the bank rate.

Distribution of Deposits Among Holders

On the basis of data from six of the seven banks representing 83.8 percent of demand deposits, 89.6 percent of savings deposits and 90.3 percent of fixed deposits Table 21 sets out the percentage of deposits in the various accounts by size of account. As expected, the bulk of the savings deposits (90.7 percent) is concentrated in the accounts with balances of less than $20,000, the $1,000-$1,999 class being the modal group.[1] Fixed deposits, on the other hand, are concentrated in the upper groups, that is $2,000 and over. Unfortunately, we do not have the number of depositors in each group for all banks as this would give some indication of the bargaining power of fixed depositors assuming that the larger the deposit the greater the bargaining power. Demand deposits are more evenly spread, the model group being the $2,000 - 19,999 class.

In Table 22 is presented also deposits by type of holder for the same sample of banks. Private residents hold almost 61.7 percent of all deposits, and private non-residents another 6.8 percent. Private individuals also top the shares of savings and time deposits, 82 percent and 54.4 percent respectively for private residents. Their share in demand deposits is also significant probably due to the holdings of unincorporated businesses. Companies, on the other hand, are the largest holders of demand deposits, with locally

[1] Not in the sense of the number of accounts but in that of the volume of savings.

Table 21

Frequency Distribution of Demand Saving and Time Deposits 30/9/69

Size of Deposit	Total Deposits %	Demand Deposits %	Savings Deposits %	Time Deposits %
Under $1,000	16.0	11.3	25.2	1.9
$1,000 - 1,999	20.2	10.7	32.8	5.1
$2,000 - 19,999	29.6	22.3	31.9	33.9
$20,000 - 99,999	13.4	20.0	6.4	19.9
$100,000 - 199,999	7.4	12.5	1.8	12.9
$200,000 anod over	13.5	23.1	1.9	26.3
Total Value of deposits $mn.	241.9	70.7	117.7	53.5

Source: Information supplied by six of the seven commercial banks.

controlled companies holding about 2.8 times that of overseas controlled companies. They also hold about 40 percent of time deposits with 9.2 percent going to overseas controlled companies.

Table 22

Ownership of Deposits by Type of Holder - 30/9/71

Type of Holder	All Deposits	Demand Deposits	Saving Deposits	Time Deposits
Locally Controlled Companies	21.9	45.8	3.7	31.6
Overseas Controlled Companies				
(a) Registered in Jamaica	5.9	13.1	0.7	8.5
(b) Registered Overseas	1.1	3.4	*	0.7
Private Individuals				
(a) Resident	61.9	33.0	82.0	54.4
(b) Non-resident	6.8	1.9	11.0	3.5
Other	2.3	2.8	2.5	1.3
Total	100.0	100.0	100.0	100.0

Individual Bank Trends and Shares

Table 23 permits comparison of the trend in the proportion of each type of deposit in the total deposits of individual banks. Broadly speaking, the trends in individual banks reflect that of the aggregate picture: the share of demand deposits falling through the decade with one minor exception; the proportion of savings deposits rising for all banks in 1966 and that of all banks but one falling between 1966 and 1969. Finally, time deposits rose for all banks. Some more specific features may be noted. The share of demand deposits fell faster and that of time deposits rose more rapidly for the newer banks, partly reflecting greater publicity given to fixed deposit plans, and more aggresiveness in other forms of marketing in some cases, and readiness to pay higher rates of interest in others. It is with this aspect of banking that there is the greatest degree of competition. The shares of savings deposits reflected the branch structure as Table 23 shows.

Table 23

Demand, Saving and Time Deposits as a Proportion of Total Deposits of Individual Banks

Bank	Demand			Savings			Time		
	1962 %	1966 %	1969 %	1962 %	1966 %	1969 %	1962 %	1966 %	1969 %
1	47.8	37.2	28.2	40.1	43.8	29.1	12.1	18.9	42.6
2	63.5	45.9	31.2	16.3	22.3	21.1	20.2	31.8	47.7
3	30.3	29.8	28.9	47.8	53.1	51.0	11.9	17.1	20.1
4	35.5	32.0	30.7	47.5	51.5	44.7	17.1	18.1	24.7
5	46.4	32.4	30.1	41.7	52.6	56.2	11.9	13.0	13.7
6	49.8	41.6	42.0	43.2	43.2	40.8	6.9	15.3	18.5
New Banks since 1959	55.7	42.6	27.6	28.2	30.7	20.9	16.1	26.8	51.5

Source: Bank of Jamaica.

Table 24

Relationship of Share of Savings Deposits in Bank Deposits and Branch Structure, 1969

	%
Banks with island-wide branches	53.3
Banks with 10-15 branches	42.1
Banks with 5 or less branches	30.7

Source: Bank of Jamaica.

Tables 25 and 26 also reveal that the shares of deposits of the largest banks have been falling. The decline has taken place primarily in the shares of private demand and fixed deposits the share of savings deposits having remained stable. Actually, the two large banks appear to have different experiences with regard to the movement of the various types of deposits. One of the banks was able to increase its share of savings deposits appreciably but its other deposits, especially its time deposits, fell sharply. The other bank's share of private demand deposits remained stable but its share of savings deposits fell for the years shown and its fixed deposits fell sharply between 1966 and 1969. The medium sized banks increased their share of total deposits modestly. There were gains in shares of private demand deposits and losses in shares of savings deposits for both banks. Their experiences were again different with respect to time deposits gains and losses for each bank being experienced at different times. The new banks showed gains in their shares of all types of deposits, but while increases

Table 25

Shares of Individual Banks in Deposits, Selected Years

Bank	Total Deposits			Private Demand Deposits			Savings Deposits			Time Deposits		
	1962 %	1966 %	1969 %	1962 %	1966 %	1969 %	1962 %	1966 %	1969 %	1962 %	1966 %	1969 %
A	5.6	5.7	6.0	4.8	5.7	6.1	6.1	5.7	5.6	8.4	6.6	7.0
B	44.4	42.6	40.5	37.8	37.0	37.8	47.9	44.9	43.1	44.9	45.4	38.4
C	11.4	12.3	12.4	13.9	15.7	17.1	11.1	10.5	10.4	6.5	11.6	10.7
D	35.0	34.4	31.0	38.3	35.2	29.9	32.8	35.9	36.5	35.5	27.7	20.0
E	1.9	3.0	4.3	2.9	4.3	4.5	0.7	1.3	1.9	2.8	6.2	9.5
F	1.9	1.9	2.3	2.1	2.2	2.1	2.2	1.7	1.4	1.9	2.5	4.6
New Banks since 1959	3.8	4.9	9.9	5.0	6.5	9.1	2.9	3.0	4.3	4.7	8.7	24.8

Source: Bank of Jamaica.

Table 26

Shares of Banks in Total Deposits, Selected Years

Bank	Total Deposits			Private Demand Deposits			Savings Deposits			Time Deposits		
	1962 %	1966 %	1969 %	1962 %	1966 %	1969 %	1962 %	1966 %	1969 %	1962 %	1966 %	1969 %
Banks with island-wide branches	79.4	77.0	71.5	76.1	72.2	67.7	80.7	80.8	79.6	80.4	73.1	58.4
Banks with 10-15 branches	17.0	18.0	18.4	18.7	21.4	23.2	17.2	16.2	16.0	14.9	18.2	17.7
New banks since 1959	3.8	4.9	9.9	5.0	6.5	9.1	2.9	3.0	4.3	4.7	8.7	24.8

in time deposits were so great that in 1969 their share exceeded that of the medium-sized banks, they showed only modest gains with respect to savings deposits.

Summary

Bank deposits have increased more rapidly in the 1960's than at any previous time, but in its composition there has been a shift away from demand deposits first to savings and time deposits and later to time deposits. The structure of time deposits, too, has shifted in favour of deposits fixed for periods over six months. This appears to have been influenced partly by the change in the rate structure and partly by the aggressive policies of banks, particularly the new banks. The latter have been exceptionally successful in attracting time deposits and if there is any desire to lessen the disparity in the size of banks the effect on these banks will have to be considered in any policy changes. The recent relaxation on the control of rates on deposits over six months probably succeeded in discouraging the outflow of savings as designed, but it has raised the cost of funds and, hence, lending rates. It seems, moreover, to be attracting funds from long term institutions whose deposits are large enough to merit the best rates. Finally, there is little indication that the banks have lowered either deposit or lending rates following the latest reduction in the Bank of Jamaica discount rate.

The Disposition of Resources: Liquid Assets

Bank liabilities are among the most liquid of financial assets. Demand deposits may be withdrawn without notice. These deposits form part of the money supply. They are used by spending units primarily for making payments to each other and this results in a fairly voluminous degree of transfers of resources between banks, which for the individual banks is tantamous to withdrawals. Savings deposits are in practice withdrawn without notice, but banks may require three days notice of withdrawal. Fixed deposits may be withdrawn before the expiry of the contract period at a loss of interest. Notice deposits require a specified period of notice, normally ninety days or six months, before withdrawal.

For these reasons banks have to keep a sufficiently large proportion of their resources in a form which would enable them to meet their obligations to pay cash without embarrassment. Some of these resources will be held as cash in till to meet expected normal excesses of payments over receipts. Imbalances between cash inflows and outflows tend to vary with the day of the week, week of the month, month of the year, and with the location and type of business of the particular office.

When banks are short of vault cash they withdraw some of their deposits from the Central Bank in the form of currency. It is expected that branches which are far removed from the Bank of Jamaica would tend to hold larger balances on average, but except for 1969, this does not appear to have been so. However, relating vault cash to deposits may be misleading, because the banks with offices in Kingston and St. Andrew only were all new banks which used imported funds to supplement deposits.

Table 27

Vault Cash/Deposit ratios by Geographical Dispersion of Branches

	1961	1962	1963	1964	1965	1966	1967	1968	1969
Banks with island-wide offices	2.5;4.7	2.6;3.6	2.3;3.2	2.2;2.9	2.3;3.0	2.4;2.8	2.3;2.5	2.1;2.4	2.8;2.7
Banks with offices located mainly in Kingston and larger urban centres	5.1;3.1	3.4;2.9	3.4;3.0	2.9;3.3	2.7;2.8	3.1;3.2	3.1;3.2	2.3;2.4	3.4;2.4
Banks with offices in Kingston and St. Andrew only	4.5;5.4	8.2;5.0	3.0;3.9	2.9;3.8	2.6;3.4	2.7;3.4	1.9;3.2	2.3;2.4	1.6;1.9

Source: Bank of Jamaica records.

Average of end of month data.

In view of the fact that the bank is just as committed to meet demands for cash arising from the use of authorized overdraft facilities, it may be more appropriate to use cash/total assets ratios for this analysis. In Table 27, the ratios for the banks located in Kingston and St. Andrew only appear to be among the lowest. There is some disparity within the groups, and we believe that this may be due partly to the fact that banks with a higher proportion of savings deposits also tend to hold more vault cash.

Although cash in till is an important part of the balances held by banks for meeting demands for cash, a far greater drain on bank resources is likely to occur through interbank settlements arising out of payments by cheque. Prior to the establishment of the Bank of Jamaica, these debts were settled through transfers between the banks' accounts in London. Now, they are settled by adjusting the banks' accounts at the Bank of Jamaica. The Banking Law, 1960, prescribes minimum deposits that the banks should hold with the Bank of Jamaica. The average of the daily balances in this account should be equal to a minimum of five per-cent of the average of the banks' deposit liabilities at the close of business on each Wednesday, but the last of the preceding month. These statutory deposits are not income earning. Within any period of one month, therefore, banks may make up shortfalls on some days with surpluses on others. If the deficiencies are sufficiently large or prolonged, the banks will find it necessary to borrow from the Bank of Jamaica or its administered funds or to supplement its local funds from its Head Office overseas.

For the settlement of international debts banks have accounts with their branches and correspondents in other countries. Balances in

Table 28

Vault Cash/Total Assets Ratios by Geographical Dispersion of Branches

	1961	1962	1963	1964	1965	1966	1967	1968	1969
Banks with island-wide branches	1.8;3.7	1.9;3.1	2.0;3.0	1.9;2.7	1.9;2.7	1.9;2.5	1.8;2.3	1.6;2.0	2.1;2.4
Banks with offices located mainly in Kingston and larger urban centres	3.9;1.5	2.7;1.4	2.9;1.8	2.3;1.8	1.9;1.3	2.4;1.5	2.2;2.0	2.0;1.6	2.8;1.6
Banks with offices in Kingston & St. Andrew only	2.2;1.5	3.7;1.8	1.5;1.7	1.2;1.7	0.9;1.6	1.3;2.1	1.5;1.8	1.7;1.7	1.3;1.5

Source: Bank of Jamaica

these accounts are not normally permitted to exceed certain limits. A significant proportion of these accounts are cleared through the London accounts of the banks. Whether a net inflow of funds to the London account is remitted to the branches in Jamaica would depend on the liquidity position of the bank here. Similarly, if the London account is in credit, a remittance to the customer in London may be effected by simply debiting the account there, thereby foregoing the exchange charges involved in the purchase and sale of sterling. Overseas balances are therefore important in the settling of international indebtedness, but they are not counted as official liquid assets. Because of the exchange risks involved in holding balances outside of the territory in which they are located, banks have now placed more severe limits on the amounts they are prepared to hold in such balances. Most accounts are in fact cleared rather speedily.

The other liquid assets held by banks are short-term market instruments. These would include local commercial bills, Treasury bills and short-term government bonds. International commercial bills do not qualify as official liquid assets and cannot be discounted at the Bank of Jamaica. The use of local bills has not yet been developed as an instrument in settling debts in the business community. Hence, Treasury bills form the major holding of income-earning liquid assets. Since 1969, local registered stock with a maturity not exceeding nine months can also be discounted at the Bank of Jamaica and are listed among official liquid assets. The Banking Law, 1960, stipulates that banks hold a minimum liquid assets reserve of 15 percent of their deposit liabilities.[1]

[1]This is calculated by taking the average of eligible liquid assets at the close of business on each Wednesday of the current month as a percentage of the average of deposit liabilities on each Wednesday but the last of the preceding month.

Although reserves of cash and liquid assets were developed for the purpose of meeting demands for cash by depositors they have in many countries become instruments for controlling the expansion of credit by the banks. Since banks holding liquid assets can turn them into cash to meet cash reserve requirements, the more effective group of assets to control is that of liquid assets. The Bank of Jamaica has only varied the liquid assets ratio once in its history and has never raised the statutory cash reserve from its minimum. The use of this ratio can be frustrated by two factors: the banks' ability to supplement their resources by borrowing from their head offices, and, second, the aim of policy making authorities has been not so much the global limitation of credit as control of its direction. With regard to the first problem, it is expected that in a situation of credit restraint independent of the international situation, it may be cheaper to borrow from abroad. Furthermore, with the high degree of size disparity of the banks in the system, one bank's policy can affect the aggregative picture significantly, so that applying this measure in a general way may well be hard on a small non-offending bank.

Liquid Assets Structure Prior to Central Banking:

Before the existence of the Bank of Jamaica banks' liquid assets consisted of currency, balances due by banks or branches abroad and investment in short-term securities in London. Table 1 shows the composition of these assets. Excluded from the estimates are holdings of local Treasury bills and balances with local banks. It is probable that the latter were mainly items in course of collection. For at least part of the period the banks also held some Treasury bills (included under local investment in the official statistics). Callender notes,

that in December 1945 when the initial issue of Treasury bills was made, the banks took up about 93.5 percent, but that as public support for the market increased they reduced their holdings until by 1956 it was minimal.[1] Callender did not, however, include holdings of Treasury bills in his estimates of liquid assets. On the other hand, he included foreign investment but the banks' portfolio in the early sixties suggest that some of this may have been more of a medium term nature. We follow Callender, however, and regard all foreign investment up to 1960 as liquid assets.

Table 27 shows that the liquid assets ratio after being low in the early post-war years rose steadily up to 1957 after which it declined rapidly with the lending boom. Overseas balances were for most years the major component but its share was subject to a great deal of variation, tending to vary in the same direction as charges in the total liquid assets ratio. Except for the period 1950 to 1952 and again in 1959 the cash component and the total liquid assets ratio moved in the opposite direction. The foreign investment proportion fell when the total rose between 1951 and 1953 and rose from 1958 to 1960 when the total ratio fell. Otherwise, there was no systematic pattern of behaviour. In 1956, for example, foreign investment seemed to have been substituted for overseas balances and vice versa the next year. In their relationship to deposits, the cash component was the most stable and the overseas balances most variable with investment somewhere in the middle, affirming that the overseas balances were the

[1] C.V. Callender, The Development of Capital Market Institutions in Jamaica, p. 131.

Table 29

Liquid Assets Ratios and Composition of Liquid Assets 1948-1960

Year	Liquid Assets as % of Deposits	Cash as % of Deposits	Overseas balances as % of Deposits	Foreign Investment as % of Deposits	Cash as % of Liquid Assets	Overseas balances as % of Liquid Assets	Foreign investment as % of Liquid Assets
1948	18.9	6.3	8.5	3.7	33.3	45.1	19.6
1949	17.9	8.2	6.7	3.3	45.8	37.5	18.7
1950	21.2	6.3	9.9	5.0	29.7	46.9	23.4
1951	24.6	7.8	12.6	4.2	31.7	51.2	17.1
1952	24.9	8.4	12.6	3.4	33.7	50.6	13.5
1953	25.4	6.6	15.4	3.4	26.0	60.6	13.5
1954	31.0	6.2	19.1	6.0	19.9	61.6	19.2
1955	34.2	5.9	15.8	12.6	17.2	46.2	36.7
1956	36.3	6.0	21.6	8.6	16.4	59.5	23.6
1957	37.2	7.3	23.1	6.8	19.6	62.1	18.3
1958	19.6	7.1	6.1	6.4	36.0	30.4	32.4
1959	17.9	5.9	6.5	5.5	32.9	36.4	30.7
1960	14.0	5.7	3.9	4.3	40.6	27.6	30.9

Source: Department of Statistics, Digest of Statistics, 1953 and 1954, and Monetary Statistics, various issues.

main reservoir for meeting the wider variations in demands for bank cash. These balances were in fact used for settling inter-bank transactions both local and international. Head Office invests surpluses and usually pays interest to the local branches when their accounts are in credit.

Structure of Liquid Assets after Establishment of Bank of Jamaica:

With the establishment of the Bank of Jamaica and the relevant laws regulating banking, the banks were obliged to conform to various regulations relating to their holdings of liquid assets. Assets eligible for inclusion in the group of assets satisfying the legal requirements are vault cash, statutory deposits with the Bank of Jamaica, other specified deposits with the Bank of Jamaica, Treasury bills, inland commercial bills, money at call or short notice with banks locally, and local registered stock with a maturity not exceeding nine months. Originally, sterling balances were included but they were removed from the list for various reasons. For one thing, it was found that banks could switch from local liquid assets to sterling and affect official holdings of sterling reserves without changing their statutory liquid assets ratio. Furthermore, if the Bank of Jamaica's control over bank liquidity was to be enhanced only those assets which are subject to its influence should be included in the statutory requirement. Finally, it was observed that bank holdings of local Treasury bills were not responsive to interest rate differentials between U.K. and Jamaican bills.

Table 28 shows the average ratios of statutory liquid assets and cash to deposits observed by the banks through the years. When the legally required minimum deposit in the Bank of Jamaica is deducted from

Table 9

Selected Liabilities of Financial Institutions

Liability	1945		1953		1958		1961		1963		1965		1966		1967		1968		1969
	$mn.	%	$mn.	%	$mn.	%	$mn.	%	$mn.	%	$mn.	%	$mn.	%	$mn.	%	$mn.	%	$mn.
Commercial Bank Savings & Fixed Deposits	13.1	63.0	17.6	58.3	33.6	58.3	47.0	60.3	71.4	66.2	91.1	66.6	108.5	68.9	122.4	68.8	161.6	70.6	197.8
Gov't Savings Bank Deposits	4.8	23.1	5.8	19.2	9.0	15.6	10.5	13.5	11.9	11.0	15.2	11.1	15.8	10.0	16.5	9.3	18.2	7.9	19.9
Finance Co. Deps.					n.a		3.1-	4.0	1.4*	1.3	1.6	1.2	1.4	0.9	1.1	0.6	0.9	0.4	1.1
Trust & Mortgage Co. Deposits									n.a		n.a		n.a		1.7	1.0	2.2	1.0	12.3
People's Co-op. Banks Shares	0.2	1.0	0.4	1.3	0.6	1.0	0.8	1.0	0.8	0.7	0.9	0.7	0.9	0.6	n.a	n.a	n.a	n.a	n.a
Building Soc. Shares & Savings Dep.	2.7	13.0	6.2	20.5	13.3	23.1	14.3	18.3	18.8	17.4	23.4	17.1	25.6	16.3	29.8	16.8	39.2	17.1	n.a
Credit Union Shares & Deps.	o	o	0.2	0.7	1.1	1.9	2.3	2.9	3.5	3.2	4.6	3.4	5.2	3.3	6.3	3.5	6.9	3.0	7.6
Total	20.8	100.0	30.2	100.0	57.6	100.0	78.0	100.0	107.8	99.8	136.8	100.0	157.4	100.0	177.8	100.0	229.0	100.0	

Source: Monetary Statistics, Jamaica, 195 - 1969.

o Less than $50,000.
- Bank of Jamaica Bulletins.
* Average of balances at end of March, June and September.

the ratio of cash items to deposits in column 3, it would appear that banks on average maintained less working cash balances in the 1960's than in the 1950's. This is probably because they could more easily obtain local currency for their local branches by drawing down statutory deposits or liquidating Treasury bills.[1] The other thing to note about this ratio is that it has tended to fall during the decade. The rise in the ratio in 1968 and 1969 is largely due to the holding of interest earning balances in the Bankers' Deposit and Loan Fund and of Special Deposits created following the rise in local liquidity after the 1967 devaluation.

The low ratio of liquid assets to deposits in 1962 was influenced by the lending boom which took place in the late fifties and early sixties. In 1963, on the other hand, when bank loans hit an all time low, the ratio rose significantly and then fell up to 1966 after which it rose again. The liquid asset which appears to be most affected by the fluctuations in loans is money at call or short notice overseas. When loans were at an all time low in 1963 the proportion of overseas balances rose to 33.4 percent but fell to 9.8 percent in the lending boom of 1965 and was as low as 8.0 percent in 1962. Again, in 1967, when loans had fallen off again the proportion of these balances rose to as high as 21.1 percent. The low proportions for 1968 and 1969 was influenced by the repatriations of balances after the devaluation and by the lending boom of 1969.

The ratios of average deposits with the Bank of Jamaica and Treasury bill holdings moved in the opposite direction for most years. Treasury bill holdings depend not only on the banks' demand for them but on their supply and on competing demands. The banks' proportion to

[1] Also they now held a high proportion of non-interest earning assets because of the compulsory deposit with the Bank of Jamaica.

outstanding bills is shown in Table 30. They were predominant holders especially after the inflow of funds in 1968 and 1969. The rise in deposits in the Bank of Jamaica in 1968 and 1969 reflects the

Table 30

Percentage Distribution of Treasury Bills Outstanding, 1965-1969

HOLDER	1965	1966	1967	1968	1969
Commercial Banks	53.2	58.7	65.7	82.7	86.5
Bank of Jamaica	34.4	22.4	13.6	8.2	3.4
National Insurance Fund			5.1	0.7	2.5
Government Savings Bank			2.6	0.9	1.8
Government Departments	3.5	3.4	3.1	3.3	4.2
Other Statutory Bodies	8.8	15.4	9.7	1.1	0.6
Brokers				3.1	1.0
Firms		0.1		-	-
Individuals	0.1				
Totals	100.0	100.0	100.0	100.0	100.0

1965 : December only.
1966 : Unweighted average of 1st of Jan., Feb., April, May, July, Sept., October, December.
1967 : Unweighted average of 1st of Jan., Feb., May, October, November, December.
1968 : Unweighted average of 1st of Feb., May, June-December.
1969 : Unweighted average of 1st of Feb., April, June, July, October, November.

Source: Bank of Jamaica, Review of Economic Conditions, various issues.

rise of deposits in the Bankers' Deposit and Loan Fund and the Special Deposits Account.

The Bankers' Deposit and Loan Fund, formerly named the Call Money Fund is designed to provide the commercial banks with

Table 31

Transactions and Balances in the Bankers' Deposit and Loan Fund 1966-1969

(Value in million of dollars)

Year	Transactions								Average of End of Month Balance		
	Deposits		Withdrawals		Loans		Repayments				
	No.	Value	No.	Value	No.	Value	No.	Value	Deposits	Loans	Cash
1966[a]	194	57.6	161	54.0	57	12.8	59	12.8	2.2	0.2	2.0
1967	448	149.2	370	147.5	60	25.4	73	24.0	4.0	0.4	3.6
1968	396	166.6	351	159.7	89	38.0	81	38.0	8.4	0.4	8.0
1969	358	154.8	310	161.8	79	47.6	73	46.6	7.5	0.7	6.8

Source: Bank of Jamaica Bulletins, various issues.

[a]May-December only.

a ready means for employing any temporary surpluses they might have in excess of their statutory cash requirements and at the same time providing a pool of funds from which the banks may obtain advances to meet temporary deficiencies in their liquidity.[1] Advances are repayable on demand and

[1] Bank of Jamaica Bulletins, Vol. VII, No. 3, p. 12.

are required to be fully secured by the pledging of Jamaica Treasury Bills of equivalent value. Interest rates on both loans and deposits are below the Treasury bill rate, but that on loans is slightly higher. Table 31 gives some idea of the degree of activity in the Fund. As part of the restrictions on credit in 1969 banks were restricted to a maximum of two loans a month each outstanding for a maximum period of 5 days.

More recently banks appear to be developing an inter-bank market for Treasury bills. Rather than discounting Treasury bills at the penal Bank Rate, banks who are short of cash may sell their Treasury bills to banks with surplus cash reserves.

The Special Deposit Facility was set up after the influx of funds into the commercial banking system following devaluation. Banks would normally have invested these surpluses in Treasury bills in the first instance. However, this massive inflow would have necessitated a large increase in the supply of these bills.[1] The Bank therefore, created these deposits which were expected to run for three months, but could be withdrawn earlier at a loss of interest.[2] Advances were also available from these funds.

The legal requirements with regard to cash reserves and liquid assets together with the settlement of inter-bank debts locally appear to have resulted in a significant reduction of overseas balances. The Bank of Jamaica also requires all exporters to report foreign exchange earnings within six months of receiving them. Prior to this, it was postulated that the banks' decision to hold balances abroad depends on whether the funds could be held in London long enough so that earnings there would exceed the exchange charges incurred in moving in and out of

[1]The supply of Treasury Bills is controlled by the Minister of Finance.

[2]Bank of Jamaica Bulletin, Vol. VII, No. 3, p. 12.

sterling plus what they would have earned had they been invested locally. However, because of the fact that a great deal of our deposits originate with export earnings, it may be possible for banks to avoid at least one of these exchange charges in computing the cost of investment abroad. For example, an exporter who receives a remittance of $100,000 for exports may make a deposit in his bank, which will clear the instrument to the bank on which it is drawn. Whether that bank will bring the funds home will depend on its local liquid position. If it is highly liquid the funds will stay with its London branch thus enabling the investment to be made abroad. What is more, if the bank anticipates that its customers will be making net outward payments in a short period of time it will be foolhardy to bring the funds in and then take them out again incurring exchange charges. In such a case the high outward exchange charge will be a deterrent to the inward movement of funds. Because of these considerations, policies based on income differentials are not likely to be effective. It may account in part for the fact that even though the Jamaica Treasury bill rate was higher than the U.K. rate between March 1962 and July 1963, sterling balances increased significantly, the other reason, of course, being that loans had declined in the latter year. The other factor which would influence cost considerations is the fact that surplus balances of one territory may be used for making loans in other territories so that what may be regarded as liquid resources for the surplus branch may actually be non-liquid assets for the bank as a whole. A bank with branches throughout the world could probably operate with a much lower ratio of reserves if peak demands on the system do not coincide in all areas.

Table 32

Jamaica and U.K. Treasury Bill Rates and Sterling Balances of Jamaican Banks

Month and Year	Jamaica 3-month Treasury Bill Rate	U.K. 3-month Treasury Bill Rate	Sterling Balances $'000	Month and Year	Jamaica 3-month Treasury Bill Rate	U.K. 3-month Treasury Bill Rate	Sterling Balances $'000
1962				1963			
Feb.	5.03	5.53	32	Jan.	4.89	3.49	4954
March	5.09	4.40	48	Feb.	4.63	3.42	4852
April	4.96	4.05	148	March	4.42	3.75	5534
May	4.97	3.81	122	April	4.21	3.71	6736
June	4.93	3.88	-	May	4.22	3.64	6988
July	4.87	3.89	798	June	4.18	3.70	7340
August	4.92	3.75	1576	July	4.03	3.76	11066
September	4.89	3.63	1932	August	3.88	3.72	12554
October	4.89	3.86	3188				
November	4.87	3.69	2864				
December	4.89	3.72	3402				

Source: Bank of Jamaica Bulletin, Vol. II, No. 3.

Latterly, banks have become more conscious of the risks of holding funds outside the territory of origin, and some appear to have imposed limits on the balances which could normally be kept in an overseas account.

Seasonal Analysis:

The need for secondary reserves is influenced by fluctuations in bank variables. These fluctuations may be of a seasonal nature or may be due to random or non-random factors. It is our intention in this section to examine the seasonal component of these fluctuations. In a closed system we would expect liquid assets to rise when deposits rise more than loans and advances and to fall when the opposite is the case. However, some banks may find it convenient to maintain their local liquid assets ratio, but to supplement their local funds with overseas funds when loans are at their peak.

We have attempted to analyse seasonal influences on certain variables. Statistics on bank variables have been available since 1953 on an end of quarter basis and since May 1961 on an end of month basis. The liquid assets ratio may be variously defined. The statutory liquid assets ratio, for instance, relates the average of liquid assets existing at the middle of each week to average mid-week deposits of the previous month. While this is an appropriate measure for purposes of control it may be misleading as a measure of bank liquidity in the current month if one of the variable is subject to significant change between the months. The Bank of Jamaica, has indeed, published this ratio in its Bulletin, only since September 1970.

The ratio usually published is the ratio of eligible liquid assets at the end of the month. Depending on the nature of the seasonal

disturbance, however, the use of this ratio may yield misleading results. For example, depositors reduce their deposits in the Christmas season to purchase a variety of consumer goods. Firms also draw down their deposits and use up their overdraft facilities some time earlier to finance the required seasonal inventories. However, by the end of December depositors have already spent their withdrawals. Furthermore, people who do not use the banking system may spend some of their earlier hoardings; others receive bonuses at this time of the year, and for political reasons government activity is kept high. Thus, by the end of December, funds from all these sources are spent and are returned to the banks by the businesses who receive them either as deposits or as loan repayments. The banking system is liquid again, and the effect is lost.

It would appear, therefore, that on the basis of the present statistics the best measure of liquidity would be to relate an average of mid-week and end of month liquid assets to the average of mid-week (excluding the last week) and end of month deposits of the current month. There may be some delay in the availability of this statistic as mid-week deposits of the current month are obtained one month later than mid-week liquid assets so that cruder measures may have to be used to obtain an early assessment of a given situation.

The following data presents quarterly indexes of seasonal variation of total liquid assets ratios, deposits and loans and advances for the periods 1952 to 1961 and 1961 to 1970 using end of quarter data. Liquid assets variations does not always correspond to deposit and loan variation because of the use of overseas balances by some banks. The seasonal pattern appears to have changed primarily due to the changing

Table 33

Quarterly Indexes of Seasonal Variations of Total Liquid Assets Ratios, Deposits and Loans & Advances, December 1952 to December 1961 and March 1961 to December 1970

End of	Liquid Assets		Deposits		Loans & Advances	
	1952-1961	1961-1970	1952-1961	1961-1970	1952-1961	1961-1970
March	95.1	102.1	100.7	101.9	102.4	99.9
June	100.7	98.4	99.7	99.7	101.3	99.4
September	110.7	98.5	98.7	99.0	95.8	99.8
December	93.6	101.1	100.5	99.3	100.4	100.7

Note: Ratio-to-moving average method used.

composition of loans. The seasonal pattern of some of the key sectors are shown in Table 34.

For the period 1961-1970 we have presented monthly indexes of seasonal variations estimated by the use of the ratios used at the present time together with the end of month total liquid assets ratio. Particularly noticeable is the greater degree of seasonal variation in the local liquid assets ratios than in the total ratio. Banks, therefore, appear to build up more of their seasonal excess liquidity in Jamaica. Of the two main variables affecting liquidity total loans and advances

Table 34

Quarterly Seasonal Indexes of Loans & Advances Outstanding for Selected Sectors

End of	Agriculture	Sugar, Rum and Molasses	Distributive Trades	Personal and Professional
March	104.1	109.5	99.3	97.9
June	99.8	86.2	102.3	100.3
September	96.2	93.1	99.3	100.1
December	100.0	111.5	99.2	101.7

Source; Bank of Jamaica.

showed a greater tendency to seasonal variation than deposit. But for all the variables analysed the seasonal movements were relatively mild.

Table 35

Monthly Indexes of Seasonal Variation of Liquid Assets Ratios, Deposits and Loans and Advances

End of	Statutory	End of Month Local	Total Liquid Assets (end of quarter)	Deposits	Loans & Advances Outstanding
Jan.	105.9	102.1	103.1	100.1	101.3
Feb.	96.2	93.7	96.9	99.0	100.4
March	97.6	101.3	101.0	102.1	100.1
April	100.3	94.8	100.2	101.2	99.0
May	91.7	92.3	96.0	100.1	101.2
June	96.9	99.0	98.6	99.5	98.6
July	104.3	99.7	99.3	100.2	99.1
August	101.4	102.3	101.8	99.8	99.1
Sept.	102.4	106.6	101.8	99.7	98.9
Oct.	105.9	103.7	101.0	99.5	100.3
Nov.	98.3	100.1	98.2	99.4	101.4
Dec.	99.3	104.6	101.8	99.9	100.9
Standard Deviation	4.42	4.36	2.09	0.8	3.35

Source: Bank of Jamaica.

Summary

The banks' liquid assets structure in the 1960's has been influenced mainly by government legal requirements and the existence of the Bank of Jamaica for bankers' use and for local clearing. The availability of local short-term income-earning assets is also an important factor. London has ceased to be a clearing house for inter-bank settlements resulting from local transactions, but its balances are still used for international settlements.

Local liquid assets seem to vary to meet seasonal requirements but the more permanent variations in bank liquidity are reflected more in variations in overseas balances. The position in 1968 and 1969 was largely influenced by the devaluation of sterling.

Banks now hold less vault cash than in the 1950's probably because they already hold 5% of non-interest earning assets as deposits with the Bank of Jamaica and also because of the availability of the Bank's facilities with respect to borrowing. Treasury Bills and balances with the Bank of Jamaica were the major components of liquid assets although for some years money at call overseas was very important. Balances with the Bank of Jamaica were higher in 1968 and 1969 because of the use of the Bank's specially created Special Deposit Facility following the use in bank liquidity after devaluation. Banks are now sensitive to the risks involved in holding large overseas balances and their foreign positions are more carefully watched.

The liquid assets ratio was for most years well above the statutory requirement. This may be expected where an overdraft system with large unused facilities making for greater uncertainty with respect to inflows and outflows exists.

BANK LENDING

Characteristics of Bank Loans

Banks regard themselves as specialists in the provision of short-term credit. Various reasons have been advanced for their traditional reluctance to broaden the scope of their service to accommodation of loans of more medium term nature. First, it is contended that it is hazardous to borrow short and lend long. Second, money locked up in a long-term advance will not revolve; therefore the turnover passing through an account will be less than will be the case if the advance is on a short-term self-liquidating basis. Hence, the banker's commission, which is often based on turnover, will be diminished if the money does not revolve in a manner which enables it to be re-lent. Finally, the bank has to rely on a constant flow of repayment of short-term advances to meet the demands of other customers for fresh accommodation. The banks admit that a percentage of their short-term funds is renewed so regularly that they have almost become part of the capital resources of the borrower. They contend, however, that such money is frequently turned over and the advances are repayable on demand; furthermore, by careful and regular analysis of the borrower's balance sheet they try to ensure that the liquidity of the advance is safeguarded.[1]

Traditionally, bank loans have been made principally for business purposes but in recent years there has been an increase in lending to persons. For the banker, lending must embody two basic qualities: liquidity and safety. If the borrower has the means of repaying the

[1] L.C. Mather, "Banker & Customer", Journal of the Institute of Bankers, Vol. 89, p. 196.

loan quickly, if required to do so, the bank will regard the advance as liquid. For example, if a manufacturer's loan is used to purchase raw materials and to pay the wages of labour used in processing, his liability will be offset by his stock of raw materials, goods in process, finished goods and accounts receivable all of which can normally be turned into cash fairly rapidly. Moreover, banks prefer to get involved in businesses which have a quick turnover of stock, hence the traditional preference for lending to trade and commerce. Banks prefer advances which are self-liquidating in the sense that whatever the loan finances will soon be realized as cash, be it the payment of wages or the purchase of stocks or raw materials which could be embodied in a product to be sold for cash. Thus, a loan which increases the current assets of the borrower will be acceptable, but one taken to reduce accounts payable will not be regarded as a good investment. Loans to farmers to buy seed and fertilizer and to meet the expenses of running the farm until harvest will qualify as self-liquidating.

As regard safety the most important element is the ability of the customer to repay the loan without embarrassment. Hence it is essential that the banker know the purpose of the advance so as to judge whether the transaction is likely to provide the means of repayment. Where it does not, the banker will require explanation as to the source of funds for repayment. The other aspect of safety is security. This may be regarded as a safety net - the final resort in case of unforeseen difficulty. In fact, the last thing a banker wishes to have to do to recover his money is to realise his security. This does not mean that

security is unimportant, and in most cases it looms large in loan negotiations. In fact, in Jamaica the proportion of unsecured loans is relatively small, but the tendency to move the emphasis away from security as a basis for loans towards the borrower's potential to repay is developing.

Financial Statements

In the making of loans, banks desire to obtain a clear picture of the borrower's business to ensure that the characteristics cited above are applicable. 'Visibility is the name of the game' as one Trinidad bank manager put it, and one of the chief instruments used in determining credit-worthiness is an analysis of the borrower's financial statements. It may be helpful, therefore, to discuss the banker's use of financial statements to see how the principles of safety and liquidity are incorporated in everyday bank lending. The three traditional statements of importance are the trading statement, the profit and loss account and the balance sheet, but more recently some bankers have been making use of cash flow statements.

Of these statements the balance sheet plays a central role and there are a number of features which the banker looks for. First, he would want to know how much capital the proprietors have in the business and this would be considered in relation to the amount the bank is asked to lend. It is argued, for instance, that if a business with a capital of $1,000 obtained a bank loan of $5,000 and then failed, the bank would stand to lose $5,000 as against the owner's $1,000. Hence, banks consider it prudent that the borrower should have at least as great a stake in the business as the bank is required to lend.

The second factor which the bank will examine is the state of liquidity of the borrower. Bankers consider it desirable that borrowers should have enough assets in realizable state to meet the demands of creditors, including the bank. If this is so they should be able to meet their liabilities as they fall due without having to realise fixed assets. Current assets - inventory, work in progress, accounts receivable, cash and marketable securities, should be at least equal to current liabilities and should exceed them by a decent margin. The margin which the banker considers adequate will be influenced by a number of factors relating to the business.[1]

For one thing, it will be necessary to determine just how liquid these current assets are. The rate of turnover of inventory is important. Banks prefer lending to businesses with a rapid turnover. A rough measure of this is the ratio of sales to inventory after appropriate adjustments have been made to these items to make them comparable.[2] The larger the ratio the better.

The banker should also be acquainted with the nature of the raw materials used and be able to assess the extent to which such stock is saleable. In case of difficulty the balance sheet value of raw materials with narrower markets will depreciate more rapidly than those with wide markets. Similarly, finished goods with a rapid turnover can be

[1] R.I. Robinson, The Management of Bank Funds (New York; McGraw Hill, 1962) p. 162-163, discusses adequacy in terms of the ratio of current assets to current liabilities but points out certain weaknesses in the use of this ratio.

[2] R.I. Robinson, Management of Bank Funds, p. 165, discusses methods of adjustment in valuation of these variables to make the ratio meaningful.

valued comparatively higher than those with a relatively slow turnover. The finished goods of industries subject to changes in fashion and taste may also depreciate significantly and it will be in the banker's interest to determine the policy of the company with regard to such things as the clearing out of old-fashioned lines.

Work in progress, too, will be valued differently depending on its nature. If the company folds it will be unsaleable unless it can be completed. Hence where the production cycle is short it may be possible for a liquidator to complete all work-in-progress before stopping production, but where manufacture takes several months it may be difficult to find a buyer willing to complete it. Hence, where possible bankers usually prefer to see work in progress small in relation to other current assets. The item will be relatively important for construction companies, however, who not only have a long production cycle, but are more prone to attempt too much in relation to their capital resources.

Finally, it will be necessary to look closely at the accounts receivable figure. The type of business conducted by the borrower will guide the banker in deciding what proportion of total accounts receivable may be regarded as good in event of liquidation. A comparison between total sales and accounts receivable will give some idea of the length of credit granted by the customer. Total bad debts written off in the income statements of previous years will provide an indication of the customer's experience in this respect. The number of debtors is important, for risk is reduced if the debt is spread among a large number of small

debtors. Hence, where there are unduly large debtors some attempt will be made to determine their financial standing.

The lending bank will want to discover whether the firm's financial position has changed since the date to which its balance sheet relates. The bank will also examine the extent to which the granting of the loan will change the borrower's liquidity position. Hence, a person who wants to borrow for fixed assets may find that his position will not be sufficiently liquid after receiving the loan to meet the bank's criteria. On the other hand, there may be no change in liquidity for a person borrowing for investment in current assets. Hence, bank loans are normally more readily granted for the latter purpose than for the former.

It may be imprudent to apply this type of credit analysis to firms which are not engaged in processing or trading. For example, the balance sheet of a bus company may show current liabilities greatly in excess of current assets because the company may be indebted to creditors for omnibuses purchased, but as these will not be regarded as current assets the liabilities created will not be covered by off-setting current assets. Yet, the company may be able to repay the debt out of its service income.

The existence of adequate working capital in relation to the size of the operations is a matter of much importance. Too heavy a dependence on external finance for current operations increases the risks of the operation. Suppose, for example, company A is making profits and decides to double its turnover to take advantage of favourable market opportunities.

If its own working capital is not doubled, it will have to more than double finance from other sources. The ratio of current assets to current liabilities may be unchanged but it will probably more than double accounts payable and its demand for bank credit. On the assets side its accounts receivable, inventory and work in progress will also increase, but these are not as liquid as cash which will probably be reduced. As its operation grows in relation to its own resources the company will be less able to meet cash expenditures and demands from trade creditors than previously. In the extreme case the company may find it necessary to put off creditors or give shorter credit in order to pay expenses such as wages. If creditors press, the firm may have to go into liquidation. Lending to such concerns can be risky and the banker will have to decide the degree of such overtrading that he is prepared to finance. Overtrading and under-capitalization are familiar features of younger firms in Jamaica. It is accentuated by a general tendency to purchase consumption goods such as expensive motor cars and housing rather than plough profits back into the business. Such borrowers tend to pledge personal assets behind bank borrowing. They may have done very well in the past, hence depending on the circumstances they will be given some degree of bank accommodation.

On the other hand, some of the liabilities may be deferred or medium term and these should be excluded in determining the firm's liquidity. Only a small portion of a 20-year mortgage, for example, can be regarded as a liquid liability.

In view of these problems, bankers use additional criteria in determining liquidity. For some purposes inventory or inventory plus accounts receivable is excluded from current assets. These are more stringent tests of liquidity: a comparison of the former with current liabilities provides a measure of the extent to which the company could pay off its short-term obligation without relying on the sale of inventories. The latter eliminates both inventory and accounts receivable from consideration.

In addition the bank will want to examine the borrower's income statements to determine whether the business has been making profits and whether it has been adding an adequate proportion of these profits to its net worth.

One further point should be noted. Banks are interested in a series of financial statements rather than a single one. They can make better decisions if they can follow the progress of the business over a period of time. Changes in net worth, liquidity, trading figures, the profits record, prior charges and any special items will be of interest and will require explanation. Trends in the relationship of trade creditors to debtors, debtors to sales, inventory to sales should all be scrutinized and compared not only to see the trend in the company but for comparison with what is expected for that type of business.

Banks also find estimates of the receipt and disbursement of cash by a business and the timing of these flows helpful in

processing an application for loan funds. The tendency is to emphasize the potential of the business more and more. Discounted cash flow analysis can be of considerable help in appraising the borrower's project and in determining the loan repayment plan. For working capital loans short term variations in accounts receivable and inventories are of substantially greater importance in determining the shape and size of the cash flow. For longer term loans profits and depreciation are more important. The technique is however comparatively new to the Caribbean and was only included in the syllabus of the Institute of Bankers in 1969.[1] It has been in use by American banks for some time, but the proportion of business done by American banks or banks whose staff are influenced by American training is relatively small.

Bankers cannot rely merely on data in financial statements. It is necessary that the lender have a good knowledge of the type of person he is dealing with, his market and of the business environment. The applicant's expertise in management and in his trade or business weighs heavily in any decision. In Jamaica there are a large number of smaller borrowers who cannot produce balance sheets, and even if they employ an accountant to prepare statements they may omit

[1] D.A. Eggington, "Bankers & Accounting Information", Journal of the Institute of Bankers. Vol. 89, p. 452.

disclosing all their assets and liabilities to him, sometimes in fear that they may eventually be disclosed to the income tax authorities. Many banks have drawn up forms which permit their managers and credit officers to extract the relevant data from the businessman in a form that would be helpful to them. Familiarity with local conditions and with the borrower's ability to handle his undertaking successfully is a key factor to be considered if successful and adequate bank credit is to be achieved in Jamaica.

Personal Loans

Banks have traditionally frowned on personal loans but would allow overdrafts to customers of long standing, provided suitable security was provided. In the 1960's, however, personal loans have grown significantly.

Statistics for personal loans are included with professional loans prior to 1970. Credit to this group increased by over 300 percent between 1962 and 1969. In December 1970 personal loans comprised 83.7 percent of the group and 18.0 percent of total loans. Between 1962 and 1969 the personal and professional group increased its share of total bank loans from 13.4 percent to 23.5 percent. Official restrictions on some forms of personal loans has however restrained this rapid increase since October 1969. Table 36 shows that all banks have been increasing personal lending but the rather high figure for the highest percent in 1969 results from the fact that the latest

Table 36

Commercial Bank Loans Outstanding to the Personal and Professional Group as a % of Total Loans Outstanding

Year	All Banks %	Median % of Banks	Highest % of an Individual Bank	Lowest % of an Individual Bank
1962	13.4	12.8	26.9	3.7
1963	13.9			
1964	14.2			
1965	13.8			
1966	17.4	10.8	30.5	7.5
1967	21.7			
1968	22.1			
1969	23.5	17.3	44.1	12.1

Source: Bank of Jamaica.

bank to enter the field is essentially a small man's bank. A number of banks are heavily involved in consumer credit and other personal loans. Most forms of personal lending are geared to meet the demands of the salary earner. Repayment is often based on the borrower's salary which may be paid into the bank and an agreed amount deducted monthly. Commenting on the various types of personal loans introduced in Britain in the 1960's, Mr. L.C. Mather wrote:

> From the standpoint of the practical banker, no fresh principles emerge in the personal loan service which is essentially unsecured lending and in point of fact the finest test of banking skill.[1]

[1] L.C. Mather, op. cit., p. 197.

In Jamaica a significant proportion of personal lending is for the purchase of durable goods which are in fact secured. There are banks, however, whose personal lending is 100 percent unsecured.

A significant proportion of personal loans are secured by land. Part of this would include loans repayable over a period of three to five years to salaried persons who wish to purchase house lots provided the borrower can finance an adequate proportion of the purchase from his own funds. The percentage of unsecured loans in advances to the personal and professional category is given in Table 37. This percentage has risen slowly over the decade. Table 38 gives some indication of inter-bank variation with regard to the security of personal loans. Where banks have expanded rapidly and are using relatively inexperienced managers and credit officers in some of their branches, it would appear that the tendency is to ask for more security. Furthermore, security acts as an incentive to loan repayment. The borrower who has put up $2,000 for the purchase of a motor car and borrows $2,000 from the bank would make every effort to meet his instalments and avoid losing his vehicle. Hence those banks which have expanded this type of lending rapidly and have been relatively less selective in their lending have sought to secure a higher proportion of their personal loans.

Interest rates on personal loans are normally higher than on business loans. As the maximum loan per customer is relatively small, risks are well spread and in some cases they are not repayable on demand.

Table 37

Personal and Professional Commercial Bank Loans Classified by Security Status, 1961-1969

Classification	1961	1962	1963	1964	1965	1966	1967	1968	1969
Secured other than by land	42.4	45.8	47.2	50.6	50.7	49.1	47.3	45.6	41.6
Secured by land	36.4	32.6	29.8	26.0	25.4	28.7	28.4	27.0	28.9
Unsecured	21.2	21.6	23.0	22.6	23.8	22.3	24.3	27.4	29.5

Source: Bank of Jamaica

Table 38

Proportion of Unsecured Loans in Personal and Professional Lending by Bank, 1969

Bank	Secured other than by land	Secured by land	Unsecured	% increase in lending between 1962 & 1969
1	47.7	36.1	16.2	- 43.0
2	30.6	23.3	46.0	+229.0
3	0	0	100.0	+1261.2
4	49.7	27.1	23.2	434.3
5	23.4	33.8	42.8	211.0
6	32.4	36.1	31.5	202.6
New Banks since 1959	26.6	25.8	47.5	449.6

Source: Bank of Jamaica

Longer Term Finance

It is fairly obvious from the above analysis that it will be difficult for applications for medium or long term lending to meet the banks' criteria for credit. Only firms in a highly liquid position would qualify on the traditional liquidity and safety criteria, but long standing customers with proven competence may obtain a limited amount of such finance. Banks do make medium term loans for capital expansion.[1] Traditionally they have not been equipped with the expertise for handling such loans. Indeed, it was only in 1969 that the British Institute of Bankers included an area on the appraisal of simple capital projects in the Accountancy syllabus for its Diploma examination.[2] Medium and long term loans require expertise in investment accounting and persons with technical knowledge of the industry to which the loan is being made. Furthermore, it is only in very recent times that banks in Jamaica have set up marketing research and economic intelligence units in their administrative apparatus. Where there are senior advance control staff highly familiar of the local scene managers seem to be more ready to consider such applications. Much would depend on the availability of funds, now that there is a tendency to utilize resources locally. Bankers do try to assess the applicant's

[1] See, for example, Bank of Jamaica Bulletin, Vol. IV, No. 2, page 8.

[2] D.A. Egginton, "Bankers and Accountancy Information", Journal of the Institute of Bankers. Vol. 89, p. 15, October 1968, p. 452.

estimates of the probable yield of his assets, but there is bound to be a certain degree of uncertainty attached to any such estimate. As a result, the banker's estimate is likely to be a lot more conservative than the borrower's estimate. Most banks now own trust and mortgage companies in which such expertise as is available in longer term lending can be concentrated. The lending activities of these subsidiaries are not yet significant but their assets have grown fairly rapidly in the last two years or so.

Table 39 provides data on the percentage of loans outstanding with maturity of less than 12 months. The most meaningful figure as far as the total economy is concerned is the average percentage in the first column. The highest and lowest ratios applied mainly to small banks whose weight in the total was small. The fall in the percentage is perhaps to some extent due to the growth of instalment credit. Sometimes, also, bank overdrafts develop a 'hard core'; and if after investigation the bank discovers that some part of the loan intended for working capital was used for the purchase of fixed assets, that portion may be converted to a demand loan with a suitable repayment schedule.

Table 39

Commercial Banks Loans Repayable within 12 Months
1961-1969

Year	All Banks %	Median %	Highest %	Lowest %
1961	74.1	79.8	100.0	29.8
1962	68.5	73.5	100.0	28.8
1963	74.2	74.5	100.0	32.4
1964	76.7	80.3	100.0	35.8
1965	75.9	83.2	100.0	36.4
1966	70.9	83.1	100.0	31.9
1967	69.2	71.2	88.8	28.2
1968	62.9	64.3	87.1	13.5
1969	66.1	65.5	90.3	23.8

Source: Commercial Bank Returns of Assets and Liabilities to Bank of Jamaica.

Based on annual average of end of month outstandings.

Table 40

Maturity of Commercial Bank Loans Outstanding
as at September 30, 1969

Year	All Banks %	Median %	Highest %	Lowest %
Under 1 year	62.2	66.1	75.0	26.4
1-3 years	27.3	22.8	63.1	4.8
3-5 years	6.9	9.3	12.8	2.0
Over 5 years	3.6	0.8	13.0	nil

Source: Computed from information supplied by six of the seven commercial banks in operation. These loans represent 87.0 percent of loans outstanding at September 30, 1969.

Security

The other aspect of lending policy which is relevant is security. The standards described in the preceding sections are met to various degrees by prospective borrowers. Furthermore, there is some degree of uncertainty involved in the collection of every loan. This uncertainty will vary with the type of business in which the borrower is engaged, his financial position, his competence and so on. To safeguard itself against loss of funds in case things go wrong the bank will want to hold some form of realizable security.

It is claimed moreover that some borrowers make a greater effort to repay their loans if they have some possession "tied up" as security. The possession of adequate security by the borrower is, however, no guarantee that he will obtain a bank loan. A prospective borrower with a bad credit record or of doubtful character on other grounds may find it difficult to obtain a loan regardless of the security offered.

In the making of unsecured loans the three C's of traditional bank lending - character, capital, and competence - are of prime importance.[1] The first consideration here is the character and integrity of the borrower, and the criteria discussed with regard to the borrower's liquidity and ability to repay are more strictly

[1]Journal of the Institute of Bankers, Vol. 74, p. 242.

applied. Indeed, it would seem that the chief beneficiaries of unsecured lending are the large international companies, the public utilities and public corporations.

What are the main forms of security accepted by banks? Banks normally prefer liquid security and some banks give their managers higher limits for loans so secured. This class of security would include cash deposits, marketable securities, and the cash surrender value of life insurance policies. Banks will readily lend to the full value of a cash deposit or the cash surrender value of a life insurance policy. The life insurance policy is one of the most satisfactory forms of security. It provides a useful hedge as it may take care of the whole, or a substantial portion of the debt if the borrower dies. But the banker's interest is in the short term and hence, mainly in the cash surrender value of the policy, this being the sum which the insurance company will refund if the policy holder decides to discontinue the policy. The bank usually takes a legal mortgage over a life policy and informs the insurance company of this. Its usefulness is, however, subject to the ability of the customer to pay the premiums regularly as they fall due.

Stocks and shares are subject to fluctuations in price and it is usual for the bank to require a margin to cover the possibility of a fall in their value. Shares of private companies are accepted at times but are not considered very good security because for

various reasons they are often difficult to realize.

Banks also accept less liquid forms of security. They may take either a legal mortgage or a memorandum of deposit on freehold or leasehold properties. Legal mortgages give the bank full rights of a mortgage including the power to sell the security. A memorandum of deposit contains only an undertaking by a customer to execute a legal mortgage when requested by the bank to do so, and if he refuses to carry out this undertaking when in difficulty, the bank will have to go to Court to obtain a power of sale. Nevertheless, memoranda are taken because the stamp duty is less, and there is less stigma attached to a memorandum than to a legal mortgage. The rating of real estate as banking security depends on the nature of the property and the state of the property market. When making a valuation the banker has to take into consideration the current demand for the property involved. Moreover he has to recognize that if a forced realization is necessary it may take time to dispose of the property and even then, it may be at a significant loss. Hence, they are normally cautious when estimating the value of property for security purposes, and allow a wide margin for contingencies. Nevertheless, freehold and leasehold property constitutes a reasonably good form of banking security, and appears to be widely accepted in Jamaica.

A form of security widely used when lending to limited companies is the debenture. A debenture has been defined from the

commercial angle as an instrument under the seal of a company providing for the payment of a principal sum at a specified date and for the payment in the meantime of interest half-yearly, and being one of a series of like debentures ranking pari passu, and carrying a charge or secured on the company's undertaking.[1]

There are many types of debentures. For banking purposes the security created by the debenture should comprise a charge on all the available assets of the company. This may vary from a mere floating charge to a legal mortgage on specified properties and the fixed assets of the borrower plus a floating charge on all the remaining assets of the company, present and future. The company is free to deal with the assets covered by the floating charge as it pleases as long as they are not crystallized as a result of bankruptcy. In such a case the floating charge becomes a fixed charge on the assets which remain. The most important assets caught by a floating charge in the average trading company are the accounts receivable, inventory, and goods in process.

For agricultural loans a crop lien may be accepted. This gives the lender a charge on the growing crop and resultant produce as security for the money required for planting and reaping. In Jamaica, crop liens are used mainly for loans to sugar cane growers and to a lesser extent for tobacco. The bank would normally require

[1]Journal of the Institute of Bankers, Vol. 87, Pt. 4, p.

the farmer to insure his crops but crop insurance is expensive and sometimes it is foregone. In addition the farmer is required to authorize the buyer of the crop - sugar or tobacco factory - to make payments for their purchases through the bank which will deduct some proportion in repayment of the loan. For other crops, other security, often the land on which the crop is grown, is accepted.

Except in the case of limited companies banks prefer direct security to collateral. Although personal guarantees from third parties are accepted some banks regard it as the most unpleasant form of security. Its value depends entirely on the ability of the guarantor to find the money if called upon, and very often guarantors contend that they cannot at the particular time find the required amount.

On the other hand, collateral in the form of director's guarantees is very valuable security. If the company is liquidated any part of the loan which remains unpaid after the assets of the company are realized and divided between creditors can be recovered from the directors to the extent that they have guaranteed the advance. Hence, in such an event, the bank stands to lose less if such collateral is used.[1]

Table 41 gives a distribution of the type of security taken

[1]A Banker's Letter to His Son - VIII, Journal of the Institute of Bankers, Vol. 74, 1953, pp. 150-152 provides a numerical example.

Table 41

Jamaica: Loans and Advances of Commercial Banks by Type of Security 30/9/69

Security	Mean %	Median %	Highest %	Lowest %
Government Securities	2.1	1.3	9.9	0
Shares	8.9	9.1	21.3	1.7
Debenture Deeds	14.4	14.9	22.4	1.5
Real Estate	25.0	25.4	43.1	5.4
Fixed Assets	3.3	0.4	5.0	0.1
Fixed and other deposits	3.8	5.1	9.9	1.5
Other Securities	21.8	19.9	53.6	0.2
Clean and documentary bills discounted	0.8	*	0.5	-
Unsecured	19.9	9.6	44.0	3.6
Total	100.0			

Source: Information supplied by Commercial Banks.

by five of the seven banks operating in Jamaica as at September 30, 1969 and covering 43.8 percent of total loans outstanding.

Apart from life insurance premiums which are extensively used but are included under other securities, liquid security - government securities, shares, bills discounted, and fixed and other deposits - provide cover for only 15.6 percent of loans and advances. Of the specified categories real estate is in value terms foremost among the types of security accepted by banks and this is followed by

debenture deeds. Unsecured loans, amount to almost one-fifth of loans outstanding. The category 'other securities' includes life insurance policies and durable goods such as motor cars which are widely used as security in motor car purchase under instalment credit loans.

Form of Loan Arrangement

Overdraft: Bank loans in the Caribbean have traditionally been and, to a certain extent, are made on an overdraft basis. They are made principally to businesses but sometimes to individuals. The borrower operates a current account and is given permission to overdraw this account up to a certain limit. The limit is fixed after his loan application has been processed. Overdraft lending is intended for working capital purposes. Hence, the account is expected to fluctuate - being in debit when raw material and other inventory are purchased and labour paid and being reduced or coming into credit as sales are made. Indeed, the overdraft arrangement may be regarded as a series of short-term loans. They are subject to review on an annual basis, but may be reviewed earlier if the borrower exceeds his limit.

This form of loan is very well suited to the businessman but it involves additional work and supervision. It also involves some loss of interest through the float. For this reason banks in Jamaica normally charge a $\frac{1}{2}$ percent more interest than what would be charged under some alternative form of arrangement. Some banks

would like to see less lending by means of overdraft because of the difficulty of control and the extra work involved, but they claim that this form of lending is so entrenched in the community that it is difficult to change.

Banks do not normally charge a commitment fee on the unused overdraft balances although large unused overdrafts could result in less than optimum use of bank funds. Interest is charged on the daily outstanding balance and for any accounting period it is calculated by summing the daily debit balances, multiplying the result by the annual interest rate and dividing by 365.

The annual review constitutes a complete assessment of the working of the account and of the financial position of the borrower. In this review, the account will be examined to see to what extent the facility has been underutilized or exceeded and may result in a revised limit. In addition, it will reveal whether the account is fluctuating as intended or whether a 'hard core' has developed. This latter could be an indication of a number of things: part of the loan may have been used to purchase equipment in which case some banks may convert that part to a demand pro note basis and arrange an appropriate repayment schedule. Because the system has traditionally discriminated against the purchase of fixed capital with bank loans the borrowing community in the Caribbean appears to have developed a tendency to use part of their overdraft facility to purchase equipment. Or it may be due to a misunder-

standing of the use of the overdraft. More serious, the 'hard core' may be indicative of the fact that the business is 'stuck' with unsaleable or unusable inventory or may be overtrading. Finally, it may indicate that the collection policy of the borrower is not aggressive enough or that he is granting too liberal credit.

The other problem is the matter of unused credit facilities. Under the overdraft system a customer may or may not make full use of the amount of credit he is allowed. While the delinquent account is quickly brought to the attention of the manager underutilization of the line of credit is normally noticed only at the time of the annual review of the account. Moreover, until recently such underutilization of credit did not cause the banks any concern. In some cases failure to use up the facility is still not considered a problem. Most banks which were asked whether unused credit facilities inhibited their lending replied that only the big commitments did. With some banks the loan is carefully regulated and repayment schedules are worked out in advance, but this is the exception rather than the rule. Overdraft is not the only arrangement under which a line of credit may not be fully utilized at any given time. A builder may be allowed to draw down his credit by presenting demand pro notes and certifications of work completed as his building progresses, but the bank manager will have a fairly good idea of the timing of withdrawals.

Table 42 provides some indication of the degree of unused

loan authorization existing at specified dates in respect of authorizations of $40,000 and over.

Table 42

Commercial Bank Loans to Large Borrowers:[1] Availments as a Percentage of Authorizations

End of	Bank					
	A	B	C	D	E	F
September 1962	69.2	85.4	70.8	60.8	77.5	90.5
September 1963	68.0	71.1	61.5	48.6	85.1	90.0
March 1964	n.a.	73.4	64.6	51.1	90.7	62.5
September 1964	70.4	66.4	67.5	57.5	n.a.	53.8
March 1965	51.1	74.5	67.7	53.3	n.a.	47.1
September 1965	43.1	73.0	74.2	59.4	86.3	85.0
March 1966	41.4	79.0	73.8	60.3	85.6	87.0
September 1966	85.7	84.2	73.3	63.8	97.1	50.0
March 1967	84.9	75.5	67.8	64.8	3.4	31.8
September 1967	62.3	70.0	68.7	56.9	78.9	41.4
March 1968	56.1	75.5	60.3	58.6	78.0	37.1
Simple Average	63.2	75.3	68.2	57.7	76.8	61.4

Source: Commercial Bank Returns to Bank of Jamaica.

[1]Borrowers with authorizations of $40,000 and over.

The average of availments in the various banks range from 57.7 percent to 76.8 percent, but in the latter case the average has been distorted by the untypical figure of 3.4 percent and would more correctly be in the region of 85 percent. Only two banks show an

average utilization of over 75 percent. High averages may reflect greater care in assessing the requirements of the borrower when granting overdraft limits. Or it may reflect less use of the overdraft arrangement. It is significant that the bank with the lowest average utilization rate has also the highest percentage of overdrafts in its loan portfolio. Unused overdraft facilities could result in high liquidity ratios. Note, for example, the low advance deposit ratios of bank D in Table 57.

Demand Loans

These loans are made to businesses requiring short-term finance, for example, bridging loans for contractors, but may be granted for expansion of capital also as well as to persons. Under this arrangement the amount of the loan is credited to the borrower's current account and debited to his loan account. He may arrange to take part of the loan at a later date in which case the bank will make the appropriate adjustments to the accounts on his application for it. In such a case the bank could require the customer to present certain documents such as invoices in support of his application for the use of the facility, or in the case of construction, certificates of work done. The account does not fluctuate and the repayment schedule is negotiable depending on the customer and the type of project. A moratorium on the principal may be arranged for loans for capital expansion. Repayments are mostly monthly, but may be quarterly, half-yearly, or annually. Interest is paid

outstanding at the beginning of the month by the number of days in the month and applying the annual interest rate divided by 365 to the result. This type of arrangement is preferable to the overdraft as it does not require the type of supervision which the latter entails. From the businessman's point of view, however, it is argued that it is more suitable where there is an active short-term capital market as he can invest any funds not being used temporarily in that market.

Instalment Loans

Of growing significance are instalment loans which are largely made to persons but also to businesses to finance small industrial and agricultural equipment. There is no moratorium on repayment of principal. Rather, repayment is on a monthly basis and the average repayment period is 18-24 months. All such loans to individuals are insured against the borrower's death, and the insurance premium is included in the interest rate charged. Interest is either at the "flat" or "add on" rate or at a discount rate; hence, the effective rate is much higher than and may almost double the nominal rate. Instalment loans provided by banks have been used mainly for financing durable goods especially private and commercial motoe vehicles, and to a lesser extent industrial and agricultural equipment and other requirements such as home improvement and education. Where the loan is for the purchase of commodities, the bank would have a charge on the goods financed.

These loans differ from other loans in that they are not on call. If payment is missed, however, the borrower could be asked to repay the entire balance plus interest.

Instalment lending was introduced into Jamaica at the beginning of the decade by one bank. It took a few years before any other bank entered the field, but by 1970 only two banks were not making such loans, and one of them had announced its intention to expand in that direction. Nevertheless, as Table 43 shows, the leading bank in the business is still well ahead.

Table 43

Percentage of Instalment Loans Outstanding by Leading Bank 1964-1969

Year	%
1964	100.0
1965	100.0
1966	94.3
1967	92.6
1968	81.4
1969	68.6

Source: Bank of Jamaica.

The banks appear to have given the hire purchase companies a good deal of competition. Tables 44 and 45 bring this out clearly. Particularly noticeable is the sharp increase of new business done for motor cars and commercial motor vehicles which are otherwise financed largely by hire purchase companies. Borrowing from banks is preferable to hire purchase companies because of the tremendous difference in the cost of borrowing. The nominal rate of interest charged by hire purchase companies is higher than that of the banks but in addition to this some hire purchase companies compute interest on the total cost of car, insurance and other incidentals regardless of the down-payment made. The bank's share for other imported goods and local products continues to be small as these are financed by dealers who may have access to bank finance. Bank distribution of new business instalment credit has tended to move away from concentration in motor vehicles as Table 45 indicates. In 1964, 56.6 percent of new business was for this purpose. In 1969 the percentage had fallen to 28.6 percent. They have also put a smaller proportion of their resources in imported household durable goods, but have increased the share of new business going into industrial and agri-cultural equipment, and local products. The share of their financing going into the category 'other' has also increased rapidly. A 1969 breakdown of this item shows that this is composed mainly of consolidation of debt, (21.2 percent) real estate and house improve-ment (40.0 percent). Other figures for the last three months of 1969 reveal that business and farming and education account for

15.5 percent and 1.4 percent respectively of the remainder.

Table 44

Bank Instalment Credit[1]

Bank	1964	1965	1966	1967	1968	1969
Bank Instalment Loans Outstanding $mn.	0.8	2.5	5.3	9.4	12.9	21.0
Total Instalment Loans Outstanding $mn.	11.0	16.2	20.6	25.5	30.2	40.1
Banks Instalment Lending as % of Total Instalment Lending	7.4	15.2	25.9	36.8	42.1	52.3
Bank Instalment Lending as % of Total Bank Lending	1.0	2.1	4.2	6.8	8.2	10.1
Credit over Previous Year	-	1.7	2.8	4.1	3.5	9.1
% Increase in Bank Inst. Credit over Previous Year	-	225.0	112.0	77.4	37.2	70.5
Bank Instalment Index of Loans Outstanding (1964 = 100)	100.0	312.5	662.5	1175.0	1612.5	2625.0

Source: Bank of Jamaica.

[1]Average End of Month Outstanding.

Table 45

Instalment Credit. Commercial Banks' Share of New Business (Percentages)

Category	1964	1965	1966	1967	1968	1969
Motor Cars	29.5	46.2	55.9	33.8	49.8	55.4
Commercial Motor Vehicles	8.2	17.4	54.0	40.2	63.6	50.3
Industrial & Agricultural Equipment	1.0	3.3	11.7	6.0	20.4	33.8
Other Imported Goods	6.2	7.8	11.3	4.2	5.3	4.2
Local Products	0.8	2.1	3.8	1.7	6.1	6.0
Consolidation of Debt[1]	n.a.	n.a.	n.a.	n.a.	n.a.	66.8
Real Estate & Home Improvement[1]	n.a.	n.a.	n.a.	n.a.	n.a.	72.3
Other	32.0	69.4	77.6	32.2	71.9	30.5
Total	13.5	23.5	38.2	20.5	39.7	34.6

[1]Included under Other up to 1968.

Table 46

Instalment Credit. Comparison of Distribution of Commercial Banks New Business with that of Total New Business (Percentages)

	1964		1965		1966		1967		1968		1969	
	Bank Distribution	All Lenders Distribution	Bank Distribution	All Lenders Distribution	Bank Distribution	All Lenders Distribution	Bank Distribution	All Lenders Distribution	Bank Distribution	All Lenders Distribution	Bank Distribution	All Lenders Distribution
Motor Cars	55.7	25.5	45.6	23.2	31.8	21.7	28.2	17.2	27.2	16.9	25.7	16.0
Commercial Motor Vehicles	0.9	15.2	8.0	10.8	18.3	12.9	19.4	9.9	13.3	8.3	18.3	12.6
Industrial & Agricultural Equipment	0.5	5.9	0.9	6.6	2.2	7.0	2.4	8.3	5.8	11.3	9.2	9.4
Other Imported Goods	11.8	25.5	12.1	36.3	8.3	28.3	5.1	25.3	3.2	23.6	2.5	20.2
Consolidation of Debt											9.0	4.6
Real Estate & Home Improvement											17.0	8.2
Other	29.9	12.7	32.2	10.9	38.3	18.9	43.8	27.9	48.8	28.8	16.6	18.9
Local Products	1.2	15.7	1.3	12.2	1.1	11.2	1.0	11.4	2.0	11.0	1.8	10.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Jamaica.

In spite of its rapid increase instalment credit still lags far behind both overdraft and demand loans as Table 47 indicates. The overdraft is the chief form of lending although the share of demand loans is also quite substantial.

Table 47

Commercial Bank Loans by Form of Lending Arrangement (mid-1970)

Type of Arrangement	Mean %	Median %	Highest %	Lowest %
Overdraft	48.7	40.0	75.0	10.0
Demand & Time Notes	41.4	38.4	75.0	24.0
Instalment	8.5	1.4	29.8	0
Other	1.4	1.4	3.0	0

Source: Information supplied by the Commercial Banks.

Loan Interest Rates

The Prime Rate: The prime rate can be regarded as an index of interest rates - not in the sense of an average but rather as an indication of the movement of the level of rates. Quite often, in fact, banks in quoting interest rates to borrowers specify a certain percentage in relation to the prime rate. The prime rate is the rate given for loans which in the bank's opinion can be repaid without difficulty under adverse conditions. Loans which fail to meet this criteria are made at higher rates depending on the degree of risk attached to the particular type of loan. Loans which are estimated to generate other types of income such as foreign exchange earnings, may qualify for lower rates. On the other hand, loans which are likely to result in higher administration, collection and supervision costs tend to have higher rates. Finally, loans with liquid security may also be granted at lower rates.

The Cost of Funds: The main factor influencing the level rates is the cost of deposits. Banks maintained a spread of 3.5 percentage points between the savings rate and the prime rate prior to August, 1961, but with the revision of the deposit rate structure this difference was increased to 4 percentage points. Since May, 1969, it has been further revised to 4.5 percentage points probably in recognition of the increased proportion of fixed deposits in bank funds.[1]

Traditionally, banks have by agreement moved the prime rate and the deposit rates after and in the same direction as movements of

[1]Bank of Jamaica Bulletins, Vol. 1, No. 1, p. 23 and Vol. IX, No. 2, Table 16.

rates in the United Kingdom. It has been argued that these movements were defensive measures to prevent the outflow of savings to the centre with higher interest rates and to discourage international firms from shifting their borrowing to the territories where their subsidiaries operate.[1]

With regard to the second factor other restrictive policy measures such as ceilings on advances also affect these movements. Thus, discussing the African situation before the Radcliffe Committee, Mr. Wilson of the Standard Bank of South Africa said that he thought that it was more the credit squeeze than the actual disparity in rates of interest which caused the trend to take overdrafts overseas.[2] By credit squeeze, Mr. Wilson was referring to the British Chancellor of the Exchequer's request that the average level of advances during the next 12 months should be held at the level of the last twelve.[3] In Jamaica the effect of the policy changes appeared in the form of an increase of $14.8mn in loans between the end of September, 1957 and the end of December, 1957 an increase of 44.8 per cent over the September level. Balances due to foreign banks or branches rose by J$4.3mn., 50.6 percent of their September figure. In addition, balances due by banks abroad fell by $4.8mn. (27 percent). All of these movements continued into the next quarter: loans and advances and balances due to foreign banks and branches went up to 11 and 25.4 per cent respectively, and balances due by foreign banks went down 46.9 per cent.[4] Since then lending to non-resident corporations appears

[1]C.Y. Thomas, Monetary Arrangements in a Dependent Economy, ISER, 1965.

[2]Minutes of Evidence to the Radcliffe Committee, para. 4345, H.M.S.O., 1960.

[3]Journal of the Institute of Bankers, Vol. 78, 1957, p. 303.

[4]See C.V. Callender, The Development of Capital Market Institutions in Jamaica, ISER, 1965, p. 104.

to have become a significant feature of bank lending as revealed in recent Bank of Jamaica publications.[1]

The first factor - deposit mobility - seems to have been observed since the beginning of 1957.[2] Its applicability to Jamaica is however not as immediately apparent from the Jamaica statistics.

The practice of fixing bank lending and deposit rates with reference to external rates still continues although the Bank of Jamaica which determines these rates on behalf of government has endeavoured to fix rates both with reference to the local liquidity situation and the demand for loanable funds, and with the overall view of holding interest rates low in the interest of economic expansion. As long as funds can move freely to other financial centres in the sterling area, however, the extent to which this can be achieved will be limited. Hence, in 1970 in order to discourage the outflow of funds to centres of high interest rates it was necessary for the government to allow the banks to compete for fixed deposits for periods of six months and over on an interest rate basis. Allowing the rates to rise, however, appears to be resulting in a scarcity of long term funds. It was also necessary to impose limits on lending to internationally controlled companies.[3]

The cost of funds factor would also affect the proportion of loans which the banks would be willing to make at the prime rate. Banks

[1]Bank of Jamaica Bulletins since March 1970.

[2]Minutes of Evidence to Radcliffe Committee, op. cit., para. 4345.

[3]Bank of Jamaica, Annual Report, 1969.

with a high proportion of deposits earning more than the basic savings rate will endeavour to keep the proportion small and may observe a higher rate structure. The extent to which they can do this will depend on the nature of their customers. Big customers who normally qualify for the prime rate may be able to succesafully resist the attempts of banks to raise their rates. But most customers may not be discouraged from borrowing by a ½ or 1 percent difference in interest rates.[1] The tendency to raise the rate structure independent of a movement in the official prime rate appears to have been evident especially since the banks have been allowed to compete for deposits of six months and over. Banks were in fact offering as much as ½ per cent below the prime rate for certain types of deposits.

The degree of risk involved in making a particular type of loan will usually be reflected in the interest rate, other things being equal.[2] When a loan is fully secured by a highly liquid form of security the risk of loss of bank funds is reduced and the risk premium may also be reduced. Under the old Inter-bank Agreement a loan secured by a cash deposit at the lending bank was made at only 2 per cent above the rate attached to the deposit. This, of course, was the extreme case. The practice is still observed to some extent today, but the banks are free to depart from this arrangement. Less liquid security could result in the banks incurring losses in realizing them, either through not obtaining the full value of the loan through

[1]The odd thing is that many customers are usually more concerned about having to pay a $1.00 more in stamps, say, than about a small change in the interest rate.

[2]See J.A. Galbraith, the Economics of Banking Operations (McGill Univ. Press, 1963), pp. 71-73.

unfavourable markets or in heavy administration costs, such as going to court and so on.

In fixing the rate of interest banks also take into account any collateral earnings that it may derive from the use of the loan. The chief form of such advantage applicable to Jamaica would be foreign exchange earnings and charges on bills collected, and this gives a bias in favour of international transactions. It also favours the large borrower as the collateral benefits derived from his use of the funds are likely to be substantial.

Finally, the bank may take into account the costs of administering and servicing the loan. Banks sometimes find it very difficult to assess the financial standing of their applicants when there are no financial statements and may devote much time in extracting the relevant information from the applicant. Some banks have specially designed forms for this purpose. They could amount to several pages of stationery. These affect mainly the smaller business borrowers.[1] There is a further bias against the small borrower in respect of the accounting costs. Accounting for one large loan of half a million dollars is much less costly than accounting for one hundred $5,000 loans. Similarly, supervision, follow-up and collection of small loans is relatively expensive. Moreover, some banks find that it is the smaller loans - those within the discretion of the bank manager - which are troublesome. Here overdraft loans may develop 'hard cores' largely because the borrower does not understand the purpose of bank finance, and the young relatively inexperienced manager may neglect to explain adequately the role of bank finance in the business. Overdraft limits may be exceeded. In general however, banks in Jamaica are of the opinion that borrowers have a relatively good record.

[1] Legal and other costs of large loans are often treated separately and not incorporated in the interest rate.

Instalment loans carry a higher effective rate of interest, but some banks may charge a ½ percent less if very good security is provided. Basically, the same rate of interest is charged on durable consumer goods as on small industrial and agricultural equipment. This is an area which may deserve some study. Certainly, one would like to see loans for industrial purposes having preferred rates vis-a-vis loans for consumption purposes.

Table 48

Average Interest Rates on Commercial Bank Loans, 1962-1968

Bank	1962	1963	1964	1965	1966	1967	1968
A	8.0	7.1	6.1	5.7	7.8	8.2	8.8
B	7.5	6.9	6.7	7.4	7.5	8.1	8.9
C	7.3	6.8	6.3	6.5	7.2	7.8	9.9
D	6.7	6.0	5.5	6.4	7.0	7.5	7.7
E	7.7	7.8	7.1	7.5	8.3	8.4	8.8
F	8.0	6.3	4.3	4.6	5.4	6.0	6.1
All Banks	7.3	6.8	6.2	6.8	7.3	7.9	
Average Prime Rate	7.4	6.5	6.1	7.0	7.3	7.3	7.7

Source: Commercial Bank returns to Bank of Jamaica.

Table 49

Average Interest Cost of Bank Deposits

Bank	1962	1963	1964	1965	1966	1967	1968	1969
A	3.2	2.0	1.8	1.3	2.3	2.7	3.0	2.6
B	2.2	1.8	1.4	2.0	2.3	2.4	2.8	2.5
C	4.7	3.6	3.6	5.2	5.2	1.9	4.4	2.2
D	1.8	1.7	1.3	1.9	2.2	2.3	2.8	2.3
E	1.5	1.5	1.5	1.7	2.4	3.9	4.1	4.1
F	15.5	10.0	5.9	6.0	2.1	2.9	2.1	2.5

Sources: Bank of Jamaica.

In Tables 48 and 49 the average interest earning on loans and advances and average interest costs of deposits are shown. Cost figures for banks C and F appear to include interest paid on funds borrowed from branches abroad. For the other banks there appears to be a high degree of correlation between movements in the two sets of rates. Note, for instance, banks A, B and D for 1965: both rates went down for A, but both went up for B and D.

The Loan Market

The commercial bank loan market is highly concentrated on the supply side. Up to 1959 there were only four banks operating. Between 1959 and 1967 there have been six and since 1968, seven.[1] Table 50 gives some idea of the supply side of the loan market. Throughout the sixties over eighty per cent of bank lending has been concentrated in the three largest banks. Their share tended to fall up to 1965 but largely as a result of declines in the shares of the

Table 50

Degree of Concentration of Commercial Bank Lending 1961-1969

Share of	1961	1962	1963	1964	1965	1966	1967	1968	1969
Largest bank	41.1	41.9	39.6	36.1	36.0	41.7	46.6	47.4	45.3
Two largest banks	73.5	69.8	67.1	62.7	61.5	67.7	71.9	72.5	70.6
Three largest banks	89.1	86.6	84.2	82.2	81.9	86.2	88.2	86.1	83.3
Smaller banks	10.9	13.4	15.8	17.8	18.1	13.8	11.8	13.9	16.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Banks with Jamaican ownership						41.7	46.6	49.8	50.1

Source: Bank of Jamaica.

two largest banks although the third bank was expanding its own share. At the same time some of the smaller banks registered gains as their deposits increased. In 1966, however, the trend changed with the largest bank increasing its share of the market significantly with further increases in the two years following. The second largest bank stabilized its share, but the third bank shows a steady decline in its proportion. The smaller banks, too, show great variations in trend. The shares of the newer banks fell after 1965 but that of one bank had been falling since 1963. Generally, the banks whose shares declined after 1965 were all banks which prior to 1966 borrowed over 30 percent of their resources from other branches overseas, and the fall reflects the utilization of less overseas funds even before devaluation. Actually, however, under normal conditions, the use of overseas funds may be regarded as a function of the excess of loan demand over supply. Some of these banks took part in the lending boom to the building and construction and land development activities in 1965 and they evidently imported funds to enable them to undertake such financing. The other point to note is that banks with some degree of local ownership made 50 percent of total loans in 1969 while holding only 44.2 percent of deposits and 45.6 percent of assets.

The small number of banks mades it relatively simple to operate under a high degree of collusion. Apparently, this did happen prior to the early sixties, but the new banks together with official interference helped to change things. Some of the newer banks being branches of American banks were prevented by the anti-trust laws of the U.S.A. from participating in any formal agreement. Furthermore, government played a leading part in the break-up of the banking agreement.

Moreover, the innovations in banking have been taking place in the three countries of the parent banks - U.K., Canada, and the U.S.A. - but have been of a different character and at a different pace, and one would expect some variations in the type of innovations introduced among the banks. A further point is the fact that the banks which were branches of international firms slowed down the rate of followership in local innovations. Thus, for example, one bank obtained a clear lead in the instalment credit field; but it was six years before other banks followed, and it was easy for a new bank to move into second place in this type of business.

On the other side of the loan market there are a large number of borrowers and an even larger number of potential borrowers. Table 51 gives the size distribution of borrowers by number and value of loans outstanding.

Table 51

Size Distribution of Loans Outstanding 30/9/69

	Value of Loans				% of	No. of
	All Banks %	Median %	Highest %	Lowest %	Loan A/Cs All Banks	Loan A/Cs All Banks
Under $1,000	5.4	4.8	10.5	0.5	60.1	30589
$1,000 - $1,999	5.8	5.9	8.7	0.4	18.6	9455
$2,000 - $19,999	22.3	19.4	33.3	7.5	19.0	9696
$20,000 - $99,999	19.0	23.5	30.9	12.5	1.8	915
$100,000 - $199,999	10.6	10.3	22.3	8.3	0.3	145
$200,000 - $999,999	22.8	11.3	48.9	7.2	0.2	107
$1,000,000 & over	14.0	12.8	24.1	0	*	21
$200,000 & over	36.8	28.6	60.0	8.3	0.2	

Source: Bank of Jamaica.

The Table shows that some 97.6% of borrowers were responsible for only the 33.5% of bank outstandings - borrowers who owed less than $20,000. Loans over $20,000 amounting to 66.4 per cent were divided among only 2.3 per cent of total loan accounts. A more penetrative view of the market situation can be discerned by looking at some individual bank distributions. All banks have a wide range of lendings by size, but it is clear that banks 2, 4 and 5 have concentrated a great deal more on retail banking.[1] By retail banking we mean banks interested in popularizing banking and providing facilities for the majority of the people through cheap chequeing accounts and small loan business.[1] Wholesale bankers on the other hand, are interested mainly in customers of substantial means. Actually, all banks combine both types of business, and offer broadly the whole range of services, especially on the deposit side, but some banks emphasize certain types of services more, and this is reflected in the statistics. At the other extreme banks 1, 3 and 6 have a high proportion of their resources tied up with the large borrowers. While this is subject to all the cost advantages discussed earlier it also exposes these banks to a certain amount of pressure from these large borrowers and to the risk of having a large proportion of funds tied up with a few debtors. To some extent, of course, the ability to expand retail banking is related not only to the resources of the bank but to its branch network. In 1969, some banks had as many as 40 branches while others had only two. Banks with a large number of branches can take banking to the smaller borrower and are, therefore, in a better position to expand small business and personal loans. Some banks are also reluctant to expand this type of business because they claim that they are not equipped with the expertise to

Table 52

Percentages of Loans Outstanding for various size categories by Bank - 30/9/69

Bank	Under $2,000	Under $20,000	$20,000 - $199,999	Over $200,000
Bank 1	5.3	15.1	52.7	31.3
Bank 2	n.a.	n.a.	n.a.	n.a.
Bank 3	0.8	8.3	33.0	58.6
Bank 4	14.8	43.5	30.5	26.0
Bank 5	16.3	42.8	34.9	22.3
Bank 6	5.0	17.5	22.5	60.0
Bank 7	19.2	52.5	39.2	8.3

Source: Data supplied by six of the seven commercial banks operating in Jamaica.

Table 53

Percentage Distribution of Loans Accounts with less than $2.000 - 30/9/69

Bank		%
	Largest	65.0
2nd	"	18.8
3rd	"	7.9
4th	"	7.0
5th	"	0.9
	Smallest	0.3
	Total	100.0

Table 54

Commercial Bank Loans to Large Borrowers:[1] Availments as Percentage of Total Loans Outstanding

	Bank					
	A	B	C	D	E	F
Sept. 1962	47.4	72.8	82.6	74.5	88.6	47.5
March 1964	n.a.	69.8	76.5	74.3	86.0	51.4
Sept. 1964	38.0	62.3	86.3	80.1	n.a.	17.5
March 1965	41.4	65.5	78.0	73.9	n.a.	18.2
Sept. 1965	34.9	57.3	80.0	75.7	94.4	39.5
March 1966	41.4	57.1	85.4	70.4	95.0	54.1
Sept. 1966	53.2	55.1	79.7	71.4	72.3	12.1
March 1967	59.2	54.7	69.9	80.0	2.0	20.0
Sept. 1967	38.4	57.0	68.0	80.5	68.2	34.3
March 1968	42.5	57.7	77.0	78.6	75.0	37.1
Sept. 1968	34.9	59.4	n.a.	n.a.	87.0	45.7
March 1969	n.a.	51.7	n.a.	74.0	n.a.	n.a.
Sept. 1969	41.9	54.6	85.1	74.4	n.a.	n.a.
Simple Average	43.0	59.6	79.0	75.1	83.3[a]	34.3

Source: Commercial Bank Returns to Bank of Jamaica.

[1]Borrowers with authorizations of $40,000 and over.

[a]Excludes March 1967.

supervise and follow up the loans. Table 52 gives some idea of the percentage distribution of loan accounts with outstandings of less than $2,000. Sixty-five percent of the very small accounts are with one bank and the balance is unevenly distributed among the remainder, the shares of banks B and D being quite negligible.

Table 54 which includes the bank excluded from Table 53 but excludes one of the banks which we regarded as primarily a retail lender suggests that bank 2 is also more heavily in wholesale banking. Traditionally, banks have been largely wholesale lenders but the trend has been to popularize banking and to do more and more with smaller customers.

Roughly the same picture is revealed when we look at the distribution of loans by category of borrower in Table 55. Again, we find banks 4, 5 and 7 lending rather more to private individuals in contrast to the other three banks. These banks account for about 50 percent of the deposits of the banking system.

Table 55

Loans to Companies, Private Individuals and Others by Bank, September 30, 1969

Category of Borrower	Banks							All Banks
	1	2	3	4	5	6	7	
Companies	90.1	n.a.	79.7	55.9	63.0	79.6	46.2	65.2
Private Individuals	9.9	n.a.	15.5	42.7	37.0	19.3	45.8	33.2
Other	-	n.a.	4.8	1.4	-	1.0	8.1	1.7
	100.0	n.a.	100.0	100.0	100.0	100.0	100.0	100.0

Source: Computed from data supplied by six of the seven commercial banks.

GROWTH AND THE SECTORAL DISTRIBUTION OF BANK CREDIT

Unlike deposits which have grown steadily but increasingly in the post-war period, bank lending has been characterized by alternating periods of rapid and sluggish growth. The early post-war period was followed by a moderate rate of increase in advances up to 1957, when an almost phenomenal increase in lending took place and continued into the construction and consumer credit booms at the turn of the decade.[1] The pattern continued into the sixties. Buoyant conditions in 1961 and 1962 were followed by an absolute decline in 1963 and by extremely rapid increases in 1965 and 1969. Except in 1968 and 1969 the deposit index seemed to increase more rapidly when the increase in the loan index was lower. The pattern is also indicated in the advances/deposits ratios, falling in 1963 and 1964, the former being a year when loans declined and the latter one of only moderate deposit growth. The relatively low ratios at the end of the decade reflect the decrease in overseas borrowing for local lending and the rapid increase in deposits. Advance/deposit ratios for Jamaica are expected to be relatively high compared with other countries because of the high overseas leakage of deposits.

The sectoral distribution of credit is an area of interest to many analysts. Traditionally, banks have favoured the distributive trades, and this preference for a sector with limited capacity to generate incomes and with fairly weak lines with the internal productive sector has received a great deal of criticism. As Table 58 shows, banks

[1] See C.V. Callender, op. cit., pp. 97-119 for details. See also page above.

Table 56

Indexes of Bank Deposits and Loans, 1962-1969

Year	Index of Deposits	Index of Loans	Change in Deposit Index	Change in Loan Index
1962	100.0	100.0	-	-
1963	120.8	89.3	+20.8	-10.7
1964	140.0	105.0	+19.2	15.7
1965	152.4	141.1	+12.4	36.1
1966	171.5	153.4	+19.1	12.3
1967	200.2	167.3	+28.7	13.9
1968	242.8	191.7	+42.8	24.4
1969	304.4	254.1	+61.6	62.4

Source: Bank of Jamaica.

Table 57

Commercial Bank Advances/Deposit[1] Ratios 1961-1969

	1961	1962	1963	1964	1965	1966	1967	1968	1969
A	80.0	81.6	64.9	76.2	85.1	85.4	84.7	72.4	67.3
B	88.6	86.9	65.9	61.0	72.1	84.2	90.8	89.4	88.1
C	166.2	162.5	120.6	127.4	154.1	138.6	113.5	82.1	81.1
D	100.0	79.6	54.7	56.9	69.8	68.8	61.2	59.2	66.6
E	100.0	182.4	184.0	200.0	256.1	166.7	78.3	66.3	77.6
F	376.9	268.8	100.0	204.3	184.0	128.6	120.0	78.7	78.7
G								152.0	114.9
All Banks	104.3	96.8	72.7	72.1	89.6	88.8	83.0	77.1	79.6

Source: Commercial Bank returns to Bank of Jamaica.

[1] These are adjusted deposits. Ratios to unadjusted deposits will be slightly lower.

continue to increase credit to this sector but the rate of increase has been less than that of a number of other sectors. Actually, with the exception of 1963 bank credit outstanding grew throughout the decade, growing more rapidly in 1965 and 1969.

Over the period, credit to public utilities grew fastest and this was followed by land development and personal and professional loans, building and construction and manufacturing, in that order. Lending to other sectors, with the exception of Government, mining and hotels which declined from their 1962 level, increased at a more moderate pace.

The overall decline in 1963 was chiefly due to a reduction in lending to a number of sectors. There were significant declines in lending to sugar estates and sugar manufacturing largely because of increased export earnings in the industry resulting in a lower demand for credit to finance the growing and marketing of the sugar crop. Building and construction also declined reflecting the downturn in the industry following the completion of major projects in 1961 and 1962 and the existence of a period of uncertainty following a controversial wage award in the industry. Credit to the personal and professional and distributive trades categories also declined indicating the end of the consumer credit boom at the turn of the decade.[1] Finally, some major Jamaican enterprises were reported to have switched borrowing from Jamaica direct to London either because of convenience or to take advantage of lower rates there.[2] On the other hand, the

[1]Bank of Jamaica Bulletin, Vol. II, No. 3, p. 11 (Kingston: Jamaica Times Press. Ltd.) There was also no immediate expansion of loans in response to the high export earnings.

[2]Ibid. During the period Jan. 1962 to August 1963 the Jamaica Bank Rate exceeded the U.K. bank rate by either 1 or 1.5 percentage points. Ibid. p. 27.

public utilities sector recorded a massive increase in banking lending while other sectors showed moderate increases.

Since 1963, the index of bank credit has risen consistently, the year 1965, 1968 and 1969, showing the most rapid increases. All sectors except government, mining and hotels, increasing their loans outstanding above the 1962 level. The increase in credit to the public utilities sector[1] represents perhaps the most striking change, credit used by this sector in 1961 being negligible. In addition to working capital loans, some banks extend credit to public utilities for up to five years for limited expansion of fixed capital. Credit to hotels, on the other hand, appears to have declined until its sharp increase in 1969. A significant proportion of hotel services are provided on a cash basis, and it is probable that this industry makes less use of bank credit for working capital as they expand, than some other industries. Credit to the mining sector consists principally of bank accommodation to the bauxite companies whose borrowing though rising between 1963 and 1969 was lower than the 1962 level. Finally, government credit has declined because the central government now obtains credit mainly from the Central Bank or through the sale of Treasury bills to the private sector. The major proportion of the bank credit to this sector is utilized by the statutory boards, such as the Banana Board, the Agricultural Marketing Commission and so on, and though the level of credit has been below that of 1962 it has fluctuated about a slowly rising trend. Most of the other sectors will

[1]There would seem to be a case for reclassifying loans granted to public utilities by activity, e.g. transportation, water and electricity, communications etc. This would also bring it in line with the classifications in the national accounts.

Table 58

Index of Credit Outstanding (1962=100)

Bank Credit by Sector	1962	1963	1964	1965	1966	1967	1968	196
Central Government, Local Authorities & Stats. Branches	100.0	53.9	64.2	95.3	75.0	84.4	71.8	97
Investment Dealers & Brokers Credit & Financial Institutions	100.0	104.0	141.6	245.4	230.7	191.5	295.6	328
Personal & Professional	100.0	92.6	110.4	145.3	198.4	270.5	315.2	445
Agriculture & Fishing	100.0	86.5	95.4	155.8	150.3	106.5	124.8	144
Sugar Cane Farmers	100.0	66.4	82.7	154.9	146.8	80.3	95.0	101
Other Agriculture	100.0	112.8	113.7	160.8	167.2	129.3	167.2	241
Mining	100.0	50.1	50.3	50.2	50.2	75.7	77.2	81
Manufacturing	100.0	87.3	126.1	196.5	228.1	236.4	267.7	369
Sugar Estates	100.0	60.1	78.9	160.8	229.9	236.7	199.5	278
Other Manufacturing	100.0	100.3	147.7	213.1	227.7	236.5	298.6	408
Building & Construction	100.0	90.5	110.0	183.4	183.8	179.9	261.1	40
Land Development	100.0	127.2	202.8	322.6	202.9	233.1	267.9	468
Public Utilities	100.0	301.9	246.9	185.7	393.8	750.2	1137.0	163
Distributive Trades	100.0	92.5	98.8	120.5	130.4	139.2	144.2	160
Hotels	100.0	110.2	96.9	89.9	90.8	82.7	82.7	15
Entertainment	100.0	109.5	175.3	217.2	267.4	281.7	251.7	18
Other	100.0	88.7	105.7	106.3	117.3	95.7	121.6	167
All	100.0	89.3	105.0	141.1	153.4	167.3	191.7	25

Source: Bank of Jamaica.

Based on average of end of quarter outstandings.

Table 59

Index of Contribution of Sectors to G.D.P.
at Factor Cost

%s

	1961	1962	1963	1964	1965	1966	1967	1968	1969
Total	96.0	100.0	106.4	113.9	123.6	134.3	142.6	157.4	172.2
Agric., Forestry & Fishing	95.2	100.0	117.4	117.5	118.6	128.9	133.6	133.0	128.4
Mining, Quarrying & Refining	95.6	100.0	98.5	112.9	125.0	134.2	140.6	156.6	207.6
Manufacturing	99.5	100.0	119.8	128.2	135.8	150.8	157.1	175.4	184.2
Construction & Installation	99.5	100.0	100.2	111.7	122.3	133.1	140.1	182.3	205.7
Electricity, Gas, Water, Transportation, Communications	96.1	100.0	99.8	107.9	117.7	130.2	141.3	153.9	163.6
Distributive Trades	99.3	100.0	100.2	104.3	111.5	118.6	122.4	133.0	146.3
Hotels & Entertainment	92.4	100.0	101.1	108.5	126.6	146.5	153.7	164.3	n.a.
Other Services		100							
Ownership of Dwellings	93.9	100.0	107.9	118.5	128.3	137.4	140.4	143.1	156.2
Central & Local Government	87.3	100.0	108.1	119.5	129.7	146.1	176.3	202.6	224.4
Financial Institutions	92.0	100.0	86.5	95.7	120.7	135.3	150.2	160.6	177.4

Source: Dept. of Statistics, National Income and Product, 1968.

Table 60

Sectoral Distribution of Loans & Advances

%s

Sector	1961	1962	1963	1964	1965	1966	1967	1968	1969
Government & other Public Bodies	3.5	3.7	2.3	2.3	2.5	1.9	1.9	1.4	1
Credit & Financial Institutions	2.6	2.0	2.3	2.4	3.5	3.0	2.3	3.1	2.6
Personal & Professional	13.7	13.4	13.9	14.2	13.8	17.4	21.7	22.1	23.5
Agric. & Fishing	6.4	7.1	6.9	6.5	7.9	7.0	4.5	4.6	4.
Mining	9.6	9.6	5.4	4.7	3.4	3.1	4.3	3.9	3.
Industry	15.2	15.2	14.9	18.3	21.1	22.6	21.4	21.2	22.
Building & Construction	4.0	4.3	4.3	4.5	5.6	5.1	4.6	5.8	6.
Land Development	3.6	3.2	4.5	6.1	7.2	4.2	4.4	4.4	5.
Public Utilities	0.1	0.7	2.5	1.7	1.0	1.9	3.3	4.4	4.
Distributive Trades	30.2	29.8	30.9	28.2	25.5	25.4	24.8	22.5	18.
Hotels	4.3	4.3	5.4	4.0	2.8	2.6	2.1	1.9	2.
Entertainment	1.2	0.9	1.1	1.5	1.4	1.6	1.6	1.2	0.
Other	5.6	5.7	5.6	5.7	4.3	4.3	3.2	3.6	3.
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.

Source: Bank of Jamaica Bulletins.

be dealt with below.

The main characteristics of the sectoral distribution of credit in the 1960's are depicted in Table 60. The most noticeable trends are:

(i) A rising proportion of loans going to the personal and professional category, manufacturing other than sugar, building, construction and land development and public utilities.

(ii) A noticeable drop in the share of loans received by government and other public bodies, agriculture, mining, hotels and the distributive trades.

(iii) The share of loans to credit and financial institutions and to entertainment fluctuated around an almost stationary level.

Personal and Professional

Between 1967 and 1969 the personal and professional category became the largest user of credit. In 1970 personal loans were classified separately and found to be about 17.6 per cent of total loans, while professional, now grouped with other services amounted to only 3.2 per cent.[1] The 1970 revision of the banks' quarterly return of loans and advances thus makes personal loans the third largest user of credit behind manufacturing and distribution.

In Table 61 is shown the relative shares of banks in their lending to this group between 1961 and 1969. The leading lender has well over 50 per cent of the market and after a decline in 1962 and 1963

[1]Figures for September, 1970, given in the Statistical Digest of the Bank of Jamaica, April, 1971.

Table 61

Bank Shares of Personal and Professional Loans 1961 and 1969

Bank	1961	1962	1963	1964	1965	1966	1967	1968
A	10.0	9.5	11.6	12.4	13.2	9.5	10.1	7.6
B	50.3	47.6	44.1	47.6	53.3	61.3	61.3	62.4
C	12.5	12.7	15.0	15.3	15.7	13.1	10.8	9.7
D	16.2	19.2	16.9	15.9	12.6	12.5	13.5	12.2
E	0.1	1.1	1.7	2.4	3.9	2.2	2.0	2.2
F	10.7	9.9	10.6	6.3	1.3	1.4	2.2	1.5
Banks which commenced operations in 1959 & subsequently								8.2

Source: Bank of Jamaica.

Table 62

Shares of Personal and Professional Loans in Loan Portfolio of Individual Banks

Bank	1962	1966	1969
1	26.2	8.1	27.5
2	9.7	12.5	16.9
3	3.7	9.1	13.8
4	15.1	25.3	30.1
5	26.9	30.5	30.6
6	9.8	8.4	12.1
Banks operating since 1959	16.5	8.1	27.5

Source: Bank of Jamaica.

increased its share significantly. The share of most of the other banks declined after 1965 (though some began earlier) losing ground first to the leading bank and later to the new bank group. Table 62 provides data on the importance of personal and professional loans in the portfolio of each bank.

Banks 2, 3, 4, and 5, show increases for all three years shown. Banks 1 and 6, however, were making a smaller proportion of their loans to this category in 1966 than in 1962, but by the end of the 1960's all banks seem to be moving in the same direction - increasing their portfolio of personal and professional loans. The portfolio of the new banks in 1968 ranks among the largest because of the specialization of the Jamaica Citizen's Bank in retail banking.

The increase in personal and professional loans is a reflection both of a shift in the supply schedule of banks and of the increase in demand resulting from the growth of salaried individuals in the Jamaican economy. On the supply side, the number of banks making instalment loans have increased from one to five over the decade. On the demand side, personal income grew by 52.0 percent in current prices between 1962 and 1968.[1] Personal loans have a maximum maturity of about three years. The fact that lending to this category increased more than 4.1 times the increase in personal income may be an indication of the increased willingness of banks to make this type of loan.

A significant proportion of loans to this sector went towards financing the purchase of motor cars and other durable consumer goods resulting in an overseas leakage of financial assets and an unfavourable effect on the balance of payments. For this reason, the government found it necessary to impose ceilings on certain types of personal

[1]Department of Statistics, National Income and Product, 1968, p. 43.

Table 63

Manufacturing Industries: Distribution of Bank Credit Outstanding %

	1961	1962	1963	1964	1965	1966	1967	1968	1969
Sugar, Rum Molasses	30.3	31.1	21.3	19.4	25.3	30.7	31.1	23.1	23.6
Beverages	3.0	2.3	2.4	3.1	2.8	3.0	3.0	1.8	1.5
Other Food Processing	9.0	6.5	11.5	13.0	8.9	8.5	7.8	8.0	10.6
Tobacco & Tobacco Products	2.5	2.9	6.1	5.7	2.7	1.6	2.5	2.9	3.5
Printing & Publishing	3.5	2.7	3.1	2.6	2.0	1.5	3.5	5.4	5.6
Textiles, Leather & Footwear	13.9	13.7	13.9	8.9	7.0	5.8	4.5	3.6	3.6
Furniture & Wood Prod.	2.8	2.8	7.3	2.5	2.2	2.3	2.9	3.2	2.9
Metal Prod. (excl. furn.)	8.3	5.1	7.3	7.4	6.7	7.5	9.6	9.5	10.7
Cement & Clay Product	1.8	7.1	5.2	6.5	7.9	6.2	5.4	4.3	2.9
Petroleum Product	1.6	0.5	0.1	2.6	8.2	7.7	0.3	0.2	0.2
Soaps, Oils & Allied Prod.	7.3	6.9	6.7	15.7	12.6	11.2	10.1	9.8	6.8
Other Industry	16.0	18.2	19.4	12.7	13.8	14.2	19.4	28.3	28.0
	100.0	99.8	100.0	100.0	100.0	100.0	100.0	100.0	99.9

Source: Bank of Jamaica. Based on average of end of quarter outstandings.

advances late in 1969. In particular, the banks were requested not to allow new instalment loans for private motor vehicles, imported household goods, real estate and consolidation of debts to exceed the level of such loans outstanding at October, 1969.

Manufacturing

The manufacturing sector has become the second largest user of bank credit. This includes, among others, the traditional sugar estates sub-sector whose share was in 1969 only slightly above the 1962 level. Manufacturing other than sugar is, as may be expected, the more dynamic sector. Its use of bank credit was in 1969 more than three times the 1962 level. Considered separately it would rank immediately behind the personal and professional and distribution sectors as a user of credit. Table 63 indicates that sugar manufacturers were the leading users of such credit for most of the decade. Its share tends to fluctuate widely, however, and "other industry" assumed the leading position in 1968 and 1969.[1] Noticeable, too, is the marked decline in the share of textiles, leather and footwear. The share of the other sectors fluctuated about a constant or gently rising or falling trend.

Sugar, Rum and Molasses

As shown in Table 64 bank finance for sugar manufacturing is made by three banks, one of them clearly dominant. The sector is dominated by a small number of medium and large borrowers who have very often built up a long standing relationship with a particular bank.

[1]The "other industry" group will become larger as new industries which, cannot be included under the specified categories. The list of industries was drawn up in 1961 and is due a further breakdown.

Table 64

Bank Shares of Loans for the Manufacture of Sugar, Rum and Molasses

Bank	1961	1962	1963	1964	1965	1966	1967	1968	1969
U	18.0	22.5	28.8	23.1	33.3	34.3	30.1	32.0	25.6
V	-	1.3	1.2	9.9	7.7	14.4	17.1	16.1	11.7
W	73.2	68.4	56.3	56.2	54.2	50.0	51.2	50.9	62.5
Other Banks	8.8	7.7	13.7	10.8	4.9	1.3	1.6	1.1	1.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Jamaica records.

Table 65

Sugar, Rum & Molasses: Relationship of Bank Credit to Output

Year	Index of Bank Credit Outstanding (1962 = 100)	Index of Output of Sugar Manufacturing	Contribution of Final Output to GDP $'000
1962	100.0		100.0
1963	60.1		143.5
1964	78.9		118.5
1965	160.8		111.4
1966	229.9		124.7
1967	236.7		92.7
1968	199.5		102.9
1969	278.1		85.4

Source: Central Planning Unit, Economic Survey, Jamaica, 1969.
Bank of Jamaica records.

This is a difficult sector for expansion by an individual bank; first, because accounts shift between banks mainly when there is a transfer of ownership of the concern, and secondly, because the sector has been declining since 1963, the rising bank credit being more indicative of difficulties in the industry than of its expansion.

All banks show a fall in the proportion of loans going to sugar, rum and molasses manufacturing between 1966 and 1969. This is a reversal of the movement between 1962 and 1966. The share of Bank 6 has, however, been relatively stable. Indeed, as total bank credit continues to expand one expects that the share of sugar will continue to fall.

Table 66

Proportion of Loans to Sugar, Rum and Molasses in Loan Portfolios of Individual Banks (Selected Years)

Bank	1962	1966	1969
4	2.5	5.7	3.0
2	0.4	5.6	4.6
6	12.2	13.5	13.1
Other Banks	7.5	1.5	0.2

Source: Bank of Jamaica.

Other Manufacturing

Credit to this sector has been expanding rapidly throughout the decade. Details of the distribution of credit between the sub-sectors are given in Table 67. The outstanding features in respect of textiles and other industry have already been noted. In absolute terms credit to metal products (excluding furniture), printing and publishing and allied industries, other food processing, other industry, tobacco and tobacco processing and furniture and wood products increased most rapidly. Soaps and oils and allied products increased rapidly up to 1965, but has levelled off since. Textiles, leather and footwear, was the only industry for which credit declined absolutely over the decade; though it recovered partially in 1969.

To the extent that it has been possible to make the banking data correspond to the national accounts sector breakdown, the data in Table 67 would seem to indicate that bank credit increased faster than final output for all sectors with the exception of textiles, leather and footwear and at certain periods cement and clay products. The simultaneous jump in both bank credit and final output of "other industry" in 1968 and 1969 is particularly noticeable. This is the sector in which new manufacturing industries to Jamaica are included. With respect to the other sub-sectors it is perhaps naive to infer that assuming a linear homogenous production function, either these industries are financing their increased

turnover of processing materials and labour with proportionately more bank credit and less of their own working capital, or are using bank credit to finance fixed capital.

Table 67

Index of Bank Credit to Manufacturing Activities other than Sugar (1962 = 100)

Activity	1961	1962	1963	1964	1965	1966	1967	1968	1969
Beverages	128.1	100.0	92.6	168.2	241.0	296.6	302.9	205.7	234.
Other Food Processing	139.6	100.0	156.1	254.1	270.7	304.0	283.4	331.5	600.
Tobacco & Tobacco Processing	85.9	100.0	185.8	250.0	183.1	132.0	200.9	265.2	450.
Printing & Publicity & Allied Industries	126.7	100.0	100.2	117.9	146.6	127.5	299.7	528.2	751.
Textiles, Leather & Footwear	101.7	100.0	89.1	82.1	101.4	98.1	77.3	70.2	97.
Furniture & Wood Products	99.5	100.0	95.3	113.6	152.9	194.7	247.7	308.6	372.
Metal Prod. (exclud. furniture)	162.2	100.0	125.0	182.5	258.6	340.3	445.7	497.3	764.
Cement & Clay Products	25.5	100.0	64.1	115.3	220.9	202.0	181.1	160.6	151.
Petroleum Prod.	291.7	100.0	14.7	618.4	303.9	334.6	116.4	101.6	165.
Soaps, Oils & Allied Prod.	105.9	100.0	84.5	286.1	358.3	374.0	343.7	337.4	356.
Other Industry	88.0	100.0	93.7	88.0	149.3	181.3	251.4	418.0	562.

Source: Bank of Jamaica.

Figures based on average of end of quarter outstandings, 1961 based on outstandings at the end of the 2nd, 3rd and 4th quarters.

As shown in Table 70 all banks but one had a higher proportion of manufacturing loans in their portfolios in 1969 than in 1962.

Bank 3 experienced the most rapid increase. Bank 4's share declined slightly in 1966 but had risen significantly by 1969. On the other hand, banks 1 and 2 showed decline between 1966 and 1969 reversing the direction of change between 1962 and 1966. Total loans and advances made by both of these banks fell between 1965 and 1967 or 1968 and it would appear that manufacturing was one of the sectors contributing to this decline.

Individual bank shares in total manufacturing (excluding sugar) was determined largely by the relative size of the banks. The three larger banks made over 80 percent of loans to the sector throughout the decade although these banks interchanged positions as leading lenders throughout the decade. The smaller banks have on average made slight gains collectively, but individually the share of one bank fell rapidly over the decade while that of the others increased.

Table 68

Shares of Banks in Total Lending to Other Manufacturing

	1961	1962	1963	1964	1965	1966	1967	1968	196[illegible]
Three largest Banks	92.8	89.2	88.9	90.1	87.9	90.0	90.9	88.7	85.5
Other Banks*	7.2	10.8	11.1	9.9	12.1	10.0	9.1	11.3	14.5

Source: Bank of Jamaica.

* 1961-1967 = 3 banks; 1968 and 1969 = 4 banks.

Table 69

Index of Final Output of Manufacturing Industries Other than Sugar (1962 = 100) 1961 - 1969

	1961	1962	1963	1964	1965	1966	1967	1968	1
Beverages	91.3	100.0	112.2	123.9	134.4	148.0	152.8	173.2	18
Food (excl. sugar)	95.8	100.0	114.9	129.0	138.8	151.5	162.2	165.4	17
Tobacco & Tobacco Processing	82.3	100.0	135.8	176.9	140.3	152.9	155.3	188.7	18
Printing, Publishing, Advertising & other paper products	99.8	100.0	125.1	137.5	149.1	171.3	200.8	219.4	23
Textiles, Leather & Footwear	90.1	100.0	112.9	128.7	136.7	148.9	168.4	188.6	19
Wood & Wood Products, Furniture and Fixtures	99.7	100.0	104.5	112.8	119.9	129.8	140.5	149.4	16
Metal Prod. & Repair	100.4	100.0	112.6	127.2	152.4	175.1	187.5	201.9	22
Cement & Clay Prod.	105.7	100.0	113.2	133.9	158.2	175.7	175.7	206.1	21
Chemicals & Chemical Products	95.3	100.0	111.7	124.0	145.3	166.6	216.0	242.7	27
Misc. Manufacture & Repairs	92.5	100.0	122.3	131.9	141.1	154.9	198.0	374.8	41
Total									

Source: Department of Statistics, National Income and Product., 1968 and Economic Survey, 1969.

Table 70

Share of Loans to Manufacturing (excluding Sugar, Rum and Molasses) in Bank Portfolios. (Selected Years)

	1962	1966	1969
Bank 1	14.3	16.8	8.0
2	14.3	32.7	24.0
3	7.2	15.5	27.9
4	10.1	9.8	13.7
5	2.5	5.3	7.1
6	9.7	14.6	19.9
New Banks since 1959+	11.2	15.9	17.6

Source: Bank of Jamaica.
+ 2 banks for 1962 and 1966; 3 for 1969.

Agriculture

Agriculture may perhaps be regarded as the problem area of bank financing in Jamaica. A lagging sector, it has been recognized as being in urgent need of financing for some time. Credit to agriculture is, however, considered a difficult area to supervise and control, and if this cannot be done problems of collection will arise. Misapplication of funds appears to be a problem in the industry and some banks elsewhere in the Caribbean are known to have sustained losses in this respect. In those instances banks have discovered that recipients of unsecured loans were just not responsible enough to repay their loans. Indeed, many banks consider that they are not equipped to control the use and ensure collection of agricultural loans on a large scale. Moreover, many farms require total financing rather than working capital, and the banks are normally more reluctant to undertake this type of venture. Banks, therefore, appear to welcome the recent increase in government activity in the area as they claim that government is better equipped to supervise and control the use of the funds loaned to farmers.

The position of agriculture and fishing as a user of credit has fallen from 5th to 7th place between 1962 and 1969 (Table 58) but the index of average credit outstanding with 1962 as base stood at 144.1 in 1969. This index had fluctuated considerably over the period being below 100 in 1963 and 1964 and rising to 155.8 in 1965, falling to 106.5 by 1967 and then rising to the 1969 level. The

magnitude of the fluctuations reflect year-to-year variations in the level of loans outstanding to sugar-cane farmers, the index of loans to other agriculture having risen for all years except 1967 and being as high as 241.5 in 1969.

The data in Table 71 shows that over the decade the chief areas of loan expansion were pigs and poultry, mixed farming and dairy and cattle farming in that order. Credit to sugar-cane farmers, fluctuated widely about a stationary level, but similar variations in citrus took place around a sharply falling trend. Loans to the banana industry were for the most part above the 1962 level. Finally, credit to other crops rose early in the decade and then fell sharply between 1965 and 1967 rising again at the end of the decade.

With regard to the relative shares of the industries, the proportion of credit to sugar-cane farmers, bananas and citrus fluctuated around a falling trend while the shares of the other sub-sectors rose. In 1969 sugar-cane farmers were still the leading recipients of bank credit followed by mixed farming, dairy and cattle rearing and other crops. Bananas and citrus had both fallen, the former from 3rd to 6th place and pigs and poultry which had the smallest share in 1961 and 1962 was now fifth. Banks have been participating in the financing of the cattle industry under an AID scheme.

Table 71

Index of Loans Outstanding to Agriculture
(1962 = 100)

	1961	1962	1963	1964	1965	1966	1967	1968	196
Sugar-cane farmers	80.0	100.0	66.4	82.7	154.9	146.8	80.2	95.0	102.
Banana	114.4	100.0	146.3	131.9	129.2	135.0	79.8	101.2	129.
Citrus	124.4	100.0	72.6	86.7	160.7	51.9	37.8	83.7	39.
Other Crops	114.4	100.0	158.3	138.5	73.8	68.4	88.2	130.5	236.
Dairy & Cattle Rearing	80.1	100.0	94.7	91.9	154.3	179.9	125.8	144.0	149.
Pigs & Poultry	107.5	100.0	113.2	77.4	152.8	243.4	432.1	467.9	682.
Mixed Farming	129.2	100.0	101.6	124.9	295.1	277.3	228.1	320.5	363.

Source: Bank of Jamaica.

Table 72

Index of Final Output in Agriculture 1961 - 1969
(1962 = 100)

Export Agriculture	1961	1962	1963	1964	1965	1966	1967	1968
Sugar Cane	95.3	100.0	152.7	139.0	115.2	121.9	123.0	128.2
Other Main Exports	98.2	100.0	111.6	114.3	111.7	119.3	136.6	124.7
Domestic Agric.								
Root Crops	90.9	100.0	97.2	105.3	144.5	171.5	151.1	156.1
Other Primary Prod.	98.2	100.0	111.9	117.9	122.6	133.1	144.0	136.4
Livestock and Hunting	99.2	100.0	107.5	113.0	125.4	134.8	157.0	170.0
Fishing	92.8	100.0	83.3	93.4	111.1	124.5	126.4	122.5

Source: Department of Statistics, National Income and Product, 1968.

Table 73

Composition of Loans to Agriculture,
1961 - 1969 %

	1961	1962	1963	1964	1965	1966	1967	1968	196
Sugar-cane Farmers	51.2	58.3	44.8	51.0	57.7	56.7	46.4	44.3	41.
Banana	10.9	8.7	14.7	12.1	7.2	7.8	6.9	7.0	7.
Citrus	6.2	4.6	3.8	4.2	4.7	1.6	1.7	3.1	1.
Other Crops	7.9	6.3	11.6	9.2	3.0	2.8	5.5	6.6	10.
Dairy & Cattle Rearing	12.4	14.1	15.5	13.7	13.9	16.8	17.6	16.3	14.
Pigs & Poultry	2.1	1.8	2.3	1.5	1.7	2.9	7.7	6.7	8.
Mixed Farming	9.2	6.2	7.3	8.2	11.8	11.5	14.1	16.0	15.
Total	99.9	100.0	100.0	99.9	100.0	100.1	99.9	100.0	100.

Source: Bank of Jamaica.

Banks accept crop liens as security for sugar and tobacco. They also require that such crops be insured, although the cost of insurance is so high that it is sometimes foregone. In addition to this, marketing is so organized that the banks can arrange for the buying processors to make payments for their purchases through the banks. The bank is thus able to recover the loans without too much difficulty. Some bankers, however, point to certain risks in lending money for sugar cane growing in Jamaica. Apart from the uncertainty

of the crops as a result of natural causes, three factors seem to threaten the successful realization of the bank's investment - (a) frequent burning of cane fields; (b) the difficulty of obtaining labour to cut canes; and (c) there are problems in getting the cane transported from the fields to the factory. In addition, there is the problem that a farmer who arranges for the purchasing factory to repay the loan directly to the bank out of the proceeds of the sale, may send his canes to the factory with somebody else's canes. This, however, appears to be a problem that could easily be overcome if the bank is sufficiently vigilant in the cane-cutting season, knowing when the harvesting season starts and keeping in touch with the borrowers. Most other types of agricultural lending is secured by land.

Government efforts to assist farmers with commercial bank loans have not so far met with success. In 1965, the Farm Loans Act was enacted to provide for government incentives for certain types of intermediate term agricultural credit guarantees of commercial bank loans of up to 90 percent of the cost of farm implements purchased and for the same percentage for the purchase and installation of farm equipment. For other purposes, the government undertook to guarantee 80 percent of the loan. The maximum loan was originally $5,000, but was subsequently raised to $20,000. The repayment period of such loans ranged from three years to seven years depending on the purpose of the loan.[1] Interest rates on

[1]Government of Jamaica, Farm Loans Act, 1965.

loans made under the scheme were to be 5½ percent. The scheme has not been a success allegedly because farmers dislike the extensive paper work involved, and, secondly, they resent having to disclose their business to government extension officers who have to inspect farms to protect government's interest. It is believed that this resentment is partly due to a fear that government agricultural officers may be agents of the income tax authorities. Up to December 1969 loans amounting to $258,944 were made under the scheme, and loans outstanding amounted to $160,186, 1.7 percent of the total commercial bank loans outstanding from the agricultural sector. Details of loans granted since the Act was brought into effect are:

Table 74

Loans Under Farm Loans Scheme as at 31 December, 196[illegible]

Purpose of Loan	Number of Loans	Amount ($J)
Cattle Farming	30	96,622
Poultry Farming	14	41,590
Agricultural Equipment	13	46,280
Irrigation	1	6,000
Vegetable Farming	1	1,600
Other	26	66,852
	85	258,944

Source: Bank of Jamaica. Review of Economic Conditions, March 1970, page 43.

It would appear that if external finance is to play any significant part in lifting domestic agriculture out of its present state of sluggishness, a new type of outlook on such finance will be necessary. First, lenders will have to become more involved in the projects they are financing, by having on their staff persons competent to assess and evaluate farm projects so that they may be better able to assess the quantity of funds needed and the probable success of the undertaking for which funds are advanced. In other words, if banks are to play a major part in agricultural development they should have a real sense of participation in the project being financed. At least one bank in Jamaica now has facilities for a better evaluation of farming projects.

The other possibility is for banks to participate in the financing of well-planned agricultural rehabilitation schemes, perhaps along with the government who will provide such things as irrigation, perhaps land for the settlement of experienced but landless farmers, the advice and direction of technical personnel. One bank has already set up a pilot scheme for a sugar-cane project with government support in the provision of facilities such as irrigation. There is need for this type of project to be extended to other crops and to other areas. Whatever course is taken, however, if banks are to play a more significant role in agriculture some of their staffs will have to be recruited from persons who have training and experience in agriculture. This would shift the emphasis in lend-

ing away from the provision of first class security to the assessment of the need for funds and the probability of success of the undertaking financed. It would also enable banks to extend their loans beyond mere working capital and minor equipment purchased through instalment credit plans.

Building & Construction and Land Development

Banks are playing an increasingly important role in the financing of the building and construction industry and various forms of land development. Over the period 1961 and 1969 the share of such loans in the banks loan portfolio rose from 7.6 percent to 12.7 percent, and between 1962 and 1969 the increase in dollar value in nominal terms of such loans was 307.5 percent in the case of building and construction and 368.6 for land development. This was the 4th and 2nd highest increases among the sectors over the period.

Bank loans to these sectors are made mainly for what is called bridge finance. Long term lenders for housing would not mortgage a building until it is completed. In the meantime funds to carry out such work has to be advanced by the banks. Developers, contractors, and so on repay bank loans out of mortgage funds which the purchasers of houses raise on the completed building. Similarly, developers of land for housing use bank funds to develop their lots and to install roads and other facilities, and repay the banks from

the proceeds of the sale of the lots.

Lending to the builder and contractor is considered a fairly risky type of investment. With regard to builders, bank finance is used with the expectation that the loan will be repaid from mortgage finance provided by some institutions engaged in long-term finance. The extent of finance so provided would depend on the valuation of the completed building. If the project is not properly supervised, it is quite possible that the valuation placed on the building may be less than the amount spent in which case there will be difficulty in repaying the bank. With regard to lending to contractors there are other problems. Many projects are allotted to contractors by tender. In his effort to obtain the project the contractor may well submit a tender lower than what the project will cost him. Also, he may have other problems, labour being the most problematical.

For these reasons some banks prefer to make loans for building and construction and land development on a project by project basis, the credit being drawn down by the presentation of demand notes as the project is completed. The borrower is required to submit certificates from quantity surveyors or architects stating the value of completed work. Where the arrangement is not on a project by project basis, banks may lend by overdraft, but they tend to be extremely severe on borrowers who exceed their limits or whose accounts fail to revolve as expected.

Bank loans for building and construction and land development

reached a peak in 1965 and then fell off again until 1968 and 1969 when a new peak was reached. While all banks participated in lending, the general situation was for some banks to be dominant; but the shares of individual banks showed some steep ups and downs in a relatively short period of years.

In 1961, it was Bank D which did the bulk of the lending with 42.8 percent of the loans for building and construction and 47.5 percent of loans to land development. This bank maintained its share of building and construction loans up to 1964, but thereafter its share fell sharply and almost continually to 19.5 percent in 1969. On the other hand, Bank B whose share of Building & Construction loans fell from 28.1 percent in 1961 to 25.9 percent in 1964 became the largest lender in 1965 and increased its share rapidly to 55.5 percent in 1967, 59.7 percent in 1968 and 54.2 percent up to 1969. In lending for land development, too, this bank has been the leading lender since 1966. After being second to Bank D up to 1963 and to Bank E in 1964 and 1965 this bank became the third largest lender in 1965 with a share of 16.7 percent but went into first place in 1966 and has since increased its share of the market significantly. The other banks experienced sharp ups and downs. Banks C and E both increased their shares at about the middle of the decade. In land development, Bank E became the largest lender in 1964 and 1965 with 33.2 percent and 42.8 percent respectively, but thereafter its share of loans declined rapidly,

Table 75

Bank Shares of Loans to Building and Construction
(1961 - 1969)

Bank	1961	1962	1963	1964	1965	1966	1967	1968	196
A	5.2	5.8	5.5	6.6	4.7	4.0	3.1	4.0	12.
B	28.1	27.0	26.1	25.9	30.6	38.4	55.5	59.7	54
C	11.2	12.7	14.1	16.9	14.4	16.8	12.2	4.7	3.
D	42.8	42.8	42.4	40.2	26.7	28.8	24.9	21.4	19
E	0.5	0.6	3.0	4.6	21.1	9.7	2.3	5.8	3.
F	12.2	11.1	8.9	5.8	2.4	2.2	2.0	1.6	1
New banks since 1959	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100

Source: Bank of Jamaica.

Table 76

Bank Shares of Loans to Land Development
(1961 - 1969)

Bank	1961	1962	1963	1964	1965	1966	1967	1968	196
A	0.6	0.2	0.1	0.4	0.7	1.6	1.1	1.4	2.
B	26.2	32.9	27.6	20.9	16.7	41.8	63.1	78.0	6
C	2.3	3.7	7.7	14.5	16.9	5.5	5.3	3.1	1.
D	47.5	34.8	31.3	18.5	11.9	16.3	15.5	7.6	2
E	1.2	5.6	16.5	33.2	42.8	21.3	1.7	1.3	1
F	22.3	22.8	16.9	12.6	11.0	13.4	13.3	7.9	4.
New banks since 1959	a	a	a	a	a	a	a	9.9	1

Source: Bank of Jamaica.

a Already included.

Table 77

Share of Building and Construction Loans in Bank Portfolio
(Selected Years)

	1962	1965	1966	1969
Bank 1	9.2	3.4	4.2	3.8
2	3.0	3.9	4.7	1.6
3	0.6	13.0	9.5	6.0
4	2.7	4.6	4.6	8.4
5	5.2	5.0	3.8	16.3
6	6.8	5.9	5.7	5.3
New Banks since 1959	5.5		7.7	5.9

Source: Bank of Jamaica.

Table 78

Share of Land Development Loans in Bank Portfolio
(Selected Years)

	1962	1965	1966	1969
Bank 1	14.2	21.9	20.9	10.1
2	0.7	6.0	1.3	0.6
3	4.5	34.2	17.4	1.6
4	2.5	3.2	4.2	8.5
5	0.2	0.9	1.3	2.3
6	4.2	3.4	2.7	4.6
New Banks since 1959	10.0		18.6	5.5

Source: Bank of Jamaica.

Table 79

Bank Variations in Size and No. of Loans to Building & Construction and Land Development

Bank L

Date	Building & Construction		Land Development	
	No. of Accounts	Average Outstanding per Account $'000	No. of Accounts	Average Outstanding per Account $'000
June, 1966	1	1270.8	5	218.4
September, 1966	1	14.6	2	18.2
September, 1967	4	6.4	3	34.2
September, 1968	4	135.0	4	21.0
September, 1969	2	283.1	3	49.4

Bank M

Date	Building & Construction		Land Development	
	No. of Accounts	Average Outstanding per Account $'000	No. of Accounts	Average Outstanding per Account $'000
September, 1966	572	4.4	242	10.0
September, 1967	984	4.0	365	12.0
September, 1968	1059	6.0	368	13.6
September, 1969	1400	5.7	507	16.7

Bank N

Date	Building & Construction		Land Development	
	No. of Accounts	Average Outstanding per Account $'000	No. of Accounts	Average Outstanding per Account $'000
December, 1966	25	11.6	5	20.0
September, 1967	29	8.0	6	12.4
September, 1968	38	5.6	45	2.2
September, 1969	39	38.3	40	7.2

Source: Bank of Jamaica.

reaching as low as 1.7 percent in 1967 and remaining at that level thereafter. The experience of this bank in the building industry was similar but the magnitude of the fluctuations was smaller. Bank C also had similar trends in both sectors. The result is that at the end of the decade banks B and D both did the lion's share of lending, although these banks have switched places in the lending hierarchy.

The sharp fluctuation in bank shares is indicative of the type and size of projects financed. For example, much of the residential construction in Jamaica has taken the form of large housing schemes requiring large scale financing. It would appear that banks provided bridge finance for these projects but when the loans were repaid on completion of the projects their outstanding loans fell sharply. The problem shows up particularly in figures for banks C and E, but is also demonstrated in Table 80. Another feature of the sector is relevant. The large schemes gave the industry its shot in the arm but a number of small and medium sized operators are now also involved in its continued expansion. This had led to an increasing share of loans going to the 'retail' banks. It may also explain in part why Bank D's share fell almost throughout the period.

For purposes of comparison with the final output of the construction and installation sector the combined index of bank credit for building, construction and land development has also been computed. After being stationary between 1962 and 1963 the

final output index has displayed a relatively steady rise throughout the decade.

Table 80

Index of Bank Credit Outstanding to the Building, Construction and Land Development Activities Combined (1962 = 100)

1961	102.9
1962	100.0
1963	107.2
1964	150.6
1965	245.0
1966	196.1
1967	185.5
1968	267.7
1969	439.0

Source: Bank of Jamaica, Bulletin, various issues.

The combined index for bank credit increased slightly in 1963 due to continued activity on land development projects although credit for building activity was at a standstill. Output for the three years 1964, 1965 and 1966 increased by about the same percentage but bank credit increased by 43 percent in 1964, and 95 percent in 1965 but declined by 50 percent in 1966, reflecting that a number of projects started in 1965 were completed in 1966 at which time credit was repaid. Bank credit declined further reflecting a

lower level of output in 1967, but increased in 1968 and 1969 with the recovery of the industry.

Distribution

The distribution sector has always been the chief recipient of bank credit. The reasons for this should be obvious from our previous sections, namely, the short period for which the finance is required, its self-liquidating nature, and its link with the international sector. From the viewpoint of the economy as a whole this is disadvantageous mainly because of its weak backward linkages with the rest of the economy. Hence, loans to this sector create relatively little local income, but assist significantly in the transfer of income abroad.

If we try to estimate, however, the leakage of income arising as a result of the pattern of bank credit certain difficulties will emerge. The distributor holds his goods for a relatively short period after which it is sold to the final user. Bank credit may be given to both the distributor and the final user. The distributor pays his overseas supplier with bank funds then sells it to the final user and repays the bank out of his receipts. In this sense it may be argued that the leakage arises from the spending of the final user rather than to credit given to the distributor. This is especially so in the case of processing industries, for once a plant is set up based on imported raw materials it will have to import

regardless of the existence of a distribution sector. In fact, one reason for the decline in credit to distribution may be the fact that raw material imports which have displaced some proportion of imported consumer goods do not go through the distributor. When looked at from this point of view it can be argued that credit to distribution is not chiefly responsible for the leakages resulting from the imports of goods destined for the processing sector. In this sense for any given time period the leakage due to distribution could be equivalent to the net increase in stocks. The argument is, perhaps, not as strong in the case of personal consumption where distributors can influence the pattern of consumption. In the next section we attempt to estimate the leakage arising out of bank credit to the processing and some of the service sectors.

The importance of the distribution sector in total bank credit has fallen. Table 81 shows that the share of distribution in the loan portfolios of all banks has been falling. Bank 3's decline was the greatest. On the other hand, banks 1 and 2 declined and then rose again. The decline is due partly to the rapid growth of credit to other sectors resulting from changes in the economic structure, but also partly for the reason given above - some raw materials may be imported directly by manufacturers. It may also be indicative of the fact that the older firms in distribution have become less dependent on bank finance. Moreover, if the holding of stodks of locally manufactured goods is financed by trade credit rather than bank credit the latter will be expected to increase relatively slowly.

The shares of the various banks in credit to the distributive trades are given in Table 81. In spite of the markedly changes in the share of distribution in portfolios of the banks their relative shares have not varied significantly.

Table 81

Shares of Banks in Credit to Distribution, 1961 - 1969
(Percentages)

Bank	1961	1962	1963	1964	1965	1966	1967	1968	1969
M	32.8	35.0	37.5	36.9	39.4	40.1	38.4	42.2	36.4
N	34.8	28.9	28.3	28.4	29.9	33.1	32.6	30.2	31.8
O	9.7	7.4	7.7	8.1	8.0	6.8	6.5	6.6	7.2
P	18.3	20.0	19.1	18.6	16.6	14.9	17.6	16.2	18.6
New Banks since 1959	4.4	8.8	7.5	7.9	6.1	5.2	5.0	4.7	6.0

Source: Bank of Jamaica.

Estimation of External Leakages resulting from bank credit

This analysis is partial in the sense that it is confined to credit to the productive sectors excluding distribution, financial institutions, and government. It is assumed that the leakage of bank credit to any sector is proportionate to the import coefficient, adjusted to exclude profits and depreciation from total expenditure. These items are excluded because it is assumed that bank credit

Table 82

Estimation of External Leakages Resulting from Bank Credit

Industry	Original Coefficient	Disbursements[1] = Expenses less profits and depreciation	Revised Import Coefficient = Proportion of bank credit leakage	Proportion of Total Credit	Proportion of Credit of Sectors Included	Proportion of Credit Leakage + Proportion of Credit to Sector included + 100
Cane	.03144	.76370	.041168	.068796	.128112	.527
Export Agric.	.22564	.78179	.229825	.007800	.014525	.334
Domestic Agric.	.01545	.46891	.0329488	.015600	.029050	.051
Bauxite	.01353	.43954	.030782)	.031000	.057728	.276
Alumina	.13466	.65822	.204582)			
Construction	.11027	.82872	.133060	.127000	.236499	3.147
Food	.13581	.85727	.158491	.034476	.064438	1.021
Textiles	.37840	.82604	.458089	.007956	.014816	.679
Wood & Building	.30457	.78024	.390354	.012818	.023870	.932
Other Manufacturing	.56007	.87724	.638446	.051493	.095890	6.122
New Industries	.42317	.77600	.545322	.061880	.115233	6.284
Public Utilities)	.06544)	.73646	.088858	.047000	.087523	0.681
Transportation & Storage)	.04675)	.70435	.066373			
Misc. Services	.03201	.70786	.045120	.037000	.068901	0.311
Hotels, Clubs, Restaurants	.11558	.89611	.128980	.034000	.063315	.817

Source: Central Planning Unit, Input-Output Table (unpublished) and Bank of Jamaica.

[1] As proportion of total expenditure.

would be used for such financing. It can be argued that interest, indirect taxes and rents should be excluded, in which case the estimated leakage will be slightly higher. Table 82 sets out the basis of calculation. Using an input-output table for 1967 we were able to apply for each sector an important coefficient to the proportion of credit going to the sector in 1969 and to arrive at an estimate of the leakage per dollar of bank credit in that year. This amounted to 21.2 percent. The exercise was repeated for the manufacturing sectors only and resulted in a leakage of 37.5 percent. Leakage of bank resources to the personal sector will have been estimated on the basis of the average propensity to import. This has not been done. The exercise which was also repeated for the wider group of sectors for 1962 showed a leakage of 15.8 percent. This result together with the growth of personal lending may indicate that the leakage has been growing.

Summary

Traditionally, bank loans have been expected to embody two qualities, liquidity and safety, which must be reflected in the financial position of the borrower before and after he has received the loan. This has meant that bank loans have been short term and made primarily for the financing of the current assets of the borrower. Financial statements, preferably a series of them, are important aids in lending decisions. The inability of borrowers in

Jamaica to be in a strong financial position measured by the above criteria has made security a major factor in bank lending. There is, however, some tendency towards putting more emphasis on the borrower's ability to employ bank funds successfully, as measured not only by his own expertise but by trends in the economic and business environment generally.

The principal form of loan arrangement in Jamaica is the overdraft. This entails problems of control. Moreover, unused facilities could result in the banks maintaining relatively high liquid positions. Banks are gradually moving towards making more loans on a demand pro note basis, and in some banks there are attempts to estimate the borrower's requirements more accurately so as to avoid having to commit more funds than is needed by the borrower.

Longer term loans are made for capital expansion depending on the availability of funds. These loans may be for periods of three to five years sometimes with a moratorium on the repayment of the principal. One bank has even participated in house mortgages under the government guaranteed mortgage insurance scheme.

The most striking innovation in bank lending in the 1960's appears to be the growth of instalment credit which has contributed significantly to the massive expansion of personal loans. In this respect banks have been attracting business from other makers of this type of loan. Instalment loans are expensive to the

borrowers but it makes possible the expansion of small loans, and with some flexibility in interest rate policy this type of loan could well be extended to develop the small loan business to the productive sector.

The loan market is highly concentrated with three banks doing over eighty percent of the lending. The number of large borrowers is relatively small, the number of loan accounts with amounts of $100,000 and over outstanding at the end of September, 1969, being less than 1 percent. Some banks have gone heavily into the small loan business but they are still in the minority.

The other striking development is the increase in lending to the public utilities, manufacturing and construction. Lending to export agriculture has been declining but domestic agriculture, especially livestock, has been receiving more bank credit. Distribution has not been growing as fast as some of the other sectors. Some attempt has been made to measure the leakage resulting from bank lending to those sectors other than distribution, government, personal and professional and financial institutions. The results show that the leakage has increased between 1962 and 1969 mainly because of the high import coefficient in the expanding manufacturing sector. When this is added to the leakages arising out of the finance of the personal and professional category and distribution it is easy to see why uncontrolled credit expansion is likely to be reflected unfavourably in the balance of payments.

COSTS AND EARNINGS IN BANKING

Structure of Costs

Productive activity involves the transforming of factors of production or inputs of goods and services into outputs of other goods and services. Those directing such activities normally seek to use available supplies of inputs in combinations which would produce a given output at the minimum cost. Hence, as knowledge relevant to their activity increases and as their scale of operations expands they tend to adjust their input structure to achieve this end. In banking, the main inputs consist of the surpluses of economic units and labour. Banks compete with other intermediaries and with each other for available local funds, and when such resources are insufficient may turn to their Head Offices abroad when risk factors and costs are favourable. Differentiation within this category of input lies mainly in the rates of interest they pay for the use of such funds and the period for which they contract to use these funds. Competition has, however, forced the banks in recent times to vie for the more costly type of deposit.

With regard to the second main input banking has and is a relatively labour intensive industry. Banks have, however, during the last decade or so introduced various types of labour saving equipment, such as accounting and window posting machines, and one bank has now computerized its system of accounts.

Banks also have certain capital costs in the form of depreciation and rental of buildings and furniture and equipment.

Finally, there are expenses in respect of office supplies, telephone, postage, books and printing, advertising and so on.

In this section it is intended to look at the relative importance of the main components of bank costs, and their behaviour over the decade of the 1960's, and finally to relate these costs to the scale of bank output.

On the basis of the data available we can divide bank costs into two main categories: interest cost, and non-interest costs. Interest costs can further be divided between interest on savings deposits and interest on other interest bearing deposits. With respect to the latter, it would appear that some banks included in this category interest payments on funds received from their branches abroad. Others appear to have simply confined their reporting under this item to interest on items appearing in the balance sheet as fixed deposits, and reporting interest expenses in their direct branch account under other operating costs. Hence, depending on our particular area of enquiry interest costs given here may be either understated or overstated. The point is borne out by the following estimates of average interest paid on time deposits.

Table 83

Average Rates of Interest Paid on Fixed Deposits by Commercial Banks

Bank	1965-1969	1965
A	5.1	3.0
B	5.3	4.1
C	13.3	28.4
D	5.0	3.9
E	7.0	6.0
F	7.3	26.6

Note: Calculated by dividing interest earnings over the period by average deposits held.

Source: Bank of Jamaica.

Note that in 1965 when the proportion of balances due banks abroad by banks C and F was much greater than for the period as a whole the rates were much higher. The principal component of non-interest costs is remuneration to employers which includes gross salaries, wages, and other remuneration to employees, and superannuation contribution paid by the bank. It, however, excludes contributions to premiums for group sickness, accident and life insurance for employees which are included under other current operating expenses. Other non-interest expenses are broken down into provisions for depreciation, allowances for irrecoverable losses from defalcation, thefts, forgeries, tellers' shortages etc., and finally, all other current operating expenses not included in previous categories.

Table 84 shows the distribution of bank costs among the main categories: interest on deposits, remuneration to employees, depreciation allowances, allowances for losses and bad debts and other current operating expenses. Throughout the period interest payments accounted for about a third of operating costs, remuneration to employees, about a third, and other expenses about a third, but while the average share of interest costs over the last three years has risen above that of the two previous triennia that for remuneration of employees fell.

Interest costs tend to fluctuate with deposit interest rates which throughout the period have been fixed in some relation to the

Table 84

Commercial Banks, Jamaica: Distribution of Current Operating Expenses
%s

	1961	1962	1963	1964	1965	1966	1967	1968	1969
Interest on Savings Deposits	16.9	17.0	15.6	13.4	19.8	19.1	19.7	20.9	19.8
Interest on Other Deposits	16.2	17.6	16.3	16.2	16.3	16.6	13.4	17.9	16.5
Total Interest Expenses	(33.1)	(34.6)	(31.9)	(29.6)	(36.1)	(33.7)	(33.1)	(38.8)	(36.3)
Remuneration to Employees	35.0	31.5	35.1	36.5	32.7	31.3	30.1	28.7	29.6
Depreciation Allowances	4.7	4.0	4.0	4.4	3.4	3.1	3.2	2.7	2.6
Allowances for Losses and Bad Debts	0.9	2.2	4.8	2.1	2.0	0.9	3.8	3.8	4.2
Other Current Operating Expenses	26.2	27.8	26.4	27.4	25.8	28.9	29.7	25.9	27.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Jamaica.

Bank of Jamaica's rediscount rate. This rate has been influenced to some extent by external interest rates, particularly those prevailing in London. Deposit interest rates were especially low in 1964 as Table 85 shows and this accounts for the relatively low proportion of interest costs in that year.[1] On the other hand, they have been relatively high since late 1967, and this is partly responsible for

[1] The high percentage of interest costs shown in 1965 even though deposit rates were still relatively low appears to be due to the fact that banks C and F had relatively high proportions of balances due to banks overseas in that year.

Table 85

Commercial Bank Average Interest Rates
on Deposits 1961-1969

Date	Savings	3 months	6 months	12 months
1961	3.25	3.0	3.5	4.0
1962	3.375	4.0	4.5	5.0
1963	2.5	3.0	3.54	4.0
1964	2.1	2.6	3.1	3.6
1965	3.0	3.5	4.0	4.5
1966	3.25	3.75	4.25	4.75
1967	3.375	3.83	4.29	4.75
1968	3.75	4.167	4.50	4.83
1969	3.42	3.92	4.42	4.92

Source: Bank of Jamaica Bulletins. Average of published monthly data.

the higher average proportion in the last three years. Interest costs would also be influenced by the shifting composition of deposits away from demand deposits on which there are no interest costs to interest bearing savings and fixed deposits. Both of these have increased their share of total deposits over the period. The proportion of savings deposits levelled off and even fell slightly in the later years, but the share of fixed deposits experienced a sustained rise. The effect of this would be, other things being equal, to raise the share of interest costs.

With regard to the costs of remuneration of employees we do

not have the data which would permit a precise analysis, but bank employment has been expanding with the rapid expansion of bank offices and banks assets. One suspects that salary levels and fringe benefits have been rising with the increased competition for staff, and with the rise in the cost of living, although restrictions on the employment of expatriates probably have reduced some costs. The share of labour costs over the decade have, however, tended to fall rather than rise.

Of the other specified costs the share of depreciation allowances has been falling but allowances for losses and bad debts have been rising. No breakdown of this latter category is available but increases in the share of allowances for bad debts may reflect more liberal lending policies by some banks, or inadequate processing of loans applications. Increases in losses, on the other hand, may be the result of inadequate internal security arrangements as the banks expand as well as losses due to incidents such as bank robberies. This has, however, become a bit of a problem only in the latter part of 1970.

Finally, the category "other operating expenses" has fluctuated about a fairly stable proportion throughout the sixties. The figures should reflect the rising costs of expenditure in various services and on materials purchases, but it may have been influenced by interest charges paid to the direct branch account by those banks which classify such charges under this category.

Structure of Earnings

Banks derive income from the performance of a number of functions - making loans and advances, investments, administering payments on current accounts, selling foreign exchange, collecting trade bills and local bills for public utility companies, and for the safe keeping of valuables. As Table 86 shows interest on loans and advances are by far the largest component. Its variation reflects the volume of lending as is seen by the high ratio for 1961 and the

Table 86

Composition of Bank Earnings, 1961 - 1969

Type	1961	1962	1963	1964	1965	1966	1967	1968	1969
Interests on Loans & Advances and Discounts	76.5	75.4	67.2	60.9	67.9	69.1	70.7	69.7	71.1
Interest, Dividends etc. on Securities	2.5	4.9	7.1	8.5	7.1	6.2	5.7	7.8	6.1
Exchange Commissions & Service Charges	20.6	18.3	19.7	20.5	18.8	18.2	18.8	19.0	17.7
Other Current Operating Earnings	0.3	1.4	6.1	10.1	6.2	6.6	4.8	3.5	4.5

Source: Bank of Jamaica.

low ratio for 1963, and the interest rate on loans as is demonstrated by the low ratio for 1964. Foreign exchange, commissions and service group consists of a number of different categories including commissions

on bills, ledger fees and so on. Foreign exchange earnings could be affected mainly by the volume of remittances, but also by the rates charged on commissions. Because of the number of components in this and the other earnings group it is difficult to analyse the movements.

It is perhaps useful to relate the cost components of the industry to current operating earnings. This is done in Table 87. The relative importance of the components has already been noted.

Table 87

Distribution of Bank Expenses, %

	1961	1962	1963	1964	1965	1966	1967	1968	1969
Total Current Operating Earnings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Interest on Savings Deposits	12.6	13.7	13.7	11.0	15.1	15.8	16.4	18.0	15.9
Interest on Fixed Deposits	12.0	14.1	14.3	13.3	12.4	13.7	11.2	15.4	13.3
Remuneration to Employees	26.0	25.3	29.6	30.0	24.9	25.8	25.0	24.7	23.8
Depreciation	3.5	3.2	3.5	3.6	2.6	2.5	2.7	2.3	2.1
Allowances for Losses & Bad Debts	0.7	1.8	4.2	1.7	1.5	0.7	3.2	3.3	3.4
Other Current Operating Expenses	19.5	22.4	22.3	22.5	19.7	23.8	24.6	22.4	21.9
Taxes	10.3	9.4	8.9	6.8	7.5	6.5	6.0	5.5	5.5
Net Profits	15.5	10.1	3.6	11.1	16.4	11.1	11.0	8.7	14.1

Source: Bank of Jamaica.

Profits, the new item, tend to be highest in the peak lending years, 1961, 1965 and 1969, and lowest in poor lending years, for example, 1963. The proportion going into taxes has been declining, although it rose in 1965 when profits were at their highest.

In the next two sections, it is desired to analyse first the trend of costs in relation to activity in the industry over the decade of the sixties, and secondly, to relate costs to the scale of banking activity over a given period of time.

Trends in Unit Costs and Earnings

There are a number of difficulties involved in trying to relate costs to the level of activity in the banking industry. Ideally, for single product commodity producing industries it is practicable to count the number of units produced over a stated time period and to use this as an index of the scale of activity of the plant, firm or industry. Cost factors can then be related to the production of the firm or industry to determine cost/output relationships. For a joint or multiproduct commodity producing industry we can use various price weights to reduce output to some common denominator in order to carry out the analysis. When we are dealing with a service industry there are various difficulties involved in counting the units of output. In the simplest case of a single-service fairly homogeneous industry, such as barbering, it is possible to divide gross earnings by the price of the service and to derive

from this an estimate of real output. When, however, a variety of services are performed, the matter of defining output can present complex problems. The banking industry is a multi-service industry in which it is difficult to identify closely enough services which may appear to be of the same name. A loan transaction for $1,000 and one for $100,000 may be essentially different with respect to gross earnings and risk and perhaps rate of interest.

For some bank activities it may be possible to obtain in some sense a count of the number of units serviced, e.g., number of loan and deposit accounts. Bank earnings are, however, more related to the value of the transaction than to the number of transactions. Even where charges are levied per transaction as in ledger entries for current account the number of free entries is determined by the minimum dollar balances maintained in the account over a given time period. Similarly, some charges on bills for collection are on a transaction basis but commission charges on such bills and on travellers' and commercial credits and lendings on foreign exchange are related to the dollar value of the transaction. Banking statistics are usually made available in terms of the value of balance sheet rather than either in value of transactions or number of transactions.

One approach to dealing with the multiproduct problem is to divide banking activity into main service categories, and then to relate the cost of each category to its output. For example, the

cost of servicing demand accounts can be separated from that for time deposits or from business loan accounts and consumer loan accounts/one can investigate whether unit costs for each product varies with the size of the operation. One is still left with the problem of whether to define output in terms of balance sheet values or in terms of number of accounts or number or value of transactions, though it is possible to relate costs to some of these factors holding the others constant.[1]

The data available on costs and earnings for this study does not permit this type of analysis firstly, because cost data is not disaggregated and, secondly, because data on the number of accounts or the number and value of transactions is not available for all banks and for all types of banking activity.

Alternatively, a more aggregative approach using value data can be used with attempts to isolate the effects of bank size on costs and earnings from the structural characteristics of assets and liabilities.[2] In some studies balance sheet items indicative of the scale of operations are used as measures of output. Some studies use loans and investments[3] or earning assets as yardsticks

[1] See, for example, Frederick W. Bell and Neil B. Murphy, Economies of Scale in Commercial Banking, Federal Reserve Bank of Boston, 1967, for an analysis in the basis of number of accounts and average size of accounts.

[2] Lyle E. Gramley, A Study of Scale Economics in Banking, Federal Reserve Bank of Kansas City, p. 12.

[3] D. Alhadeff, Monopoly and Competition in Commercial Banking, page 77.

of the scale of operations. Others use total assets.[1] In Jamaica not all the main banking activities are reflected in the balance sheet. Foreign exchange earnings, in particular, account for a significant proportion of the 18 or 20 percent of gross operating earnings attributed to exchange, commission, and service charges. For much of the analysis which follows we have used total assets as a rough measure of the scale of operations, as this would include loans and investments and the value of letters of credit, guarantees and acceptances all of which are income producing items in the balance sheet. It is assumed further that there is some appropriate relationship between the proportion of assets held and the proportion of foreign exchange business transacted. Table 38 shows the extent to which the relative share of assets held and of exchange, commission and service charges correspond over the 5 year period 1965-1969. The order of importance of these banks are the same with respect to both variables but differences in shares of individual banks vary from 0.16 percent to as much as 5.46 percent.

The other measure of output which has been suggested as appropriate is that of gross current operating earnings as this represents the sum of all services multiplied by their respective prices. To be an acceptable measure of banking activity earnings

---

1 Lyle E. Gramley, A Study of Scale Economics in Banking, Federal Reserve Bank of Kansas City, 1962, p. 13.

Table 38

Comparison of Banks' Shares of Assets and Earnings of Commission & Exchange and Service Charges

Bank	Share of Assets %	Share of Exchange, Commission & Service Charg
A	5.67	7.85
B	41.48	36.02
C	16.43	14.75
D	29.07	33.17
E	4.73	5.54
F	2.61	2.77

Source: Bank of Jamaica.

would have to be corrected for price changes if a period exceeding one year is being considered. Our impression is that commission charges have been fairly stable,[1] but that gross non-interest earnings have risen mainly on account of the increase in the number and value of transactions. Interest earnings on loans and investments can be corrected by an index of prime lending rates. Interest dividends and trading profits on securities can be deflated by an index of Treasury Dill rates as Treasury Bills are the most widely held form of security and rates on interest bearing deposits at the Central

[1] Since then the banks have, however, become more cost conscious and some of them are now engaged in re-organizing this aspect of their operations.

Bank are fixed in relation to the Treasury bill rate. On the cost side, too, similar adjustments should be made to interest costs, remuneration to employees, and other operating costs. Where we have used this measure of output we have adjusted only interest costs as the statistics correcting the other components of cost was not available.

The current operating earnings measure has the advantage that it takes into account activity in respect of services which are not reflected in the balance sheet, the most important of which is foreign exchange earnings. The other advantage is that every dollar of activity taken into account in the balance sheet is given the same weight, whereas in the current operating earnings approach services are weighted by their prices. This is perhaps more appropriate as the processing of loans appear to require more expertise than investing the major part of which would be either in some form of government or Central Bank security, or with head offices overseas.

Furthermore, banks are more likely to charge higher rates for the type of loans which require more expertise and labour with respect to their / processing and collection. What is perhaps of doubt is whether in a system where prices are dictated on the supply side the relative weights assigned by prices reflect truly the relative value of the services.

The other factor which may cause some concern is that the

use of a measure focussed mainly on the asset side of the balance sheet may not take into account differences in the structure of liabilities, and hence in the relative value of services performed with respect to the various types of deposit accounts. It may be argued that rates of earnings are fixed so as to cover the cost of servicing these liabilities, yet a bank is more prone to raise its interest rates on loans in response to an increase in the proportion of its term deposits rather than an increase in the proportion of its demand deposits, although the latter is more costly in terms of the input of services in the form of ledger entries and control.

Finally, the extent of analytic refinement which can be achieved through the use of statistical methods is limited by the fact that we will be dealing with only six observations. Hence, holding various balance sheet variables constant through such techniques as multiple regression in order to isolate these effects on the cost variable is almost impracticable.

To study the behaviour of costs in relation to aggregate banking activity over the decade we divide costs and earnings into interest-sensitive and non-interest sensitive categories. Interest rate charges affect both the cost and earnings side of banking, but non-interest sensitive costs are related more to price changes of inputs of real goods and services, and to the degree to which these are utilized in productive activity. As prices of inputs rise it is rational for the producer in seeking to maximize profits to use

Table 89

Cost Relationships in Commercial Banking, 1962-1969 in dollars

	1962	1963	1964	1965	1966	1967	1968	1969
Return per $100 of Loans & Investments	6.968	6.269	5.407	6.375	6.886	7.149	7.544	7.162
Gross Earnings per $100 of Assets	6.553	5.858	5.695	6.242	6.635	6.812	7.331	7.091
Gross Earnings per $100 of Earning Assets	8.203	7.466	7.081	7.799	8.387	8.544	9.276	8.961
Interest Costs per $100 of Earning Assets	2.863	2.373	1.898	2.477	2.767	2.521	3.244	2.808
Non-Interest Costs per $100 of Earning Assets	3.746	4.091	3.921	3.460	4.139	4.569	4.715	4.207
Interest Costs per $100 of Total Assets	2.286	1.862	1.526	1.982	2.189	2.010	2.564	2.222
Non-Interest Cost per $100 of Total Assets	2.853	3.210	3.154	2.770	3.275	3.642	3.726	3.329
Effective rates of Interest-Bearing per $100 of bank liabilities	3.918	3.109	2.500	3.232	3.555	3.348	4.413	3.378
Difference between Loans & Investments & Interest paid	3.050	3.160	2.907	3.143	3.331	3.801	3.131	3.784

Source: Bank of Jamaica records.

different combinations of inputs or to replace some of the goods utilized by others within the limitations given by the existing state of knowledge and the scale of his operations.

In Table 89 we show a number of relationships in respect of costs and earnings to various balance sheet aggregates. The effect of interest rate variations is clear with regard to measures of interest costs and returns.[1] For example, as with published interest rates both interest costs and earnings are at their lowest in 1964 and their highest in 1968. Behaviour of average interest returns and average interest costs move in opposite directions in 1966 and 1967 however. Published interest rates are slightly higher for 1967 than for 1966, but borrowing from abroad was a great deal less in 1967. On the income side the share of loans in the loan/investment portfolio was less in 1966 than in 1967.

Table 90

Bank Loans as a % of Loans & Investments

Year	%	Year	%	Year	%
1962	85.7	1965	82.5	1968	79.6
1963	76.3	1966	85.2	1969	80.3
1964	70.5	1967	82.3		

Source: Bank of Jamaica records.

[1] Compare the movements of the rates with Table 85.

Non-interest costs per $100 of assets or earning assets appear to have risen especially when asset growth was sluggish as in 1963, but tended to fall when asset growth showed sustained high growth rates. Hence, in 1965 there was a significant fall in non-interest costs following the rapid increases in bank assets in 1964 and 1965. This happened again in 1969 after significant asset growth in 1968 and 1969. For periods when assets grew more modestly such as 1966 and 1967 non-interest costs per dollar of assets rose. In spite of these fluctuations non-interest costs per $100 of assets increased at an average of .0938 dollars per annum, and as Table 92 shows this is due to costs other than remuneration to employees.

Table 91

Percentage Increases in Bank Assets, 1961-1969

Year	Total Assets	Changes over Previous Year	% Changes over Previous Year
1962	129.2		
1963	131.9	2.7	2.1
1964	153.8	21.9	16.6
1965	182.8	29.0	18.9
1966	197.8	15.0	8.2
1967	221.0	23.2	11.7
1968	261.0	40.3	18.2
1969	334.5	73.2	28.0

Source: Bank of Jamaica.

Table 92

Comparison of Remuneration to Employees and Other Non-Interest Costs per $100 of Commercial Bank Assets

Year	Remuneration to Employees per $100 of Bank Assets $	Other Non-Interest Cost per $100 of Bank Assets $	Total Non-Interest Cost per $100 of Bank Assets %
1962	1.660	1.193	2.853
1963	1.779	1.431	3.210
1964	1.707	1.447	3.154
1965	1.553	1.217	2.770
1966	1.712	1.563	3.275
1967	1.700	1.942	3.642
1968	1.808	1.918	3.726
1969	1.659	1.670	3.329
Average Annual increase per $100 of Assets	.0033	.0905	.0938

Source: Bank of Jamaica records.

It is expected that banks will try to offset per unit increases in costs by moves to increase output per unit of input or by increases in the prices of their services. It is of interest, therefore, to be able to assess to what extent these increases in

Table 93

Net Current Operating Earnings and Net Interest Sensitive Earnings per $100 of Bank Assets

Year	1962	1963	1964	1965	1966	1967	1968	1969	Average Annual Increas
Net Current Operating Earnings per $100 of Assets	1.25	0.77	1.02	1.49	1.17	1.16	1.16	1.38	0.035
Net Interest Sensitive Earnings per $100 of Assets	3.04	2.30	2.58	2.75	2.88	3.35	3.19	3.39	0.082
Difference (Net current operating earnings - net interest sensitive earning = net non-interest sensitive earnings per $100 of Assets	-1.79	-2.03	-1.56	-1.26	-1.71	-2.19	-2.03	-2.00	-0.046

Source: Bank of Jamaica.

cost were matched by increases in non-interest earnings. Net interest sensitive earnings is equivalent to interest earnings on loans and advances plus interest earnings and capital gains or losses on securities less interest costs. Net non-interest sensitive earnings is the difference between non-interest earnings and non-interest costs. A rise in any of the ratios in Table 93 shows an increase in earnings over costs; a fall shows the opposite. Net current non-interest sensitive earnings are shown by the differences between net current

operating earnings and net interest sensitive earnings. All these series show a great deal of fluctuation but on average net current operating earnings per annum increased by about 3.5 cents per $100 of assets while net interest sensitive earnings increased by about 8.2 cents per annum. On the other hand, non-interest sensitive earnings fell on average by about 4.6 cents per annum.

The marked rise in non-interest sensitive earnings in the peak years 1965 and 1969 appears to be partly due to the nature of the measure and to the lag in costs behind loan and other asset expansion. But, on the revenue side it may also be due to the fact that bank loans are still geared towards financing the international trade sector generates non-interest earnings especially in the form of foreign exchange earnings. Note, on the other hand, the fall in non-interest sensitive earnings in 1963 when bank loans fell in absolute terms. On average, however, it can be argued that banks have not been able to offset fully the rise in non-interest costs by increased non-interest sensitive earnings. The gap between interest sensitive earnings and costs appears to have more than compensated for this. One factor responsible for this has been the increasing proportion of high interest instalment loans being made by banks. The additional costs of making such loans is reflected, moreover, in non-interest sensitive costs, but the additional earnings will be recorded as interest sensitive earnings.

Relationship of Costs to Size of Bank

It is fairly well established that unit costs vary with the scale of operations of an economic activity. For most industries expansion up to a certain point is accompanied by economies, though it is hypothesized that a firm which expands continuously may, after a time, incur certain diseconomies partly through organizational bottlenecks and partly through scarcity of other inputs.[1] The intention of this section is to examine, within the limits of our data and the existing bank structure, the direction and extent of variation of unit costs with variation of the size of the firm over a given period of time, and to identify the factors leading to increasing and decreasing costs.

For this purpose we have defined the scale of activity in terms of the total assets of the firm and also as their current operating earnings adjusted for interest earned on balances held overseas corrected for interest rate changes. For dealing with the latter we have also adjusted and corrected the cost side for borrowings from overseas and interest rate variation. Interest earnings and costs have been adjusted by indexes with 1965 as base. For purposes of comparison we have incorporated these figures in our analysis of assets. We have used the period 1965 to 1969 as these appear to be two peak years of activity as far as bank lending is concerned. Moreover, aggregating the results of more than one year will minimize non-sampling errors. At the same time this period does not appear to be so long that fundamental changes in the industry structure would make the cost patterns of the individual years too dissimilar for purposes of aggregation.

In Table 94 we present costs per unit of total assets. On this basis total operating costs per dollar of assets for the three smaller banks increase as the scale of activity rises. Unit costs are, however, lower for the three larger banks, although the smallest of these banks show the lowest unit costs, and the middle-sized of this category of banks show the highest costs. Examination of the components of costs show that the main cost differences between the two size categories is that for smaller banks unit

[1] Assuming other users are also expanding.

Table 94

Costs per dollars of Total Bank Assets by Size of Bank

Bank Size Average Bank Assets	Unit Operating Costs Unadjusted	Unit Operating Costs corrected for Int. Rate Changes	Unit Interest Costs Unadjusted	Unit Interest Costs Unadjusted corrected per int. Rate Changes	Unit Remuneration to Employees	Unit Depreciations Costs	Bad Debts	Unit Other Operating Costs Unadjusted	Unit Other Operating Costs Adjusted
6.3	0.0621	0.0585	0.0207	0.0190	0.0182	0.0019	0.0038	0.0176	0.176
11.4	0.0672	0.0648	0.0223	0.0298	0.0176	0.0017	-	0.0257	0.157
13.3	0.0692	0.0669	0.0200	0.0215	0.0211	0.0025	-	0.0256	0.0218
39.3	0.0506	0.0488	0.0211	0.0194	0.0140	0.0013	0.0001	0.0141	0.0141
67.5	0.0565	0.0542	0.0211	0.0194	0.0198	0.0014	0.008	0.0133	0.0128
96.9	0.0538	0.0517	0.0194	0.0194	0.0152	0.0017	0.0035	0.0140	0.0118

Source: Bank of Jamaica.

remuneration to employees and unit other operating costs are generally higher. Within the small bank category the largest bank shows the highest costs in terms of remuneration to employees and other operating costs reflecting perhaps its operation with an average of 9.4 offices over the period as against 2 or less for the other banks. The second smallest of these smaller banks shows the highest unit interest cost for all banks, reflecting an aggressive policy for term deposits. The largest of these small banks also has relatively high adjusted interest charges reflecting a relatively high proportion of longer term deposits (Table 95) and balances from banks abroad.

Among the larger three banks, the smallest shows the lowest costs and this is a reflection chiefly of lower per unit costs for remuneration to employees a factor which appears to be related to its greater volume of business per branch. . . This bank appears to have developed a large lending business relative to its branch structure and deposit capacity, and has made wide use of overseas funds. (Table 96). With respect to other categories of cost, differences between this bank and the largest bank appear to be minor except that unit costs in respect of losses and bad debts are higher for the largest bank and may well be attributed to a more liberal lending policy and involvement in the more risky areas of lending such as agriculture. When adjustments are made to other operating expenses to exclude estimates of interest payments on the direct

Table 95

Structure of Commercial Banks' Sources of Funds, 1965 - 1969

	Bank A	Bank B	Bank C	Bank D	Bank E	Bank F
Demand Deposits	27.6	26.7	31.6	31.6	26.7	25.4
Savings Deposits	41.4	49.6	31.1	53.5	13.9	29.0
3-month Time	2.2	2.7	1.7	3.4	0.8	2.2
3-6 month Time	1.8	2.8	1.5	3.1	1.3	1.3
6-12 month Time	8.1	6.6	5.8	6.3	20.5	11.2
Over 12 month Time	8.2	5.4	3.7	1.2	7.7	10.3
Balances held for banks overseas	10.8	6.2	24.7	1.0	29.1	20.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Jamaica.

Table 96

Relationship of Costs per dollar of Assets and Average Assets per Bank Office for Banks with more than 3 offices

Average Bank Assets per Bank Office	Unit Operating Costs	Unit Interest Cost	Unit Remuneration to Employees	Unit Depreciation Costs	Unit Bad Debts	Unit Other Operating Costs
1.4	0.0692	0.0200	0.0211	0.0025	-	0.0256
1.7	0.0565	0.0211	0.0198	0.0014	0.0008	0.0133
2.8	0.0538	0.0194	0.0152	0.0017	0.0035	0.0140
3.4	0.0506	0.0211	0.0140	0.0013	0.0001	0.0141

Source: Bank of Jamaica.

branch account these costs with one exception tend to fall as the size of bank increases. The data is analysed again in Table 97 to isolate the effect of branching. Here we have expressed size in terms of assets per banking office for the banks with 3 offices or more. Total costs and cost of employees both fell as the average size per bank office increased. The pattern is, however, not clear with respect to other costs.

These costs include advertising, telephone, telegram, travelling and so on. One expects that some of these unit costs fell with bank size. For example, a large bank which spends twice as much as a smaller bank on advertising would have lower unit advertising costs as long as its assets are more than double those of the smaller bank.

We have already pointed out some of weakness of using assets as indicative of the scale of bank activity. In this section costs are analysed using current operating earnings corrected for changes in interest rates on loans and on investments. The results here show a more pronounced relationship between size and unit operating costs, except for the second largest bank which showed the highest costs for remuneration to employees. With this and another minor exception unit remuneration to employees also fell as size increased and the same pattern was observed with regard to other operating expenses. Generally, banks with a higher average proportion of term deposits and balances due to banks overseas appeared to have

higher unit interest costs although it is difficult to understand why the second largest bank with the lowest interest deposit structure had relatively high unit interest costs.[1] (Table 97A).

Generally, the larger group of banks show lower unit costs than the smaller one although within each group the relationship between size and costs are not as clear. Here differences in deposit structure and branch size may be important. In the last year or so, banks have become concerned about the proper costing of their services and the measurement of operating efficiency and it is expected that the pattern may well become clearer.

Table 97

Costs per dollar of Gross Operating Earnings of Commercial Banks, 1965-1969

Bank No.	Bank Size (Current Operating Earnings)	Unit Operating Costs	Unit Interest Costs	Remuneration to Employees	Unit Depreciation	Unit Bad Debts	Other
1	1916.6	0.9642	0.3134	0.3001	0.0307	0.0622	0.2894
2	3909.1	0.9448	0.4349	0.2568	0.0245	-	0.2291
3	5212.1	0.8561	0.2749	0.2699	0.0319	0.0002	0.2792
4	12026.9	0.7981	0.3165	0.2286	0.0206	0.0016	0.2307
5	21507.9	0.8496	0.3039	0.3103	0.0224	0.0128	0.0002
6	32844.7	0.7627	0.2868	0.2247	0.0254	0.0511	0.1748

Source: Bank of Jamaica.

[1] These results differ from our previous one because of the different weighting given to loans and investment in our output measure. The bank in question has a relatively ratio of loans and investment.

Table 97a

Ratio of Loans & Advances to Loans & Advances & Invest of Commercial Banks, 1965-1969

Bank No.	%
1	81.6
2	82.7
3	81.1
4	86.9
5	74.4
6	84.2

Source: Bank of Jamaica.

CONCENTRATION AND COMPETITION

Banking in Jamaica is highly concentrated. Up to 1959 there were only four firms in the industry - all international. Since then there have been four new entrants - the Bank of London and Montreal[1] in 1959, the First National City Bank in 1960, the Jamaica Citizens' Bank in 1967 and now in 1971 the First National Bank of Chicago. These new entrants together with the establishment of the Bank of Jamaica and the enacting of local legislation for the control of banking were factors which led to a more competitive climate in the 1960's.

Concentration

One method of measuring the size of a bank is to look at its deposits as this is normally a major limitation on its ability to make loans and investments. A percentage distribution of deposits among Jamaican banks is presented in Table 98. In the institutional set-up existing in Jamaica, however, banks may supplement this source of funds by using deposits raised by their branches overseas.[2] It would seem that at least one of the smaller banks operated locally with a sizeable proportion of deposits raised abroad. This can be seen from Table 99 which shows the distribution of deposit liabilities of the four older banks in May 1961, the earliest date for which we have data. Subsequent observation of the operations of banks 3 and 4 show that for Bank 4 this was a very temporary situation, but Bank 3 continued to be a net borrower of funds from overseas right up to devaluation. The productive capacity of banks may be further enhanced

---

[1] Now the Bank of Montreal (Jamaica) Ltd.

[2] Or better still, overseas funds to which they had access.

TABLE 98

DISTRIBUTION OF BANK DEPOSITS (ADJUSTED)
OF COMMERCIAL BANKS BY BANK, 1961-1969

(PERCENTAGES)

BANK	1961	1962	1963	1964	1965	1966	1967	1968	1969
Largest Bank	48.3	46.7	44.7	43.9	44.7	44.0	42.0	40.9	40.9
Two largest Banks	82.0	80.7	79.8	78.6	77.5	77.6	76.6	73.6	71.1
Three largest Banks	91.8	90.7	90.2	90.0	89.4	89.5	88.9	86.3	83.6
Other Banks	8.2	9.3	9.8	10.0	10.6	10.5	11.1	13.7	16.4
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Commercial Bank Returns of Assets and Liabilities to Bank of Jamaica.
Percentages are based on average of end of month deposit holdings for each year.
1961 is based on returns for the months May to December only.

by their equity, but this is a relatively new feature in Jamaican banking and is not quantitatively important.

TABLE 99

DISTRIBUTION OF LIABILITIES OF OLDER BANKS, MAY, 1961
(PERCENTAGES)

LIABILITIES	BANK			
	1	2	3	4
Balances held for Banks or Branches Abroad	1.9	2.9	39.2	17.0
Deposits	90.4	75.7	48.7	77.5
Cheques etc. in Course of Payment	-	11.0	8.6	-
Other Liabilities	7.7	10.4	3.7	5.5
Total	100.0	100.0	100.0	100.0
Share of Assets of Banking System	4.4	40.9	16.0	32.4

Source: Commercial Bank Returns to Bank of Jamaica

In order to take account of the contribution of these factors to bank capacity the relative size of banks is shown in terms of their share of total bank assets[1] (Table 100).

[1]It would perhaps be more correct to show assets net of certain contra items with respect to letters of credit and acceptances appearing in the bank balance sheets.

TABLE 100

DISTRIBUTION OF COMMERCIAL BANK ASSETS AMONG INDIVIDUAL BANKS, 1961-1969

(PERCENTAGES)

BANK SHARES	1961	1962	1963	1964	1965	1966	1967	1968	1969
Largest Bank	41.9	43.1	40.8	38.8	36.9	40.2	43.4	40.7	41.2
Two largest Banks	72.3	70.9	71.4	68.7	64.2	68.4	72.8	70.2	69.2
Three largest Banks	88.6	87.0	85.8	85.4	84.1	87.0	88.0	84.8	83.6
Other Banks	11.4	13.0	14.2	14.6	15.9	13.0	12.0	15.2	16.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Jamaica records.

Table 98 shows that in 1961 the two largest banks held 82 per cent of the deposits in the banking system, but that by 1969 their share had been reduced to 71.1 per cent largely because of an almost continuous reduction in the share of deposits of the largest bank and a more moderate fall in the share of the second bank. On the other hand all other banks improved their positions especially the other banks group whose share exactly doubled over the period.

In terms of assets we find that for the same period the proportion held by the two largest banks fluctuated around a mean of 69.8 per cent with a low of 64.8 per cent in 1965 and a high of 72.8 per cent in 1967. The third largest bank seemed largely responsible

for the 1965 low, but the 'other banks' group also had their highest share for the 1961 to 1968 part of the period. Both of these had increased their share of deposits by 1965 and their proportion of balances held for banks abroad was substantially higher than in the previous two and subsequent years (Table 101). In the case of one of the smaller banks it was the highest for the decade. After 1967, banks generally reduced their holdings of balances for overseas banks, possibly because, for the first time they became conscious of the severity of exchange risks involved in the movement of funds within the sterling area now that a majority of the constituent states were responsible for their own financial and economic well-being.[1]

TABLE 101

BALANCES HELD FOR BANKS AND BRANCHES ABROAD
AS A PERCENTAGE OF TOTAL ASSETS

BANK	1961	1962	1963	1964	1965	1966	1967	1968	1969
Largest Bank	4.6	15.4	4.3	3.4	5.9	7.6	4.9	3.3	5.3
Second Largest	14.9	4.5	0.2	0.2	0.2	0.2	0.2	2.4	1.9
Third Largest	41.6	39.6	27.0	31.7	37.2	30.3	25.1	4.6	3.6
Other Banks:									
1	40.0	52.2	51.6	54.0	58.8	44.2	9.2	8.9	6.6
2	71.2	65.6	56.1	40.9	9.7	17.6	25.4	18.2	12.0
3							1.5	7.5	1.9
All Banks	18.3	19.8	10.8	11.8	14.9	12.0	7.5	4.2	4.2

Source: Bank of Jamaica records.

[1]The cost of borrowing from London was also high compared to local rates of interest.

The result was that for 1969 there was a smaller difference between the two measures.

The general picture, then, seems to be that at least in quantitative terms and in respect of the number of areas served two banks dominate banking activity. There is a third bank of medium size and four smaller ones, three of which are relatively newcomers to Jamaica. The new banks have generally in their early years of operation used a relatively large proportion of funds from branches abroad. The newest of them, Bank 3,[1] has not relied as heavily on such balances partly because it started with local equity capital, partly because the U.S. bank managing its affairs does not have the same type of organized international branch system as the other banks, and partly because its local deposits have been growing fairly rapidly.

Formal Restrictions

Agreements between the banking firms in the industry in and before the 1950's seemed highly probable for a number of reasons. First, the small number of firms in the industry made the arranging and administration of such agreements a relatively simple matter. Second, the firms were all branches of banks whose collusive efforts in their own countries were largely unchallenged.[2] Third, senior officers in the banking system were all persons with experience in the offices of the Head Office country and hence were schooled in banking systems with restricted competition.

[1] Table 101.

[2] Price competition among both the Canadian Chartered banks and the London Clearing banks has been extremely restricted. See Report of the Royal Commission on Banking and Finance, Queen's Printer, Ottawa, 1964, Ch. 7, and Report of the Committee on the Working of the Monetary System, H.M.S.O., London, 1959, Ch. IV.

There is no formal record of agreement between the banks in Jamaica before 1959, but we know from certain official publications that at least rates on certain types of deposits were fixed before 1959.[1] After the entry of a branch of the Bank of London and Montreal in 1959, however, the banks drew up a formal Inter-bank Agreement to which all banks were signatories. The agreement covered almost every aspect of pricing in banking; interest rates on savings and deposit accounts, minimum rates of interest on advances and on loans, ledger fees, a variety of commission charges including bills for collection, collection of life insurance premiums, foreign exchange transactions, credits, guarantees and so on.

Special rates were provided in respect of Government current account deposits and on Government loans and advances. Special rates on foreign exchange were also included in respect of remittances to the Government of Jamaica and to the bauxite companies whose remittances were likely to be very large. Special lending rates were also stated for those customers whose loans were secured by a deposit with the lending banks and for Finance Companies.

Particularly restrictive were the provisions with respect to ledger fees and advances. In respect of the former the agreement stipulated that no signatory bank will open accounts for any customer of another signatory bank on better terms as regards operating charges than the competitor bank had been charging. It further required that when an account was transferred from one bank to another the transferee bank was to satisfy itself as to the operating charge

[1] Dept. of Statistics, Monetary Statistics, 1954-1960.

previously collected before accepting the account. The provision with regard to loans and advances was similar; no signatory bank was to open accounts for customers of another signatory bank on better terms as regards rate of interest or discount than the competitor bank had been charging. It included a similar provision with regard to checking the customer's previous bank before accepting the account.

Finally, the Agreement covered procedures for inter-bank dealings such as clearing and inter-bank settlements.

Amendments to the agreement were made from time to time but the First National City Bank which began operating in 1960 did not become a participant. Indications are that in 1961 the Head Offices were in the process of drawing up a standard form of agreement for the entire Caribbean. However, largely through official initiative the banks agreed to the rescinding of the agreement in 1964. Henceforth, it was left to government to determine the areas and details of co-operation. These, as well as other policy measures, were discussed with the banks through the Bankers' Committee. The Committee consisted of the Governor of the Bank of Jamaica and representatives of the commercial banks.

Government assumed responsibility for determining the following:

(i) Maximum interest rates payable on savings and fixed deposits up to 12 months. Early in 1970 the banks were allowed to compete for deposits fixed for periods in excess of six months on an interest rate basis;

(ii) the prime rate on loans;

(iii) the fixing of exchange charges. These were streamlined to conform with the published Bank of Jamaica Commission charges. Leaving foreign exchange charges open to competition is at present under consideration pending submission of a report on foreign exchange by an expert;

(iv) the fixing of common service charges on ledger fees for operating customer's accounts, and minimum fees for various bills for collection, arranging storage of goods, insurance of goods, parcel post notices and acceptance credits. Since 1969 banks have been allowed to compete for these services on a price basis.

As early as 1961 the Kingston Clearing House had operated under the supervision of the Bank of Jamaica and according to the rules of the Kingston Clearing House. Inter-bank settlements had been arranged through the Bank of Jamaica rather than through their London offices.

Restriction of competition in the area of deposit rates appears to have been supported on three grounds: first, to preserve an orderly structure of the banking business in Jamaica; second, to allow for the continued development of a network of bank offices throughout the country; and third, on monetary policy grounds, there was need to keep bank deposit rates in line with Government's Treasury bills rate.

With regard to the first argument the chief fear is that severe competition for deposits among banks is likely to put pressure on earnings and lead to risky lending at high interest rates. How-

ever, a number of factors seem to favour more prudent behaviour on the part of banks. First, the number of banks in the industry is relatively small; second, it is difficult to imagine the banks moving from a highly conservative posture to the other extreme; third, banking expertise appears to be fairly high; and finally, the machinery for controlling the situation exists in the form of the Bankers' Committee.

The second contention is that banks with large branch networks should be guaranteed a reasonable return as banking in some areas may be unprofitable. An examination of the net earnings of the four older banks as presented in Table 102 does not reveal any relationship between total earnings and number of branches. The two banks with the largest number of branches show a very different record.[1] So do the two smaller banks. Although the performance of all branches taken together lead to rather inconclusive results it may well be that by operating a particular branch or branches the bank makes less than optimum profits. Moreover, it is expected that in the majority of cases a new office will have to be in operation for some time before it breaks even. Also, the development or decline of an area will affect the profitability of banks operating in it. However, it has to be borne in mind that the profitability of a banking office taken by itself will also depend on the type of business in which it specializes. An office in Newport West, for instance, is expected to be far more profitable than an office serving a community of small savers. This latter taken by itself may

[1] Our examination of other factors relating to these banks in the next section may throw more light on these differences.

TABLE 102

NET EARNINGS PER $100 OF ASSETS AND NO. OF BRANCHES

BANK	1962		1963		1964		1965		1966		1967		1968	
	Net Earnings Per $100 of Assets $	No. of Branches	Net Earnings Per $100 of Assets $	No. of Branches	Net Earnings Per $100 of Assets $	No. of Branches	Net Earnings Per $100 of Assets $	No. of Branches	Net Earnings Per $100 of Assets $	No. of Branches	Net Earnings Per $100 of Assets $	No. of Branches	Net Earnings Per $100 of Assets $	No. of Branches
A	1.05	6	0.71	6	0.17	6	1.51	7	0.74	7	0.40	11	1.03	11
B	1.68	23	1.48	24	1.41	24	1.76	24	1.72	30	1.61	32	1.77	37
C	1.42	3	1.22	5	0.78	5	1.43	8	1.28	11	1.56	12	1.45	12
D	1.30	29	0.42	34	0.97	34	1.28	36	1.01	41	0.74	43	0.40	43

Source: Commercial Bank Returns to Bank of Jamaica.

well show a loss, even though the use of its funds by other branches may add to the profitability of all branches taken together. The real test of branch viability should be whether it could make a profit if it were able to lend or invest that part of its deposits in excess of its requirements for meeting demands for cash by its depositors.

There was a time when branch expansion may have been more service oriented than profit oriented. Hence the early development of the branch network in Jamaica by the first two of the surviving banks. In those days banks were interested more in international business, and the international branch structure was set up so as to provide a free flow of funds to areas with that type of business. Now, however, for various reasons the flow of funds internationally is more risky and more expensive, and the banks are looking inwards for funds a great deal more. In the absence of price competition, therefore, branch expansion appears to have become competitive with respect to the raising of deposits locally.

It is difficult, then, in the absence of branch data to come to any precise assessment of the argument, but the points raised above should be taken into consideration.

The other argument for fixing savings and deposit rates is that they should be kept in line with the Government's Treasury Bill rate. This argument is not clear. Among the interest-earning assets which qualify as eligible liquid assets under the law Treasury bills

are the most available.[1] Because of this the banks have become the largest holders. The Government has a monopoly on the supply of bills and this seems to be a dominant factor in determining their price.

Since such a large percentage of commercial bank investments are in this form they would be constrained on the basis of profit and loss to keep their deposit rates in line with the bill rate and not vice versa as the argument implies. As far as the non-bank public is concerned, the type of deposits most likely to compete with Treasury bills is the three-month time deposit, and while before February 1969 the rate on this type of deposit has been below the Treasury bill rate, since that date the situation has been reversed and at times the Treasury bill rate has been more than ½ per cent below the three month deposit rate and was even below the savings rate between March and June 1969. The peculiar feature about the rate is that it has not in the past year moved in the direction of other rates. This is probably because the supply of bills was limited in the face of rising demand. Here it may be useful to compare the relative levels of the Bank Rate and Treasury bill rate in 1963 and 1969.

In 1963 when the Bank Rate averaged only 4.17% the Treasury bill rate at 3.42% was about the same level as the corresponding rate

[1] In December 1969 the composition of eligible liquid assets was:

Deposits in Bank of Jamaica	:	29.3%
Currency	:	16.9%
Jamaica Treasury Bills	:	40.2%
Local Registered Stock	:	13.5%
		100.0%

Deposits in Bank of Jamaica include deposits in the Bankers' Deposit and Loan Fund and under the Special Deposit facility. These two categories of deposits carry a lower rate of interest than Treasury bills

in 1969 (3.49%) when the Bank Rate was 5.79%. According to Table 30, the general public has not shown much interest in Treasury bills. The commercial banks have increased their share over the period 1965 to 1969 mainly by taking up a large part of the holdings of the Bank of Jamaica. The other holders are largely Government or semi-Government institutions so that there could hardly be any significant move away from Treasury bills if the rate is not in line with deposit rates. The other point worth noting is that although Finance Company rates of interest have been uncontrolled and have been maintained at a higher level than commercial bank rates there has been no noticeable shift of deposits in that direction. The conclusion would seem to be that price competition for deposits at the present time would be unlikely to affect the Treasury bill rate. The two commercial bank deposit rates which seem relevant to the argument are the savings deposit rate and the 3-month time deposit rate, the former because banks would prefer to see the bill rate above the rate they pay for savings.

In favour of the retention on rates over six months is the fact that in order to compete for deposits banks have been offering longer term securities on more favourable terms. Rates on deposits over six months were, however, decontrolled largely to prevent the outflow of deposits to high interest centres abroad. They appear, howev however, to be attracting funds from the longer term market.

The deposit rates together with the banks' prime lending rate are usually fixed in some relation to the Bank of Jamaica rediscount rate. Prime rate is usually 2 per cent above the Bank

Rate with about a 4 or 4½ point spread between the savings rate and the prime rate. As long as the financial system remains open and the high degree of linkage with the U.K. money market continues there would seem to be some justification for controlling at least some of the rates. With regard to deposit rates the main problem is that funds are likely to flow out if rates are sufficiently below U.K. rates. Banks have traditionally behaved in a protective manner collectively raising their rates when the U.K. rates rose and vice versa when they fell; and there seems to be no reason to expect that if they are losing funds to the external world they would not adjust their rates individually.

Keeping loan rates in line with external rates may be a bigger problem. In keeping with the objectives of maximum economic growth and a high degree of industrial diversification, it is desired that loan rates be kept as low as possible. The problem here is that when local loan rates are sufficiently below external rates overseas firms with Jamaican connections may switch their borrowing to Jamaica and vice versa when it is less costly to borrow abroad. These borrowers are usually extremely credit-worthy and banks may not be willing to pass up good business in the national interest. It is therefore doubtful if one could leave the minimum loan rate to the individual bank in the same way. Loan rates in Jamaica have in the last decade or so, been generally below those in London and, in addition to adjusting the local rates, the Bank of Jamaica has sought to minimize the differential by varying the exchange commission on sales of sterling for Jamaican dollars. More recently the Bank has had to resort to

more direct methods of control in order to curb lending to non-residents. This would probably make the Bank Rate and the commercial bank lending rates less dependent on the U.K. rates in this respect. Nevertheless, it would be useful to retain some agreed minimum rates for controlling one rate automatically controls other rates but allows them some range of flexibility. While there is apparently a great deal of variation as to the extent to which loans are granted at the minimum rate by individual banks, the removal of restrictions with regard to the transferring of accounts between banks should ensure some manner of uniformity in the rate given to a particular type of customer. Hence, differences in the average rates may well reflect variation in the type of customers to whom the banks are willing to lend.

As regards the question of a maximum loan rate, while this may be attractive and is used in some countries, it would most likely inhibit the banks' ability to innovate and move into less traditional and longer term lending. It would seem that it is in their lending business that there is the greatest need and scope for innovation and control of maximum rates may, if not fixed at the proper level, frustrate such innovation. Our examination of average rates of interest elsewhere in the study does not suggest that excessively high rates are being charged.

With regard to bills for collection and other service charges there appears to be no strong arguments in favour of collusive action in this regard. There appears to be no good reason why banks should not be allowed to trim certain charges in order to attract certain types

of business. Usually a bank will lower its interest rates for a loan which may give rise to collateral benefits in the form of revenues from bills for collection, foreign exchange and so on. Now however, the banks will have the option of adjusting not only their interest rates but their service charges for this type of business.

The other area of agreement is with respect to the hiring of staff in the employ of their competitors. It is not known for how long this agreement has existed or the extent to which it is binding. Some bank officials with whom the question was raised expressed doubts about its effectiveness. Inter-bank mobility of personnel appears to have become a problem with the arrival of new banks since 1959 and with the subsequent official pressure to minimize the employment of expatriates. The vigorous programmes of branch expansion in the sixties would have aggravated the problem, because banks now found that they needed to expand their staff rather than to lose them. In addition, there has been a large percentage of loss due to migration. The gist of the agreement seems to be that no bank should hire staff in the employ of another bank. An employee wishing to change jobs within the banking community was therefore required to resign before any offer of employment by another bank would be made. Banks do a lot of on the job training and a high turn-over of staff can undoubtedly present a problem. There appears, moreover, to be some variation in the extent and pattern of such training and the banks with the more elaborate training schools appear to be the chief losers. However, the individual may have good reasons why he wants a change of jobs and it may be better for the individual bank to lose him rather than the

banking community. In fact, for the economy as a whole, it is much preferable to lose staff to other banks or other sectors than to lose them to migration. Moreover, bank hiring and promotion has traditionally been highly discriminatory, and while the situation appears to have changed substantially there may be pockets of it left. There is, indeed, no doubt that the coming of the newer banks and the expansion of banking generally has done much to break down discrimination in bank employment. Nevertheless, if only for historical reasons, it seems that the individual should at times be given the benefit of the doubt and should not be frustrated if he feels that he can do better with another bank.

The final area of restriction is in respect of opening and closing hours which are regulated by government. There may, of course, be room for some degree of flexibility to facilitate certain customers, for example, opening on Friday evenings in some places.

AREAS OF COMPETITION

Price competition being largely ruled out by the restrictions competition among banks seem to be largely on the basis of service and special facilities with respect to certain accounts. This is evidenced by the high degree of uniformity existing in bank services. Most of the banks interviewed, contend that the main area in which they compete is in respect of deposits. Such competition up to the end of 1969 was on a price basis for deposits fixed for periods over 12 months and since then for deposits fixed for periods over six months. Various types of non-price competition existed with regard to both savings and shorter period deposits.

With regard to fixed deposits, banks have always been free to stipulate the minimum deposit they will accept although there is no evidence that they exercised this freedom where interest rates were fixed by agreement. However, in cases open to bargaining, the interest rate offered would depend to some degree on the size and period of the deposit. In recent years some banks have been offering variants of the traditional fixed deposit. These include a variety of savings and investment certificates of a wide range of maturities: from 90-day certificates transferable to third parties, to medium term non-transferable certificates of which the 3-year savings certificate is the best known. Some banks offer longer term certificates with maturities up to 10 years. Details with regard to such certificates are negotiated between bank and customer. A fundamental factor underlying these medium and longer term certificates is that some banks are turning their attention to attracting longer term less liquid investments.[1]

Some variants differ from the traditional type deposit in the arrangements with regard to the period over which the deposit will earn interest. Normally, a fixed deposit is a contract between the bank and the depositor for the deposit of a certain sum of money over a given period of time. If not withdrawn or renewed at the end of this period the deposit ceases to earn interest. If withdrawn before the agreed date interest is earned at a lower rate of interest

[1]Since 1963 the proportion of deposits fixed for periods of over 12 months has risen substantially as follows:
1963: 0.4%; 1964: 2.9%; 1965: 15.6%; 1966: 35.6%; 1967: 31.4%; 1968: 24.5%; 1969: 24.5%.

or lost altogether. Banks generally prefer to make shorter contracts especially when interest rates are high because if rates fall during the period of the contract they stand to make losses. Hence, the pattern has been to avoid contracts exceeding eighteen months. The new plans generally have aspects of both the savings and the fixed deposit. They are like fixed deposits in that they require notice of withdrawal ranging from 90 days to six months. The deposit must remain with the bank for a period greater than that for which rates are fixed by agreement, in order to earn interest at its special rate. There are also fixed minima for opening these accounts and for subsequent deposits. They are like savings deposits in that for some of them there is no limit as to the period over which the deposit can earn interest. For others the interest period extends up to five years after the account has become inactive. Finally, some pay interest on the minimum monthly balance.

In addition to these efforts to encourage fixed deposits the commercial banks have also devised special incentives for savings deposits. It is cheaper to expand savings deposits because the nominal rate of interest is less than that on fixed deposits, and because interest is paid on the minimum monthly balance the differential is even more. On the other hand, the fact that withdrawals and deposits are made more often than in fixed deposit accounts, savings deposits are costlier to administer. However, banks endeavour to minimize the use of the account by allowing a limited number of free withdrawals per time period.

The special plans are not only to increase savings deposits but to minimize their velocity. In an earlier Chapter we have used a

one-bank sample of debits and credits of fixed deposit and savings accounts and found that for every year examined the velocity of savings deposits is lower than that of fixed deposits.

The savings plans just referred to are of two types: bonus savings and life insurance on savings. Bonus plans involve the payment of additional interest on savings which remain with the bank for a given period of time. If this period of time is long enough the bank may also stipulate a ualifying minimum monthly balance, usually small, to be maintained over the period.[1] Insurance plans commit the depositor to make equal monthly deposits over a given period of time towards a defined target. In exchange the depositor's life is insured up to the full amount of the target.

Since the restrictions on competition in respect of service charges have been removed, banks have also sought to increase their demand deposits by waiving ledger fees provided a given minimum balance is maintained in the account. Prior to this the minimum was determined on the basis of the number of ledger entries made over the relevant period.

The other dimension which competition for deposits has been taking is in the matter of the extension of branch offices.[2] As

[1]Bonus plans appear to work out cheaper than fixed deposits over the particular period. At present, one bank offers 5½% for bonus savings maintained over a period of 12 months, but interest on fixed deposits for that period is as high as 7¼%. On the other hand, the minimum amoun on which a bank will offer that kind of return would be much larger than the minimum monthly balance required on a bonus plan.

[2]There is at present no control over branching in Jamaica although the Minister of Finance and Planning has said that banks will be required to have local equity participation before being allowed to set up branches.

mentioned earlier, all branch and office expansion up to 1958 was done by two banks. It would appear that in the early history of banking, branches may have been established not only for profit but also for providing a service to the various communities. Other banks did not engage in this type of expansion partly because in the pure international banking structure, Jamaica was, hardly looked upon as an independent banking unit. The banks were interested more in international services than in domestic business. Loans were granted primarily to persons whose business was connected with the international economy. Banks did not have to match their loans with deposits on a territory-by-territory basis as they would use deposits raised in one territory to finance activity in another territory. Moreover, the majority of loans were approved by their International Office or Head Office. Even today, where the pure international structure exists, branches within the same territory report direct to their International Office or to some regional or district headquarters. For purely domestic business, such as routine dealings with the Bank of Jamaica they are forced to use their senior branch which is usually in Kingston. The situation is changing, however, not only because of the increasing relationships with the local government authorities but because the banks themselves have found a certain amount of inconvenience in the system and as a result senior branches have had to assume responsibility in particular matters. Furthermore, high rates of interest on the world's money markets, the increased risk of moving funds within the sterling area, local regulations and the pressure of opinion against the outflow of deposits

raised locally have forced the banks to turn inwards. Thus, banks are concerned with mobilizing deposits by seeking out the developing and populous areas of the country and securing a share of the business available.[1] Limitations on price competition may also have accelerated this type of competition.

TABLE 103

NUMBER OF OFFICES BY BANK (SELECTED YEARS)

	1948	1953	1956	1960	1962	1965	1969
Barclays Bank (D.C.O.)	9	15	21	27	27	39	41
Bank of Nova Scotia	13	17	18	25	27	28	39
Royal Bank of Canada	2	2	2	2	5	11	11
Canadian Imperial Bank of Commerce	1	1	1	6	6	10	11
Bank of London & Montreal				1	1	1	2
First National City Bank				1	1	1	2
Jamaica Citizens' Bank							5
TOTAL	25	35	42	62	67	90	111

Sources: Handbook of Jamaica and Bankers' Almanac - various issues.

Price competition in lending is limited by the fact that banks have to adhere to a minimum lending rate except where the loan is backed by a cash deposit with the lending bank. Banks often fix the rate on

[1] For example, in the space of three months this year four banks opened offices in May Pen.

a particular loan in some relation to this prime rate. Strictly speaking, prime rates are given in lending contracts where there is no risk of default. It is expected that under adverse conditions the borrower would be able to meet his obligations without undue difficulties. To the extent that loans approach this ideal they will qualify for the prime rate. The bank will also give lower rates where highly liquid or negotiable security is provided or where significant collateral benefits are likely to result from the loan. Other factors influencing the loan would be the size of the loan, its duration and the borrower's past record with the bank. Banks may charge a higher or lower rate of interest on unsecured loans. The rate will be lower if the financial strength of the borrowers and his capacity to pay the loan is such that they think it unnecessary to demand security. It may be higher where the loan is inadequately or partially secured, if they think the proposition is worth financing on other grounds.

There appears to be fairly well defined guidelines whereby the banks' lending officers can be aided in fixing the rate to be charged on a particular loan. Each loan is likely to differ in various details so that the lending officer may use a combination of guidelines in determining the appropriate rate. Thus, there may arise minor differences between banks or between officers of the same bank as to the rate of interest to be charged on a particular proposition. However, for the most part, branch managers usually have to submit applications for loans above certain limits to Head Office for approval and to report all loans made above a lower limit, and this, together with the lending officer's experience ensures uniformity in rates.

Some banks place more emphasis on the loan recipient's cash generation ability, but this will probably affect the bank's decision to make the loan or the amount lent rather than the rate of interest. These banks tend to make greater use of projected cash flows for such purposes and endeavour to determine more accurately the needs of the business over the relevant time period rather than allowing the applicant large excess credit facilities.

Where banks apparently differ is in their willingness to make a particular type of loan, on the terms of such a loan and on the type of security they would ask for. The evidence is that until recently there has not been much competition here either. The striking example is that as far back as 1959 one bank began making instalment loans and it was only seven years later that any other bank entered the field. Today, one bank reported having 2 per cent of its loans in mortgages. No other bank reported any mortgage loans although such loans are guaranteed by the Development Finance Corporation.

The removal of the relevant restrictions has made it possible for banks to bargain with customers of other banks. Moreover, in order to break into the banking market, the newer banks have had to resort to aggressive advertising and marketing including active solicitation of accounts from prospective clients; and the more aggressive banks also approach existing and prospective borrowers when surplus funds are available. Often the banks will offer to make loans for new purposes when funds are adequate. They do this by contacting key figures in the business world.

Usually, banks build up certain relationships with their customers which are likely to continue and get stronger over a long period of time. Banks would rather keep good old customers who are proven good credit risks than new ones with whose moral standards they are less familiar. Hence, it is possible that newer banks will find it difficult to win the accounts of the most prized customers of the older banks, but may easily draw the smaller less preferred accounts. In future, the newer and smaller banks will find themselves paying high rates of interest for deposits and they are likely to have fairly high lending rates. The net result is that newer banks are likely to expand their loans by lending for propositions less credit-worthy by traditional standards. It is interesting that the last two banks to enter the market specialized in rather different areas: one concentrated on commercial and industrial loans and had a high percentage of large loans in its portfolio. Yet, its average interest rates were on average higher than those of the older banks. The other bank has specialized in small business and high interest personal and business instalment credit loans.

While it is difficult to determine the extent of competition among banks with regard to lending the data presented in earlier chapters suggest certain areas of specilization and patterns of behaviour.

TABLE 104

SECTORAL DISTRIBUTION OF COMMERCIAL BANK LOANS BY BANK

(PERCENTAGES)

SECTOR	BANK						
	A	B	C	D	E	F	G
Govt. & Other Public Bodies	-	0.8	2.5	1.6	8.4	-	-
Investment Brokers and Dealers	-	0.4	0.2	0.4	6.5	-	1.8
Credit and Financial Institutions	-	2.5	1.0	1.1	9.6	-	-
Personal & Professional	30.6	30.1	16.9	12.1	17.3	13.8	43.4
Sugar Cane Farmers	0.7	1.9	0.3	2.9	-	0.1	-
Other Agriculture	1.4	3.3	0.6	2.4	0.1	0.5	2.2
Fishing	-	0.1	-	-	-	-	-
Mining	-	4.2	9.0	-	-	-	-
Sugar Estates	0.1	3.0	4.6	13.1	-	-	0.1
Other Manufacturing	7.1	13.7	24.0	19.9	27.9	8.0	12.5
Building & Construction	16.3	8.4	1.6	5.3	6.0	3.8	6.8
Land Development	2.3	8.5	0.6	4.6	1.6	10.1	6.7
Public Utilities	10.0	1.2	6.5	7.2	6.9	30.3	-
Distributive Trades	25.7	15.4	27.0	23.6	9.0	16.1	7.3
Hotels	0.5	3.6	0.4	1.1	3.6	11.1	6.3
Entertainment	0.2	1.3	1.7	0.1	0.2	0.2	0.1
Other	5.1	1.7	3.1	4.6	2.8	6.0	12.8
Total	100.0	100.0	100.0	100.0	99.9	100.0	100.0

Source: *Commercial Bank returns to Bank of Jamaica.*

The figures seem to indicate the following characteristics:-

Bank A: average interest rate relatively high except for 1964 and 1965; relatively low proportion of loans outstanding to large borrowers; large unused credit lines to large borrowers; relatively high advance/deposit ratios; 63% of loans to business; largest proportion of loans to personal and professional, distributive trades and building and construction. Categorization: doubtful.

Bank B: relatively high average interest rates; relatively low proportion of loans outstanding to large borrowers; relatively small unused credit lines to large borrowers; relatively high advance/deposit ratios; lending fairly well distributed between business and individuals; largest proportion of loans to personal and professional followed by building and construction and land development, manufacturing and distributive trades. Other loans well spread between the other sectors. Less conservative.

Bank C: average interest rates are about the average of all banks; very high proportion of loans to large borrowers; large unused credit lines; extremely high advance/deposit ratios; specialization in distributive trades, manufacturing other than sugar, rum and molasses and personal and professional.

Bank D: relatively low interest rates; very high proportion of loans to large borrowers; very large unused credit lines; lowest advance/deposit ratios; and large balances held abroad; high degree of specialization in business loans; specialization in distributive trades, manufacturing especially sugar, rum and molasses, personal and professional; good sectoral distribution of other loans. Apparently the most conservative.

Bank E: relatively high interest rates; very high proportion of loans to large borrowers; very low proportion of unused credit lines to large borrowers; relatively high advance/deposit ratios; very high proportion of loans to businesses; specialization in manufacturing other than sugar, and personal and professional; financial institution. Apparently more efficient lending reflected in low proportion of unused credit facilities.

Bank F: relatively low average interest rates; low proportion of loans to large borrowers; relatively large unused credit lines to large borrowers; very high proportion of loans to companies; high advance/deposit ratios. Conservative.

Bank G: relatively high average interest rates; extremely low proportion of large loans outstanding; most even distribution between companies and individuals; very high advance/deposit ratios; specialization in personal and professional, manufacturing other than sugar, building and construction and land development, and other loan unclassified as to sector. Appears to specialise in personal and small business loans.

The last two banks to enter the Jamaican banking community, appear to specialize in rather different areas; one in lending to the commercial and business sector and having a significant proportion of the value of loans outstanding belonging to large borrowers. The other concentrated on small business loans and instalment credit. Its proportion of loans outstanding to large borrowers is so far, extremely small. Both banks claim to lay more emphasis in their lending policy more on the ability of the borrower to repay loans than has traditionally been the case in Jamaica. Of the other banks, Bank B appears to have the best distributed portfolio and the evidence points to less conservatism in lending. At the other extreme in respect of conservatism is Bank D and somewhere between the two we can place Banks A and C. It must be pointed out, however, that the three banks with over 75 per cent of their lending to companies have either not begun or only just begun making instalment loans, a large proportion of which is personal.

The main result of this paper has been to show that the banking industry is becoming less concentrated and more competitive. This is a new experience to the industry in Jamaica and is undoubtedly a desirable one. There is certainly room for prudent innovation. On the other hand we would not like to see unsound banking practices develop, hence, there would be need for greater expertise in the banking industry itself and greater vigilance and competence on the

part of the authorities. We have not touched on the relationships of banks with non-bank institutions, but there are developments here worth exploring, for example, the ownership of trust and other financial institutions by banks, the growing relationship of banks and insurance companies in the form of deposit insurance, loan insurance, and staff health and pension plans; and the increasing competition which the banks are giving to finance companies in the matter of instalment credit. These are undoubtedly areas which may have some significance for future trends.

BANK ORGANIZATION

The traditional form of an international bank is one of two types. First, it may be organized primarily for branch operations in a number of different countries, for example, Barclays Bank DCO, and the former Bank of London and Montreal. These banks are usually either wholly or partly owned by domestic banks in a developed country. Barclays Bank Ltd., has a majority shareholding in Barclays Bank DCO, although the latter operates quite independently of the former. Barclays Bank Ltd., has, in fact, extended its operations internationally and as a result of growing competition between the two banks they are in the process of fusing their operations. The Bank of London and Montreal was originally set up by the Bank of Montreal and the Bank of London and South America specifically for international operations but in 1962 Barclays Bank DCO acquired a third of its equity.

The second type of international branch bank may be a branch of a domestic bank in a developed country. Thus the Canadian and United States branches of banks operating in the West Indies come under the administration of the international department or division of the parent bank.

Some of these banks have used regional or area offices for the administration of the branches in the region. The Royal Bank of Canada established its regional office for the Eastern Caribbean in Port of Spain, Trinidad, in the 1920's with responsibility for operations in all the British islands in the Caribbean and Guyana.

The Barclays Bank DCO Eastern Caribbean Head Office at Barbados came into operation after World War II with similar geographical distribution, but including Jamaica which in 1968 obtained its own regional Head Office to cover branches in Jamaica, British Honduras, the Bahamas and the Cayman Islands. As banks expanded their operations more regional offices were established. For example, the Royal Bank of Canada opened a District Office in Nassau in the 1950's to which its Jamaican branches are responsible.

Banks whose regional operations have remained small, on the other hand, had their branches directly responsible to their international headquarters. These include the Canadian Imperial Bank of Commerce with only one branch in each of Barbados, Jamaica and Trinidad up to 1959; and the Bank of Nova Scotia, which though large in Jamaica, did not operate branches in the Eastern Caribbean until 1955.

The American banks, although new to the Commonwealth Caribbean, have their operations regionally organized also. First National City Bank's Trinidad operations come under the jurisdiction of the Venezuela Office, although Jamaica is directly responsible to the international division in New York. There is a subtle difference between the relationship of the branches of the American banks to their regional offices and that of the older banks. In the older banks the branches report directly to the regional branch, but in the American organization the senior local banks serve as the local

headquarters which in turn is responsible to the regional office.

The overseas head office of the bank is responsible for making decisions at the highest level. These include major policy decisions, changes in the organizational structure, approving loans over certain limits, the determination of salary levels, the purchase of premises, and branch inspection. Technically, the inspectors are responsible to the Board of Directors rather than to management. A Head Office inspection is carried out annually or biennially. It includes a thorough audit of the bank, an examination of every loan account, a sample of deposit accounts and scrutiny of every aspect of branch administration. Finally, the performance of all senior officers are assessed. In some cases the Head Office would exercise routine controls over the maturity distribution and purposes of loans and advances. In other cases, there is no formal submission of such data to Head Office but since they make decisions on the larger loans they in fact control them.

There appears to be some variation in the degree of authority delegated to the regional offices. These offices are usually headed by a district manager or senior officer in the field, or by a Managing Director with the support of a local Board of Directors consisting of former bank managers. The jurisdiction of the district office includes approving loans within certain limits referred to them by branch managers, responsibility for premises where this is not done by Head Office, branch development, systems

operation, and in some cases, bank inspection. Other responsibilities include responsibility for various personnel matters: organization of training, and promotion, transfers, and dismissal of certain categories of staff. Where there is no regional or local Head Office the international divisional office of the bank will perform most of these functions.

To comply with the requirements of the Bank Acts most banks have had to designate their senior branch as a local Head Office for dealing with the government and the central banks. Even before this these managers did have to act as decision units in the handling of purely local matters such as the adjustment of interest rates and fixing of various charges in the era of the banking agreement. However, it has not been usual for the smaller branches to refer loan applications and other matters to them except in an advisory capacity.

With the rapid expansion of bank offices together with the increasing authority of government and the local Central Banks and the diversity of the laws and policies of the various territories, the district offices appear to be on the way out and several new developments have either taken place quite recently or are about to take place. In particular, most banks have decided to become locally incorporated with some degree of local equity participation. Hence, there is a tendency towards more local head offices as a preparatory stage in this endeavour. Local head offices set up within the last year include those of the Canadian Imperial Bank of

Commerce, Barclays Bank and the Bank of Nova Scotia in Trinidad and Tobago, and the Royal Bank of Canada in Guyana. Banks in Jamaica are in the process of reorganizing similarly.

There are, of course, arguments for and against decentralization. The arguments against are largely in terms of cost and duplication of resources. They seem to be outweighed by the favourable factors which would apply especially in the case of the banks which operate on a fairly large scale. For one thing it means that local people will now have more specialist jobs. Then, there will be more senior staff located within the territory and, hence, available for consultation on matters in and out of the bank. Also, there will be better opportunities for local staff to rise to the top and management will be able to gain a greater knowledge of their potential. Finally, top decisions will be made by people who have a first hand knowledge of what is happening in the territory.

There will, of course, be dangers of going too far with decentralization and for the Caribbean as a whole it may be necessary to determine the optimum especially with regard to the smaller territories.

Branch activities can be divided into two main categories - the operations side and the credit and marketing side. Responsibility for the operations side is usually delegated to the accountant[1] who is in charge of the administration of the branch generally. In a large branch he would be assisted by an assistant accountant and

[1]Some banks now designate the Accountant of a large branch as Assistant Manager (Administration) as distinct from Assistant Manager, (Loans).

they would have under them a number of departments each headed by a supervisor or chief clerk. These would include foreign exchange, current accounts, savings, collections and sometimes securities. Some branches also have audit officers who are directly responsible to the Accountant.

The manager does a great deal of the lending and loan review himself. Depending on the size and nature of the branch he may be assisted by an assistant manager and/or credit officers or manager's assistants. Usually the manager assigns limits to each of these officers. He is also responsible for promoting the business of the branch generally. Credit marketing is now an important element in the Manager's responsibilities and he is expected to apportion a significant proportion of his time for holding business discussions with his clients and making other business contacts including the clients of other banks.

Where banks have embarked on personal lending to any significant degree there is often a personal loans officer who will be mainly concerned with instalment lending or what some banks call their term plan. The required expertise here is not as high as for other types of lending and usually the officer is junior to the other lenders.

In banks which have no local headquarters branch managers appear to have very little final authority in terms of loan limits. The pattern appears to be to concentrate a great deal of authority

in this respect in the regional office. This does not relieve the branch manager of responsibility in the loan making process and in its collection. For the regional office or the Head Office to approve a loan the branch manager must carry out the necessary investigation and credit analysis as to the credit-worthiness of the applicant and he is held responsible for its repayment. The device of making a central authority responsible for loan approval makes for greater uniformity in the terms and conditions of loans. It may, however, tend to make the manager more conservative in that he has to make a satisfactory case for an authorizing officer far removed from the area of decision-making. In some cases this tends to inhibit subjectivity in loan approval and to encourage managers to be guided mainly by financial statements conservatively assessed. This will be greater in cases where bank managers are foreign and transient and because of unfamiliarity with local conditions have to rely on strong balance sheet figures. The problem is aggravated by the fact that overseas officers are expected to serve over wide areas and with frequent changes.[1] Indeed, it is said in some banking circles in Jamaica that the more conservative lenders over the years have been those with higher proportions of overseas managers.

[1] J.F. Lloyd, "The British Bank Manager Overseas", Journal of the Institute of Bankers, Vol. 79, 1958, Part II, April, p. 117.

The branch manager's limit will be determined by the size and location of his branch and by the calibre of its accounts. There is some degree of variation among banks with regard to the system of limits. Some banks have a reporting limit - managers have to report all loans made by them over a certain limit - a limit for unsecured lending and a higher limit for fully secured loans. Some banks give their branches higher limits with respect to renewal of overdrafts than with a first loan.

Generally, American banks appear to delegate to branch managers and their local headquarters high discretionary limits with respect to lending than Canadian or British banks. Writing on American banking in the Journal of the Institute of Bankers R.C. Spyer noted:

> The purpose of the relatively high discretionary limits given to managers is to keep the number of referrals to head office to a minimum. A manager would be expected to make 95 percent or more of his loans on his own initiative. If approval from head office is required, it would be obtained by way of an application which is fairly similar to that used by my own bank except that security details are not so extensively used.[1]

American banks, too, also have loan committees among their credit officers at the branch level. This practice has two advantages - it allows each to know what loan applications the other is processing

[1]R.C. Spyer, "The U.S.A. Banking System", Journal of the Institute of Bankers, Vol. 88, Pf. 44, August, 1967, p. 269. Spyer is attached to an English bank.

and it provides valuable training for lending officers at the junior level.

The branch management is also responsible for security in the branch and is expected to make regular and surprise checks on the cash, stamps, cheques, securities, and so on. The regularity of the checks depends on the asset, cash being the most regular one done. In this respect, too, there is some degree of variation among banks. In some large branches there may be a full-time audit officer performing this function.

While there is a decentralization at the regional level, there has been a certain amount of centralization of branch functions. This has been brought about largely because of the greater use of machines in bank offices. Proof-telling, for example, has now been centralized by all banks in Jamaica. The computer, already in use by one bank, and in the process of being introduced by other banks, is bringing about a significant change in office organization expecially in ledger keeping and the preparation of statements. This will undoubtedly lead to increases in efficiency for the bigger banks.

Banks are, in fact, getting extremely cost conscious. One large bank, for instance, has introduced a programme of establishing norms for the output and cost of each service. Branches are expected to achieve a certain output in relation to cost. If in any time period this is not achieved, the bank will examine the number of

persons performing the function to see if there are too many engaged in it or if there are too many senior staff performing the function. On the other hand, if output is very high in relation to cost then it may mean that additional staff will be supplied to that department. As part of this programme the bank is also examining the services it performs to evaluate whether it is profitable, whether its charges should be raised or whether the service should be performed at all. Action to abandon a service will, of course, have to be judged against the bank's competitive position, but the new system will enable the bank to assess the value of the service properly. It will also enable it to introduce new services on a more rational basis.

The London offices of the banks have historically occupied and continue to occupy a special place in the banks' organization. All surplus funds have traditionally been pooled in London, and the offices there have performed three main functions. First, the secondary reserves of branches were invested in income earning securities at a time when suitable assets were mostly unavailable in the territories in which the branches were located. Second, the London branch could lend the surpluses of some branches to other branches which were short of loan funds. Third, interbank settlements, both local and international, were made through London.

With the establishment of local central banks and regulations limiting the holding of overseas assets this pool of funds is

expected to get smaller for a number of reasons. First, some of these surpluses have had to be transferred back to the territory of operations in order to satisfy local reserve requirements in the form of statutory deposits with the local central banks and local liquid assets. Second, interbank settlements in respect of local payments are made through the adjustment of accounts at the local central bank, thus necessitating a margin of local liquid assets in excess of reserve requirements. Settlement of accounts for international payments and lending to branches in other territories which are short of funds are still done by the London office. Branches within a territory borrow from one another paying a certain amount of interest to the surplus branches. There is, however, no direct lending of funds between branches or banks in the Caribbean, even if they are served by the same regional office. Banks argue that in view of the fact that the central-banking territories are now responsible for the fixing of their own exchange rates such loans are exposed to exchange risks. It is evident that official authorities do not as yet seem in a position to take action on a Caribbean basis with respect to such things as exchange crises,[1] and until this is clear such arrangements between banks are not likely to develop. Indeed, if this type of lending is to emerge it may well have to be done on the basis of forward contracts in

[1]Even in a simple matter as fixing the par value of the Jamaican dollar the Caribbean interest was subordinated to the local interest.

respect of foreign exchange. Thus, banks in Jamaica borrow from London at a time when Trinidad is in surplus, the banks preferring to keep their surpluses at a centre where the volume of international transactions to be settled is large.

For international business the banks make use of their branches or correspondents where they do not have branches. One bank boasts certain cost advantages in having an almost world-wide distribution of banking offices. It also cites ability to deal speedily with a number of smaller banking centres in which it is established. Other banks claim, however, that they deal with correspondents on a reciprocal basis and seem quite satisfied with the arrangements.

Banks with local ownership

Jamaica:

Local ownership and control of commercial banks is a rare feature in the Caribbean. The early banks in Jamaica disappeared shortly after their appearance in the 19th century. Gordon Grant and Co., in Trinidad was absorbed by Barclays Bank DCO in the post World War II period. In the 1960's local ownership reappeared with the formation of the Bank of Nova Scotia (Jamaica) Ltd., in 1966 and the incorporation of the Jamaica Citizen's Bank in 1967. These are both banks with minority local ownership. The Bank of Nova Scotia is a subsidiary of the Bank of Nova Scotia Ltd., with a

local equity participation of 25 percent. With respect to the Jamaica Citizen's Bank 51 percent of the share issue was offered to the local public but about 10 percent was not taken up.

Each bank has a local board of directors, two members of which are appointed by the parent bank. The other members of the board are expected to have a personal financial interest in the bank and be registered as holders of a minimum number of shares. The Bank of Nova Scotia (Jamaica) Ltd., consists of former branches of the Bank of Nova Scotia Ltd., and hence the senior management of the bank in its early stages has been largely in the hands of senior officers of the parent bank with an understudy of local staff. Management guidance to the Jamaica Citizen's Bank is being provided by the Citizen's and Southern National Bank of Atlanta, Georgia, who have a 5-year management contract to supply a General Manager satisfactory to the Board of Directors and whatever additional support may be necessary to manage the bank and train Jamaicans to assume senior executive positions. The Jamaica Citizen's Bank will reimburse the Citizen's and Southern National Bank with the actual cost of these services. The duties of General Manager of one bank has just been passed on to a Jamaican so that the bank is now fully Jamaican managed, and indications are that the other bank will soon be taking the same step.

Policies within which the management operates are established by the boards of directors, but the voting strength of the parent

banks at the present time is dominant. Moreover, guidance is sought from the parent banks on a number of matters. The boards may review and check the work of management, and being members of the business community they can no doubt make valuable suggestions with regard to broad policy matters. With respect to day to day administration their function is largely restricted to merely approving the action of management. Finally, boards are responsible for approving the appointment and dismissal of top managers, and for restructuring the top of the management organization. In the case of one bank there are an executive committee and a finance committee of the board of directors to consider matters in some depth.

The General Manager or Managing Director is the key man in the organization. On the one hand, he informs and provides guidance to the board of directors and shareholders on top level policy matters, and on the other hand, he is responsible for the efficient administration and management of the organization. He is usually surrounded by specialist staff and the usual pattern is to take major decisions and establish policy in committees.

The local management has assumed a number of responsibilities which were formerly either performed by Head Office or the regional office. Bank inspection may be either carried out by a local team or partly by a local team and a parent bank team. One bank, for example, has a local inspection team for smaller branches, but its parent bank team still inspects the larger, and a sample of smaller

branches. Other functions transferred to the local office includes system analysis, personal administration, loan administration, although loans requiring the guarantee of the parent bank have to be considered by that bank after it has been considered by the appropriate committee in the subsidiary.

With regard to lending limits the banks are restricted by the legal limitation of 10 percent of share capital and reserves. In some cases this appears to be interpreted as 10 percent of local capital and reserves, loans exceeding this level having to be guaranteed by the parent bank. Indeed, it is not unusual to find the local limits of some foreign banks exceeding those of the local banks even though the scale of operations of the foreign banks in Jamaica may be smaller. The other device for getting around the legal limit is to make loans in participation with other banks either local or foreign. The Jamaica Citizen's Bank had established lines of credit with seven international banks at the time of issue of its prospectus to facilitate short-term financing of business and trade inclusive of such arrangements. In Trinidad and Tobago the banks are already participating in the joint financing of large loans, even though they are not yet locally incorporated. Where the loan is guaranteed or there is a participation with a foreign bank the loan application will have to be considered by the guarantor or the participator and the procedure is very similar to that of a branch submitting a loan to Head Office for approval.

Concern has been expressed in the Jamaican press over the willingness of the banks which have announced their intention to go local to guarantee these loans, especially if they hold only a minority of the share capital of the local bank and management is transferred to local hands. This view appears to be unduly pessimistic as banks are free to examine and be selective about the loans they will guarantee just as they are about the loans the Head Office now approves. Indeed, under the international branch system all loans are made by Head Office which sustains all losses. Under the new arrangement the guarantor stands to lose only the portion of the loan which it guarantees. If under the new arrangements the quality of management and loan collection continues to be good there appears to be little reason why the guarantees should be withheld. Where supplementary funds are required by the local banks these will undoubtedly be supplied on the basis of considerations of availability, opportunity cost, profits and risk. Exchange risks, for example, are likely to loom larger in negotiations than degree of ownership.

If difficulties with guarantees do develop two alternative courses seem open. First, there could be loan participation among local banks. This would result in a new limit set at the sum of the limits of the participating banks. The other course is to have loan participation with correspondents, and, again, this would depend on the factors mentioned earlier with regard to the movement of funds. Participations are similar to guarantees in that correspondents will

accept only that part of a loan in excess of the originating bank's lending limit. With a guarantee, however, funds may not move and the guarantor becomes actively involved only if the borrower defaults. With a participation, except there is a reverse or counter participation, funds will move from the lending bank to the borrowing bank.

Local banks, however, will have to develop correspondent relationships. Where they are the successors of international banks, they can probably use the correspondent of these banks if this can be worked out.

One apparent problem for concern is whether the government target of 51 percent local ownership of the foreign banks can be achieved by 1975. The high interest rates which have been prevailing in Jamaica since devaluation and the sluggishness and almost consistent fall in the stock exchange index is bound to affect the readiness of the Jamaican public to take up the new shares. When it is remembered that some Jamaica Citizen's shares, issued at a much more favourable time, still remain unsold and that Bank of Nova Scotia (Jamaica)'s stock which had performed so well in its early years are on the decline the task seems somewhat formidable.

Most of the banks operating in the Caribbean have wholly owned trust companies which in addition to carrying out their normal functions accept term deposits and make long and medium term mortgage loans.

Trinidad and Guyana:

The local banks existing in Guyana and Trinidad and Tobago are at the present time all wholly owned local banks.[1] They are both very small at present in relation to the size of the banking system. In the Trinidad case the bank is wholly owned by government who appoints the Board of Directors although, for political reasons, it has no official representative on the Board.[2] This is perhaps important because a director can call for and inspect documents at any time. In Guyana the bank is at the present time 90 percent government owned but provision is made for the co-operatives to acquire majority ownership in due course. Government appoints four of the ten directors of the bank.

The relationship between the Board of Directors and General Manager is basically the same as for the other banks discussed, except for the absence of a parent bank with a majority vote. The General Manager carries out the policies set by the Board and advises the Board. The Board sets the limits of his authority. Neither of these banks has as yet established branches. The General Manager's lending limits are set by the Board and at least in one case is unlimited. The internal local organization of the bank is very

[1]Most of the international banks in Trinidad are 'going local'. Hence the situation will be very similar to the Jamaican one.

[2]This was a measure necessitated by the fact that it was desirable at the time the bank was formed to assure the bank's clients and prospective clients that the bank would not be submitted to political pressure.

similar to other banks. Internationally, these banks, like the Jamaica Citizen's Bank, rely heavily on correspondent arrangements. In the Caribbean the local banks appear to be endeavouring to use each other as correspondents where this is practicable. Elsewhere the National Commercial Bank of Trinidad and Tobago uses the correspondents of the international bank from which its assets were purchased.

PERSONNEL

Background

Bank staffing policies have been traditionally highly discriminating and exclusive. In its book, A Banking Centenary written in 1936 (Barclays Bank D C O) disclosed that its staff in the West Indies and British Guiana was of British origin recruited either locally or in the United Kingdom. Other banks seemed to have done a greater degree of local recruitment, but this was restricted largely to persons whose physical characteristics approximated most closely persons of British origin. This is not surprising since their borrowers were mostly persons of the white planter and commercial community.

In the 1950's the banks began to depart from these policies. Liberalization in Jamaica started with the banks which were foremost in the expansion of island-wide banking facilities. The evidence seems to indicate that at least in the case of one bank the initiative came from a Head Office director assigned to the region. Perhaps, because of this the process has been somewhat slow,[1] for the policy had to be implemented by persons who were schooled in a system of discrimination.

In addition to the expansion of banking facilities and the consequential demand for staff, other problems have emerged which have led to a more speedy process of liberalization: the arrival of new

[1]See Interim Report of the Commission of Enquiry into Racial and Colour Discrimination in Trinidad and Tobago, p. 19 for other reasons.

banks, increasing competition among the banks, public opinion and government action through the introduction of work permit laws which were made applicable to the banking sector.

Indeed, it would appear that the quality of staff prior to the 1960's may not have been particularly impressive, as the restrictions in local recruitment probably prevented the banks from getting the best available staff and there were real problems with imported staff. J.F. Lloyd in an article, "The British Bank Manager Overseas", noted that "the imported clerk should be capable of senior positions at a much younger age than would be likely in the United Kingdom".[1] The recruitee would be eligible for promotion only if he had the character to control staff, very often older than himself and with longer experience of local conditions. He was advised to pass his examinations before going overseas as his social functions and acclimatization with local conditions would take up much of his spare time. Mr. Lloyd noted that banks were faced with several staff difficulties and their young men were expected to serve over wide areas and often with frequent changes.[2] The article gives the impression that the system may have had certain disadvantages for the young man with serious intentions of a career overseas and that the proportion of misfits who had to be repatriated, though not high, could have been smaller if a fuller understanding of what was required of new staff was obtained before they were engaged.[3]

[1] J.F. Lloyd, The British Bank Manager Overseas, Journal of the Institute of Bankers, Vol. 79, 1958, p. 115.

[2] Ibid., p. 117.

[3] Ibid.

If the system was unfair to the recruitee one would be tempted to ask whether it was not doubly unfair to the people whom the bank served. The article emphasizes the problems caused by the lack of familiarity with his environment. When this is added to his relative inexperience, the frequency with which he was transferred from one office to another and the bottlenecks to social mobility in the Caribbean it is not difficult to see why overseas bank managers have traditionally been regarded as lacking in innovation in the territories in which they operate. Even today it is held in some banking circles that the extra conservativeness of some banks is partly due to overseas managers' unfamiliarity with local conditions.

From the information supplied by banks, their total employment by the sector at the end of 1969 was about 2,200. It is difficult to divide this number between the main categories: directorate, managerial, supervisory and clerical because in these figures some banks included middle management, that is, from Assistant Accountant up as managerial while others regarded senior officers below Assistant Manager as supervisory. Moreover, an Accountant in a large banking office could be very different in rank and experience to one in a small banking office. In fact some banks now have re-designated Accountants in some of their larger banking offices as Assistant Managers (Administration).

RECRUITMENT AND SELECTION

Banks were asked to assign a rank to a number of avenues of recruitment. The distribution of the three highest ranks are given in Table 105. By far the most frequent source of recruitment was write-ins.

This was followed by referrals by employees and others, schools and school placement officers, replies to advertisements and University. Employment agencies were not used. In some cases letters of application followed visits to schools and probably the ranking given schools may therefore be too low. In Trinidad and Guyana one bank distributes a bulletin to secondary schools and this is a major factor in influencing subsequent applications by letter. Some banks in Jamaica have personnel officers visiting schools and business colleges giving talks about work at their banks.

Table 105: Main Avenues of Recruitment in Jamaica

	No. of times ranked 1	No. of times ranked 2	No. of times ranked 3
Schools & School Placement Officers	1	2	
University			2
Employee or other referral	2	1	2
Write-ins	4	2	1
Newspaper or other advertisement	1	1	1

Source: Replies to Questionnaire

Some banks did not consider newspaper advertisement a successful source of recruitment. Advertisements usually resulted in a large number of applicants who did not achieve minimum standards. Recruitment for the University was a relatively new factor but banks in Jamaica generally appeared to find this source more acceptable than in Trinidad and Guyana.

Some banks in Jamaica consider University graduates a good source of supply of personnel for middle management.

The main problems with University graduates were that they were new to banking and were sometimes not prepared to work their way up, perhaps feeling that jobs were too elementary. On the other hand, regardless of their starting point a high level and quality of output was expected and sometimes they were a disappointment in this regard. Nevertheless, in the last few years there are several instances of university graduates who have lived up to expectations and performed very well.

The other factor is that the non-graduate often feels concerned about his future when he sees a new recruit who knows nothing about banking coming in above him. Hence, in the extreme case, banks prefer to give scholarships to promising employees to go to University rather than recruit University graduates.

With regard to the problems generally, there would appear to be two views - some banks feel that an all-round knowledge of banking assists a manager in running his branch. Thus they put the management trainees through the operations side of banking; and then start to specialize them in credit analysis and lending techniques. The other view is that specialization assists a manager in dealing with the most important aspect of his job.[1]

[1]Spyer, "The U.S.A. Banking System", Journal of the Institute of Bankers, Vol. 88, 1967, p. 435.

Thus recruits from University usually concentrate on credit investigation and analysis, while high school recruits would work their way through the operational side of banking, and go on to credit analysis later. One bank in Jamaica, for instance, has a twenty-four month training course leading to the qualification for the position of Assistant Accountant. The first degree University graduate would do the last six months of the course, but a second degree man would normally be put straight into the credit side of operations.

The other problem may be related to the quality of recruits available to banks in the different territories. In Jamaica it is difficult to get good high school graduates. Some banks find that they have to recruit persons without 'O' Levels, but try to ensure that these people have at least reached 'O' Level forms in high school and are able to pass a test. In Guyana, on the other hand, banks have people with 'O' Levels working as messengers and in both Trinidad and Guyana more persons with 'A' Levels are recruited. Thus, the potential of lower tier recruits to attain managerial positions is greater. What is more, it appears that there is a higher proportion of bank employees in Trinidad and Guyana writing the examinations of the Institute of Bankers than in Jamaica. In this respect banks are quite prepared to give every encouragement to the promising 'A' Level or 'O' Level employee to work his way up to the top.

In recruiting staff in Jamaica, most banks try to recruit men with some 'O' Level qualifications including Mathematics or Arithmetic and English. With girls, it depends on the type of work for which they are being recruited, e.g., they require the appropriate qualifications

for stenography and secretarial work. Banking has traditionally been considered a man's job, but this is disappearing and there are now a number of female managers in Jamaica. One bank recruits only females for clerical positions. It would recruit 'A' Levels or University graduate females with the intention of training them for advanced positions.

Most banks give aptitude tests covering Mathematics, English and, in some cases, general knowledge to applicants. In some cases the test may only be given to uncertain cases or persons without any 'O' Level passes. All banks stress the importance of the interview. In the case of one bank the interview determines everything. In this bank recruiting emphasis is put on well rounded personality characteristics and qualities of leadership as demonstrated by activities at school. The Sixth Form prefect type would be highly regarded.

Training:

Most banks appeared to be in a process of revising or formalizing their training programmes.

New entrants are given 'on the job' training in duties they will be called upon to perform by experienced clerks or supervisors. This also applies to each new task the employee will do as and when necessary. In addition, some banks give formal instruction in all duties up to Supervisor's or Assistant Accountant's level. For example, a trainee may be given a five-day ledger course and then assigned to the Ledger Department. He will be given a Teller's course before being assigned to a Teller's duties and so on.

Some banks establish special training branches, and may or may not provide formal training. Others merely rotate the trainees both at the clerical and officer level through the departments for understudy.

At the upper end of the training programme, workshops and seminars, some of them on aspects of administration and management, are held. University recruitees are brought into the course at a high level.

Some banks send their senior employees to their District Office or Head Office for more advanced management and specialist training such as corporate credit, time studies, and systems analysis. These courses may vary from five weeks to more than a year.

In addition, all the banks send employees to a part-time course at C.A.S.T. leading up to the Institute of Bankers' Final examination. There appeared to be some scepticism as to whether this was the particular type of course which was most suitable for their needs.

Promotion:

All the banks but one claimed that seniority played at most a minor role in promotion considerations. Performance reviews seemed to be the main criterion for promotion. Reviews are done every six months for new employees and annually thereafter. University

recruits are reviewed more often. Here various aspects of the employee's performance are given a rating. In some banks the report is discussed with the employee and he is given the opportunity to contest it. If the reporting officer does not accept his counter view, he will come up for review again. At the review the employee's future in the bank may be discussed with a view to knowing if there was any aspect of banking he prefers. Senior staff are reviewed both by the manager or local directorate and by the Head Office inspection team.

Other banks assess their employees on reports from all the departmental supervisors with whom they have worked during the period, a report being required of the supervisor when the employee moves to another department or if the supervisor himself moves.

Remuneration

Some banks use job evaluation charts in fixing the remuneration of an employee. Others do not. Increments are given on the basis of performance reviews. Each grade has a scale. In some banks employees are not told the scale but are informed when they are approaching the top. There are no specified increments. The employee is given an increase on the basis of the assessment of his performance. Thus, a highly rated employee may receive a much larger increment than a mediocre performer. Or a good performer in last year's review may be a poor one this year, and this will be reflected in his increment.

The level and structure of salaries paid to employees is based on salary surveys made within the territory of operation. In Jamaica some banks participate in annual surveys run by other industrial corporations. The procedure is that the corporation doing the survey

would obtain the information and furnish a report disclosing the salaries structure and level of all the participants, but the report to any firm will identify only the particulars relating to the organizer of the survey and those of the recipient of the report, the other firms remaining incognito. This enables the recipient to see how he compares with the other participants. Some banks run their own ad hoc surveys by exchanging information with other banks, financial institutions and prominent non-financial firms.

Overseas Personnel

The employment of overseas personnel is now restricted to senior management and specialist staff, work permits being required for engaging any non-national. Furthermore, in Jamaica permits are normally for a maximum period of three years. The regulations are less strictly applied with regard to staff from other Caribbean territories.

The estimated number of overseas personnel in the Jamaican banking system in mid-1970 was 79 out of an estimated total of 2,200 staff. The percentage has been declining as training programmes at the higher level has increased.

Inter-Caribbean Transfers

Staff transfers within the Caribbean were formerly done on an extensive scale, although Jamaica's participation was always at a minimum The existence of work permit laws appears to be an inhibiting factor in transfers because of the red-tape involved. The disappearance of the regional offices should also lead to less transfers. The restriction of transfers could pose a problem in the smaller territories for a bank may have only one or two offices in a particular territory. In such

a case, when a senior man leaves, the only choice may be to attract someone from another bank which is itself small. In Jamaica the problem may not be so serious because of the size of the banking system. Any policy to encourage transfer will have to ensure that the smaller territories get a fair deal however.

Problem areas: expansion and turnover

Rapid expansion has put a severe strain on banks with regard to their supply of experienced staff. Banks contend that efficient lending comes with experience and some banks now operate with relatively inexperienced managers with a noitceably higher proportion of troublesome loans resulting from their administration. However, these managers usually have low limits and efforts to collect delinquent loans will undoubtedly lead to better lending in future.

The other major problem is the high rate of turnover of staff. Some staff have been moving to the newer banks and in these cases banks with the better training schools appear to have been the chief losers.

Migration is the other factor responsible for the high turnover. Generally, the rate of turnover of female employees appears to be higher.