Fed up with the rising fees at Canada's big banks? There's an easy solution

Danielle Kubes, Special to Financial Post | May 1, 2015

Way back in the late '90s, a unfamiliar Dutchman, Frederik de Groot, showed up on TV making ardent pleas directly to Canadians to save money.

ING Direct was the first wave in an ocean of new institutions that promised to do things differently; or, rather, to return to the way things were done, which was, for those old enough to remember, about loaning your money to the bank to safeguard — to prevent the cash under your mattress from disintegrating into ash if the house went up in flames.

Grateful for this loan, from which the bank derived much profit from lending to others at high interest rates, it paid you a healthy amount of interest. In 1981, for example, the prime lending rate topped out at 22.75 per cent, with interest rates on ordinary savings accounts rising in lockstep. The bank certainly didn't charge a fee to access your own money, as became common practice in the nineties.

"It used to be that people did not pay a monthly fee for banking because it was funded by the spread between what banks made on loans and what they paid out in interest on deposits," writes Kate Payne, spokesperson for the Canadian Bankers Association, in an email. "We have now moved to a user pay system, where customers pay for the services they use and don't subsidize the services they don't use."

Fee increases, in other words, have become an essential part of the revenue model for bricks-and-mortar banks. So it's odd that there's so much annoyance over RBC's new fees, starting June 1.

The question isn't why RBC, along with its four siblings — TD, Scotiabank, BMO and CIBC, increased their fees this year, but rather why Canadians are still paying them when alternatives exist.

"In Canada, it's true we tend to be loyal to a fault to the big banks, to the point where it's almost hereditary," says Penelope Graham, editor of RateSupermarket.ca. "Your mom banks with BMO, so you bank with BMO."

We are, after all, a nation founded, literally, on Loyalists. Being risk averse, conservative — these are the other fundamentals of the Canadian character and to what the credit for the safe crossing of the Big five over the threshold of the global financial crisis is owed.

But it is the very qualities that shepherded the banks unscathed through the recession and rendered them more powerful after – the ‘No thanks, I’m fine where I’m sitting’ attitude, said without even glancing at what the other chair looks like – that now hinders the Canadian consumer from seeking out and capitalizing on the new crop of institutions that allow them to both keep and grow their money.

Today, the Big Five offer interest from 0 per cent to .80 per cent on savings accounts, with high variable fees of up to $5 for each debit transaction. Conversely, AcceleRate Financial, a subsidiary of a Crosstown Civic Credit Union, charges a variable fee of only $1 for similar transactions, while offering an interest rate of 1.95 per cent — higher than most interest rates for five-year GICs at the Big Five.

Tangerine and President’s Choice — branchless banks owned by Scotiabank and CIBC, respectively — offer around .25 per cent interest for chequing accounts, with $0 monthly fees and extremely limited variable fees.

The Big Five, on the other hand, offer 0 per cent interest on their chequing account, with monthly fees that range from $3.90 to $30 — not that monthly fees are the real concern anyway.

Although they’ve risen, and are likely to rise yet higher, the prices corresponded with inflation, according to the Financial Consumer Agency, and actually became cheaper in real terms, which is probably why they’re so commonly cited by banks in defence of their fees.

RBC spokesperson Andrew Block, for instance, writes in an email responding to the June 1 changes, that 80 per cent of its clients “either receive no-fee or rebated banking.”

Regardless, it’s variable fees that rip a real hole in consumers’ pockets. Charges for transactions that exceeded one’s monthly package rose 46 per cent from 2005 to 2012, reports the Financial Consumer Agency.

Just look to RBC’s new fees for examples: an extra $5 to $10 for cheque certification; $2 more for stop payments; $1 to $5 for every debit transaction over the monthly allotment in certain accounts, including withdrawals to pay one’s own mortgage, loan, and credit card.

The Canadian Bankers Association says these fees give clients more flexibility and control over their final bill.

The association also reports that almost 80 per cent of Canadians say they get good value from the service fees they pay, which seems to be backed up by the bank’s high retention rate.

My mother, for example, like most boomers, would never consider breaking up with her bank, the CIBC, not when she can go in and talk to a representative face-to-face, and that representative greets her by name.

“The top reason people stay with their lenders are convenience and service,” Graham says. “The big banks know they have a brand premium, they know that it’s kind of a hassle to shop around and switch so they really do make it convenient as possible to stay with them for all your needs.”

So despite the rising fees, 68 per cent of us, and a full 96 per cent of Ontarians, still bank with one of the Big Five, according to the Financial Consumer Agency. Only eight per cent bank with a branchless bank, and just a fraction, 3.5 per cent, solely bank with them.

As it turns out, Canadians find the price of convenience, in this case, for now, equitable.

“I think for a lot of people, they think ‘Good enough…it’s just a bank account, it’s just half a per cent, I’m too busy to even bother and try to research other options’,” says Karin Mizgala, CEO of Money Coaches Canada.

“There’s a pretty high level of apathy and avoidance, generally speaking when it comes to finance, and doing the best things, when it comes to ourselves.”