

CONSUMER INSTALMENT CREDIT IN THE CARIBBEAN

(A REPORT and SURVEY)

by

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P R E F A C E

The paper presented at this Conference is comprised of four draft chapters of a wider study of the consumer instalment credit industry, its development and regulation in the Caribbean. The study is principally based on a questionnaire survey of the industry in Trinidad-Tobago and Barbados. It is hoped before completion to extend the work to the other Central Banking territories of the English-speaking Caribbean. The four chapters in this paper deal with the financial institutions in the area, (finance houses and commercial banks); the legal arrangements governing consumer instalment credit; and a general introductory chapter on the structure, organization and growth of this industry in the region. For the larger study, chapters on regulation and the retail dealers will be added.

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To all these persons and institutions I dedicate the study in the hope that it makes some small contribution to one of the most important, yet almost completely neglected areas of research.

C. Y. THOMAS

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CHAPTER I

Structure, organisation and growth of the consumer instalment credit industry in the Caribbean.

1.1. In this chapter we shall be examining the main aspects of the organisation, structure, and pattern of growth of consumer instalment credit in the Caribbean. A detailed analysis of the major institutions providing consumer credit will be found in the next three following chapters.

Section I:

Definitional problems

1.2. As we shall observe in chapter V where this matter is discussed in some detail, there is a great deal of obscurity and confusion surrounding the principal legal forms of consumer instalment credit agreements in the West Indies. In theory consumer instalment credit is any credit granted to an economic unit, for the purpose of making a consumption outlay, and which is to be repaid by prior agreement in (more than three) regular instalments. This credit can be provided, either in the form of a loan of money for the purpose of purchasing goods and services and then repaying the debt by instalments or, through obtaining possession of the goods immediately, and paying for them on an instalment basis. Unfortunately, the laws in the Caribbean do not reflect

this reality and the resultant variety of agreements creates a great deal of confusion. It would be useful therefore, to begin by referring to what the main agreements usually represent.

1.3. An hire-purchase agreement usually refers to credit extended to private consumers and to business concerns on a hire-purchase sale. A hire-purchase sale requires (i) that a debt be incurred to a retailer, dealer, or finance house, as the result of a purchase of a commodity which is usually a consumer durable or an item of equipment, (ii) that the debt must cover a high proportion of the purchase price, (iii) that repayment should be by means of regular fixed instalments, and (iv) that under local law, ownership does not pass to the purchaser until the debt has been fully discharged.

1.4. Credit Sale agreements are similar to hire-purchase agreements except that under credit sale arrangements, the purchaser comes into ownership of the goods in question after the first down-payment is made. The remainder of the debt is repayable in instalments but remains unsecured.

1.5. Conditional sale agreements have all of the basic features of hire-purchase in that property of the goods remains with the seller until full payment, or performance of conditions attached to the agreement. The main difference

is that under hire-purchase, the hirer is not obliged to buy, he has only an option to do so, whereas under conditional sale agreements the conditional buyer is compelled to buy. Since in practice persons or institutions who enter into hire-purchase arrangements are really buying goods, this distinction is of little real economic significance.

1.6. Loan agreements are simply contracts in which money is borrowed on agreed terms and conditions either directly, or indirectly, by requesting the lender to pay a third party. Examples of these are the usual types of term-loans granted by commercial banks. Their existence underlines the basic conceptual similarity between borrowing money on an instalment basis, and then purchasing goods, or purchasing goods and by prior agreement paying for them on an instalment basis.

1.7. A lease as applied to chattel goods, is an agreement for the letting of goods, where there is no option to purchase. Legally there is no distinction between a lease, hire, or rental, but in everyday business usage a distinction is made between lease, contract hire, and rental agreement. Leases are normally used for medium term hiring. Following British practice this usually takes two forms. First, there is the finance lease, i.e. a lease

in which over the period of the lease the lessor is paid the total cost, (including interest charges), of the asset. Normally, the debt is substantially repaid in about 3-5 years, but thereafter the lessor has an option to renew the lease at a nominal rental. Practice varies here and sometimes over the renewal period a substantial part of the debt is repaid. Finance leases carry no services in the form of maintenance etc., and are usually obtained from finance houses. Where services are offered the lease is called an operating lease, and ^{the} here/lessor usually plans to let to a number of lessees in succession and therefore is prepared to provide all necessary ancillary services.

1.8. Contract hire is used for leases that are of short duration, e.g., renting motor vehicles for six months or so. Usually such contract hire agreements involve fleets of motor vehicles. The finance house would purchase them from a supplier, on the prior understanding that after letting them the supplier would be obliged to repurchase at an agreed price. In turn the finance house would hire out to individuals or companies for various purposes.

1.9. Rental agreements refer to short/^{to}medium term hirings of such items as television sets or motor cars. These arrangements are often obtained from the retailer, but

occasionally specialist rental companies are established.

1.10. In this study our primary concern is with hire-purchase, credit-sales, and instalment loan plans of the commercial banks. Among these categories our major focus will be on consumer instalment credit.

SECTION II: INSTITUTIONAL ORGANISATION

1.11. Consumer instalment credit in the Caribbean is provided through three main categories of institutions, viz. commercial banks, finance houses, and the retail dealers. Tables 1 and 2 show the total consumer instalment credit outstanding and the distribution of this debt by institution for the years 1967-71. As can be seen from the data, in all of the territories the commercial banks are presently the largest suppliers of consumer instalment credit. Except in the case of Trinidad-Tobago this position of dominance has only been very recently achieved. In Jamaica during 1967 the commercial banks accounted for 37% of the outstanding instalment debt, but by 1971 they were accounting for 59% of the total outstanding debt. In Guyana in 1967 the commercial banks supplied 42% of the outstanding debt, but by 1971 they were supplying 60%. In 1968 the commercial banks were supplying 80% of the instalment credit provided by the financial institutions ^{in Barbados.} Between then and the end of 1970, the ratio remained more or less unchanged. The data here do not provide complete coverage as there are no estimates of debt due to retailers. However, in Trinidad-Tobago by 1968 the commercial banks were already accounting for 49% of total outstanding debt and by 1971 they had increased this ratio to 64%. We are not at this

TABLE I : TOTAL INSTALMENT CREDIT OUTSTANDING 1967-71

| | <u>1967</u> | <u>1968</u> | <u>1969</u> | <u>1970</u> | <u>1971</u> |
|----------------------------------|-------------|-------------|-------------|-------------|--------------|
| Jamaica (J\$ m.) | 29.3 | 37.6 | 47.9 | 53.4 | 56.1 (Sept.) |
| Trinidad-Tobago (TT\$ m.) | N.A. | 64.9 | 76.1 | 89.8 | 96.7 |
| Guyana (G\$ m.) ¹ | 21.3 | 24.9 | 31.4 | 30.6 | 32.1 (Aug.) |
| Barbados (E.C\$ m.) ² | N.A. | 6.4 | 9.5 | 12.6 | N.A. |

- Notes: 1. For Guyana instalment credit outstanding by commercial banks was estimated as the total value of outstanding term loans and advances to the private sector.
2. There are as yet no firm estimates of retail instalment debt. The figures given here refer to the financial institutions only.

Sources:- Central Bank of Trinidad-Tobago Statistical Digest; Jamaica, Central Bank Bulletins and Economic Surveys; Guyana Central Bank Annual Report; and Data collected from the Survey.

TABLE 2: INSTALMENT CREDIT OUTSTANDING BY INSTITUTIONS - 1967-71

| | 1967 | | 1968 | | 1969 | | 1970 | | 1971 | |
|----------------------------------------|------|------|------|------|------|------|------|------|------------|------|
| | \$ | % | \$ | % | \$ | % | \$ | % | \$ | % |
| (i) Jamaica (J\$ m.) | 29.3 | 100 | 37.6 | 100 | 47.9 | 100 | 53.4 | 100 | (Sep) 56.1 | 100 |
| of which Retailers | 7.3 | 24.9 | 9.1 | 24.2 | 11.2 | 23.4 | 13.3 | 24.9 | 11.5 | 20.5 |
| Finance Houses | 11.3 | 38.6 | 12.2 | 32.4 | 12.7 | 26.5 | 12.9 | 24.2 | 11.3 | 20.2 |
| Commercial Banks | 10.7 | 36.5 | 16.2 | 43.1 | 24.1 | 50.3 | 27.3 | 51.1 | 33.2 | 59.2 |
| (ii) Trinidad-Tobago (TT \$ m.) | N.A. | - | 64.9 | 100 | 76.1 | 100 | 89.8 | 100 | 96.7 | 100 |
| of which Retailers | N.A. | - | 17.6 | 27.1 | 14.2 | 18.7 | 15.7 | 17.5 | 17.3 | 17.9 |
| Finance Houses | 15.8 | - | 15.4 | 23.7 | 20.1 | 26.4 | 21.9 | 24.4 | 17.8 | 18.4 |
| Commercial Banks | N.A. | - | 31.9 | 49.2 | 41.8 | 54.9 | 52.2 | 58.1 | 61.6 | 63.7 |
| (iii) Guyana (G\$ m.) | 21.3 | 100 | 24.9 | 100 | 31.4 | 100 | 30.6 | 100 | (Aug) 32.1 | - |
| of which, Retailers | 12.3 | 57.7 | 12.6 | 50.6 | 12.6 | 40.1 | 13.5 | 44.1 | 13.9 | 40.0 |
| Finance Houses | Nil | - | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Commercial Banks ¹ | 9.0 | 42.3 | 12.3 | 49.4 | 18.8 | 59.9 | 17.1 | 55.9 | 19.3 | 60.1 |
| (iv) Barbados (\$ E.C.M.) ² | N.A. | - | 6.4 | 100 | 9.5 | 100 | 12.6 | 100 | N.A. | - |
| of which Retailers | N.A. | - | N.A. | - | N.A. | - | N.A. | - | N.A. | - |
| Finance Houses | N.A. | - | 1.3 | 20 | 2.1 | 22 | 2.1 | 17 | N.A. | - |
| Commercial Banks | N.A. | - | 5.1 | 80 | 7.4 | 78 | 10.5 | 83 | N.A. | - |

Notes: 1. See Note 1 Table 1.1
2. See Note 2 Table 2.2.

Source: Same as Table 1

stage interested in analysing in any great detail the pattern of growth of instalment credit but it would be useful to observe even now that in Jamaica the 1971 data show that the remainder of the debt was roughly evenly divided between the retailers and the finance houses. However, whilst there was a 60% increase in the absolute value of the debt outstanding to retailers, (i.e. from J\$ 7.3 million to J\$11.5 million), the finance houses had remained virtually stagnant (i.e., at J\$ 11.3 million in both periods). In Trinidad-Tobago the finance houses have shown a small increase of 12% in the absolute amount of debt outstanding to them over the period 1967-71 whilst the retail dealers have recorded no increases. In Barbados the outstanding debt due to both the finance houses and the commercial banks just about doubled in value between 1968 and 1970.

1.12. The retailers obtain their funds for providing credit from four main sources, viz., their own capital, bank loans, (usually over-drafts), entering into block discounting arrangements with finance houses, and from repayments of debt previously provided. The commercial banks acquire their funds through their normal deposit raising process, and in the case of 'new' banks from their own capital and from repayments. The finance houses acquire their

1. The 1971 data for Trinidad-Tobago show that the total debt outstanding at that time averaged less than that for the years 1969-70.

resources through borrowing from the public, (i.e. accepting deposits), borrowing from the local commercial banks, borrowing from overseas financial institutions, and through the use of their own capital.

1.13. The most striking feature of the institutional arrangements of the consumer instalment credit industry in the Caribbean is the position of foreign owned institutions in the provision of this credit. Foreign ownership and control of the finance companies, commercial banks, and the major retail houses is the dominant characteristic of this sector. Three marked consequences seem to have followed on this. One is that the institutions in this sector have tended to introduce as their local operational guides, the attitudes and practices they have acquired in the metropolitan territory from which they emanate. Thus for example it might be argued that the rapid growth in the provision of consumer instalment credit in recent years in the region reflects the shift in emphasis from the previously dominant British oriented financial institutions, to North American oriented financial institutions. As compared to their American counterparts, British financial institutions have been notorious for their slow development of consumer finance facilities. In fact it was not until as recently as 1960 that British commercial

banks publicly and consciously moved into the field of consumer instalment finance.

1.14. There are of course other factors which help in explaining this recent development of consumer financing in the Caribbean. One is the excess liquidity in the region, induced in part through relative exchange rate uncertainty since the devaluation of 1967. And, another is that the new North American banks often came in with surplus funds they were anxious to dispose of in order to get a hold on the local market. And, consumer finance seemed a good opportunity. Of course familiarity with this area of financing would have helped. Nevertheless the effects of the rapid introduction of several new North American financial institutions into the area should not be completely discounted.

1.15. The second consequence of this type of institutional structure is that since these institutions are foreign owned and in some instances only very recently established, they were often unfamiliar with the local economy and society. This was particularly the case of the ^{finance} houses. An examination of their early years of operations reveals that a great number of errors were committed through imprudent lending and bad loan supervision. Across the region finance houses were closed and reopened with ^{been that} wildering frequency. The result of all this has/the finance

houses are now only able to attract funds willing to run a "high risk," and much of their slow growth has been due to these unsavoury occurrences.¹

1.16. Finally, in so far as the dominant feature of these institutions is their expatriate character, developments and changes in the metropolitan territories which affect their parent company operations are inevitably becoming of increasing significance in the local market. In Britain in particular, with the commercial banks arriving late on the consumer instalment finance scene, they have sought to recoup their position through establishing strong inter-locking arrangements between finance houses and themselves. The pressures in favour of this development have been great. The finance houses have competed strongly with the banks both in raising deposits and in the provision of loans. Moreover, the commercial banks, having borne the brunt of restrictive monetary policies, now see these interlocking financial arrangements with the finance houses as an opportunity of circumventing restrictions and of finding use for their surplus funds in order to maintain their profitability. The extent of these rapidly growing interlocking arrangements can be seen from the data in Table 3.

1. The chequered history of the Olds Discount/International Trust of Washington (Caribbean) Company shows this quite clearly. For a discussion see chapter 3.

Table 3 - CONTROL OF MAJOR FINANCE

HOUSES IN BRITAIN

| <u>Name</u> | <u>Controlling Share holder</u> | <u>Percentage of equity held</u> |
|-------------------------------------|--------------------------------------------------|----------------------------------|
| United Dominions Trust Ltd | Independent | - |
| Lombard Banking Ltd | National Westminster Bank Ltd | 100 |
| Lloyds & Scottish Finance Ltd | (Lloyds Bank Ltd (The Royal Bank of Scotland) | 50) 50) |
| Mercantile Credit Co. Ltd. | Independent | - |
| North Central Finance Ltd. | National Westminster Bank Ltd. | 100 |
| Forward Trust (Finance Ltd) | Midland Bank Ltd. | 100 |
| Bowmaker Ltd. | C.T. Bowring & Co. Ltd. | 100 |
| The Astley Industrial Trust Ltd. | Independent | - |
| The Hodge Group Ltd. | The Carlyle Trust Ltd. | 100 |
| North West Securities (Finance) Ltd | Bank of Scotland | 100 |
| The Wagon Finance Corporation Ltd. | Independent | - |
| Ford Motor Credit Co. Ltd. | Ford Motor Co. Ltd. | 100 |
| Goulston Discount Co. Ltd. | Simco Securities Ltd. | 100 |
| First National Finance Corp. Ltd. | Independent | - |

*Note: This was the position at end of October 1970. Since, the Ashlley Industrial Trust has become a wholly owned subsidiary of the Mercantile Credit Company Ltd.

Source: Crowther Report on Consumer Credit pp. 71.

1.17. Whether or not competitive pressures in the Caribbean will lead to local arrangements exactly similar to those in the metropolitan countries is still uncertain. But what is clear is that in so far as both banks and finance houses are expatriate controlled and/or owned, then local developments will be essentially a by-product of these overseas developments. There is as yet no clear local policy for dealing with this. Efforts have so far been confined to such trivial approaches as seeking the local incorporation of the foreign financial institutions, establishing a token national institution to "compete" with them, and exercising moral suasion through the Central Monetary Authorities. None of these policy initiatives deal with the basic structural issues. Consequently, the entire sector finds its development left to what are predominantly foreign private initiatives. But it is clear that successful plans for re-structuring ^{and} developing the consumer instalment credit industry must be based in the first instance, on a policy of indigenisation of the finance houses, commercial banks and major retail houses. This is a necessary, albeit not sufficient condition for real change. Unless such measures are taken the industry will continue to find that its' momentum is no more than a by-product of changes in parent organisations in the metropolises.

SECTION III: STRUCTURE AND GROWTH

1.18. One of the most striking features of the consumer instalment credit industry in the region has been its rapid growth in recent years. The data in Table 1 show that for all of the territories there has been a tremendous growth in outstanding instalment credit. In Jamaica, between the end of 1967 and September 1971, total credit increased by J\$26.8 million or approximately 92%. The official published index of instalment debt outstanding in that country which is shown in Table 4, recorded 332 at the end of December 1970, with the base period January 1965. This represented an overall increase of 232% in the six year period - an annual compound rate of growth of 27%. In Trinidad-Tobago, total credit outstanding increased by TT\$31.8 million between the end of 1968 and the end of 1971. This was equal to an increase of 49 percent. Meanwhile the official index showed 169 in September 1971, with the base period being September 1968. This represented an increase of 69% - an annual compound growth rate of 30%. In Guyana the overall increase was 50% for the period end of 1967 to August 1971. In Barbados the figures are very tentative and do not include an estimate for the retailers. But the available data tends to support this trend as the financial institutions recorded an increase

from E.C. \$6.4 million in 1968 to E.C. \$12.6 million in 1970, i.e. an overall increase of approximately 100%.

1.19. This rapid and general expansion of outstanding instalment debt has been accompanied by certain shifts in its institutional source. As can be seen from the data in Table 2, whereas in Jamaica and Guyana the commercial banks accounted for 36.5% and 42.3% respectively of the outstanding instalment debt in 1967; by 1971 the respective percentages were 59.2% and 60.1%. The most marked consequence of these changes has been the dwindling importance of the finance houses in the provision of instalment credit in Jamaica. Whereas in 1967 they supplied 38.6% of the debt, by 1971 they were supplying 20.2% of the total debt. The absolute levels of the debt showed no significant changes during the period, and the falling proportion reflected the rapid expansion of the commercial banks. This point is further emphasized when we examine the behaviour of the retailers. Their outstanding debt increased by about 58% over the period, and their falling relative position was due to the expansion of the role of the commercial banks in this field.

1.20. In Guyana the retailers were as stagnant as the finance houses of Jamaica in the supply of instalment credit. This, however, might partly reflect the inadequate coverage

TABLE 1.4: OFFICIAL INDICES OF INSTALMENT CREDIT - JAMAICA AND TRINIDAD-TOBAGO

| | | |
|-----------------|---------------------|---------------------|
| | <u>1965</u> (Jan) | <u>1971</u> (Dec) |
| Jamaica | 100 | 332 |
| | <u>1968</u> (Sept.) | <u>1971</u> (Sept.) |
| Trinidad-Tobago | 100 | 169 |

Sources: Jamaica: Economic Survey and Central Bank Bulletins, Trinidad-Tobago - Central Bank Statistical Digests.

of the data for that sector. But the corollary of this, which is the marked and rapid expansion of the commercial banks in this field is to be noted.

1.21. In Trinidad-Tobago there were differences in performance. In 1968 the commercial banks already dominated the consumer credit industry accounting for 49.2% of the outstanding debt. By 1971 this proportion was increased to 63.7%. However the finance houses showed a small expansion of 12% in outstanding debt, and the retail dealers recorded no significant change in their levels of outstanding instalment debt.

1.22. The changes in Barbados have already been referred to. Both sets of financial institutions have shown a rapid increase in their business over the three year period. But the bulk of the credit (80%) is being supplied by the commercial banks. The finance houses have recorded their main increase between 1968 and 1969, as the value of their debt outstanding at the end of 1970 did not differ from that of the previous year. Comparing these data to those on income and consumption behaviour in the Caribbean we find that the growth of outstanding instalment debt observed in Tables 1-3 was sufficiently rapid to outstrip the growth in population, national income and personal consumption expenditure.

From the data in Table 5 we can observe the following. In Jamaica per capita instalment credit outstanding rose from J\$16 to J\$28 in the four year period 1967-70. This was an increase of approximately 75%. Meanwhile per capita national income increased from J\$335 to J\$427, i.e., an increase of approximately 27%, and per capita personal consumption expenditure rose from J\$294 to J\$365, i.e., an increase of 24%. It can be seen therefore that per capita instalment credit has been growing at about thrice the rate of per capita income and per capita consumption expenditure.

1.23. Turning to Guyana, where the national accounts data available are more preliminary and tentative, we find that per capita instalment credit in 1967 was equal to G\$32.18 and by 1970 the value was G\$42.84, i.e., an increase of 33%. The national income estimates during this same period show a per capita increase of 18%, i.e., from G\$489 to G\$575, whilst per capita personal consumption rose from G\$408 to G\$460, i.e., an increase of 13%. The rate of increase of per capita instalment credit was about twice as fast as the growth of per capita national income and per capita personal consumption expenditure.

TABLE 1.5 : INCOME, CONSUMPTION AND INSTALMENT CREDIT

| | | Population (1) | Instalment Credit | Per Capita Instalment Credit | National Income (2) | Per Capita National | Total Personal Consumption Expenditure | Per Capita Consumption Expenditure |
|-------|------------------------|----------------|-------------------|------------------------------|--------------------------|-------------------------------------|----------------------------------------|------------------------------------|
| (i) | <u>Jamaica</u> | | \$J m | \$J | \$J m | \$J | \$J m | \$J |
| | | 1967 | 1,808,000 | 29.3 | 15.21 | 605.0 | 335 | 531.6 |
| | | 1968 | 1,835,700 | 37.6 | 20.49 | 665.4 | 362 | 570.7 |
| | | 1969 | 1,863,700 | 47.9 | 26.25 | 741.3 | 398 | 634.2 |
| | | 1970 | 1,890,300 | 53.4 | 28.25 | 806.2 | 427 | 689.6 |
| (ii) | <u>Trinidad-Tobago</u> | | TT\$ m | TT\$ | GDP (2) TT\$ m. | GDP TT\$ (2) | \$TT m | \$TT |
| | | 1968 | 1,020,000 | 64.9 | 63.6 | 1,479.0 | 1450(1160) | 1021 |
| | | 1969 | 1,027,800 | 76.1 | 74.0 | 1,552.0 | 1510(1208) | N. A. |
| | | 1970 | 1,026,700 | 89.8 | 87.5 | 1,629.0 | 1587(1270) | N. A. |
| | | 1971 | -- | 96.7 | - | - | - | - |
| (iii) | <u>Guyana</u> | | \$G.m | G\$ | National Income \$G m | National Income Per Capita(\$ G) | \$G m | \$G. |
| | | 1967 | 661,965 | 21.3 | 32.18 | 323.4 | 489 | 270.0 |
| | | 1968 | 678,938 | 24.9 | 36.67 | 354.9 | 523 | 289.2 |
| | | 1969 | 696,345 | 31.4 | 45.09 | 380.3 | 546 | 314.1 |
| | | 1970 | 714,200 | 30.6 | 42.84 | 410.5 | 575 | 328.0 |
| (iv) | <u>Barbados</u> | | E.C. \$ m (3) | \$E.C. | G.D.P. E.C. \$ m | Per Capita G.D.P. E.C. \$ (2) | E.C. \$ m | E.C. \$ |
| | | 1968 | 236,252 | 6.4 | 27.09 | 216.7 | 917(764) | N. A. |
| | | 1969 | 238,638 | 9.5 | 39.65 | 237.0 | 994(828) | N. A. |
| | | 1970 | 241,048 | 12.6 | 52.27 | 278.0 | 1,151(959) | N. A. |

Notes:

1. Population estimated by applying universal growth rates to 1970 Census data except for Trinidad-Tobago where Central Statistical Office Estimates used.
2. Bracketed figures show estimates of per capita national income calculated on the assumption of per capita GDP being one-sixth larger for Barbados and one-fifth larger for Trinidad. The GDP data for Trinidad supplied by Planning Unit.
3. Refers to financial institutions only.

Source : Economic Surveys of the various territories, and data from the Survey.

1.24. A cross sectional analysis of this data for the two countries shows that the ratio of per capita instalment indebtedness in Guyana to that of Jamaica for 1970 was equal to 1: 1.6. The ratio of per capita national income in Guyana to per capita national income in Jamaica was equal to 1: 1.8. As far as these two territories go the data show that the differential levels of instalment indebtedness per head of population is largely explained by the prevailing differential levels of per capita income.

1.25. In Trinidad-Tobago, we were faced with even more severe limitations on the availability of reliable national accounts data than in Guyana. But this is the picture which has emerged. Per capita instalment credit outstanding in 1968 was TT\$63.6 and by 1970 the amount had risen to TT\$87.5, i.e., an increase of 37%. Meanwhile per capita national income estimates rose from TT\$1,160 to TT\$1,270 over the same period. This increase was equal to 9%. The rate of increase of per capita instalment credit was therefore just over four times as fast as the growth of estimated per capita national income.

1.26. Incorporating the Trinidad and Tobago data with that of Guyana and Jamaica, this is what a further cross sectional analysis shows:

The ratio of per capita instalment indebtedness in Guyana to that in Jamaica and Trinidad-Tobago respectively was equal to: 1:1.6:2.0. Whilst the ratio of available income per head estimates in the same order was: 1:1.8:2.2. The striking similarity of these ratios indicate that differences in income levels is the dominant consideration in the differential levels of outstanding debt recorded in the Caribbean.

1.27. Before leaving this issue it would be useful to observe that in Barbados per capita national income increased from E.C. \$764 to E.C. \$959, i.e. approximately 21% between 1968 and 1970. At the same time per capita instalment debt outstanding to the financial institutions rose by 93%, i.e., from E.C. \$27.09 to E.C. \$52.27. Applying the ratio yielded by the cross-sectional data in order to provide estimates for Barbados, we find that this yields a per capita estimate of total outstanding instalment debt in 1970 of approximately E.C. \$64. For the total population the estimate yielded is approximately E.C.\$154 million. And for the retailers the estimate is E.C.\$2.8 million.

1.28. Given the rapid growth observed above, we should now examine two issues. One is to appraise what general economic considerations might have favoured the rapid expansion we observed, and the other would be to see whether

we can specify and measure for broad predictive purposes any outstanding behavioural factors in relation to this expansion. From empirical observation and straightforward deductive economic reasoning it might be presumed that the rapid growth of demand for consumer credit in relation to income is largely dependent on the fairly generalized behaviour pattern, which indicates that increments to personal income are being increasingly spent on the consumption of the services of consumer durables. Therefore, in so far as there is a relationship between consumer credit and the consumption of the services of consumer durables, then the two would expand together as income expands. However, by similar reasoning it might also be argued that as incomes increase the need for economic units to incur debt prior to their consumption outlays should be reduced. Yet this is not in fact the evidence shown in the data above, or indeed that from other countries.¹

1.29. Two sets of factors seem to support a strong positive relationship between consumer outlays and the increasing consumer debt. On the demand side, there is first of all the operation of a strong demonstration effect. In so far as advertising, recreation and the communications

1. See the discussion of the United States below.

media are oriented to metropolitan consumption standards it might be expected that increases in income will not take place fast enough to allow consumers to accumulate savings prior to their spending on consumer durables. Even within the metropolitan countries this demonstration effect is manifest in the efforts of consumers "to keep up with the Joneses". The existence of consumer credit facilitates consumption of capital type goods prior to the accumulation of savings. It therefore enables the rate of growth of this type of debt to outstrip the rate of growth of incomes.

1.30. In addition to this demonstration effect, there has been a universally rapid growth of the social acceptability of consumer indebtedness. In the early years of consumer borrowing, in most countries as in the Caribbean there was a marked social stigma attached to this practice. The removal of this prejudice has considerably widened the number of economic units eligible and willing to borrow, and has no doubt accounted for much of the expansion which we have observed. It is difficult to attribute precise factors which might account for this social phenomenon. But two are probably of great importance. One is that the successful breakdown of this prejudice within the metropolitan countries from which this innovation in financing was copied was rapidly transferred to the Caribbean. And, the other

might be the increasing tendency of consumers to apply rational criteria to their budgeting, and therefore to see the rationality of incurring debt in certain situations.

1.31. The second set of factors are those on the supply side. The rapid growth of consumer credit has had to await the development of specialized institutional machinery to provide it.¹ In the Caribbean this depended on the establishment of branches of multi-national finance houses and the commercial banks developing specialized facilities in this area.¹ This latter development was perhaps to some extent hampered by the fact that the banks were predominantly British, and as it was pointed out earlier in this chapter it was not until the early 1960's that the British banks sought to provide specialized consumer instalment financing facilities. And, indeed their present activities in this field are largely reflected in the development of special financial relationships between themselves and the finance houses, rather than their own specialist provision of this type of finance.¹

1. Note however, that with limited outlets for the traditional type of lending, plus the pressures to localize assets, the commercial banks may well find consumer finance an attractive compromise in the Caribbean. Particularly with regards the high lending rates compared with the usual overdraft. ✓

1.32. Further, as the institutions which offered specialized consumer instalment credit facilities have become more experienced in their management, there has been a tendency towards cheapening and increasing the availability of this credit. In the Caribbean this factor was complicated by the fact that in the development phase the branches of multi-national finance houses were extremely imprudent in their loan provision and supervision machinery. This no doubt stemmed mainly from their general inexperience and unfamiliarity with the new social and economic environment they were operating within. The result of this was to mar this development phase by casting suspicion on, and lowering confidence in, the finance houses. Consequently they have generally been unable to raise deposits on a wide scale locally, and for most of them their financing activities depend upon an extensive resort to bank loans. It might however be noted that this practice might have been reinforced by the growing financial links between the Head Offices of the commercial banks and the finance houses.

1.33. A third aspect of these supply considerations has been experience with repayments. As the institutional machinery has become more experienced there has been a marked improvement in the regularity and volume of repayments. For institutions

such as the retail dealers this has been of inestimable benefit since this improvement has facilitated the turnover of their credit and reduced their dependence on external financing.

1.34. We can now turn to an examination of the second issue, that of deriving a behavioural model of the growth of instalment credit in the Caribbean. Attempts were made to specify a predictive equation for the growth behaviour of consumer credit based on the data for Jamaica.¹ The data used contain limitations. Firstly, from the point of view of the regression analysis conducted the sample size was obviously too small. In the case of Jamaica we had data for four years only. Secondly, the data on population, outstanding instalment debt, and national income are really estimates. The coverage of retail dealers suggests that there is some under-estimation of the outstanding instalment debt. The population estimates have all been strongly queried in light of the data yielded by the 1970 census.² Finally the 1970 national accounts estimates for Jamaica are still preliminary.

1.35. In view of this two simple techniques of measurement were applied. Firstly we tried to derive a simple income elasticity factor(e) which would explain the relationship

1. The exercise could only be conducted for Jamaica because of the data available in the other territories did not yield a reliable time-series.

2. It was found necessary in the case of Jamaica to recalculate the population figures for 1967,1968,1969 by using the 1970 Census figure and reducing the amounts through applying the intercensal (1960-1970) growth rates.

between income and changes in the demand for consumer debt. This was arrived at by applying the simple relationship

$$e = \frac{\frac{C_{t+1} - C_t}{N_{t+1} N_t}}{\frac{C_t}{N_t}} = \frac{\frac{Y_{t+1} - Y_t}{N_{t+1} N_t}}{\frac{Y_t}{N_t}} \dots (1)$$

where C is equal to total instalment debt outstanding, Y is equal to national income, N is equal to population and t the time period. This can be reduced to the simple form

$$e = (\Delta C^* / C^*) / (\Delta Y^* / Y^*) \dots (2)$$

where C^* is equal to per capita instalment credit outstanding, and Y^* is equal to per capita national income. On this basis e was estimated to be 2.4 for the years of change 1967-70. The factor e was calculated as the mean of yearly changes during this period.

1.36. Secondly a simple regression analysis was attempted. Plotting the data in Table 5 showing per capita income changes and per capita instalment credit on a scatter diagram immediately suggested a strong linear relationship.

A predictive linear equation of the general form

$$Y = a + bx \quad \dots (3)$$

was then estimated. On the basis of the data in Table 5 this yielded the following equation

$$Y = -28.87 + .135y; r^2 = .98, r = .99 \quad \dots (4)$$

(9.9)

The coefficient of determination r^2 was equal to 0.98 and the correlation coefficient, r was equal to 0.99¹.

1.37. A second calculation of the income elasticity factor was attempted through dividing b , (.135) i.e., the slope of the regression line, by the mean of the annual average propensities to acquire instalment credit. This yielded a value of 2.309.

1.33. A third calculation of the income elasticity was attempted by using the natural logarithmic form to the equation

$$a = \bar{y} - bx$$
$$= \log y = \log a + b \log x \quad \dots (5)$$

Complete least squares results are as follows

$$\log y = -4.74 + 2.36 \log x$$

1.39. Bearing in mind, the limitations of the data and the sample these figures suggest that it can be predicted that the demand for instalment credit is largely a function of per capita income levels and that in the case

1. The t value for the correlation coefficient is equal to 9.9 and the critical value is equal to 6.97 at the 98% confidence level.

of Jamaica the increment of income which goes into such debt is approximately 14%. Also changes in the proportion of debt acquired tends to be somewhat over twice as large as the proportionate change in income. (Actual estimates were 2.4, 2.309 and 2.36). Whilst these results have to be used with caution they are strongly indicative of the strength of income as a factor in instalment debt expansion.

1.40. In view of the limitations of the data which have been pointed out above, it would be useful to look briefly at the experience in other countries where the data have permitted more rigorous statistical testing and the development of a reasonably reliable explanatory equation. In a study of the United States involving the use of time-series data for the years 1910-1964 (war years 1914-1917, 1942-45 excepted), Hunter found the following relationships.¹

1.41. Firstly, aggregate debt probability was found to be positively related to per-family income, suggesting the following preliminary equation

$$\frac{n_t}{N_t} = a_1 + b_1 \bar{Y}_t \quad \dots(6)$$

where n_t is the number of income units which borrow, N_t is the

1. H.M. Hunter, A Behavioural Model of the long run growth of aggregate consumer credit in the United States. Review of Economics and Statistics May 1966.

total number of income units, \bar{Y}_t is the real disposable income per income unit in time t . This equation shows that debt probability rises with income, presumably because of the effort of economic units to maintain the living standards of the "Joneses". This demonstration effect has also been presumably strong enough to oppose what appears to be a reasonable expectation that the need to borrow would be inversely related to income, even though the burden of any given amount of debt would be lighter, the higher the income level at which it is acquired.¹

1.42. Secondly, mean borrowing was specified as a linear function of aggregate disposable income, per income unit, so that the second preliminary equation was

$$\bar{D}_t = a_2 + b_2 \bar{Y}_t \quad \dots (7)$$

where \bar{D}_t represents mean debt outstanding per borrowing unit of time period t .

1.43. Thirdly, an aggregate equation can be derived by multiplying equations (6) and (7) so that we get

$$D_t \frac{n_t}{N_t} = a_1 a_2 + a_1 b_2 \bar{Y}_t + b_1 a_2 Y_t + b_1 b_2 \bar{Y}_t^2 \quad \dots (8)$$

Multiplying both sides by N_t we get

$$D_t = a_1 a_2 N_t + (a_1 b_2 + b_1 a_2) Y_t + b_1 b_2 \frac{Y_t^2}{N_t}$$

1 Cross-sectional analysis in the United States seemed to indicate this. See for example, J. Miner Consumer-Debt: An Inter-Temporal Cross-Section Analysis, in I. Friend and R. Jones (eds) Consumption and Saving Vol. II (University of Pennsylvania 1960, pp 400-461).

This has been reduced to the final version

$$D_t = \beta_1 N_t + \beta_2 Y_t + \beta_3 \frac{Y_t^2}{N_t} \quad \dots (9)$$

where $\beta_1 = a_1 a_2$, $\beta_2 = (a_1 b_2 + b_1 a_2)$, $\beta_3 = b_1 b_2$

This formulates the "relationship between aggregate debt outstanding ... D_t , aggregate disposable income, Y_t , the number of income units, N_t , and the average of the square of disposable income $\frac{Y_t^2}{N_t}$ "¹

A constant term was added to equation (8) as in equation (6) to give

$$D_t = a + \beta_1 N_t + \beta_2 Y_t + \beta_3 \frac{Y_t^2}{N_t} \quad \dots (10)$$

Finally it was found on examination that when a liquid assets term was added to equation (10), the coefficient of the income term (Y_t) became insignificant. This was dropped and its effects are supposed to be reflected in the $\frac{Y_t^2}{N_t}$ term.

This gave the final explanatory equation so

$$D_t = a + \beta_1 N_t + \beta_2 \frac{Y_t^2}{N_t} + \beta_3 LA (t-1) \quad \dots (11)$$

where $LA(t-1)$ "represents consumers holdings of liquid assets at the end of the previous year".

1.44. For the United States it was observed in studies by Goldsmith and Kuznets that personal saving has not risen as fast as disposable incomes even though average real

1. H. Hunter, *ibid*, p.132.

disposable income has increased substantially.¹

1.45. The study discussed here, as it was pointed out by the author, confirms this thesis thereby suggesting that "there has been a drive toward higher living standards, so strong as to lead to an increased proportion of spending ahead of income as income rose, and a rising ratio of short-term debt to current personal income."² Instalment credit has facilitated this by making it possible to purchase large, expensive, durable consumer items without decreasing current consumption relative to income as would have been necessary if such purchases were to be financed out of previously accumulated savings. The secular income elasticity of demand for consumer debt in the United States was estimated to be 1.8.

1.46. The conclusion of this review of the United States data strongly reinforces the role of income changes, and the rate at which consumer instalment indebtedness has been growing, and might be expected to continue to grow in the Caribbean. If this is true it serves to underline the

1. See S. Kuznets, *Capital in the American Economy*, Princeton, 1961, pp 454-547 and R. Goldsmith, *A Study of Saving in the United States*, Vol. 1,6,7 (Princeton, 1955).

2. Hunter op. cit pp.140.

urgency of tackling some of the problems posed in this study, before we find ourselves replicating some of the worse features of this industry, evidenced from its growth elsewhere.

1.47. At this stage we can move on to look a little more closely at some aspects of the detailed structure of the instalment credit industry. Our first consideration here is the seasonality of the structure of business. Tables 6 and 7 contain data for 1970 indicating the monthly structure of new business in Jamaica and Trinidad-Tobago. In both territories the months of the highest and lowest values of new business are February and December respectively. In both cases this conforms to seasonal expenditure patterns in the region which show a marked increase at Christmas.¹ In addition of course there is the general tendency to a secular increase of consumer indebtedness and this would therefore tend to strengthen the end of year upswing.

1.48. In Jamaica seven months, (Jan-May and July-August) showed monthly totals of new business below the mean value for the year. In Trinidad-Tobago seven months (Jan-June and August) also showed monthly totals of new business

1. This is facilitated by bonus payments at that time, early salary payments etc.

TABLE 1.6: INSTALMENT CREDIT - NEW BUSINESS (MONTHLY) 1970

| | <u>All Institutions Jamaica(\$J million)</u> | <u>All Institutions Trinidad-Tobago(\$TT million)</u> |
|-----------------------|--------------------------------------------------|-----------------------------------------------------------|
| January | 5.1 | 7.3 |
| February | 3.9 | 6.6 |
| March | 5.1 | 7.2 |
| April | 4.7 | 7.3 |
| May | 5.0 | 7.3 |
| June | 5.6 | 7.8 |
| July | 5.2 | 9.1 |
| August | 4.3 | 7.9 |
| September | 5.6 | 8.2 |
| October | 5.7 | 8.9 |
| November | 6.3 | 8.8 |
| December | <u>7.1</u> | <u>11.0</u> |
| Total of Months | 63.6 | 96.2 |
| Average Monthly Total | <u>5.3</u> | <u>8.0</u> |

Sources: Statistical Digest, Central Bank of Trinidad-Tobago and Economic Bulletin of Bank of Jamaica.

TABLE 1.7 : INSTALMENT CREDIT NEW BUSINESS (MONTHLY) BY INSTITUTION

- TRINIDAD-TOBAGO 1970 (TT \$ Million)

| | <u>Commercial Banks</u> | <u>Finance Houses</u> | <u>Dealers</u> |
|-------------------------------------------|-------------------------|-----------------------|----------------|
| January | 4.2 | 1.8 | 1.3 |
| February | 3.2 | 2.2 | 1.2 |
| March | 3.7 | 2.1 | 1.4 |
| April | 3.9 | 2.0 | 1.4 |
| May | 3.8 | 1.9 | 1.6 |
| June | 4.3 | 1.6 | 1.9 |
| July | 5.2 | 1.7 | 2.2 |
| August | 4.6 | 1.4 | 1.9 |
| September | 5.0 | 1.2 | 2.0 |
| October | 5.1 | 1.4 | 2.4 |
| November | 4.9 | 1.4 | 2.5 |
| December | 5.0 | 1.4 | 4.6 |
| Total of Months | <u>52.8</u> | <u>20.1</u> | <u>24.4</u> |
| Average | <u>4.4</u> | <u>1.7</u> | <u>2.0</u> |
| % distributor of Average Monthly Total | <u>55%</u> | <u>21%</u> | <u>25%</u> |

Sources: Statistical Digest and Central Bank of Trinidad-Tobago
and Central Bank Communications.

below the mean value for the year. Even if we attempted to eliminate the upswing by noting only months where the totals of new business was equal to, or less than, the preceding high, we find a similar tendency to low business after January and in the middle of the "summer" period of the year.

1.48. The seasonal data are broken down by institutions for Trinidad-Tobago during the same year. For the commercial banks the period of lowest business is also February but the high points of the year are July, October and December. For the finance houses the lowest point is in September with the highest in February, March and April. The February performance is in direct contrast to the seasonal variations evidenced in other institutions. The retail dealers have a February low point and a December high which is more than twice the mean of monthly values. This might be expected, since being at the point of sale, they are the institutions closest to the end use of the credit.

1.49. A second aspect of the detailed structure of the industry is the commodity composition of new business. The data in Tables 8 and 9 show this for Jamaica and Trinidad-Tobago. Unfortunately the categories in which the data

TABLE 1.8: JAMAICA INSTALMENT CREDIT % DISTRIBUTION OF NEW BUSINESS BY COMMODITY GROUPINGS 1969-71

| | Motor cars | Commercial Motor Vehicles | Industrial & Agricultural Equipment | Household Appliances and goods | Consolidation of debt | Other |
|--------------------------------------|------------|---------------------------|-------------------------------------|--------------------------------|-----------------------|-------|
| Average of monthly distribution 1969 | 17 | 12 | 15 | 30 | 5 | 21 |
| " " 1970 | 13 | 15 | 19 | 24 | 3 | 26 |
| " " (9 mths) (1971) | 17 | 14 | 15 | 22 | 4 | 27 |

Sources: Economic Bulletin, Economic Survey and Survey Data

TABLE 1.9. TRINIDAD-TOBAGO - INSTALMENT CREDIT : % DISTRIBUTION OF NEW BUSINESS BY COMMODITY GROUPINGS

1969-71

| | Cars & Motor Vehicles | Commercial Vehicles | Agri. Plant & Equipment | Ind. Bldg. Plant & Equipment | Furniture & Furnishings | Travel | Medical Expenses | Education | Home Improvement | Other |
|--------------------------------------|-----------------------|---------------------|-------------------------|------------------------------|-------------------------|--------|------------------|-----------|------------------|-------|
| Average of monthly distribution 1969 | 41 | 7 | 5 | 3 | 21 | 2 | 1 | 1 | 6 | 15 |
| " " 1970 | 35 | 6 | 1 | 3 | 23 | 3 | 1 | 1 | 8 | 20 |
| " " 1971 | 34 | 7 | 2 | 3 | 18 | 2 | 1 | 1 | 9 | 23 |

-37- Sources: Central Bank of Trinidad-Tobago and Survey Data.

are available are not generally comparable. In Jamaica in recent years the two categories, motor cars and commercial vehicles together account for about 30% of new business, with motor vehicles accounting for slightly more than one-half of this. In Trinidad-Tobago the proportion of business going to these two categories combined is closer to 40%.

1.50. The second largest identified category of new business in both territories is household appliances and durable goods. In Jamaica this was 30% of new business in 1969, but by 1970 the category was averaging only 22%. The main identified expansion was in the category 'other', which suggests that improved classification of the category might partially account for this decline. In Trinidad-Tobago the proportion of new business going to all motor vehicles (i.e. motor cars and commercial vehicles combined) fell from 48%, to 41% during 1970/71. Unlike Jamaica only a relatively small proportion of this new business finances the purchase of commercial vehicles. As we have noted the second largest category in Trinidad-Tobago (as in Jamaica) is furniture and furnishings. But whilst in Jamaica a sizeable part of new business goes to finance industrial and agricultural equipment, (for the three year

period this averaged about one-sixth of new business), by contrast, in Trinidad-Tobago, there was a very small total, about 5 percent of new business, going to this category. In Jamaica consolidation of debt loans averages about 4 percent of new business. This category is not available for Trinidad-Tobago and the only other item of importance is the significant proportion (9%) of new business going to home improvement loans.

1.51. It is to be expected that motor vehicle loans would be dominant, since this is the largest and single most expensive general item in personal expenditure, apart from housing, which we are not considering. The position of household goods and appliances is also not surprising given the purposes for which people borrow and the value and ubiquity of these items in consumers' outlay. If we turn to the data in Table 10 we can see how dependent is the motor vehicle industry on consumer credit availability. From this table we can observe that in Trinidad-Tobago, 5,141 motor vehicles were licensed in 1970. In relation to this 6,113 motor vehicles were assembled by the local industry, and 6,504 sold, indicating the commencement of a running down of stocks which became more marked in 1971.

TABLE 2.10: INSTALMENT CREDIT: THE MOTOR VEHICLES TRADE:- TRINIDAD-TOBAGO 1970

| | New Private Cars Licensed | Prod. of motor vehicles locally | Sales of locally assembled vehicles | Total Agreements- Old Motor Cars | Agreements- New Motor Vehicles | Agreements - old Motor Vehicles |
|-------|------------------------------|------------------------------------|----------------------------------------|-------------------------------------|--------------------------------------|------------------------------------|
| Jan. | 494 | 528 | 507 | 834 | 312 | 522 |
| Feb. | 367 | 640 | 490 | 823 | 389 | 434 |
| March | 369 | 578 | 510 | 846 | 337 | 509 |
| April | 379 | 585 | 487 | 882 | 373 | 509 |
| May | 367 | 461 | 430 | 904 | 402 | 502 |
| June | 459 | 592 | 580 | 1,209 | 511 | 698 |
| July | 491 | 557 | 648 | 1,110 | 521 | 589 |
| Aug. | 337 | 271 | 458 | 900 | 420 | 480 |
| Sept. | 543 | 558 | 642 | 977 | 464 | 513 |
| Oct. | 558 | 511 | 699 | 975 | 455 | 520 |
| Nov. | 428 | 475 | 529 | 848 | 439 | 409 |
| Dec. | 352 | 558 | 424 | 801 | 380 | 421 |
| | (5,141) | 6,113 | 6,504 | 11,109 | 5,003 | 6,106 |

Sources: Central Bank, Trinidad-Tobago, Licensing Authority and Central Statistical Office.

At the same time there were 5,003 agreements entered into for the credit purchase of new motor cars, i.e. about 98% of the vehicles licensed. Meanwhile there were 6,106 agreements entered into for the purchase of used vehicles.

1.52. To conclude this chapter we can finally turn to Table 11 which shows data breaking down new business by commodity and institution for Trinidad-Tobago, for the years 1969-70. Out of the total instalment credit of TT\$11.0 million at the end of 1970, consumer instalment credit alone accounted for TT\$7.9 million or 72% of the total. Business instalment credit accounted for TT\$1.5 m. or 14% and the remainder was mainly in the miscellaneous category. Out of the total of consumer instalment credit the commercial banks accounted for TT\$3.2 million or approximately 40%, the retail dealers for TT\$3.6 million, i.e., approximately 46%, the finance houses for TT\$0.8 million or about 10%, the government for TT\$0.3 million or approximately 4% and the motor car dealers for about 3%.

1.53. All of the retail dealers credit was directed to the purchase of domestic appliances and household goods. The commercial bank loans were more evenly distributed

TABLE 11: INSTALMENT CREDIT

| PRIVATE | FINANCE HOUSES | | | | COMMERCIAL | | BANKS | | GOVERNMENT (continued) | |
|-----------------------------------------|----------------|-----------|-----------|-----------|------------|-----------|-----------|-----------|------------------------|---------|
| | February | | December | | February | | December | | February | |
| | 1969 | 1970 | 1969 | 1970 | 1969 | 1970 | 1969 | 1970 | 1969 | 1970 |
| 1. CONSUMER INSTALMENT CREDIT | | | | | | | | | | |
| 2. Private Cars New | 203,259 | 329,020 | 245,170 | 424,656 | 292,718 | 479,972 | 494,677 | 634,620 | 56,745 | 222,142 |
| 3. Used | 277,868 | 3,02,373 | 530,504 | 110,493 | 415,313 | 298,212 | 224,523 | 415,990 | - | 3,957 |
| 4. Insurance & Repairs of Cars | - | - | - | - | N. A. | 59,350 | 133,455 | 96,533 | - | 20,811 |
| 5. Motor Cycles New | - | - | - | - | 6,782 | 8,408 | 10,955 | 9,521 | 191 | - |
| 6. Used | - | - | - | - | - | 2,645 | 1,141 | 5,018 | - | - |
| 7. Furniture, Furnishings, Jewellery | | | | | | | | | | |
| 8. Dom. Elec. App. (Radio Etc.) | 441,026 | 309,655 | 418,189 | 292,901 | 173,758 | 97,793 | 423,795 | 425,241 | - | - |
| 9. Travel | - | - | - | - | 86,817 | 134,318 | 69,945 | 101,882 | - | - |
| 10. Medical Expenses | - | - | - | - | 53,163 | 50,971 | 124,458 | 82,929 | - | - |
| 11. Education | - | - | - | - | 37,316 | 68,089 | 138,653 | 76,297 | 250 | 5,497 |
| 12. Consolidation of Debts | - | - | - | - | N. A. | 322,703 | 402,522 | 383,526 | - | - |
| 13. Taxes and Licenses | - | - | - | - | N. A. | 23,834 | 6,274 | 139,088 | - | - |
| 14. Home Improvement | - | - | - | - | 335,455 | 439,730 | 476,202 | 738,645 | - | - |
| 15. Real Estate & Mortgages | - | - | - | - | N. A. | 50,565 | 62,332 | 69,381 | - | - |
| 16. TOTAL | 922,153 | 941,048 | 1,201,863 | 828,050 | 1,401,322 | 2,036,590 | 2,568,932 | 3,178,671 | 160,905 | 253,145 |
| 17. BUSINESS INSTALMENT CREDIT | | | | | | | | | | |
| 18. Taxis & Rented Cars New | 63,015 | 401,118 | 1,164,993 | 337,327 | 136,128 | 230,329 | 153,465 | 189,308 | - | - |
| 19. Used | 201,671 | 123,240 | 395,790 | 68,954 | 133,110 | 125,028 | 73,347 | 94,513 | - | - |
| 20. Commercial Vehicles New | 108,996 | 218,866 | 100,276 | 111,434 | 96,928 | 119,804 | 128,866 | 207,489 | - | - |
| 21. Used | 37,656 | 56,012 | 24,119 | 6,679 | 58,365 | 44,211 | 55,679 | 47,528 | - | - |
| 22. Industrial Bldg) New | 13,955 | 44,897 | 96,306 | - | 6,219 | 7,371 | 3,660 | 120,616 | - | - |
| 23. Plant & Equipment) Used | - | - | - | - | 21,600 | 4,500 | 1,080 | - | - | - |
| 24. Trade Sales | - | - | - | - | 51,682 | 50,656 | 54,902 | 65,050 | - | - |
| 25. TOTAL | 425,293 | 844,133 | 1,781,484 | 524,394 | 510,032 | 581,899 | 470,999 | 724,504 | - | - |
| 26. OTHER INSTALMENT CREDIT | | | | | | | | | | |
| 27. Agricultural Plant) New | 794,270 | 136,157 | 63,893 | 51,085 | 23,900 | 28,711 | 11,665 | 22,266 | - | - |
| 28. & Machinery) Used | 15,602 | - | 8,401 | - | 620 | 1,728 | 5,122 | 4,579 | - | - |
| 29. Miscellaneous | 3,947 | 300,251 | 885 | 10,231 | 793,308 | 707,845 | 943,555 | 1,296,207 | 23,018 | 23,000 |
| 30. TOTAL | 812,819 | 436,408 | 73,179 | 61,316 | 817,828 | 738,824 | 960,642 | 1,323,052 | 23,018 | 23,000 |
| 31. GRAND-TOTAL | 2,159,262 | 2,221,589 | 3,056,526 | 1,413,760 | 2,729,182 | 3,356,773 | 4,000,573 | 5,226,227 | 183,923 | 276,145 |

NEW BUSINESS BY COMMODITY GROUPING AND INSTITUTIONS TRINIDAD-TOBAGO (1969-70)

| GOVERNMENT | | MOTOR CAR DEALERS | | | | RETAIL DEALERS | | | | TOTAL | | | |
|------------|---------|-------------------|---------|----------|---------|----------------|---------|-----------|-----------|-----------|-----------|------------|------------|
| December | | February | | December | | February | | December | | February | | December | |
| 1969 | 1970 | 1969 | 1970 | 1969 | 1970 | 1969 | 1970 | 1969 | 1970 | 1969 | 1970 | 1969 | 1970 |
| 235,091 | 252,995 | 91,027 | 39,087 | 42,338 | 85,048 | - | - | - | - | 743,749 | 1,070,221 | 1,017,276 | 1,397,319 |
| 5,600 | 5,775 | 65,280 | 36,546 | 64,761 | 130,575 | - | - | - | - | 758,461 | 641,088 | 833,388 | 662,833 |
| 18,655 | 27,538 | - | - | - | - | - | - | - | - | - | 80,161 | 152,110 | 124,071 |
| - 81 | - | - | - | - | - | - | - | - | - | 6,973 | 8,408 | 11,036 | 9,521 |
| - | - | - | - | - | - | - | - | - | - | - | 2,645 | 1,141 | 5,018 |
| - | - | 37,828 | 14,917 | 85,912 | 44,762 | 366,473 | 544,711 | 3,118,843 | 3,611,493 | 1,020,514 | 967,076 | 4,046,739 | 4,374,397 |
| 7,061 | 178 | - | - | - | - | - | - | - | - | 90,536 | 135,056 | 77,006 | 102,060 |
| 600 | - | - | - | - | - | - | - | - | - | 53,163 | 50,971 | 125,058 | 82,929 |
| 4,305 | 15,300 | - | - | - | - | - | - | - | - | 37,566 | 73,586 | 142,958 | 91,597 |
| - | - | - | - | - | - | - | - | - | - | - | 322,703 | 402,522 | 383,526 |
| - | - | - | - | - | - | - | - | - | - | - | 23,834 | 6,274 | 139,088 |
| - | - | - | - | - | - | - | - | - | - | 335,455 | 439,730 | 476,202 | 738,645 |
| - | - | - | - | - | - | - | - | - | - | - | 50,565 | 62,332 | 69,381 |
| 271,393 | 301,786 | 194,135 | 90,550 | 193,011 | 260,385 | 366,473 | 544,711 | 3,118,843 | 3,611,493 | 3,046,417 | 3,866,044 | 7,354,042 | 7,880,385 |
| - | - | - | 5,395 | 8,397 | 15,972 | - | - | - | - | 199,143 | 636,842 | 1,326,855 | 542,607 |
| - | - | 126,920 | 27,345 | 30,161 | 40,099 | - | - | - | - | 461,701 | 275,613 | 499,298 | 203,566 |
| - | - | 55,127 | 9,160 | 6,646 | 44,738 | - | - | - | - | 261,051 | 347,830 | 235,788 | 363,661 |
| - | - | 24,744 | 23,640 | 11,158 | 32,989 | - | - | - | - | 120,765 | 123,863 | 90,956 | 87,196 |
| - | - | - | - | - | 96,412 | - | 26,848 | 11,446 | 1,408 | 18,745 | 79,116 | 111,412 | 218,436 |
| - | - | - | - | - | - | - | - | - | - | 27,600 | 4,500 | 1,080 | - |
| - | - | - | - | - | - | - | - | - | - | 51,682 | 50,656 | 54,902 | 65,050 |
| - | - | 206,791 | 65,540 | 56,362 | 230,210 | - | 26,848 | 11,446 | 1,408 | 1,140,687 | 1,518,420 | 2,320,291 | 1,480,516 |
| - | - | 31,710 | 12,177 | 2,768 | - | - | - | - | - | 849,880 | 177,045 | 78,326 | 73,351 |
| - | - | 2,832 | - | 583 | 1,693 | - | - | - | - | 17,054 | 1,728 | 14,106 | 6,273 |
| - | 664 | - | - | - | - | - | - | - | - | 820,273 | 1,031,096 | 944,740 | 1,307,102 |
| - | 664 | 34,542 | 12,177 | 3,351 | 1,693 | - | - | - | - | 1,687,207 | 1,209,869 | 1,037,172 | 1,386,726 |
| 71,393 | 302,450 | 435,468 | 168,267 | 252,725 | 492,288 | 366,473 | 571,559 | 3,130,289 | 3,612,901 | 5,874,311 | 6,594,333 | 10,711,506 | 11,047,626 |

1
TABLE 2.6: AMOUNT AND % DISTRIBUTION OF DEBT BY BANK--BARBADOS (E.C. \$'000)

| | V e h i c l e s | | Consolidation of debt | | Travel | | Home Improvement & Real Estate | | Furniture, domestic appliances radio, television etc. | |
|-------------|-----------------|-----------|-----------------------|-----------|--------|-----------|--------------------------------------|-----------|----------------------------------------------------------|-----------|
| | \$ | % distri. | E.C\$ | % distri. | E.C \$ | % distri. | E.C\$ | % distri. | \$ E.C | % distri. |
| 1968 Firm 1 | - | - | - | - | - | - | - | - | - | - |
| " " 2 | 95 | 3.3 | 40 | 6.2 | 35 | 26.3 | 70 | 6.9 | 20 | 5.4 |
| " " 3 | 10 | 0.3 | 8 | 1.2 | - | - | 5 | 0.5 | 3 | 0.8 |
| " " 4 | 174 | 6.0 | 104 | 16.2 | 69 | 51.8 | 208 | 20.6 | 139 | 37.4 |
| " " 5 | 2,506 | 85.8 | 485 | 75.4 | 25 | 18.8 | 666 | 65.9 | 160 | 43.0 |
| " " 6 | 135 | 4.6 | 6 | 0.9 | 4 | 3.0 | 61 | 6.0 | 50 | 13.4 |
| " All firms | 2,920 | 100.0 | 643 | 100.0 | 133 | 100.0 | 1,010 | 100.0 | 372 | 100.0 |
| 1969 Firm 1 | 31 | 0.8 | 90 | 9.7 | - | - | 82 | 4.7 | 16 | 2.9 |
| " " 2 | 140 | 3.5 | 70 | 7.6 | 45 | 24.1 | 105 | 6.1 | 35 | 6.3 |
| " " 3 | 14 | 0.4 | 15 | 1.6 | 2 | 1.1 | 13 | 0.8 | 15 | 2.7 |
| " " 4 | 260 | 6.5 | 156 | 16.8 | 104 | 54.6 | 312 | 18.2 | 208 | 37.3 |
| " " 5 | 2,853 | 71.5 | 557 | 60.2 | 16 | 8.6 | 835 | 48.7 | 159 | 28.5 |
| " " 6 | 694 | 17.4 | 38 | 4.1 | 20 | 10.7 | 367 | 21.4 | 124 | 22.3 |
| " All firms | 3,992 | 100.0 | 926 | 100.0 | 187 | 100.0 | 1,714 | 100.0 | 557 | 100.0 |
| 1970 Firm 1 | 158 | 3.2 | 140 | 11.4 | - | - | 156 | 6.0 | 14 | 1.6 |
| " " 2 | 215 | 4.3 | 120 | 9.8 | 70 | 27.1 | 175 | 6.7 | 60 | 7.0 |
| " " 3 | 28 | 0.6 | 37 | 3.0 | 3 | 1.2 | 20 | 0.8 | 22 | 2.6 |
| " " 4 | 318 | 6.3 | 191 | 15.6 | 127 | 49.2 | 382 | 14.8 | 254 | 29.7 |
| " " 5 | 3,083 | 61.5 | 605 | 49.4 | 16 | 6.2 | 1,055 | 40.9 | 191 | 22.3 |
| " " 6 | 1,213 | 24.2 | 131 | 10.7 | 42 | 16.3 | 793 | 30.7 | 315 | 36.8 |
| " All firms | 5,015 | 100.0 | 1,224 | 100.0 | 258 | 100.0 | 2,561 | 100.0 | 856 | 100.0 |

Note 1. The percentage distribution is that of each firm in the total of the category.

Source: Survey data.

with about TT\$1.1 m. going to the purchase of motor vehicles and old and new, and TT\$0.7 m. for home improvement loans and approximately TT\$0.4 million each to the consolidation of debts and the purchase of domestic appliances. For the finance houses 36% of the loans was for the purchase of domestic appliances and household goods and the remainder for the purchase of motor cars. Almost the entire loan portfolios of the government and retail dealers are held in motor vehicles paper.

1.54. In the category, business instalment credit, the commercial banks are the largest supplier, accounting for a little less than one-half of the total value of loans. But of this total, 75% was used to finance the purchase of motor-vehicles for business purposes and only 16% for the purchase of industrial building equipment. The finance houses have supplied a little over one-third of the business credit, but the entire loan portfolio is taken up in motor vehicles paper. The other significant category, the motor car dealers, follow the same pattern. Generally, this data serve to confirm the impression of the dominant position of motor vehicles paper and the supply of credit for the purchase of domestic and household goods in the instalment credit industry. Apart from the

consolidation of debt and home improvement loans there are no other significant categories, although it might be noted that over the two year span these two categories have shown marked increases.

1.55. In the three following chapters we shall be analysing in some detail the structure and operations of these institutions.

COMMERCIAL BANKS AND CONSUMER INSTALMENT CREDIT

Problems of loan portfolio management

2.1. Despite the token establishment of so-called national commercial banks, and the trend towards local incorporation of branches of multinational banks, the commercial banking sector of the Caribbean remains firmly under alien ownership and control. The far reaching importance/ of this factor has already been generally established in a number of studies of commercial banking in the region.¹ Given this it should not be surprising for us to find that the impact of this situation is also very clearly marked in the development of their portfolio of consumer instalment finance paper.

2.2. There are five major ways in which commercial banks provide funds to facilitate the growth of consumer instalment credit.² Firstly, they provide working capital

1. For an early study see Monetary and Financial Arrangements in a Dependent Economy, C.Y. Thomas, I.S.E.R, University of the West Indies 1965.

2. For a discussion of portfolio policies of the commercial banks, consult Multi-National Banking Structure and Some Problems of Local Portfolio Management (mimeo) (forthcoming), Clive Thomas, and Commercial Banking in Jamaica, 1971 (mimeo), (forthcoming) - Nugent Miller.

and other resources to retail dealers who then become better situated to expand their sales on credit. Secondly, they provide loans to finance companies, which are in turn lent out either to retailers, (through block discounts), or directly, to their own customers. Thirdly, the recent growth of the credit card facility is geared to repayments on an instalment basis. Fourthly, the commercial banks themselves may provide block discounting facilities to retail dealers, i.e. factoring their receivables. Finally, the banks provide instalment credit directly to their own individual customers. The first and second ^{types of} lending will be dealt with later in our analysis of the retail dealers and the finance houses. In the Caribbean, the third type of lending, i.e., commercial bank sponsored credit card trade is negligible, except as a facility for tourists. As regards the fourth type of lending, none of the banks presently provide block discounting facilities to retail dealers. It is therefore in the field of their direct lending to consumers on an instalment basis to which we shall be directing our attention.

2.3. Traditionally commercial banks have displayed some considerable reluctance in entering into the field of consumer instalment finance. The typical British oriented

bank, which has dominated commercial banking in the region right ^{up} to the mid - 1960's, normally only offered personal loans to their well-known customers, and these, on the basis of agreed overdraft facilities. A number of explanations and arguments had been advanced at the time in support of this reluctance. Firstly, the banks have argued that their liabilities are mainly on "demand". In this situation, if they lent long on a fixed term basis, the time profile of their assets would not match that of their liabilities. Consequently, if they developed a large enough portfolio of consumer instalment paper, they would be dangerously exposed to crises of liquidity.

2.4. Secondly, the banks advanced the view in the early days, that in the absence of a well developed secondary liquidity structure in their assets portfolio, (which was to come later as government deficit financing expanded), each item in their loan portfolio should constitute its own source of liquidity. In other words each loan should be shiftable. To them a fixed term loan was certainly not shiftable. The banks maintained this view even though it was argued in reply, that a general recall of overdrafts outstanding to business firms, would by its own deflationary consequences undermine the apparent liquidity and/or shiftable of their most preferred loans.

The third argument of the commercial banks was that the type of short-term loans they were engaged upon, maximized the rate of turnover of their funds! This, therefore increased their volume of business and their earnings. Fixed term consumer loans of upwards of two years would therefore reduce their rate of earnings. Finally, and not of least importance the banks tended to harbour some moral objection to allying increasing indebtedness with consumption and not production purposes. The logical position behind this type of argumentation was that the banks have displayed a marked preference for short-term, self liquidating loans to firms, i.e., loans which generate their own means of repayment.

2.5. It was in the United States that the commercial banks first breached this doctrine and moved into the field of consumer instalment finance. But even here this did not occur until well into the 1930's. Not surprisingly the development of this type of bank lending had to be accompanied by, and depended upon, an improved understanding of the concepts which could be applied to their portfolio management and which would serve to widen the scope of their business and make them more adaptable to a changing environment. One of the more important of these developments was the marked de-emphasis they gave in their portfolio policies to the concept of the shiftable loans. The

point was eventually taken, that any recall of loans on a wide scale, by any banking system, would undermine the capacity of the banks' customers to honour their debt out of their trading activities. The simple reason for this is that any widespread recall of loans would have deflationary consequences on the economy in general and for the banks own customers in particular. As a consequence a reduction of their customers cash flows would lead to defaults and arrears, which would immediately affect the banks own cash flows. This shift in emphasis was greatly facilitated by the growth within the banking system of a portfolio of secondary reserves, of which followed on the extensive growth of government's deficit financing. Finally, it came to be recognized that the 'demand' nature of a bank's liabilities was greatly overstated. Indeed it came to be understood that there was in each banks deposit structure, a more or less permanent hard core of deposits, which were not really mobile. As a consequence it was easier to shift the emphasis of loan portfolio management away from loans which generate their own repayment, to term loans based on concepts of anticipated income.

2.6. The application of these developments in the concepts of bank lending was not tried by the British banks until the end of the 1950's. "The extension of new concepts

in bank lending, particularly as far as the consumer was concerned had to wait until 1958. Despite the example of the American banks, British banks were reluctant to embark on new methods of doing business."¹ In the Caribbean these new concepts were not introduced until the late 1960's. Apart from the obvious lag in passing on innovative techniques developed in their parent country, which might account for this delay, two other factors seemed to have affected the timing of the introduction of this new type of lending into the Caribbean. 'In the first instance, the late 1960's witnessed a definite invasion of the Caribbean market by American commercial banks.' On being established, these banks immediately sought to gain a toe hold in the market through concentrating their portfolio in an area where they presumed they had a lead in expertise, and which was at the same time generally quite underdeveloped. Moreover, in so far as the banks were new they tended to bring in their own funds to pioneer them over the establish-
phase
ment/of their operation². In which case their liabilities structure was that much less "demand" oriented.

1. The London Clearing Banks, P.187, E. Nevin and E.W. Davis, Monographs on British Economic Institutions, Elek Books Ltd, London 1970.

2.7. The second and very important factor affecting the timing of the development of this portfolio policy was the devaluation of 1967. Even though the Caribbean territories all reacted to Britain's devaluation in 1967 as was to be classically expected, there were for the first time, noticeable signs of hesitation in their automatic responses to exchange rate changes in the United Kingdom. Given this, it followed that the traditional local banks' policy of being indifferent to long or short positions in the sterling foreign exchange markets could not continue, as there was no longer a guaranteed parity of the local/U.K rates. A marked discontinuity was therefore introduced into their multi-national branch banking structures. Henceforward a greater local deployment of funds would have to be attempted. Of course this process was also hastened by the introduction of exchange control measures which treated sterling as a "foreign" currency. The later devaluation of 1971, and the divergent responses of the territories must also have finally removed whatever doubts there might have been about the nature of the risks this presented if the banks were to continue in their traditional manner.

2.8. The sudden enlargement of funds available for local lending which these new policies necessitated was being further incrementally expanded as attractive interest rates brought in an increasing amount of fixed deposits for the banks. In the face of this, the only other local area of lending which could absorb funds in the volume it was now available was local agriculture. For a number of obvious reasons consumer instalment finance was preferable to the banks. Agriculture to them remains too "risky" as a commercial venture. Furthermore there is the danger that agriculture might already be over-burdened with pre-existing, unamortized debt. Moreover, if agriculture was to diversify itself, then much of the loans needed would have been of an even longer term nature, since these would have had to be linked to capital construction works on the land.

2.9. In addition to these a number of other factors further aided the introduction of consumer instalment finance. One of these was undoubtedly the high charges which could be passed on to borrowers, while the banks were still able also to maintain a very "competitive" level of charges vis-a-vis the finance companies and retailers. The usual practice has been for commercial banks to charge interest on the original sums. This, together with other

service charges has meant that in recent years consumer loans have carried an effective interest rate of about 17%. Further, as we shall observe, the record of defaults and losses has been good in this field, largely because the banks have concentrated on the large middle/upper class market of salaried persons, and largely because social imperatives of this group in a small society, to have a good credit record are quite considerable. To make this position doubly secure the banks often require that the salaries of their debtors be paid through the bank, or else some form of insurance cover is taken out and paid for by the borrower.¹

Commercial banks - Barbados

2.10. Given the outline and analysis of bank lending policies, in the section above, it can be argued that (i) the lesser the degree of pressure for the banks to lend locally in their present "liquid" situation, and (ii) the greater the capacity of their traditional outlets to absorb bank credit, the smaller will be the size of their consumer instalment credit portfolio. Such a development would underline the persistence of the conservative attitude to this type of lending. It is not surprising

1. This favourable experience contrasts with that of the finance houses in the region.

therefore that compared with the other commercial banks in the Caribbean the commercial banks portfolio of consumer instalment finance paper in Barbados is quite under-developed. The data in Table 2.1, show that despite the rapid rate of increase of this type of lending, in 1970 consumer instalment finance paper only averaged 6% of the total loans portfolio of the commercial banks in Barbados.¹ Moreover, despite the rapid growth of this item in their portfolio, it has just managed to keep pace with the overall expansion of the loans and advances portfolio, as the ratio of consumer instalment paper to the total loans outstanding was the same in 1970 as in 1968.

2.11. The under development of this item in the commercial banks portfolio in Barbados is quite striking, particularly when it is realized that most of the banks have specially geared promotional drives to expand this type of credit. Plans such as the Scotia Plan Loan, Term Plan and Instalment Loans, Bank Plan and Ready Credit are evidence of this strong promotional drive. While it is true that this publicity has been on a region wide basis

1. The ratio of this paper to the total loans portfolio in Guyana, Jamaica and Trinidad-Tobago was 18, 10 and 18 percent respectively for 1970.

and not confined to Barbados, yet the response has not been comparable with that in the other territories. In view of the argument advanced earlier it is not surprising therefore to find in Barbados a reduced pressure to go local, (evidenced in the growth of the banks overseas balance from E.C. \$16 million in 1969 to E.C. \$37 million in 1970) compared with other banks in the region, and the vigorous growth of their traditional advances portfolio.

2.12. The data in Table 2.1 also reveal wide variations in individual bank performance. In 1970 two banks alone (Banks 1 and 5) had ratios of consumer instalment credit to total loans and advances which exceeded the mean of all the banks. These are both recently established North American banks. However, Bank 5, not only had the highest proportion of consumer instalment paper to its total loans portfolio, but it was itself also the largest holder of this class of debt. In 1970 this bank alone held one-half of the debt as can be seen from Table 2.2. Bank 1 only had data commencing in 1969, but the data show that in absolute terms it was a comparatively small holder of the outstanding consumer instalment debt, accounting for only 5 per cent of the total debt, against a mean for all the banks of 16.6%.

Table 2.1: INSTALMENT DEBT AS A % OF TOTAL LOANS AND ADVANCES -
COMMERCIAL BANKS (BARBADOS)

| | <u>1968</u> | <u>1969</u> | <u>1970</u> |
|-------------------|-------------|-------------|-------------|
| Firm 1 | - | 34 | 17 |
| " 2 | 2 | 2 | 3 |
| " 3 | - | 1 | 2 |
| " 4 | 4 | 4 | 4 |
| " 5 | 27 | 21 | 20 |
| " 6 | 0.6 | 2 | 3 |
| Average all firms | 6 | 5 | 6 |

Source: Survey data

TABLE 2.2: PERCENTAGE DISTRIBUTION OF OUTSTANDING DEBT BY
COMMERCIAL BANK (BARBADOS)

| | <u>1968</u> | <u>1969</u> | <u>1970</u> |
|--------|-------------|-------------|-------------|
| Firm 1 | - | 3 | 5 |
| " 2 | 5 | 5 | 6 |
| " 3 | 0.5 | 0.8 | 1 |
| " 4 | 14 | 14 | 13 |
| " 5 | 75 | 60 | 50 |
| " 6 | 5 | 17 | 25 |

Source: Survey data

2.13. The data in Table 2.3 allow us to evaluate these observed performances against the size ranking of the banks measured in terms of the sizes of their loan portfolios. Bank 1, is the smallest bank whereas Bank 5 ranks third. The largest Bank, was Bank 6, accounting for 47% of the total loans and advances, but this bank despite a high rate of increase, held only 25% of the consumer instalment debt in 1970, while this accounted for only 3% of its total portfolio. This bank is a British bank.

2.14. Between 1968 and 1970 the data in Table 2.4 show an overall expansion in consumer instalment debt of 96%. The fastest growing bank has been the largest commercial bank in the territory. Its rapid rate of growth in this area of lending has allowed it to raise its proportionate contribution to the total debt, from 5% in 1968 to 25% in 1970. Much of this gain was at the expense of the bank which held the largest amount of the instalment paper (Bank 5). In 1968, Bank 5 completely dominated the small consumer instalment loans market. As much as one-fifth of its total loans were in this category, and it alone accounted for 75% of the total market. By 1970

TABLE 2.3: DISTRIBUTION OF LOANS AND ADVANCES OF COMMERCIAL BANKS - BARBADOS (E.C.\$\$'000)

| | <u>1 9 6 8</u> | | <u>1 9 6 9</u> | | <u>1 9 7 0</u> | |
|-----------|----------------|------------|----------------|------------|----------------|------------|
| | \$ | % of Total | \$ | % of Total | \$ | % of Total |
| Firm 1 | - | - | 648 | 0.5 | 2,705 | 1 |
| " 2 | 12,448 | 15 | 18,905 | 14 | 24,911 | 15 |
| " 3 | - | - | 5,184 | 4 | 6,881 | 4 |
| " 4 | 18,757 | 22 | 25,721 | 19 | 30,740 | 18 |
| " 5 | 13,982 | 16 | 20,786 | 15 | 25,040 | 15 |
| " 6 | 40,160 | 47 | 63,139 | 47 | 79,713 | 47 |
| All firms | 85,347 | 100 | 134,383 | 100 | 169,990 | 100 |

Source: Survey data

TABLE 2.4: OUTSTANDING INSTALMENT DEBT - COMMERCIAL BANKS -
(BARBADOS) (E.C. \$'000)

| | <u>1968</u> | <u>1969</u> | <u>1970</u> |
|--------|--------------|--------------|---------------------------|
| Firm 1 | - | 219 | 468 |
| " 2 | 260 | 395 | 640 |
| " 3 | 26 | 59 | 110 |
| " 4 | 694 | 1,040 | 1,272 |
| " 5 | 3,842 | 4,420 | 4,950 |
| " 6 | <u>256</u> | <u>1,243</u> | <u>2,494</u> |
| Total | <u>5,078</u> | <u>7,376</u> | <u>9,934</u> ¹ |

Note: 1. This total shows a small discrepancy with that given in Table 1.

Source: Survey data

this was reduced to just 50% of the total market.

2.15. At this stage it is clear that individual bank performances are not consistent in indicating the relative influences of American and British banks on the growth of this business. The data show a strong asymmetrical distribution of business. Whilst, on the one hand/^{the} bank accounting for the largest amount of the business is American, on the other, the fastest growing bank has been an old established British firm. Moreover, these two banks alone accounted for 80, 77, and 70 per cent of the total business for the respective years 1968-70. Indeed if the bank ranking third is added, (another North American bank), then these three banks would alone account for 94, 91, and 88 per cent for the respective years. The remaining three banks are however, all North American, and yet they hold only a marginal position in the industry! This latter point is brought out more strongly if we refer back to Table 2.1, as apart from bank 5 (and excepting bank 1 because it is still very new), no other bank surpassed the mean of all the banks. The growth of this item in the portfolio of the banks was therefore clearly dependent on Bank 5, with Bank 6 showing a rapidly increasing involvement in this area.

2.16. It would be useful to interpret this in the light of the relative sizes of the banks as measured by their total value of loans and advances. The data in Table 2.3 reveal that between 1968 and 1970 none of the banks have showed any marked changes in their relative overall positions. The two largest firms in the consumer instalment business (banks 5 and 6), held a more or less constant relative position between 1968 and 1970, except for a slight change in bank 5's position. It is Bank 4, which has shown the largest relative change in overall position. Its reduction in size from 22% of all business in 1968, to 18% in 1970 is reflected in the toe-hold established by the two new firms (banks 1 and 3) in the industry. These data on the size ranking of the banks and their relative positions in the consumer instalment credit business are all summarized and presented for convenience in Table 2.5.

2.17. We can now proceed to an analysis of the debt structure as presented in Tables 2.6 and 2.7. As might be expected, motor vehicles constitute the largest category of debt. The choice of item follows logically on its cost, durability and widespread use by consumers, as compared with all other consumer purchases, except possibly housing. For the respective years 1968-70

TABLE 2.5: CONSOLIDATED SIZE RANKING OF COMMERCIAL BANKS - BARBADOS - 1970

| Bank | Size Ranking of Bank | Size Ranking of Ratios of Instalment paper to total loans | Size Ranking of Proportions of Instalment Paper held by each Bank |
|------|----------------------|-----------------------------------------------------------|-------------------------------------------------------------------|
| 1 | 6 | 2 | 5 |
| 2 | 3 | 4 | 4 |
| 3 | 5 | 6 | 6 |
| 4 | 2 | 3 | 3 |
| 5 | 3 | 1 | 1 |
| 6 | 1 | 4 | 2 |

Source: Survey data

TABLE 2.7: PERCENTAGE DISTRIBUTION OF DEBT BY MAIN CATEGORIES : COMMERCIAL BANKS BARBADOS

| | | Vehicles | Consolidation of debt | Travel | Home Improvement and real estate | Furniture, furnishings domestic appliances, radio, television, etc. |
|------|-----------|----------|--------------------------|--------|-------------------------------------|---------------------------------------------------------------------------|
| 1968 | Firm 1 | - | - | - | - | - |
| " | " 2 | 37 | 15 | 13 | 27 | 8 |
| " | " 3 | 38 | 31 | - | 19 | 12 |
| " | " 4 | 25 | 15 | 10 | 30 | 20 |
| " | " 5 | 65 | 13 | 1 | 17 | 4 |
| " | " 6 | 53 | 2 | 2 | 24 | 20 |
| " | All Firms | 58 | 13 | 3 | 20 | 7 |
| 1969 | Firm 1 | 14 | 41 | - | 37 | 7 |
| " | " 2 | 35 | 18 | 11 | 27 | 9 |
| " | " 3 | 24 | 25 | 3 | 22 | 25 |
| " | " 4 | 25 | 15 | 10 | 30 | 20 |
| " | " 5 | 58 | 13 | - | 19 | 36 |
| " | " 6 | 56 | 3 | 2 | 29 | 10 |
| " | All Firms | 54 | 13 | 3 | 23 | 8 |
| 1970 | Firm 1 | 33 | 30 | - | 33 | 3 |
| " | " 2 | 34 | 19 | 11 | 27 | 9 |
| " | " 3 | 25 | 34 | 3 | 18 | 20 |
| " | " 4 | 25 | 15 | 10 | 30 | 20 |
| " | " 5 | 62 | 12 | - | 21 | 4 |
| " | " 6 | 49 | 5 | 2 | 32 | 13 |
| " | All Firms | 50 | 12 | 3 | 26 | 9 |

Source: Survey data

this category alone accounted for 58, 54 and 50 percent of the total consumer instalment debt. The second largest category of debt is home improvement loans, which accounted for 20, 23 and 26 percent in the same respective years. The other categories of debt, i.e. consolidation of debt, travel and furniture and furnishings, together account for about one-quarter of the debt throughout the period. The individual contributions have shown no marked changes so that the expansion of home improvement loans have been at the expense of motor vehicles paper.

2.18. A bank seeking to develop a portfolio of consumer instalment business would, other things being equal, seek to minimize its risk by, acquiring its debt in as wide a category as is convenient. Over-dependence on one item, e.g. motor vehicles would leave it over-exposed to vicissitudes in this area of economic activity. Not surprisingly the bank which held most of the consumer instalment loans, not only held most of the motor-vehicles paper, but it also dominated all categories of this debt except travel. Similarly, the growth of the fastest growing bank, (bank 6), has been strongly reflected in all categories of lending. This portfolio policy is therefore certain to lead to an asymmetrical distribution of the lending pattern of individual banks.

In each category, two banks alone accounted for at least 65% of the debt. In the two major categories (motor vehicles and home improvement) the two largest banks (banks 5 and 6) accounted for at least 70% of the business in 1970. ✓

2.19. Given this type of portfolio, one would expect that the average size of an agreement would be close to 70-80 % of the total cost of a vehicle including insurance charges. This would put the average size loan in the region of \$4,000. Surprisingly the average size of the agreements covering this debt were much smaller. The data in Table 2.8 show that despite an increase in the average size of agreements of nearly one-fifth between 1968 and 1970, the average size of all agreements in 1970 was still just only E.C.\$1,890. The two largest banks also had the largest number of agreements. The average size of each of their agreements[§] was above the mean for all the banks. All of the banks have shown a definite increase in the number of agreements.¹ The data here suggest that the banks rely on very heavy down payments.¹

2.20. An attempt was made to obtain further information through questioning the banks on their consumer instalment credit arrangements. The responses were as follows:

TABLE 2.8: AVERAGE SIZE OF AGREEMENTS - COMMERCIAL BANKS (BARBADOS)

| | No of Agreement | Value of Outstanding Agreements (E.C. \$'000) | Average size of Agreement (E.C.\$) |
|-------------|-----------------|-----------------------------------------------------|---------------------------------------|
| 1968 Firm 1 | - | - | - |
| " " 2 | 245 | 260 | 1,061 |
| " " 3 | 11 | 26 | 2,364 |
| " " 4 | 760 | 694 | 913 |
| " " 5 | 2,010 | 3,842 | 1,911 |
| " " 6 | 124 | 256 | 2,064 |
| " All firms | 3,150 | 5,078 | 1,612 |
| 1969 Firm 1 | 159 | 219 | 1,460 |
| " " 2 | 412 | 395 | 958 |
| " " 3 | 50 | 59 | 1,180 |
| " " 4 | 1,040 | 1,040 | 1,000 |
| " " 5 | 2,013 | 4,420 | 2,195 |
| " " 6 | 544 | 1,243 | 2,285 |
| " All firms | 4,209 | 7,376 | 1,752 |
| 1970 Firm 1 | 354 | 468 | 1,322 |
| " " 2 | 597 | 640 | 1,072 |
| " " 3 | 99 | 110 | 1,235 |
| " " 4 | 900 | 1,272 | 1,399 |
| " " 5 | 2,380 | 4,950 | 2,080 |
| " " 6 | 927 | 2,494 | 2,690 |
| " All firms | 5,256 | 9,934 | 1,890 |

Source: Survey data

- Bank 1 - 30 to 40 percent of the value with a maximum of three years to repay. ✓
- " 2 - no limits in value, but a maximum of three years to repay.
- " 3 - up to \$500 - 12-18 months to repay; \$500-\$1,000 - 18-24 months to repay; \$1,000 - \$1,500 - 24 months to repay; and up to \$3,000 - 3 years to repay.
- " 4 - maximum value of \$10,000 and up to 3 years to repay, with occasional exceptions of up to 5 years.
- " 5 - maximum value of \$8,000 with 3 years to repay;
- " 6 - maximum value of \$5,000 with 3 years to repay.

2.21. There is close agreement on the maximum repayment period, (3 years), but the financial limits vary a great deal. However the data indicate that with unit loans presently averaging under \$2,000, the upper limit is still quite some way off. Given the inverse relationship between size of loan and unit cost of administration it is surprising that the banks have not pushed harder for higher average sized small loans. The figure prevailing may well reflect their compromise between the security of the loan, (established by a high commitment of each borrower of his own funds to the purchase of the item), and the unit cost of administration. The latter costs might have been partly eased by the splendid position which the banks find themselves in Barbados. They are able to pass on

higher rates to the consumer in Barbados because there is no significant competition from other sources of finance.

2.22. In so far as the data show the banks to be substantially involved in small loan business in this area of their lending the question of the "break-even" size of loan is a major problem. Using functional analysis the "break-even" loan size of the bank is usually calculated by equating income to costs.¹ This can be derived by solving for x in the following standard equation:

$$X_i \left(\frac{N}{12} \right) = C_a + NC_p + \frac{N}{12} \frac{C_v(N+1)x}{2N}$$

where C_a = acquisition cost per loan; C_p = processing cost per payment, C_b = bad debt cost as percentage per annum of average dollar outstandings, C_m = cost of money as an annual percent of average dollar outstandings, $C_v = C_b + C_m$; i = add-on finance rate - percent per year of initial unpaid balance; N = number of repayment periods in the contract, and X = break-even loan size.

2.23. In so far however as the commercial banks in the region are seeking to establish a position in the industry it is likely that they would disregard this if their loan sizes were too small in order to attract later business. This however does

1. See Breakeven Analysis in Instalment Lending by R.W. Johnson and E.C. Comiskey in Innovations in Bank Management, Selected Readings, (ed.) by P.F. Jessup, Holt, Rinehart and Winston, Inc. 1969.

not mean reduced profits for a number of reasons. Firstly, the higher per unit costs can be met through higher charges. Secondly, the break-even concept is a total cost concept, whereas a decision model will have to be based on marginal changes. This can be noted if we remember that the acquisition, processing costs etc include both fixed and variable elements of cost. The fixed costs, (staff, premises etc) will largely occur independent of the level of instalment business. When these are excluded from the break-even measurements then the net return on a break-even loan, instead of being zero will be positive. Moreover, if all loans below break-even size are eliminated from the portfolio, this would serve to raise the break-even point, as the fixed costs will be spread over a smaller number of loans!

Interesting point!

2.24. Finally, and most importantly the break-even concept really connotes the notion of average risk. Let us take an example. If a bank's solution to the request for a loan below break-even size, is to encourage the borrower to borrow more, this may increase the likelihood of defaults and therefore lead to greater loss, despite the movement above the break-even size. Given this the banks operational guidelines will have to be more complex.

2.25. Data on the proportion of unsecured consumer instalment credit are shown in Table 2.9. As can be seen from the data

TABLE 2.9: COMMERCIAL BANKS - BARBADOS - PERCENTAGE OF CREDIT UNSECURED
BY CATEGORY 1970

| | Motor Vehicles | Consolidation of debt | Travel | Home Improvement and Real Estate | Furniture and Furnishing |
|--------|-------------------|--------------------------|--------|-------------------------------------|-----------------------------|
| Bank 1 | - | 80 | - | 80 | - |
| " 2 | 40 | 40 | 40 | 40 | 40 |
| " 3 | 35 | 20 | - | 15 | 20 |
| " 4 | 10 | 30 | 10 | 40 | 70 |
| " 5 | - | 7 | 1 | 3 | 1 |
| " 6 | - | 3 | 8 | 0.5 | - |

Source: Survey data

the two banks holding the largest proportions of debt only allow a small proportion of their debt as unsecured advances. The two banks with the largest proportions of unsecured advances are banks 1 and 2. Banks 1 position probably reflects its efforts to push this type credit as it sought to establish itself in the market.

2.26. It is left for us finally to observe the pattern of turnover of the debt. A thesis which might be advanced is that given some reluctance on the part of the banking system to be extensively involved in consumer credit, the normal process would be for a bank to build up its portfolio to a given size and thereafter lend only on the basis of a turnover of loans. This does not rule out a periodic rise or fall in the proportion decided on. Data related to this are presented in Table 2.10. For the three years shown, repayments have averaged 90, 76 and 78 percent of new business respectively. Of the various banks, the largest in this field of business (bank5) has recorded percentages which have never been lower than 94 percent. Although the time series is too short to interpret this forcefully, it does seem likely that by and large this firm is limiting itself to a turnover of the funds already committed to this field, on account probably of the high proportion of its portfolio already committed along these lines. This might also

TABLE 2.10: REPAYMENTS AND NEW CREDIT EXTENDED - COMMERCIAL BANKS (BARBADOS) (\$'000)

| | | <u>Repayments</u> | <u>New Credit</u> | <u>Repayments as % of New Credit</u> |
|--------------------|--------|-------------------|-------------------|--------------------------------------|
| 1968 | Firm 1 | - | - | - |
| | " 2 | 130 | 390 | 33 |
| | " 3 | - | 3 | - |
| | " 4 | 620 | 672 | 92 |
| | " 5 | 3,826 | 3,856 | 99 |
| | " 6 | 113 | 277 | 40 |
| <u>" All firms</u> | | <u>4,689</u> | <u>5,198</u> | <u>90</u> |
| 1969 | Firm 1 | 22 | 152 | 14 |
| | " 2 | 353 | 495 | 72 |
| | " 3 | 9 | 13 | 69 |
| | " 4 | 851 | 1,016 | 84 |
| | " 5 | 3,353 | 4,658 | 94 |
| | " 6 | 317 | 1,404 | 23 |
| <u>" All firms</u> | | <u>5,910</u> | <u>7,738</u> | <u>76</u> |
| 1970 | Firm 1 | 47 | 368 | 13 |
| | " 2 | 488 | 733 | 67 |
| | " 3 | 18 | 40 | 45 |
| | " 4 | 1,160 | 1,180 | 98 |
| | " 5 | 4,799 | 5,098 | 94 |
| | " 6 | 1,197 | 2,448 | 49 |
| <u>" All firms</u> | | <u>7,709</u> | <u>9,867</u> | <u>78</u> |

Source: Survey data

account for the relative retrogression of this bank in the provision of consumer instalment credit. For it is to be noted that the banks with the lowest turnover rate, (banks 1 and 3) are the newer banks which have only really commenced operations in 1969. If this is so then there is some preliminary support for the thesis advanced.

2.27. Our examination of the commercial banks in Barbados has therefore shown (i) that there is no clear evidence of a North American bank influence, (ii) that the banks are not significantly involved in consumer instalment lending, when measured in relation to the size of their own portfolio, (iii) that the practice is for a bank to build up a portfolio and thereafter rely on the revolving of the funds committed for supply of funds for new business, (iv) that caution in lending is reflected in the low average size of loans, and the wide range of items in the leading banks portfolio, and the high proportion of secured debt, (v) that the relatively small importance of this business to the banks in Barbados reflects their unencumbered ability to still hold their assets overseas, and the satisfactory growth of their traditional business.

1

COMMERCIAL BANKS - TRINIDAD-TOBAGO

2.28. In Trinidad-Tobago the commercial banks have been

1. This is based on a survey of five reporting banks. In 1971 these banks accounted for 93% of the total commercial banks loan portfolio.

subject to a much greater degree of pressure to localize their operations than in Barbados. Evidences of this are seen in recent developments such as the establishment of two local commercial banks and the offering of local share issues by the older established banks. No doubt the general economic climate, and the existence of a Central Bank have contributed to these pressures. The commercial banks have tried to adapt to the demands of this new situation through absorbing more and more government securities and by widening their loans and advances portfolio. The increased holdings of government securities have been facilitated by the growth in government deficit financing. Thus between 1969 and 1971 the value of government securities held by the commercial banks more than doubled. The principal method of widening the loan portfolio has been through the expansion of consumer instalment credit. ✓

n3

2.29. Between 1968 and 1971, (see Table 2.11) the commercial bank's holdings of consumer instalment paper more than doubled, i.e. it grew from approximately TT\$32 million to TT\$65 million. At the end of 1971, consumer instalment paper as a proportion of the reporting bank's total loans and advances was 19% (Table 2.12). Between 1969 and 1971 all of the commercial banks have displayed an increasing dependence on this category of their lending. There is no doubt that this type of credit has become accepted as an integral and important element in the portfolio of all the banks. ✓

Table 2.11: OUTSTANDING CONSUMER INSTALMENT
DEBT¹ - COMMERCIAL BANKS (TRINIDAD) (\$\$TT'000)

| | <u>1968</u> | <u>1969</u> | <u>1970</u> | <u>1971</u> |
|--------|-------------|-------------|-------------|-------------|
| Firm 1 | 10,799 | 15,215 | 21,301 | 23,768 |
| " 2 | 11,555 | 14,691 | 16,595 | 18,089 |
| " 3 | - | 1,693 | 2,382 | 3,669 |
| " 4 | 229 | 339 | 741 | 1,431 |
| " 5 | 9,288 | 11,599 | 13,557 | 18,310 |
| Total | 31,871 | 43,528 | 54,576 | 65,177 |

Source: Survey data

Note: 1. Firm 3's data were supplied after chapter 1 was completed. The data lead to a small discrepancy in the totals shown there and in this table.

Table 2.12: COMMERCIAL BANKS TRINIDAD-TOBAGO - CONSUMER
INSTALMENT CREDIT AS A PERCENTAGE OF EACH BANK'S LOANS
AND ADVANCES

| | <u>1968</u> | <u>1969</u> | <u>1970</u> | <u>1971</u> |
|----------------------------------------------------|-------------|-------------|-------------|-------------|
| Bank 1 | - | 27 | 33 | 33 |
| " 2 | - | 14 | 14 | 15 |
| " 3 | - | 6 | 7 | 8 |
| " 4 | - | 4 | 5 | 9 |
| " 5 | - | 13 | 18 | 20 |
| All banks as a % of all advances | 15 | 16 | 17 | 18 |
| All banks as a % of reporting banks advances | | 17 | 18 | 19 |

Source: Survey data

2.30. In this respect, the position here contrasts strongly with that which obtained in Barbados. Whereas in Barbados, four of the six commercial banks had a consumer instalment credit portfolio which was less than five per cent of their total portfolio of loans and advances, the minimum ratio for any bank in Trinidad was eight percent. Moreover the commercial banks dependence on this item in their portfolio in Trinidad-Tobago, was more evenly distributed. Three commercial banks, as against one in Barbados,¹ held more than 15% of their portfolio in consumer instalment paper. Despite this however, there was in Trinidad-Tobago also some tendency towards an asymmetrical distribution of the portfolio, as three banks accounted for 92% of the debt as can be seen in Table 2.13. This asymmetrical pattern was however somewhat reduced in Trinidad as the distribution of the debt amongst the three top banks was fairly even. This feature may well reflect the fact, as can be seen from Table 2.14, that these banks were roughly of even overall size (measured in terms of the size of their loans and advances portfolio), as compared with those in Barbados. In Barbados we particularly noted the dominance of one commercial bank there.

1. Ignoring the new bank.

Table 2.13: PERCENTAGE DISTRIBUTION OF OUTSTANDING
CONSUMER INSTALMENT DEBT: COMMERCIAL BANKS TRINIDAD

| | <u>1968</u> | <u>1969</u> | <u>1970</u> | <u>1971</u> |
|--------|-------------|-------------|-------------|-------------|
| Firm 1 | 34 | 35 | 39 | 36 |
| " 2 | 36 | 34 | 30 | 28 |
| " 3 | - | 4 | 4 | 6 |
| " 4 | 1 | 1 | 1 | 2 |
| " 5 | 29 | 26 | 25 | 28 |

Source: Survey data

Table 2.14: SIZE OF COMMERCIAL BANKS (TRINIDAD) STATED AS A
% OF TOTAL LOAN AND ADVANCES OF ALL BANKS

| | <u>1969</u> | <u>1970</u> | <u>1971</u> |
|---------------------|-------------|-------------|-------------|
| Bank 1 | 21 | 20 | 20 |
| " 2 | 37 | 36 | 32 |
| " 3 | 11 | 10 | 12 |
| " 4 | 3 | 5 | 4 |
| " 5 | 24 | 24 | 25 |
| All Reporting banks | 96 | 95 | 93 |

Source: Survey data

2.31. It is perhaps interesting to note, that both in Barbados and Trinidad-Tobago, the largest commercial banks have the same parentage and that the commercial banks which provide the largest amount of the consumer instalment credit in the two territories also have a common parentage. In both places one of the banks is British and the other American. Therefore again the disaggregated data do not allow us to conclude with any certainty as to the nature of the influences of a given commercial banks' origins on present performances in this field. What is of perhaps further significance is that the difference in relative importance of consumer instalment credit between the British and American banks is smaller in Trinidad-Tobago than in Barbados.

2.32. Table 2.15 summarizes the individual banks positions for this type of lending in terms of their relative sizes. There we can readily see that the largest bank, (bank 2) ranked second in the total amount of consumer instalment paper held. In relation to the amount of consumer instalment paper held as a proportion of the size of its own loan portfolio, this bank ranked third. The bank which held the largest amount of this paper, (Bank 1) and which also depended on this item in its portfolio most, was the median sized bank. The size of this bank also equalled the arithmetic mean for the five banks. Bank 5 was also consistently second

TABLE 2.15: SIZE DISTRIBUTION OF BANKS - CONSUMER INSTALMENT LENDING (TRINIDAD-TOBAGO)

| | | Size ranking: % of total loans and advances | Size ranking of Instalment debt as a % of total loans & advances | Size ranking: Instalment debt held |
|------|---|------------------------------------------------------|------------------------------------------------------------------------------|------------------------------------------|
| Bank | 1 | 3 | 1 | 1 |
| " | 2 | 1 | 3 | 2 |
| " | 3 | 4 | 5 | 4 |
| " | 4 | 5 | 4 | 5 |
| " | 5 | 2 | 2 | 2 |

Source: Survey data

in all three variables, viz, size, amount of debt held, and proportionate dependence on this category of debt. The two smallest banks did the least amount of business in this field and also depended the least on this item in their portfolio. It therefore seems as if the involvement of the banks vary directly with their size. Other things being equal, this could be argued as reasonable to expect, since if this type of lending is risky, then the larger banks can best absorb the risks. However, as we saw in Barbados, a small bank, recently arrived, might well try to develop a proportionately large portfolio in this field as perhaps the easiest way of establishing itself in the local market.

2.33. We saw in Barbados, that the commercial banks instalment debt is characterized by (i) a high dependence on motor vehicles paper and home improvement loans, (ii) only a small proportion of these loans is unsecured; and (iii) that the average size of each loan is fairly small. The data on these characteristics for the banks in Trinidad-Tobago are presented in Tables 2.16, 2.17, and 2.18. The data in Table 2.16 show that in 1970, 39 percent of all the debt was represented by motor vehicles paper. In Barbados the comparable figure was 50%. In Trinidad-Tobago

TABLE 2.16: COMMERCIAL BANKS TRINIDAD - PERCENTAGE DISTRIBUTION OF CONSUMER INSTALMENT DEBT BY MAIN CATEGORIES -85-

| | Private Vehicles | Taxis or Rented Cars | Commercial Vehicles | Furniture, furnishings domestic appliances, radio, T.V. | Travel | Real Estate and Home Improvement | Consolidation of debt | Miscellaneous |
|-------------|------------------|----------------------|---------------------|---------------------------------------------------------------|--------|-------------------------------------------|-----------------------------|---------------|
| | New | Used | New | Used | New | Used | | |
| 1969 Firm 1 | 19 | 15 | 11 | 7 | 4 | 2 | 3 | 23 |
| " 2 | 7 | 8 | 0.4 | 0.5 | 1 | 1 | 7 | 46 |
| " 3 | 4 | 13 | - | 0.4 | 0.5 | 3 | 5 | 47 |
| " 4 | 9 | - | - | - | 9 | 1 | 10 | 50 |
| " 5 | N.A. | N.A. | N.A. | N.A. | N.A. | N.A. | 3 | 21 |
| All Firms | 15 | 12 | 8 | 5 | 3 | 2 | 11 | 3 |
| 1970 Firm 1 | 21 | 13 | 14 | 5 | 6 | 2 | 4 | 31 |
| " 2 | 10 | 7 | 1 | 0.5 | 2 | 1 | 1 | 17 |
| " 3 | 4 | 13 | - | 0.6 | 1 | 2 | 8 | 40 |
| " 4 | 9 | - | - | - | 7 | 2 | 4 | 48 |
| " 5 | 7 | 7 | - | - | 1 | - | 5 | 63 |
| All Firms | 14 | 10 | 7 | 3 | 4 | 1 | 6 | 13 |

Source: Survey data.

TABLE 2.17: PERCENTAGE DISTRIBUTION OF CONSUMER INSTALMENT DEBT BY INDIVIDUAL BANKS (TRINIDAD)

| | Private Vehicles | Taxis or Rented Cars | Commercial Vehicles | Furniture, furnishings domestic appliances, radio, T.V. | Travel | Real Estate and Home Improvement | Consolidation of debt | Miscellaneous |
|-------------|------------------|----------------------|---------------------|---------------------------------------------------------------|--------|-------------------------------------------|-----------------------------|---------------|
| | New | Used | New | Used | New | Used | | |
| 1969 Firm 1 | 83 | 76 | 98 | 96 | 86 | 79 | 40 | 46 |
| " 2 | 16 | 21 | 2 | 4 | 12 | 15 | 58 | 49 |
| " 3 | 0.5 | 2 | - | - | - | 3 | 2 | 3 |
| " 4 | 0.5 | - | - | - | 2 | - | 0.5 | 3 |
| " 5 | - | - | - | - | - | - | 1 | - |
| 1970 Firm 1 | 69 | 61 | 95 | 93 | 73 | 71 | 13 | 24 |
| " 2 | 17 | 17 | 3 | 4 | 15 | 18 | 45 | 31 |
| " 3 | - | 2 | - | - | - | 2 | 1 | 2 |
| " 4 | 1 | - | - | - | 3 | 0.5 | 1 | 4 |
| " 5 | 14 | 21 | 2 | 3 | 8 | 10 | 43 | 40 |

Source: Survey data.

Note: 1. Each firm's debt is given as a % of the total debt for all firms in that category.

16% of the debt in 1970 was held as home improvement loans, whereas in Barbados the proportion was 26 percent. Consolidation of debt loans in Barbados averaged 12% as compared with 8 percent in Trinidad-Tobago. We might note that these comparisons might be voided as in Trinidad-Tobago there is a problem of classification, since the miscellaneous debt category total as much as 31% in 1970.

2.34. We have already indicated in the previous section that the items of purchase which this portfolio covers are to be expected given the general pattern of consumer purchases. However, the disaggregated data in Table 2.16 show the wide variability in purchases which the individual banks finance. Even among the three largest banks (banks 1, 2 and 5) this is noticeable. Thus in 1970, bank 5 held only 15% of its loans in motor vehicles paper, as compared with 61% for bank 1 and 21% for bank 2. Significantly also, this bank has held more of its portfolio in home improvement and consolidation of debt loans. The data suggest the thesis that whilst the overall industry configuration normally tend to the traditional pattern, that specialization, induced by competition, prejudice, historical position in the industry etc, can lead to a wide degree of variation in individual bank performance.

2.35. In the previous section we noticed how the instalment portfolio of the commercial banks in Barbados was largely confined to small loans. The data in Table 2.18 also show the same tendency for the average size agreement in Trinidad-Tobago to be quite small. Thus despite the increase in the average size of agreement from TT\$1,660 in 1969 to TT\$2,152 in 1970, this size was only slightly larger than that which obtained in Barbados. Again suggesting the high proportion of the agreed purchase price which individual customers have to raise. In this way the banks are no doubt trying to contain the pressures against any wild-cat boom situation. Data on their operational guidelines presented below highlight this:

- Bank 1 : Limit \$20,000 with 3 years to pay
- " 2 : Limit \$ 7,500 with 3 years to pay
- " 3 : Limit \$ 2,000 with 18 months to pay
- " 4 : Not available
- " 5 : Limit \$10,000 with 3 years to pay

From the above we can see how far below their limits the banks do in fact operate.

2.36. The caution exhibited here is usually reinforced by the banks having most of their consumer instalment loans secured. We noticed this feature in Barbados. In Trinidad-Tobago, only one bank was in a position to supply us with

information, and for the two main categories of its lending viz, motor vehicles and home improvement loans, the unsecured proportions of its 1970 loans were 40% for home improvement loans, 35 percent for new private cars, 45 percent for used private cars, 25 percent for taxis and 30 percent for commercial vehicles. N.S.

2.37. Not surprisingly the banks appear to have an excellent record on overdues, bad debts and arrears. Three banks supplied us with information on this. One bank (bank 3) reported no losses due to bad debts and the other two had a losses ratio of 0.5(bank 2) and 0.2(bank 5). These were substantially below the 1 percent norm. It does indicate that in terms of probability of losses, the banks are not really pushing and dealing with many marginal customers. ✓

2.38. Finally, we can turn to an examination of the commercial banks cash flows and turnover of consumer instalment debt. In the previous section it was argued that a banking system cautious towards developing a consumer instalment credit department, would, other things being equal, build up its portfolio to some desired level and thereafter rely substantially on the turnover of the outstanding debt in order to service new loans. This would not rule out periodic and discrete adjustments in the level of the desired portfolio. The data N.S.

TABLE 2.18: COMMERCIAL BANKS (T'DAD) - AVERAGE SIZE OF AGREEMENTS TT\$

| | | <u>1 9 6 9</u> | | <u>1 9 7 0</u> | |
|-----------|---|--------------------------|--------------|--------------------------|--------------|
| | | <u>No. of Agreements</u> | <u>Value</u> | <u>No. of Agreements</u> | <u>Value</u> |
| Bank | 1 | 8,609 | 2,474 | 9,866 | 2,409 |
| " | 2 | 7,737 | 2,144 | 9,437 | 1,917 |
| " | 3 | 350 | 6,805 | 412 | 8,905 |
| " | 4 | 276 | 2,685 | 410 | 3,490 |
| " | 5 | <u>9,247</u> | <u>1,466</u> | <u>10,158</u> | <u>1,803</u> |
| All Banks | | 26,219 | 1,660 | 30,283 | 2,152 |

Source: Survey data

in Table 2.19 give some support for this argument. In 1968 repayments averaged 55% of new business. By 1970 the ratio was approximately 80%. The tendency for this ratio to increase was ^{fairly} ~~fairly~~ general to all the banks with the exception of bank 5. The pattern of growth for bank 5 suggests a further upward revision of its portfolio level during 1971. For two of the banks most involved in consumer instalment credit (banks 1 and 2) the ratio had approximated 90% in 1970, so that these banks were relying substantially on a recycling of funds. N/S

TABLE 2.19: TURNOVER OF COMMERCIAL BANKS CONSUMER INSTALMENT DEBT

TRINIDAD - TOBAGO (TT\$'000)

| | <u>Bank1</u> | <u>Bank2</u> | <u>Bank3</u> | <u>Bank4</u> | <u>Bank5</u> | <u>All Banks</u> |
|------------------------------------------|--------------|--------------|--------------|--------------|--------------|------------------|
| 1968 - New Business | 4,848 | 2,796 | - | 126 | 4,352 | 12,122 |
| Repayments | 2,663 | 1,372 | - | 79 | 2,565 | 6,679 |
| <u>Repayments as a % of new business</u> | <u>55</u> | <u>49</u> | <u>-</u> | <u>63</u> | <u>59</u> | <u>55</u> |
| 1969 - New Business | 17,391 | 9,959 | 964 | 461 | 14,220 | 42,995 |
| Repayments | 12,975 | 6,823 | 401 | 351 | 11,919 | 32,469 |
| <u>Repayments as a % of new business</u> | <u>75</u> | <u>69</u> | <u>42</u> | <u>76</u> | <u>84</u> | <u>76</u> |
| 1970 - New Business | 23,783 | 12,356 | 2,855 | 1,264 | 15,536 | 55,794 |
| Repayments | 17,697 | 10,452 | 2,166 | 802 | 13,568 | 44,685 |
| <u>Repayments as a % of new business</u> | <u>74</u> | <u>85</u> | <u>76</u> | <u>63</u> | <u>87</u> | <u>80</u> |
| 1971 - New Business | 25,691 | 17,118 | 4,355 | 1,936 | 22,866 | 71,966 |
| Repayments | 23,224 | 15,624 | 3,068 | 1,245 | 13,557 | 56,718 |
| <u>Repayments as a % of new business</u> | <u>90</u> | <u>91</u> | <u>70</u> | <u>64</u> | <u>59</u> | <u>79</u> |

Source: Survey data

FINANCE HOUSES AND INSTALMENT CREDIT

In this chapter we shall present an analysis of the results of a survey of the finance houses in Trinidad and Tobago and Barbados.¹ In the first chapter we have examined the recent overall performance of the consumer instalment credit industry. There we observed the rapid increases in outstanding consumer instalment indebtedness, brought about mainly through the performances of the commercial banks. It was only in Trinidad - Tobago that the finance houses appeared to be improving their position during the period for which we had general data (1967 - 1971). As we shall see, the data presented in this chapter will cast some uncertainty on this picture, but the major observation made in that chapter still remains. That is, the foreign monopoly of the ownership of finance houses in the region is probably the single most important factor responsible for the erratic and uncertain contributions of this sector to the development of the consumer instalment credit industry.

1. *It is hoped eventually to cover all the territories. A copy of the questionnaire is included in Appendix I*

Finance Houses: Trinidad and Tobago

All three of the finance houses which have operated in Trinidad - Tobago during the period of this survey have been foreign owned subsidiaries. The General Motors Acceptance Corporation is a subsidiary of a United Kingdom company, in turn linked to the General Motors Acceptance Corporation of the United States, the largest sales finance company in that country. The United Dominions Corporation (East Caribbean) Limited was established in 1959 as a subsidiary of the United Dominion Trust - UDT - of the United Kingdom and Gordon Grant and Company Limited, a foreign controlled trading company. The third company, International Trust of Washington (Caribbean) Limited is a subsidiary of the International Bank of Washington (Bahamas) Limited, one of the "off-shore" financial institutions of the Bahamas.²

This foreign domination has resulted in many of the changes in the operations of the finance houses in the local market being, as it were, by-products of changes overseas in the ownership pattern and structure of operations of parent companies. Thus for example, The International Trust of Washington (Caribbean) Limited is a descendant of the first finance company to be established in Trinidad-Tobago. This was the Olds Discount Company which was established in

2. *The UDT is in the process of closing down its operations, and a new company, General Finance Corporation was established in 1971. Recently, (March 1972) the establishment of yet another company, Barclays Finance Corporation was announced. The General Finance Company is a joint venture between Neal and Massy Holdings Limited; a 'local' company, and Royal Bank of Canada. The Barclays Finance Corporation is a wholly owned subsidiary of Barclays Bank International Limited.*

1953 after taking over the Trinidad Credit Corporation. At that time it was a subsidiary of the Lloyds and Scottish Group of the United Kingdom. The name of the company was changed in 1968 to Lloyds and Scottish Finance (Caribbean) Limited, after the parent company had disposed of their interests in Jamaica. In 1969 the company changed hands through a sale of the majority of the company's ordinary share capital by the controlling parent company (Lloyds and Scottish Finance Limited), to the International Bank of Washington (Bahamas) Limited. During this period also, the company's Caribbean branches in Antigua, Dominica, Grenada and Guyana were all closed, and the only branch operation which is presently carried on is that in Barbados.

Apart from such institutional changes, the history of finance houses lending in Trinidad - Tobago has also been an extremely erratic one. There have been marked fluctuations both in the volume of business and the number of firms in the industry. The principal reason for the large fluctuations in the volume of business has been the injudicious over-expansion of credit by the firms in the early years of their establishment. Thus, it has been estimated that in 1959, the volume of outstanding debt to the single finance house then in operation was \$TT 9 million. With the establishment of a second company in that year, and the competition for outlets which followed, the outstanding debt increased to \$TT 35 million by 1961. What followed after was a series of defaults and arrears in repayments.

Undoubtedly, the companies themselves were partly to blame for this situation. | They had taken the line of least resistance, encouraging and accepting business with little or no assessment of the credit ratings of their prospective customers. | In many instances the customers were already previously heavily indebted to such unorganised sources of credit as the money lender; But this was precisely the type of situation which should have been easily anticipated.

The defaults and rapidly rising value of arrears which followed therefore, reflected not so much dishonesty on the part of borrowers, as the companies have been wont to argue, but their genuine incapacity to service the newly acquired debt out of their earnings. Yet, in reviewing their experiences the companies unflinchingly point out that people ought not borrow, if they cannot afford to pay. This is no doubt true, but it begs the question since such an assessment is extremely difficult when credit is easily available and when taken in conjunction with the widespread and urgent needs of people in a poor community to acquire basic and necessary consumer durables (e.g., a stove), or other items of personal investment (e.g., a taxi).

A further feature complicating this situation has been that this was also the period of heavy mass migration from the West Indies. Default often followed on a person's migration to Britain or North America. The result of all this was, as might be expected, a rapid contraction in the value of new loans and a spate of repossessions. The data show that outstanding indebtedness of the finance houses was down to \$TT 13.9 million by 1963. For one

company whose accounts are analysed later, the value of the adverse balance in its balance sheet statement of 1964 was approximately \$TT 1.5 million. | It was only in relatively recent times (for the years 1968 - 1970) that there have been indications of a genuine upturn in the position of these companies in the consumer instalment credit industry, but here again the picture is also complicated by the changing position of the companies themselves. |

By 1970, one company, (United Dominions Trust Company) was already preparing to close, as another, (General Motors Acceptance Corporation) established itself on the basis of its close connection with the newly established motor vehicle assembly industry in Trinidad - Tobago. Then by 1971 yet another new company, General Finance Company Limited entered into the market to be followed by yet another in March 1972. As we shall see in detail later, the General Motors Acceptance Corporation has entered into the industry with little or no capital and has operated on the basis of borrowing from the commercial banks to lend its customers who purchase cars from their affiliate motor vehicle company. | There is little doubt that the exploitation of this retail outlet relationship (which was to be paralled by the General Finance Company Limited) was one of the major factors accounting for the closure of the United Dominions Trust. |

The developments outlined here reflected, and were at the same time responsible for, the very poor reputation of finance companies in the Caribbean. Even the changes of name of the International Trust Company (from Olds Discount to Lloyds and Scottish) has been interpreted as an effort to disassociate the company from the

unsavoury reputation of its predecessor. All this highlights the low level of confidence the general public have come to repose in these institutions.³

At this stage, we shall proceed to study these and other aspects of the finance houses operation in some detail. The first point of our analysis will be the structure of sources and uses of funds available to the finance houses.

Sources of Funds: Trinidad and Tobago Finance Houses

| Apart from their repayments, which constitute a turnover of funds, the main sources of funds for the finance houses have been local commercial bank loans, deposits raised locally and overseas, loans obtained from overseas financial institutions, and other liabilities including capital reserves. | At the end of 1971 (see table 3.1), the total liabilities of the finance houses equalled \$TT30.7 million . This was a 7 per cent increase on the value of these liabilities at the end of 1970. Of this value, \$TT 10.4 million or just about one-third, was due to the local commercial banks. A total of \$TT 7.5 million, or about one quarter, was raised through deposits, whilst the bulk of the remainder (about 40 per cent), represented their other liabilities including capital reserves.

3. *There was even the experience of one company having to publish a guarantee from its parent company to honour all funds lent by way of deposits in order to attract public lending.*

TABLE 3.1

FINANCE COMPANIES

SOURCES OF FUNDS

[TT \$000]

| YEAR | Deposits | Balances due to Local Banks | Foreign Balances | Other Liabilities including Capital Reserves | Total Liabilities |
|------|----------|--------------------------------|---------------------|----------------------------------------------------------|----------------------|
| | (1) | (2) | (3) | (4) | (5) |
| 1970 | 7,745 | 10,309 | 7 | 11,149 | 29,210 |
| 1971 | 7,522 | 10,474 | 22 | 12,679 | 30,687 |

SOURCE: Survey Data

A micro analysis of this data as represented in Table 3.2 indicates the strong variability of the companies with respect to this overall pattern. For firm 1, almost its entire funds has come from deposits and its other liabilities. By the end of 1970 these were roughly equal in size. But as the time series data show, the other liabilities have not changed since 1968 and the position basically reflected an improvement in its borrowings from the public through the usual deposit-raising process. Indeed, the value of deposits at the end of 1970 was nearly two and a half times the value at the end of 1968. Contrastingly, firm 2 has obtained all of its funds as lines of credit from the commercial banks. At the end of 1970, this firm was borrowing just over \$TT 9 million from the commercial banks. This was an increase of 60 per cent over the 1969 level. The third firm has been the most dependent on raising deposits. At the end of 1970 the value of its deposits was equal to the combined value of its local lines of credit and other liabilities. However, as the time series show, this was not a stable position, since this firm was going out of business. In 1969, the peak year, total deposits was equal to \$TT 4.6 million.

In summary we therefore note the following: (1) almost all of the bank credit i.e. well over 90 per cent is given to one firm; (ii) this firm has close connections with affiliate retail outlets and has invested none of its own capital nor has it raised any deposits locally; (iii) firm 1, after its initial capital investment of \$TT 4.6 million, has raised its funds principally

TABLE 3.2

FINANCE COMPANIES

MICRO - ANALYSIS OF SIGNIFICANT SOURCES OF FUNDS

[TT \$000]

| YEAR | | Balances due to Local Banks | Deposits | Other Liabilities Including Own Capital |
|------|--------|-----------------------------------|--------------|-----------------------------------------------|
| 1968 | Firm 1 | 17 | 2,113 | 4,608 |
| | Firm 2 | Nil | Nil | Nil |
| | Firm 3 | <u>1,072</u> | <u>4,358</u> | <u>1,774</u> |
| | TOTAL: | <u>1,089</u> | <u>6,471</u> | <u>6,382</u> |
| 1969 | Firm 1 | 91 | 3,811 | 4,608 |
| | Firm 2 | 5,834 | Nil | Nil |
| | Firm 3 | <u>1,460</u> | <u>4,553</u> | <u>1,714</u> |
| | TOTAL: | <u>7,385</u> | <u>8,364</u> | <u>6,322</u> |
| 1970 | Firm 1 | 12 | 5,067 | 4,608 |
| | Firm 2 | 9,096 | Nil | Nil |
| | Firm 3 | <u>1,201</u> | <u>2,678</u> | <u>1,485</u> |
| | TOTAL: | <u>10,309</u> | <u>7,745</u> | <u>6,093</u> |

SOURCE: Survey Data

through deposits obtained from the public; (iv) firm 3 borrowed \$TT 1.2 million from the local commercial banks(i.e., 10 per cent of the credit the commercial banks provided to the finance houses), and has raised its additional funds mainly through deposits, since its own capital employed has been a relatively stable amount.

At this stage it would be useful if we were to make a further detailed examination of the structure of deposits. The available data are presented in table 3.3. From these data we may note that roughly 70 per cent of the deposits held by firms 1 and 3 were raised from individual customers. Their individual performances however vary. In 1968 and 1969 firm 1 raised about 80 per cent of its deposits from the public, but by 1970 it had obtained a large increase in business deposits, the value being five times larger than that in 1968. At the end of 1970, only 55 per cent of its deposits came from individual customers. As regards firm 3, during 1968 - 1969 individual deposits accounted for approximately two-thirds of all deposits. By 1970 this was up to 80 per cent. The changing position simply reflected the firm's process of going out of business, a process which seemed to affect its business deposits much earlier than those of its individual customers. Thus, from a high point in 1969 of \$TT 1.6 million worth of deposits from business, the firm only held \$TT 0.5 million in 1970.

To complete the analysis of the sources of funds it is necessary for us to examine the pattern of turnover of funds.

TABLE 3.3

FINANCE COMPANIES

MICRO-ANALYSIS OF DEPOSITS BY TYPE

[TT \$000]

| YEAR | | Individual Customers | Businessess | Total |
|------|--------|----------------------|--------------|--------------|
| 1968 | Firm 1 | 1,683 | 430 | 2,113 |
| | Firm 2 | Nil | Nil | Nil |
| | Firm 3 | <u>2,720</u> | <u>1,490</u> | <u>4,210</u> |
| | TOTAL: | <u>4,403</u> | <u>1,920</u> | <u>6,323</u> |
| 1969 | Firm 1 | 2,961 | 850 | 3,811 |
| | Firm 2 | Nil | Nil | Nil |
| | Firm 3 | <u>2,795</u> | <u>1,600</u> | <u>4,395</u> |
| | TOTAL: | <u>5,756</u> | <u>2,450</u> | <u>8,206</u> |
| | Firm 1 | 2,849 | 2,219 | 5,067 |
| | Firm 2 | Nil | Nil | Nil |
| | Firm 3 | <u>2,049</u> | <u>489</u> | <u>2,538</u> |
| | TOTAL: | <u>4,898</u> | <u>2,708</u> | <u>7,605</u> |

SOURCE: Survey Data

Examining the aggregated data on new business and repayments presented in table 3.4, this is what we observe. For the year 1969 and 1970, new business exceeded repayments by \$TT 4 million, and \$TT 1.8 million respectively. During 1971, the situation was reversed and repayments exceeded new business by \$TT 4.1 million. These general changes principally reflect changes in the pattern of new lending since the value of repayments has remained stable in the region of \$TT 18 million. The changes in the pattern of new lending in turn reflects the process of one firm leaving the business and another commencing to lend in 1971. Generally speaking in normal times repayments would probably run at between 80 per cent to 90 per cent of new business, signifying the great importance to be attached to the turnover rate of the existing debt.

The data are presented on a per firm basis in table 3.5. During the period covered the second firm was establishing itself, the third firm was closing down and the fourth firm got started in the last year. It is therefore only firm 1's data which are relatively reliable and these show a tendency for repayments not to be less than 80 per cent of new business and in fact slightly exceeding the value of new business in 1971. Firm 2's data support this general picture. For between its establishment in 1969, and 1971 it rapidly achieved a position where the value of repayments was equal to new business. Similarly, in 1969 before firm 3's closing operations were set in train the value of repayments also slightly exceeded the value of new business.

TABLE 3.4

TOTAL NEW BUSINESS AND REPAYMENTS OF FINANCE HOUSES

[TT \$000]

| YEAR | COL. 1 New Business | COL. 2 Repayments | COL. 1 - Col.2 |
|------|------------------------|----------------------|----------------|
| 1969 | 22,996 | 18,323 | +4,673 |
| 1970 | 19,890 | 18,068 | +1,822 |
| 1971 | 14,604 | 18,663 | -4,059 |

SOURCE: Survey Data, and Central Statistical Digest

TABLE 3.5

INSTALMENT CREDIT NEW BUSINESS & REPAYMENTS - TRINIDAD

[TT \$ 000]

| | 1969 | | | 1970 | | | 1971 | | |
|--------|--------------|------------|------------------------|--------------|------------|------------------------|--------------|------------|------------------------|
| | New Business | Repayments | as a % of new business | New Business | Repayments | as a % of new business | New Business | Repayments | as a % of new business |
| Firm 1 | 9,972.7 | 8,247.8 | 83 | 9,588.8 | 8,533.4 | 89 | 9,193.0 | 9,706.1 | 106 |
| Firm 2 | 3,620.7 | 432.2 | 12 | 6,724.5 | 3,300.1 | 49 | 5,374.0 | 5,366.8 | 100 |
| Firm 3 | 9,403.2 | 9,643.2 | 103 | 3,574.5 | 6,231.8 | 174 | 37.9 | 7,344.1 | - |
| Firm 4 | - | - | | - | - | | 4,222.0 | 1,534.0 | 36 |

SOURCE: Survey Data

In conclusion of this section it is important to observe that changes in the number of firms in the industry (brought about mainly by the changing position of their parent companies in the U.K.) were exercising the decisive influences on the structure and value of sources of funds to the finance houses of Trinidad - Tobago since as we have seen in 1969, a new firm began its first full year of operations. In 1970 one of the older firms was leaving the industry; and by 1971, yet another new firm came into operation.

Uses of Funds: Trinidad - Tobago Finance Houses

The broad structure of the finance houses uses of funds is presented in table 3.6. As would be expected the dominant elements in the portfolio are the accounts receivable from wholesalers and retailers. These accounts are distributed in the rough ratio of 1:3 for wholesale as against retail accounts receivable. Apart from the fixed assets of the firm, the only other significant uses of funds are loans to local and overseas financial institutions. Together these totalled just over \$TT 2 million with the ratio of overseas deposits to local deposits approximately 2:1. Interpreting these balances due from financial institutions as the equivalent of their liquid assets, the data show that for the year 1970 - 1971 this averaged 7 per cent of total assets.

To examine the structure of the uses of funds in more detail it is important to realise the manner in which the finance houses conduct their business. There are two main categories of lending. The first is the use of the direct contract. Under this arrangement when the retail dealer receives a request from a customer

[TT \$000]

| YEAR | Balances due from | | Accounts Receivable | | Government Securities | Cash | Other Assets Including Fixed Assets | TOTAL |
|------|----------------------------------------|------------------------------------|---------------------|-----------|-----------------------|------|-------------------------------------|--------|
| | a. Local Banks/ Financial Institutions | b. Overseas Financial Institutions | a. Wholesale | b. Retail | | | | |
| 1970 | 656 | 1,333 | 6,427 | 18,382 | 736 | 1 | 1,675 | 29,210 |
| 1971 | 832 | 1,404 | 6,335 | 20,225 | Nil | 1 | 1,900 | 30,697 |

SOURCE: Survey Data

for credit to cover the purchase of a particular item, the dealer sells the item to the finance company which in turn sells them on hire purchase or credit sale to the customer. The nature of this tri-partite arrangement, the responsibilities and liabilities of the parties involved are not very clearly rationalised in the law⁴ Often the customer is not aware that he is purchasing the item from the finance house. The dealer and finance house have legal arrangements governing their business. Sometimes these include a recourse provision so that the dealer covers for any loss which the finance company may find itself holding as a result of the contract, or the dealer may enter into specific indemnities for particular transactions.⁵

In some instances the dealer may himself sign the credit documents as an agent for the finance house and also collect the instalments, but this form of lending, known as agency collection is essentially a variation of the direct contract method. ✓

The second main method of lending is block-discounting. Under this arrangement the dealer is required to provide the capital finance for his sales, and to collect his instalments as they are due. Having initially financed the credit, the dealer, instead of having the debts amortized through the instalments, would in periodic batches sell them to a finance house. The sales are at

4. *Chapter V is devoted to an analysis of the legal bases on which consumer credit is provided in the Caribbean.*
5. *These are also subject to the legal provisions of the Sale of Goods Act.*

an appropriate discount, and usually though not always at the time of sale the ownership of the goods is transferred to the finance house. To protect the finance company from the injudicious provision of credit under these arrangements with the dealer, the finance house would normally retain a proportion of the collection value of all agreements until they have been paid in full. However, at times this retention value is released to the dealer in proportionate amounts as the instalments are paid. As one might expect, block discounting is ideally suited for numerous transactions, where each individually is for a fairly small amount. Larger sales, e.g. motor cars, are usually made on a direct contract basis.

Tables 3.7 presents data on the distribution of block discounting and direct contracts for the finance companies. Between 1967 and 1970 the value of block discounting accounts nearly trebled. This was mainly on account of the establishment of a new firm (firm 2) and its total concentration of business on block discounts, a situation which reflects the interlocking arrangement which this company has with a motor vehicle firm. These discounted accounts are probably almost all from the affiliate motor vehicle company. Firm 3's discount business rapidly contracted as it prepared to close down its operations.

Given these erratic changes in the number of firms in the industry over such a short period, firm 1's behaviour might be taken as the most representative of industry trends although it could not completely isolate itself from these developments. For the year 1967 and 1968, firm 1's block discounting business averaged

TABLE 3.7

MICRO-ANALYSIS OF FINANCING METHODS 1967 - 70

[TT \$000]

| YEAR | | BLOCK DISCOUNTING | | Direct Contracts |
|------|--------|-------------------|--------------|------------------|
| | | Value | Number | Value |
| 1967 | Firm 1 | 1,221 | N.A. | N.A. |
| | Firm 2 | - | " | " |
| | Firm 3 | <u>1,735</u> | <u>4,337</u> | <u>N.A.</u> |
| | TOTAL: | <u>2,956</u> | <u>4,337</u> | <u>-</u> |
| 1968 | Firm 1 | 1,234 | N.A. | 4,283 |
| | Firm 2 | - | " | - |
| | Firm 3 | <u>2,639</u> | <u>6,600</u> | <u>6,723</u> |
| | TOTAL: | <u>3,873</u> | <u>6,600</u> | <u>11,006</u> |
| 1969 | Firm 1 | 3,273 | 212 | 6,628 |
| | Firm 2 | 3,582 | 1,008 | - |
| | Firm 3 | <u>954</u> | <u>2,390</u> | <u>8,137</u> |
| | TOTAL: | <u>7,809</u> | <u>3,610</u> | <u>14,765</u> |
| 1970 | Firm 1 | 3,289 | 359 | 5,372 |
| | Firm 2 | 6,727 | 1,966 | - |
| | Firm 3 | <u>189</u> | <u>472</u> | <u>3,301</u> |
| | TOTAL: | <u>10,205</u> | <u>2,797</u> | <u>8,673</u> |

SOURCE: Survey Data

about \$TT1.2 million. Between 1968 - 1969 there was a near trebling of business. However, between 1969 and 1970, there was no significant change. The increase in business between 1968 - 1969 of approximately \$TT 2 million was just about equal in value to the contraction of business by firm 3. In 1969, firm 2 came into full operations and the process of substitution of business might have been affected by this new competitive situation.

Examining the direct contract business we observe that for firm 1 there was nearly 50 per cent expansion in business between 1968 and 1969. Again this reinforces our interpretation, particularly when it is also noted that between 1969 and 1970 there was a fall of about 20 per cent in the value of business. As we observed earlier, firm 2 does no direct contract business. However, firm 3's business had fallen from the peak of \$TT 8 million in 1969 to \$TT 3 million in 1970, reflecting the contraction of its operations. By 1970, the combined block discounting of all the firms totalled \$TT 10 million of business, as against \$TT 8.7 million of direct contract business.

In table 3.8 the direct contract business is shown in greater detail. Examining this data we observe that almost all of this business is concentrated on motor vehicles and agricultural and industrial plant and machinery. There was some degree of firm specialisation in this business. Prior to its contraction of operations firm 3 tended to do much more used private car business than firm 1, whilst firm 1 itself tended to specialise in lending for the purchase of taxis and rented cars. For the year 1968 and

TABLE 3.8

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MICRO-ANALYSIS OF OUTSTANDING DEBT OF FINANCE HOUSES

[TT \$000]

| YEAR | | Private Motor Cars | | Taxis or Rented Cars | | Commercial Vehicles | Agricultural & Industrial Plant and Machinery | Other | Total |
|------|--------|--------------------|--------------|----------------------|------------|---------------------|-----------------------------------------------|------------|---------------|
| | | New | Used | New | Used | | | | |
| 1968 | Firm 1 | 689 | 709 | 1,290 | 382 | 610 | 773 | 408 | 4,861 |
| | Firm 3 | <u>1,201</u> | <u>2,903</u> | <u>71</u> | <u>97</u> | <u>974</u> | <u>987</u> | <u>261</u> | <u>6,494</u> |
| | TOTAL: | <u>1,890</u> | <u>3,612</u> | <u>1,361</u> | <u>479</u> | <u>1,584</u> | <u>1,760</u> | <u>669</u> | <u>11,355</u> |
| 1969 | Firm 1 | 703 | 587 | 1,551 | 663 | 640 | 1,712 | 327 | 6,192 |
| | Firm 3 | <u>1,043</u> | <u>1,791</u> | <u>55</u> | <u>185</u> | <u>1,284</u> | <u>2,278</u> | <u>227</u> | <u>6,863</u> |
| | TOTAL: | <u>1,746</u> | <u>2,378</u> | <u>1,606</u> | <u>848</u> | <u>1,924</u> | <u>3,990</u> | <u>554</u> | <u>13,055</u> |
| 1970 | Firm 1 | 851 | 468 | 1,984 | 526 | 811 | 1,692 | 632 | 7,064 |
| | Firm 3 | <u>998</u> | <u>1,095</u> | <u>146</u> | <u>193</u> | <u>514</u> | <u>1,332</u> | <u>165</u> | <u>4,443</u> |
| | TOTAL: | <u>1,849</u> | <u>1,563</u> | <u>2,130</u> | <u>719</u> | <u>1,325</u> | <u>3,024</u> | <u>797</u> | <u>11,507</u> |

SOURCE: Survey Data

1969, private used motor cars accounted for more direct contract business in the two firms, than business in new motor cars. By 1970, the value of new motor car business exceeded the used car business by \$TT 0.3 million. Business in new taxis always considerably exceeded that in used ones, and indeed by 1970 exceeded new private motor car business. The category of agricultural and industrial plant and machinery showed a strong improvement between 1968 - 1969, but with firm 3 contracting its operations, this position was not maintained into 1970. In 1970, this category accounted for about one quarter of the total business in direct contracts.

A further micro analysis of the block discounting business is provided in table 3.9. Here again we observe the tendencies to firm specialisation. On examination we find that firm 2, presumably on account of its special link with the motor vehicle trade, is servicing only motor cars on its block discounting business. On the other hand, firm 3 did no block discounting of motor vehicles. Firm 1 has tended on average for two years 1969 - 1970, to distribute its business in roughly even proportion for the two categories for which data are available. Earlier we referred to the time series data on outstanding debt of all finance houses. These data are shown in table 3.10. The estimates of business for 1961 was \$TT 35 million. This was the peak year when the bubble of wild-cat credit burst. By 1963, the outstanding debt was less than half this amount. Business hovered at these levels for much of the period 1963 - 1968, and only in 1969 did a marked upturn occur. This upturn was sustained during the following year. The performance of individual firms has

Table 3.g

Finance Houses

MICRO ANALYSIS OF BLOCK DISCOUNTING
BY TYPE OF COMMODITY

(\$ 000)

| | Motor Vehicles | Furniture/Furnishing and domestic appliances | Total |
|-------------|----------------|-------------------------------------------------|-------|
| <u>1969</u> | | | |
| Firm 1 | 1,744 | 1,518 | 3,262 |
| Firm 2 | 3,582 | Nil | 3,582 |
| Firm 3 | Nil | 954 | 954 |
| <u>1970</u> | | | |
| Firm 1 | 1,553 | 1,960 | 3,513 |
| Firm 2 | 6,727 | Nil | 6,727 |
| Firm 3 | Nil | 189 | 189 |

SOURCE: Survey Data

NOTE: Figures as provided in the questionnaires. The totals contain small discrepancies.

Table 3.10

Finance Houses

MICRO ANALYSIS OF OUTSTANDING DEBT

(TT \$Million)

| | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 ¹ |
|--------|------|------|------|------|------|------|------|------|------|------|-------------------|
| Firm 1 | - | - | - | 7.0 | 6.8 | 7.9 | 7.3 | 7.5 | 9.2 | 10.3 | 9.8 |
| Firm 2 | - | - | - | - | - | - | - | - | 3.2 | 6.6 | 6.6 |
| Firm 3 | 35.0 | 21.5 | 13.9 | 14.5 | 15.9 | 17.3 | 15.8 | 15.4 | 20.0 | 21.9 | 22.5 ¹ |

Source: Survey Data. Central Bank of Trinidad and Tobago Statistical Digests

NOTE: ¹Four firms operated for this year. The fourth firm had an outstanding debt of \$4.7 million

however varied. Between 1964 - 1968 firm 1's debt hovered around the \$TT 7 million mark. By 1970, this had increased to just over \$TT 10 million with a slight fall being recorded in 1971. Firm 2's debt in its first year was \$TT 3.2 million. In 1970 this doubled to \$TT 6.6 million where it remained during 1971. After 1969, firm 3's business shows the consequences of its closing down. The level of outstanding debt in 1971 was maintained by the activities of the fourth company (General Finance Company Limited) which had an outstanding debt of \$TT 4.7 million.

Following on our earlier analysis, of the structure of sources and uses of funds, it would be useful to examine the ratio of deposits to outstanding debt. From table 3.11, we can see the ratio has been 0.41 for the years 1968 and 1969. But by 1970 this had fallen to 0.35. Two factors seem to account for this. Firstly the entry of a firm which was raising no deposits from the public and secondly the falling off in deposit raising of the firm which was contracting business. The ratios for individual firms show considerable variation. The ratio for firm 1 was 0.28 in 1968, rising to 0.41 in 1969 and 0.49 in 1970. This was also a period during which its own outstanding debt grew by 37 per cent. Firm 3's ratio was less volatile, but its experience after 1969 can be discounted.

| A finance company earns its surplus on the spread between the rates at which it borrows funds and that at which it lends. | NB
From the data in the survey it is possible to make an analysis of debt charges on direct contracts. These charges are measured as

Table 3.11
Finance Houses
Analysis of Deposits/Debt Ratios
[TT\$ Million]

| | Deposits (1) | Outstanding Debt of all Insitu- tions (2) | Ratio (3) $1 \div 2$ | Ratio (Firm 1) | Ratio (Firm 2) | Ratio (Firm 3) |
|------|-----------------|----------------------------------------------------|----------------------------|-------------------|-------------------|-------------------|
| 1968 | 6.3 | 15.4 | 0.41 | 0.28 | | 0.68 |
| 1969 | 8.2 | 20.0 | 0.41 | 0.41 | No Deposits | 0.61 |
| 1970 | 7.6 | 21.9 | 0.35 | 0.49 | | 0.54 |

Source: Survey Data

| the difference between the cash price value of the item and the instalment credit price as included in each contract. | The data were available for two firms, and are shown in table 3.12. For firm 1, the instalment debt charges was about 15.4 per cent in 1968, rising to 19.8 per cent in 1970 . In 1969 the charges for this firm averaged 18.7 per cent. Firm 3's charges were significantly lower. During the years 1968 - 1970 these were 11.1 per cent, 13.4 per cent and 12 per cent respectively⁶. These charges are high, yet presented this way they understate the real burden because they do not take account of three major omissions. Firstly, the goods sold by the finance companies are often insured and insurance premia are not in all instances automatically adjusted on a pro-rata basis to the value of the items. Secondly, built-in maintenance services and ancillary costs are high and are increasingly being reflected in shorter and shorter guarantee periods. With the shift to the local assembly of many of these items, and the fall in quality as the country learns the 'new' process, this very important charge is being passed on to the consumer. Finally, the cash price value is itself overstated, since it ignores the widespread discounts which are granted for cash purchases. 161

The information here was supplemented by questions relating to the lending practices in use during 1971. As firm 3 was going out of business their responses are not recorded. Firm 2 generally conducted most of its business on the basis of a 35 per cent down-payment with two years to pay. /

6. *It is interesting to speculate whether the lower charges had anything to do with the firm leaving the industry.*

Table 3.12

Finance Houses

MICRO ANALYSIS OF INSTALMENT DEBT CHARGES (DIRECT CONTRACTS)

[TT\$000]

| | (Column 1) Cash Price Value | | | (Column 2) Instalment Credit Price Value | | | Col. 1 as a % of Col. 2 | | |
|--------|--------------------------------|-------|-------|---------------------------------------------|--------|-------|-------------------------|------|------|
| | 1968 | 1969 | 1970 | 1968 | 1969 | 1970 | 1968 | 1969 | 1970 |
| Firm 1 | 3,622 | 4,576 | 4,308 | 4,283 | 5,628 | 5,372 | 84.6 | 81.3 | 80.2 |
| Firm 2 | NA | NA | NA | NA | NA | NA | - | - | - |
| Firm 3 | 8,765 | 9,423 | 4,196 | 9,862 | 10,884 | 4,770 | 88.9 | 86.6 | 88.0 |

SOURCE: Survey data

Its nominal interest charges for private vehicles was 8.5 per cent, for taxis and rented cars, 10 per cent, and for commercial vehicles 6 - 7 per cent. Firm 1's financing terms and conditions were more varied. The typical down-payment for new private cars was 30 per cent with 3 years to pay. For used cars there was a down-payment of one-third the value of the item and a maximum repayment period of two and one half years. For new taxis the down-payment was one-third the value with two and one half years to pay. For new commercial vehicles, one-third was again accepted and the typical repayment period was two years. But for used commercial vehicles the typical down-payment was 40 per cent with one year to repay. Typical nominal interest charges were 13 per cent. The main exception was new cars where the charge was at 11 per cent. Since the effective rate would have to be calculated on a reducing balance this was somewhere in the region of 20 per cent. NB

High charges can of course cover up poor loan administration and supervision and other inefficiencies. In the case of the companies concerned, the charges were, (as we shall see later), adequate to provide good returns during the period of their establishment, even after paying off the bad debts accumulated in the boom of 1959 - 1961. However, administrative costs do not only vary with the quality of the administration. In the case of hire-purchase and credit sales the small value of per-unit contracts tend to raise the per-unit costs of supervision and collection. In other words, Time

per-unit costs tend to decrease as the average size of the loans increase. The data in tables 3.13 and 3.14 refer to loan sizes. The average size of all firms per unit block discount agreements was \$TT 1,886 in 1969 and \$TT 3,648 in 1970. In 1969, firm 1's average size agreement fell to \$TT 15,438 but as the number of agreements increased, the average size fell to \$TT 9,162 in 1970. Firm 2's average size agreement was stable for the two years averaging just about \$TT 3,500. If it is recalled that this firm has specialised in motor vehicle paper this would not be surprising as this sum averages about 60 per cent of the price of new vehicle. ✓

It can be argued that the main costs of collection of the block discounting business falls on the retailers. Given this, the average size of the direct contract loans would appear to be more relevant. These data are shown for firm 3 in table 3.14. As we would again expect, the values tend to cluster closely around 60 - 70 per cent of the cost of a new motor vehicle. Essentially therefore, the finance companies are in the small loan business. ✓

Recognition of this point immediately directs our attention to the levels of default and losses likely to be encountered in this field, since small loans business has acquired over the past the reputation of being very 'risky' business. Unfortunately, the responses to the survey did not yield enough data for an adequate analysis. Firm 3 was the main respondent, but this was of course the firm which was on its way out. For this firm the data show a ratio of bad debt to total outstanding debt of approximately 2 per cent for the years 1968 - 1970. It is difficult to interpret

Table 3.13

Finance Houses

MICRO ANALYSIS OF AVERAGE SIZE OF BLOCK DISCOUNT AGREEMENT

(TT \$000)

| | Column 1 Total value of block discounted agreements | Column 2 Total number of block discounted agreements | Column 3 Col. 1 ÷ by Col. 2 (\$) |
|---------------------------------------------|--------------------------------------------------------------|------------------------------------------------------------|----------------------------------------|
| (Firm 1 (1969(Firm 2 ((Firm 3 | 3,273 | 212 | 15,438 |
| | 3,582 | 1,008 | 3,553 |
| | 954 | 2,390 | 399 |
| All Firms | <u>6,809</u> | <u>3,610</u> | <u>1,886</u> |
| Firm 1 | 3,289 | 359 | 9,162 |
| Firm 2 | 6,727 | 1,966 | 3,422 |
| Firm 3 | <u>189</u> | <u>472</u> | <u>400</u> |
| All Firms | <u>10,205</u> | <u>2,797</u> | <u>3,648</u> |

SOURCE: Survey Data

Table 3.14

Finance Houses

MICRO ANALYSIS OF AVERAGE SIZE OF DIRECT CONTRACTS OF FIRM 3

| | (Col. 1) Value of Direct Contracts (\$'000) | (Col. 2) Number of Direct Contracts | Col. 1 ÷ 2 (\$) |
|------|---------------------------------------------------------|----------------------------------------------|--------------------|
| 1968 | 9,862 | 2,831 | 3,484 |
| 1969 | 10,884 | 2,518 | 4,322 |
| 1970 | 4,770 | 968 | 4,928 |

SOURCE: Survey Data

these data. In countries like the United States the bad debt ratio usually averages around 1 per cent. The commercial banks in Trinidad - Tobago also had a loss ratio of just under 1 per cent⁷. In the case of firm 3 however, its special experiences must be remembered. The number of bad debts show that the average size of each debt over the three years was approximately \$TT 850, (table 3.15) ~~This~~ was approximately one fifth of the average size of direct contract loans by this firm for the same period. ✓

Finance houses protect themselves from bad debts through having recourse arrangements. Again however, responses to these questions were poor, and it was only firm 3 which supplied data of any real significance. These data are shown in Table 3.16. Combining these data with other data presented earlier we observe that all of firm 3's block discounting arrangements are subject to recourse, Loans on direct contracts subject to recourse averaged about 30 per cent of the outstanding debt on direct contracts during the three year period 1968 - 1970. The behaviour of this ratio was not uniform over the years. (1968 - 19%, 1969 - 45%, 1970 - 25%). But it does confirm the substantial protection which the finance houses build into their operations. Data are available for firm 2 for one year, 1970. These data show that approximately 55 per cent of its business was subject to recourse. It is interesting to speculate as to what ratio of its business was conducted with its own affiliate retail outlets as against other retailers. *recourse arrangements*

7. Obtained from income and expenses data available to the Central Bank.

Table 3.15

ANALYSIS OF LOSSES RATIOS ON DIRECT CONTRACTS, FIRMS 2 AND 3

| | Value of Bad Debts (\$'000) | Number of Bad Debts | Bad Debts as a % of debt outstand- ing | Value of repossessed items ² (\$'000) | Arrears (\$'000) | Arrears as a % of repayments |
|-------------|-----------------------------------|------------------------|----------------------------------------------|-----------------------------------------------------------|---------------------|---------------------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| <u>1968</u> | | | | | | |
| Firm 2 | n.a. | n.a. | n.a. | n.a. | n.a. | - |
| Firm 3 | 130 | 174 | 2 | 208 | 270 | 4 |
| <u>1969</u> | | | | | | |
| Firm 2 | n.a. | n.a. | n.a. | 9 | 9 | - |
| Firm 3 | 208 | 247 | 2 | 252 | 332 | 4 |
| <u>1970</u> | | | | | | |
| Firm 2 | n.a. | n.a. | n.a. | 193 | n.a. | - |
| Firm 3 | 96 | 90 | 2 | 240 | 440 | 8 |

SOURCE: Survey Data

¹ - A bad debt is any debt for which "write off" provisions have been made.

² - Repossession does not mean a loss in that the sold item contributes to a clearing off of the outstanding balance.

Table 3.16

Finance Houses

LOANS SUBJECT TO RECOURSE FIRMS 2 & 3

(TT \$000)

| | 1968 | | 1969 | | 1970 | |
|--------|------------------|-------------------|------------------|-------------------|------------------|-------------------|
| | Direct Contracts | Block Discounting | Direct Contracts | Block Discounting | Direct Contracts | Block Discounting |
| Firm 2 | - | - | - | - | N.A. | 3,733 |
| Firm 3 | 1,200 | 2,639 | 3,100 | 954 | 1,100 | 189 |

Source: Survey Data

It would be useful to conclude this section by examining the main accounts of the longest established company in the territory. This would allow us to observe the current profitability of the company in relation to its previous erratic experiences. These data are shown in table 3.17. The first point to observe is that the bubble which burst in the early 1960's had left the company with an adverse balance of \$TT 2.07 million as of 31st July, 1963. The surplus earned between 1964 and 1966 eliminated the adverse balance and the accounts swung into surplus by 1966. In that year the surplus before tax and after depreciation and contingencies was \$TT 0.136 million. It is interesting to note that in 1964 and 1965 the sums of \$TT 0.237 million and \$TT 0.443 million respectively were transferred as provisions for bad and doubtful debts no longer required, and excess depreciation funds. Between 1967 and 1970 the firm's surplus before tax, and after depreciation and contingencies, was fairly stable in the range \$TT 0.632 - \$0.724 million. The average for the four years being \$TT 0.678 million.

Measuring the rates of return based on the surplus before tax and after depreciation and contingencies, we observe that in 1970 the firm's earnings averaged 10.6 per cent on shareholders equity, 13.5 per cent on share capital and 11.4 per cent on share capital plus reserves. The dividend in recent years 1968 - 1970 was equal to six cents per stock unit of one dollar each. The total business of the firm in 1970 was equal to \$TT 8.66 million, thus giving a ratio of earnings to total credit granted of approximately 7 per cent. This compares very favourably to the ratio of net income before taxes to total assets of the commercial banks in Trinidad - Tobago of 1.55 per cent.

Table 3.17

OLDS DISCOUNT CO. - LLOYDS & SCOTTISH FINANCE - INTERNATIONAL TRUST
(TTS)

| After Adverse Balance as of 31st July, 1963, (\$2,071,026) | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 |
|---------------------------------------------------------------------------------------------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|------|
| 1. Profits after providing for Depreciation on Fixed Assets before tax | 384,936 | 463,970 | 679,103 | 691,284 | 723,633 | 664,956 | 631,731 | |
| <u>Plus</u> | | | | | | | | |
| 2. Provisions for bad and doubt- ful debts no longer required and excess depreciation | 237,032 | 443,151 | - | - | - | - | - | |
| 3. Total | 621,968 | 907,121 | 679,103 | 691,284 | 723,633 | 664,956 | 631,731 | |
| (less adverse balance) | (1,450,058) | (542,937) | 136,166 | 691,284 | 723,633 | 664,956 | 631,731 | |
| 4. Capital Reserves | 749,254 | 751,174 | 751,494 | 379,433 | 379,433 | 379,433 | 379,433 | |
| 5. Share Capital | 4,670,805 | 4,670,805 | 4,670,805 | 4,672,805 | 4,670,805 | 4,670,805 | 4,670,805 | |
| 6. Retained Earnings | (1,656,308) | (949,270) | (542,937) | 195,860 | 478,613 | 845,897 | 856,493 | |
| 7. Shareholders Equity | 3,763,751 | 4,472,709 | 4,894,846 | 5,246,098 | 5,528,851 | 5,896,135 | 5,936,731 | |

SOURCE: Director's Reports and Accounts of the relevant companies

In Barbados there is only one finance company in operation. This has operated as a Branch office of the International Trust of Washington (Caribbean) Limited based in Trinidad. As this branch firm has also descended from the original Olds Discount Company, it has had to share the erratic experiences displayed in Trinidad - Tobago. Thus, despite a rapid rate of increase of outstanding debt, (a doubling in value between 1967 and 1970) the absolute level of the company's operations in Barbados is still quite low. At the end of 1970, the outstanding debt was approximately two million dollars. It is difficult to fully account for this continuing low level of operations, but there is little doubt that the unfortunate experiences of the particular company in the region has limited its capacity to grow, rather than that there is no scope for the type of services which a finance company can provide in Barbados.

The Branch office in Barbados is very closely tied to the operations center in Trinidad and this may have also had a stultifying effect on the firms growth. While there is no direct evidence to substantiate this point, interviews with personnel both in Trinidad and Barbados indicate some difference in their respective interpretations of the degree of discretion the Barbados company can, and does exercise. It is our own feeling that fairly close limits are placed on the operations of the Barbados branch, through the Trinidad office. Even details such as the value of credit per item, and per customer, which the Barbados operation may enter into without the approval of the Trinidad office are clearly specified.

No doubt, such a close supervision of day-to-day operations has been facilitated by the easy and cheap communications between the two countries.

Sources of Funds

An examination of the structure of the sources of funds of the finance company, (table 3.18) shows that between 1968 and 1970 the total volume of these funds grew from EC\$ 1.2 million to EC\$ 1.8 million i.e., an increase of 50 per cent. The volume of deposits raised has shown no significant changes between 1968 and 1970. As a result, whereas in 1968, deposits accounted for 37 per cent of the funds used, by 1970 the proportion was reduced to one-quarter. The bulk of the funds has been supplied as loans from the Head Office in Trinidad. Both in 1968 and 1970 this averaged 63 per cent of the funds available. The year 1969 was a peak year. The loans from Head Office was then equivalent to 76 per cent of the funds available. In this regard, the pattern here contrasts strongly with that which prevailed in Trinidad. Funds were obtained from the local commercial banks for the first time in 1970, when EC\$ 0.2 million was borrowed. This represented 12 per cent of the total funds available.

The information on deposits is further disaggregated in table 3.19. There it can be seen that individual deposits have averaged between 79 to 84 per cent of total deposits, for the period 1968 - 1970. The picture emerging here shows clearly that the activities of the branch of the finance company in Barbados are really dependent on 'surplus' funds in Trinidad being made available

Table 3.18

Finance Companies

Source of Funds 1968 - 1970 - Barbados

[
[E.C.\$000]

| | Col.1 Deposits | Col.2 Balances due to Local Banks | Col.3 Overseas Borrowing | Col.4 Total Cols.1 2 & 3 | Col.5 Col. 1 as a % of Total | Col.6 Col.2 as a % of Total | Col.7 Col. 3 as a % of Total |
|------|-------------------|-----------------------------------------------|--------------------------------|-----------------------------------|---------------------------------------|--------------------------------------|---------------------------------------|
| 1968 | 425 | - | 738 | 1,163 | 37 | - | 63 |
| 1969 | 416 | - | 1,340 | 1,756 | 24 | - | 76 |
| 1970 | 456 | 220 | 1,125 | 1,801 | 25 | 12 | 63 |

SOURCE: Survey Data

Table 3.19

Finance Companies

Deposits by Type - Barbados
[E.C. \$'000]

| | Individual Deposits | Non- Residents | Total | Individuals as a % of Total Deposits | Non-Resident Deposits as a % of total Deposits |
|------|------------------------|-------------------|-------|--------------------------------------------|---------------------------------------------------------|
| 1968 | 337 | 88 | 425 | 79 | 21 |
| 1969 | 352 | 65 | 416 | 85 | 15 |
| 1970 | 384 | 73 | 456 | 84 | 16 |

SOURCE: Survey Data

to it. There have been no noticeable successes in generating funds in the local market, either through raising deposits, or by systematic borrowing from the commercial banks.

A further important source of funds with which to finance new business is the turnover of the existing debt. Data on this are presented in table 3.20. From the data we can observe that the value of new business and repayments have shown considerable and uncorrelated fluctuations over the three year period. As a consequence, the ratio of repayments to new business ~~has~~ also shown wide variations. Repayments, expressed as a percentage of new business have been 91.3, 63.2 and 127.3 for the respective years 1968, 1969 and 1970. For the first two years, 1968 and 1969, new business exceeded repayments by just under one million dollars. By 1970 approximately one-half of this accumulated deficit had been removed.

Since variations in the amount of outstanding debt is measured by the difference between new business and repayments, the effect of these changes are clearly seen in the data on outstanding debt shown in table 3.21. Between 1967 and 1970 the value of this debt nearly doubled, but most of the increase (nearly 80 per cent) occurred between 1968 and 1969.

Uses of funds

Unlike the other companies in Trinidad, the branch office operation in Barbados is only minimally involved in block discounting. The debt outstanding for this type of lending in 1969 and 1970 was thirty eight thousand and forty-eight thousand dollars respectively, of which well over 80 per cent was paper held against the purchase

Table 3.20

Finance Companies

New Business/Repayments

| | Col.1 New Business | Col.2 Repayments | Col.3 Col.1 - Col.2 | Col.4 Col. 2 as a % of Col.1 |
|------|-----------------------|---------------------|------------------------|------------------------------------|
| 1968 | 1,856 | 1,694 | +162 | 91.3 |
| 1969 | 2,146 | 1,357 | +789 | 63.2 |
| 1970 | 1,604 | 2,042 | -438 | 127.3 |

SOURCE: Survey Data

Table 3.21

Finance Companies

Total Debt Outstanding - Barbados

[E.C.\$000]

| | 1967 | 1968 | 1969 | 1970 |
|-------------------|-------|-------|-------|-------|
| Direct Contracts | 1,100 | 1,262 | 2,051 | 2,132 |
| Block Discounting | -- | -- | 38 | 48 |

Source: Survey data

of domestic appliances, furniture furnishings, radio and television.

Table 3.22 contains a breakdown of the outstanding debt on direct contracts by main categories. As with the companies in Trinidad, the bulk of the business is in motor vehicles paper. In 1969, this accounted for 49 per cent of total debt, and in 1970, 70 per cent. Of the two main categories of motor vehicle paper, private motor cars accounted for about twice the value of the paper on taxis and commercial vehicles. For both years agricultural and industrial plant and machinery accounted for one-quarter of the debt. Surprisingly, furniture and furnishings have never recorded any significant volume of business. The seasonal pattern of this lending shows the month of highest credit granted to be May and the lowest, November.

As a final point, we can examine the level of finance charges presented in Table 3.23. Bearing in mind the observations made in the previous section about the possible underestimation of the true level of charges when calculated on the basis of the difference between the cash price value and the instalment price value, we can see that the level of these charges has increased from 16.7 per cent to 25.5 per cent, between 1968 and 1970. Compared with the position in Trinidad and Tobago these changes were broadly similar, except that the charges of the branch in Barbados has always slightly exceeded that of the main office in Trinidad.

Table 3.22

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Finance CompaniesAnalysis of Outstanding Debt

[E.C. \$000]

| | Private Cars | | Taxis and Commercial Vehicles | | Agricultural & Industrial Plant & Machinery | | Furniture & Furnishings | | Miscellaneous | | Total |
|------|--------------|-----------------|-------------------------------|-----------------|---------------------------------------------|-----------------|-------------------------|-----------------|---------------|-----------------|-------|
| | Value | As a % of Total | Value | As a % of Total | Value | As a % of Total | Value | As a % of Total | Value | As a % of Total | |
| 1969 | 748 | 36 | 259 | 13 | 511 | 25 | 67 | 1 | 466 | 23 | 2,051 |
| 1970 | 1,007 | 47 | 486 | 23 | 540 | 25 | 52 | 2 | 47 | 2 | 2,132 |

SOURCE: Survey data

Table 3.23

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Finance Companies

Instalment Debt Charges (direct contracts) - Barbados

[E.C.\$000]

| | Col. 1 Cash Price Value | Col. 2 Instalment Credit Price Value | Col. 1 as a % of Col. 2 |
|------|-------------------------------|-----------------------------------------------|----------------------------|
| 1968 | 1,546 | 1,856 | 83.3 |
| 1969 | 1,685 | 2,146 | 78.5 |
| 1970 | 1,660 | 2,141 | 77.5 |

SOURCE: Survey Data

The analysis presented in this chapter has highlighted the haphazard and erratic manner in which the finance houses have conducted their business in the Caribbean. This behaviour pattern is directly traceable to two consequences which stem from the foreign domination of this sector in the Caribbean economies. On the one hand this foreign domination has served to expose the local institutional structures to changes in the structure and operations of their parent finance companies in the United Kingdom. In the first chapter we have already noted the tendency of these parent companies to merge and to develop strong interlocking relationships with the commercial banks. Therefore, it is not surprising to find their overseas subsidiary activities having to adjust themselves locally to these changes. On the other hand, being relatively new institutions, this foreign domination has been accompanied by a general unfamiliarity with the social and economic structure of the region, which has led to considerable difficulties in their efforts to develop mass small scale lending. This factor has been even further exaggerated by the fact that universal experience shows that innovation of this type of credit on a large scale always contains its own pressures and tendencies to an over-extension of lending. |Not least of these pressures stemming from the fact that the finance companies are dependent on retail dealers, eager to push sales, as their point of the contact with the consumer. ✓

Despite these observed characteristics there has yet been no general public policy to guide the formation, development and structure of the industry. Foreign private initiative, recently displaying itself under the guise of local incorporation, has been the

only consistent motive force affecting the operations of these companies. As indeed we shall observe in chapter 5, attempts have not even been made to offer the region's consumers legal protection against the abuses inherent in the present arrangements.¹ The experience suggests therefore, that consumer credit is far too important to the functioning of the economic system to be left in this un-regulated manner. { For us, the indigenisation of the institutions providing this credit, together with a reconstruction of the whole legal basis of their operations ought to be a top priority of public policy. }

One feature which has already emerged over the recent years is the extent to which there is in practice a duplication of efforts of the finance houses and the commercial banks. In some circles this development has been rationalised as useful, in terms of the competition which it promotes. But how competitive can these companies be, when in the territories of their parent companies they are tending to merge. Instead of so-called competition it is clear that there are considerable economies to be derived from a centralised instalment credit service. Economies such as, an integrated credit appraisal and lending service; computerisation of lending data, economies of personnel use and administrative offices etc. If this centralisation is not taken to be synonymous with private monopoly, then the service can be reorganised so as to ensure that the benefits gained will be passed on to the consumers. ✓

Given the recent experience of the commercial banks in the Caribbean it is clear that this sector is better situated to develop

the usual consumer instalment credit service¹. The opposition to this idea is usually that the commercial banks are relatively inexperienced in the field of consumer instalment lending. Whilst this might be true elsewhere, in the Caribbean, the experiences of the finance houses do not have much to commend them. Moreover, as pressures develop for the commercial banks to lend more of their funds locally, we can expect a sustained acceleration of the consumer instalment credit business since this business really combines little risk with a most profitable outlet.²

In addition to their indigenisation, the future of the finance companies must also be tied to some definite programme of diversifying their activities. By themselves they have not attempted this and are unlikely to do so in the near future. Not least important of the reasons accounting for this has been their unsavoury experiences to date, and the constraints this must have placed on their operations. For in the United Kingdom their parent firms have diversified. They have tended to move closer to the banks by developing activities of a 'banking' character, such as the acceptance of current accounts and the issuance of cheques. They have also extended the other side of the consumer instalment credit coin, i.e. their personal loans portfolio, quite rapidly.

1. See *The Structure, Performance and Prospects of Central Banking in the Caribbean*, ISER, 1972, for a discussion of how the commercial banking structure itself might be re-organised.
2. Certainly more so than lending for agricultural purposes or local industrial enterprises which are not 'fronts' of multinational corporations.

There are many gaps which an indigenised finance houses sector might usefully fill in the Caribbean. Chief among these are the following. Firstly, it can seek to widen the scope of existing commercial financing through such activities as providing finance for exports, the acceptance of trade bills and the factoring of receivables. Already there is considerable evidence of the under development of the financial arrangements in these fields. Secondly, the portfolio of agricultural and industrial loans can be considerably expanded. The present involvement of these companies in agricultural and industrial lending is not systematic. Finally, much more use can be made of 'leases' particularly those on capital equipment. These three areas constitute definite gaps in the present financial structure of most of the territories. Rather than duplicate at higher cost to the consumer, activities which the commercial banks can and are providing, the finance houses should be restructured to provide the means for bridging these gaps.

time

CHAPTER 5

ETHICS AND ECONOMICS: REVIEW OF HIRE PURCHASE AND
CREDIT SALES LEGISLATION.

CHAPTER 5

Introduction

5.1. The field of consumer financing and expenditure is one of the few areas of economic activity in the Caribbean where there is marked overlapping of the legal basis on which transactions take place and their more purely economic aspects. On account of the close intermingling of law and economics, we also find that the confusions and errors which prevail in both areas tend in operation to compound each other. With the present situation being as it is, it serves to give some degree of urgency and immediacy to our present task of re-examining the legal foundations on which consumer credit is based and the recommendations which follow from this. At the same time (incidentally), it serves to demonstrate in a concrete manner, how, through their own initiatives the region's Monetary Authorities, (operating outside their traditional roles of manipulators of macro-economic variables)^{can}/by championing reform, play a more direct role in promoting the welfare of the broad mass of the Caribbean peoples.

5.2. There are two major reasons why great importance should be attached to this task. Firstly, there is the sheer extent to which consumer expenditure in the region is credit financed. And, secondly, we have the remarkable

situation, that despite the importance of credit in financing consumer outlays, the principal laws governing the provision of consumer credit are at best bad copies of what are acknowledged archaic legal survivals from Britain. ✓

5.3. In the first chapter we have examined the structure and growth of consumer credit and found that the recent growth of consumer instalment credit has been quite phenomenal. Thus for example, we observed that in Jamaica between 1965-70, outstanding instalment debt grew by 232% which is equivalent to an annual growth rate of 27%. The total value of new business for the year 1970 was approximately J\$63 million. This value was slightly less than 10% of the total value of personal consumption expenditure in that year and approximately 80% of the total value of personal expenditure on furniture, furnishings, household equipment, motor cars, bicycles and motor-cycles - the main items purchased under instalment arrangements. At the same time the per capita value of outstanding consumer debt was J\$28 in 1970, which is the equivalent of 7% of per capita national income in that year.

5.4. In the other territories the picture was similar. In Trinidad-Tobago the total value of monthly sums of new business during 1970 was equal to TT\$70 million. Of this, TT\$26 million was used to finance 5,545 credit agreements

for new motor cars, from a total local sales volume of 6,504. Over the three year period 1968-1971 outstanding debt to financial institutions increased at a compound rate of 30% per annum. Per capita levels of debt were also high. The value for 1970 was TT\$88 which was the equivalent of 7% of per capita national income. ✓

5.5. Interpreting these trends for the future we observed a strong relationship between changes in per capita national income and consumer debt. In Jamaica the propensity to incur such debt out of income was estimated at 0.13, and the income elasticity of demand at over 2. It is clear from these and other data in the study that the level and rate of growth of consumer expenditure is strongly dependent on the supply of credit for this purpose. It is the importance of this factor which forces us to direct our attention to the legal arrangements which center on the provision of this credit.

5.6. In the Caribbean the principal laws governing consumer credit transactions are the various territorial Bills of Sale Acts, Sale of Goods Acts, Moneylenders Acts, Pawnbrokers Act, Central Banking Acts and Hire-Purchase Acts. In this chapter we are primarily concerned with the territories of Barbados and Trinidad-Tobago, and for this purpose the most important and relevant pieces of legislation are

the Hire Purchase Act 1957 of Trinidad-Tobago, and the Hire-Purchase Act 1959 of Barbados. These two Acts regulate all hire-purchase and credit sales transactions in their respective territories. They are identical Acts in every regard (including their wording) with only very minor variations of detail. These two Acts are themselves largely copied from English Law, particularly the English Hire-Purchase Act of 1938.¹

5.7. Although present legislation in the territories was enacted in the 1950's, the framers of the Acts seemed at the time to be unaware of the widely recognised obscurities and irrationalities which characterized the development of British legislation in this field. If, as the law would logically imply, the development of hire-purchase business in Britain was to be based on the security of chattels, then hire-purchase business would have been subject to the existing Moneylenders and Bills of Sale Acts. ✓

5.8. Given the restrictive features of these two pieces of legislation with regard to such matters as interest rates, the legal position of parties to a security, etc., it is highly probable that this would have prevented the development of hire purchase business on anything as extensive as

1. There is no specific hire-purchase legislation in Guyana! The Moneylenders Act, Bills of Sale, Sale of Goods Acts etc. provide the legal base.

its present scale in that country. Consequently, those institutions developing hire-purchase business, sought to by-pass the restrictions of these Acts by adopting and applying the legal fiction that hire-purchase was not money-lending. That it was simply, the letting of goods on hire with an option to the hirer to purchase them by bringing his rental payment up to a certain price, known as the hire-purchase price, and previously agreed upon by the dealer or owner of the goods and the hirer. | In other words an attempt was made to divorce the credit aspect of the transaction from the sale, and as we shall see later, to assume that these were really two distinct operations, whereas the economic reality is that a consumer seeks to make a purchase, and the availability of credit merely facilitates the method and timing of the purchase. ✓

5.9. In so far as this attempt to circumvent laws which were considered to be stringent was necessary for the development of hire-purchase business practices, it is perhaps not altogether unexpected, that this development should have also effectively divested consumers of much of their legal protection and so pave the way for the introduction of practices which led to their systematic exploitation. ✓

5.10. Among the major abuses which were widespread were (i) the confiscation and seizure of goods by the dealer or owner at the slightest default, when, as often was the case, almost all instalments were paid, (ii) the charging of exorbitant interest rates and/or finance charges, and (iii) the enforcing of agreements which absolved the owner of the goods from any liability for defects in the goods supplied. It was the effort to deal with abuses of this kind which led to the passing of a Private Members Bill, which became the British Hire-Purchase Act of 1938. It is this Act which provides the "model" for our local legislation. ✓

5.11. At this stage it is important to realize that the British themselves soon became aware that their own Hire Purchase Act of 1938 was unsatisfactory. And as a result there have been several subsequent changes in their legislation. The principal changes have been the enactment of the Hire Purchase Act 1954, Advertisements (Hire Purchase) Act 1954, Advertisements (Hire Purchase) Act 1957, Hire Purchase Act 1964, and Advertisements (Hire Purchase) Act 1967. Despite these numerous legislative changes it is still generally accepted by the British authorities that these Acts have all failed to rectify the situation satisfactorily. In a further effort to remedy this the Crowther Committee of Inquiry¹ was established in 1968. This Committee submitted its

1. ibid

Report in March 1971 and have recommended even further far reaching proposals for reform of the present British system of legislation. In light of all this one can already see how outdated and irrelevant our legislation must be and therefore how strong must be the a priori case for reform. But let us now turn to a more detailed critical examination of the law as it stands.

Review of existing law

5.12. Critical examination of the existing legal arrangements clearly shows that there are certain basic conceptual inadequacies in the present hire-purchase and credit-sale legislation in the Caribbean territories. One of these we have hinted at earlier when we alluded to the legal fiction of separating credit from sales. Functionally, credit is obtained whenever, (for a price), purchasing power is transferred from one economic unit to another. This means therefore, that credit can be obtained either by the simple straightforward lending of money (at a price), or by postponing payment, in any manner mutually agreed on, (at a price), for any goods or services supplied immediately. The Hire-Purchase Acts under consideration, like their 1938 United Kingdom counterpart legislation, have treated these two aspects of the same function, namely

credit, as if they were in fact two separate things.

Consequently, we find that Hire-Purchase and Credit Sales legislation seek to regulate hire-purchase and credit sales, whilst ignoring the lending of money by banks on an instalment basis for consumer purchases. Indeed, except for the implications of the unsatisfactory Moneylenders and Bills of Sale Acts, (enacted about 60-70 years ago), the lending of money to be repaid by instalments for the purpose of consumer purchases remains virtually unregulated. ✓ *time*

5.13. This conceptual inadequacy finds expression in the legal separation of "lender credit", i.e. "transactions whose legal form is that of a loan of money, whether or not the loan is associated with a particular purchase"

from "vendor credit", i.e., "other transactions that are not legally loans but contracts for the sale or hire of goods such as hire purchase and credit sale agreements and many others."¹ In this situation, since the laws relating to "lender credit" are much looser, institutions have sought, whenever possible to provide credit by way of loans. This simple device provides a means for circumventing the hire purchase legislation which links credit with sale and therefore exercises relatively more control over "vendor credit."

1 ibid pp 1 and pp 154/175.

5.14. This conceptual weakness demonstrates what might very well be the central limitation of the prevailing consumer credit laws in the Caribbean and suggests the basis on which the legal arrangements might be restructured. In truth we might state that the law has no rational functional basis in terms of known commercial practice. It has been drawn up on the basis of a poor copy of the hodge-podge of legal abstractions which are peculiar to the evolution of the English law in this area.

5.15. A second conceptual inadequacy of the present legislation, is their failure to distinguish clearly between consumer and commercial-transactions, and between corporate and non-corporate borrowers. Thus for example the Moneylenders Act in Trinidad-Tobago¹ does not appear to discriminate between corporate and non-corporate borrowers, nor does the Hire-Purchase Act 1957 separately regulate for consumer and commercial transactions. The laws are the same whether the purchaser is seeking credit to buy a taxi or a new private motor-vehicle. Yet, in terms of commercial practices, the parties would have different interests, which would seem to require different approaches.

1. Ordinance chapter 31 No.11

5.16. A third conceptual weakness in the present legislation is the separation of the laws relating to lending/^{and}the laws relating to the security of loans. The former is, for example, often affected by the Moneylenders Act and the latter by Bills of Sale legislation¹. Yet in commercial practice the two elements of a transaction are integrally bound therefore legislation to be effective must be consistently applied.

5.17. The fourth conceptual weakness is that the laws have no rational policy relating to third-party rights in a contract. The Crowther Committee deals with this problem in Britain² and has pointed out that in that country the courts have historically tended to be conservative in any matter affecting the lawful owner, and his title to goods. As a result of this, the provision of the Factors Act 1889 and the Sale of Goods Act 1893, "designed to give protection to the innocent purchaser of goods, where he bought from one who appeared to be the owner" (has been) "restrictively construed." Because of this attitude the law has found it difficult to deal fairly with innocent persons who acquire in good faith "title" to goods in the possession of a "seller" who has acquired the goods under hire-purchase arrangements.

¹ See for example, Trinidad-Tobago Ordinance Chapter 31 No.8. We might note here that block discounting of finance houses is treated as the purchase of book debts and not money-lending.

² op.cit Crowther Committee Report pp 177/179

5.18. The final conceptual weakness which will be pointed out here is, given the pattern of historical development, local legislation has failed, like the British Act of 1938 has failed, to provide a rational basis for dealing with infringements. Indeed legal opinion in the region regards the varieties and technicalities of present commercial legislation as being exceptionally bewildering.

5.19. With this conceptual and historical perspective it is easy to appreciate why there are so many detailed inadequacies in regional law. The Hire-Purchase Acts of the region can be simply and crudely reduced to Acts concerned with, (1) the rights of repossession, (2) the setting up of rules to prevent the arbitrary seizure of goods, (3) dealing with implied conditions and warranties for goods on such a contract, and (4) setting up a procedure for the hirer to withdraw from the transaction. The Acts deal with nothing else of substantive importance.

5.20. In the Barbados Act the rights of repossession and the rules to prevent arbitrary seizure of goods apply to those transactions where the goods concerned are valued up to \$3,500, whilst in Trinidad-Tobago the similar upper limit is placed at \$2,000. Under these Acts, after $66\frac{2}{3}\%$ of the hire purchase price is paid the lessor cannot himself seize goods, if a default occurs, without due process.

In the case of Trinidad-Tobago, this applies after 70% of the hire-purchase price is paid. On examination a number of criticisms of these provisions of the Acts readily emerge. In the first place, the Acts perforce exclude a large number of transactions because they deal with amounts whose value is too small when related to prevailing prices of consumer durables, particularly of motor-cars. The rationale here might have been the dubious one that the Acts are concerned only with the "poorer classes" and that persons negotiating large loans are not "poor" and so should be excluded from this protection. In any event, whether this should be so or not, inflation has drastically reduced the real value of these sums.

5.20. As a further point it might be observed that the specified sums include the interest rate and finance charges, which on the basis of present practice almost always exceed 24% per annum. Consequently these sums grossly overstate the coverage of the Acts. As a further observation, one might also note that the Acts provide, (in the case of Trinidad-Tobago (70%), Barbados($66\frac{2}{3}\%$) that after these sums have been paid; "whether in pursuance of a judgement or otherwise, or tendered by or on behalf of the hirer or any guarantor, the owner shall not enforce any right to recover possession of the goods otherwise than by action".¹

1. Trinidad-Tobago Ordinance No.17 1957 Section 13.

Our interviews have disclosed that the practice has been for firms to develop a pricing policy in which the sums which are valued at 70% and $66\frac{2}{3}\%$ of the total hire purchase price are designed to provide an adequate return. The underlying assumptions claimed here are that deliberate default tends to occur after these sums have been paid off, and that the procedures for recovery in the courts are too costly and slow for the lessors. As we shall argue later, in our opinion these positions are false ones; and given ^{worldwide practice} the presumption remains valid, that the prevailing percentages are excessively high. As a result the protection afforded to hirers who have not yet reached this sum is ¹ inadequate.

5.21. The Acts attempt to deal with conditions and warranties implied in hire-purchase agreements, but do so in an unclear and confusing manner. Section 10 of the Trinidad-Tobago Act states "(1) In every hire-purchase agreement there shall be

- (a) an implied warranty that the hirer shall have and enjoy quiet possession of the goods;

1. Given the tendency to follow British law it might be pointed out that in Britain the ruling applies at $33\frac{1}{3}\%$.

- (b) an implied condition on the part of the owner that he shall have a right to sell the goods at the time when the property is to pass;
 - (c) an implied warranty that the goods shall be free from any charge or encumbrance in favour of any third party at the time when the property is to pass;
 - (d) except where the goods are let as secondhand goods and the note or memorandum of the agreement made in pursuance of section four of this Act contains a statement to that effect, an implied condition that the goods be of merchantable quality, so, however, that no such condition shall be implied by virtue of this paragraph as regards defects of which the owner could not reasonably have been aware at the time when the agreement was made, or, if the hirer has examined the goods or a sample thereof, as regards defects which the examination ought to have revealed.
- "(2) Where the hirer expressly or by implication makes known the particular purpose for which the goods are required, there shall be an implied condition that the goods shall be reasonably fit for such purpose.

"(3) The warranties and conditions set out in subsection (1) of this section shall be implied notwithstanding any agreement to the contrary and the owner shall not be entitled to rely on any provisions in the agreement excluding or modifying the conditions set out in subsection (2) of this section unless he proves that before the agreement was made the provisions were brought to the notice of the hirer and made clear to him.

"(4) Nothing in this section shall prejudice the operation of any other enactment or rule of law whereby any condition or warranty is to be implied in any agreement."¹

5.22. It is clear from a close reading of these provisions that the liability of the retailer and/or the finance dealer as regards the condition of the goods sold on instalment credit is not definitively specified. This point was also observed by the Phillips Committee which has produced a brief Report on the Hire-Purchase Act of Trinidad-Tobago.² In this Report the legal opinion was stated that "In the usual form of transaction when the dealer sells to the Finance Company which then enters into the Hire-Purchase contract with the Hirer, the Finance Company is liable for

1. Hire-Purchase Act, 1957 - Trinidad-Tobago Section 10. The wording of the Barbados Act is similar.

2. Report of Committee to enquire into the Hire Purchase Credit, under the chairmanship of H. Hudson Phillips.

the statutory conditions and warranties as well as for any contractual conditions and warranties which may not be excluded by the contract. The Finance Companies usually protect themselves from this liability by obtaining an indemnity from the dealer".¹

5.23. There are two major weaknesses in this arrangement. Firstly, the financier who is liable if he owns the goods usually has no facilities to service the goods. Secondly, the dealer who has the facilities, has no direct liability to the purchaser. As a consequence the person who purchases goods on hire-purchase agreements with a financier often finds himself faced with inadequate servicing and maintenance arrangements. With the proliferation of poorly assembled consumer durables in some of the territories of the region this problem is becoming increasingly acute. Without a reform of the law there is no possibility of improvement in this regard as can be gleaned from the attitude of the financiers in their evidence to the Phillips Committee. There they have argued that they should be absolved from all liability as to the condition and merchantability of the goods in question. "Messrs Olds Discounts, one of the main Finance Companies contended that Finance Companies should not be expected to warrant the goods."²

1. ibid

2. ibid

A truly remarkable proposition!

5.24. The final major concern of these Acts was to provide protection for the hirer who might wish to determine his hire-purchase agreements. Section 6 of the Trinidad-Tobago Act states:

"(1) A hirer shall, at any time before the final payment under a hire-purchase agreement falls due, be entitled to determine the agreement by giving notice of termination in writing to any person entitled or authorised to receive the sums payable under the agreement, and at the same time, or prior thereto shall deliver the goods to the owner, and shall, on determining the agreement under this section, be liable, without prejudice to any liability which has accrued before the determination, to pay the amount, if any, due in respect of the hire-purchase price immediately before the termination, or such less amount as may be specified in the agreement."

5.25. When put in this way the implied liability of a hirer on the determination of an agreement can be greatly in excess of the actual financial loss to the company. Unless the liability is measured in terms of the true commercial loss, the Act reinforces the disadvantageous position of ^{the} borrower, since it encourages the dealers and/or financiers to make a profit on the termination of an agreement.

5.26. From our analysis so far it is clear that the regional Hire-Purchase and Credit Sale Acts are inadequate in their provisions even for the four restricted areas they concentrate on. Passed during the period of formal colonial dependence these Acts have strengthened the inequalities in the position of consumer relative to the dealer and financier. This is perhaps to be expected. But it must be one of the quaintest historical ironies that the Minister of Industry and Commerce in Trinidad-Tobago, could state in the debate on the Act, that "marked interests in this country were able to tip the scales against justice, equity and fair play."¹

The Problem of Reform

5.27. The laws dealing with hire-purchase and credit sales agreements have been for some time the subject of discussion and inquiry. Given the narrow scope of the laws and their unsatisfactory treatment of the issues with which they deal, abuses against the consumer who enters into these agreements, have been the order of the day. But, despite this, the most vocal elements who have criticised the functioning of the Acts have been the dealers and financiers! Reading the literature, (which is comprised mainly of minutes of the internal instalment credit committees of the Monetary Authorities, legislative debates

¹ Quoted in Report on Instalment Credit in Trinidad-Tobago, Central Bank Research Department Paper. Quotation taken from Legislative Council Debates, Vol.7, Session 1956-57, Oct.26, 1956, Sept. 22, 1957, pp.25-33.

and the Phillips Report) there seems to have been two major preoccupations in the discussions of reform of the Acts. The first of these has been the proposal of the dealers and financiers that there should be no limitation (i.e. the 70% and $66\frac{2}{3}\%$ rules) on their rights of seizure after default. The second has been the question of the implied warranty on the condition of the goods.

5.28. Two arguments have been used to support the plea for removal of the limitations on the right to seizure after default. Firstly, it has been suggested that customers deliberately go into default as soon as the stipulated proportion of the value has been paid. There is in fact no evidence that this is a widespread practice. Indeed it would be difficult to believe that the people of the Caribbean are more prone to dishonesty than elsewhere; since in most countries the operable ratio is put at one-third of the price. If anything the evidence would suggest that the Finance Companies have moved into the region and have been, because of their lack of knowledge of the area, ^{and}greed, and imprudent in their provision of loans. One only has to observe the chequered history of a company such as the Olds Discount/International Trust Company, to see the truth in this statement. The experiences suggest that loan provision and supervision were hopelessly inadequate. Most of the credit granted were to persons who could not afford

¹. See chapter 3

to amortize the amounts of debt they had incurred, mainly as a result of the persuasive and often misleading advertisements and inducements offered by the finance companies. ✓

5.29. The second argument which has been used is that the process of recouping after default when the rules are in operation is too costly and slow. In Trinidad-Tobago this process takes place through the Petty Courts and there is in fact considerable evidence of congestion. Indeed this evidence was seen to be so strong as to persuade the Phillips Committee to recommend the removal of the restrictions on seizure¹. This was an astonishing recommendation. In the first place under any system of recovery both the dealer and the customer have a right to take the issue to court. In so far as this is the case there is no a priori reason why the volume of cases should fall. The congestion of the courts and the cost would simply have been shifted on to the consumer. In any event, if a bottleneck is identified in the court process, then the obvious remedy would be to suggest means of overcoming this rather than by seeking to abolish altogether the limited protection afforded to the consumer.

5.30. We have already referred to the second recommendation, i.e., that the finance houses be absolved from any liability as to the condition of the goods. If anything,

1. ibid

again it would be fair to say that justice demands that this liability be clearly and definitively placed on both the dealer and the financier. Both have a commercial interest in the sale and therefore both must be responsible for the merchantability of the sold items.

5.31. In terms of our analysis, meaningful proposals for reform must be grounded in the conceptual issues discussed previously. It/^{is}only from such a standpoint that the real areas of weakness can be fully appreciated. On this basis it would seem to the author that reform should be along the following two major lines viz:

- (1) the functional integration of the law with commercial practice.
- (2) the extension of the protection afforded to consumers.

Functional integration of credit law with commercial practice

5.32. To ensure the integration of credit law with commercial practice it is essential that legislation should reflect two things. Firstly, it should be based on a recognition of the essential identity between a loan of money which is made to purchase goods, and is repaid by instalments; and the purchase of goods on credit and which is then paid for by instalment. Secondly, it should also reflect the fact that the essential characteristic of hire-purchase is in fact a sale, and that the notion of it being a hire, with

option to purchase, is simply a legal fiction. If this is recognized, then it will be seen that both parties enter into the agreement with the principal motivation of buying and selling goods. With this motivation, default is costly to both sides and should not be the normal basis on which the transaction is entered into. Thus it follows that the sellers' main interest in "security" is to have an enforceable claim, if perchance default arises. It is not, as the present law may allow, his main interest to make a profit on default, or to acquire complete property rights in the goods per se.

5.33. There are obvious limitations in our ability to proceed beyond this point, but it seems to us that the American Uniform Commercial Code, or the new legal framework for Credit Law outlined in the Crowther Committee Report suggest excellent guidelines to the sort of legislation which recognizes these basic features of commercial practice. Protection of consumer rights

5.34. The first major problem confronting the consumer under the present arrangement is the disproportionate power which the lender has in all types of transactions. This stems from a number of considerations. Firstly, the legal situation is complex, confusing and unclear. This therefore requires costly litigation on the consumer's part if he were to pursue his rights in the courts. Secondly, the legal

situation apart, there is generally a great deal of consumer ignorance of the financial and legal aspects of a hire purchase agreement. There are no adequate independent or government sponsored agencies concerned with policing hire-purchase practice. As a result both the dealers and financiers are in a position to exploit consumers systematically. Thirdly, there is on the part of the consumer a strong urge to acquire, and the existence of credit strengthens this desire, and places him a position where he can imprudently over-commit himself. The reasons for this urge to acquire are based on a complex set of motives, such as "keeping up with the Joneses", the demonstration effect of metropolitan advertising in the local press, and the strong desire to acquire basic necessities such as a stove or refrigerator. Finally, the standard "forms of agreement" used by the firms and finance houses in the Caribbean apart from being complicated and unintelligible to laymen are strongly biased in their favour. This is not surprising since they are drawn up by the company lawyers, and being standard, they leave the customer with no choice among firms.

5.35. In this situation any new law should be biased strongly in favour of the consumer. The reason for this is that it is easier for business to protect by building into its pricing policy, a provision to cover risks

which may not be significant over the whole population of their purchasers, but which may be large in relation to any one person's assets.

5.36. In specific terms the Acts should therefore embrace the following:

(1) a clear specification as to the liabilities of a "hirer", their limitations and methods of redress. In particular the loss on the determination of a contract should be limited to the actual loss calculated on the basis of a true commercial sale of the product. ✓

(2) the limitation rulings should be reduced to at least one-third, so that after this sum has been paid, seizure of goods can only follow after due process.

(3) the sums which are covered by the Acts should be substantially raised, and furthermore interest rate/finance charges should be removed from the calculations.

(4) it should be clearly established that both the goods seller and finance house are liable for the merchantable quality of the goods.¹

5.37. The second major problem confronting the consumer is the high incidence of mal-practice among firms dealing in hire-purchase. Our survey has revealed a number

1. The question has been raised by one reader as whether the liability should be jointly held, or whether the consumer should have a choice. My own preference is for the former.

of instances of this. Firms almost invariably place misleading advertisements.¹ Defective goods, without clear warranties, are regularly passed on to unsuspecting customers; interest charges are generally excessive, the effective rate never in fact being less than 24% per annum. And, finally there is also the widespread practice of unfair harassment of debtors through the use of "extra-legal" debt collectors and agencies. It is clear that control of hire-purchase firms to ensure removal of these malpractices resides in new legislation which would incorporate certain features.

5.38. Among the most essential are the following:

(1) The law should clearly prescribe that adequate advertisements be provided. This means that it should prescribe the specific information to be published by firms prior to an agreement being entered into, as well as the information to be included in the contract itself. This information must include what is perhaps the most important item, the true cost of borrowing, so that consumers would be aware of the price they are paying for their credit. Of course to be effective, the laws must contain strong penalties for defaulters.

(11) Normal practice in the Caribbean is for firms supplying hire-purchase credit to charge a minimum of 1% per month. The effective minimum rate of interest is 1. E.g. Y. DeLima's "No down payment-instant credit plan", which in fact requires that the first instalment be pre-paid and the remainder over three months.

therefore (calculated on a reducing balance) is approximately 24% per annum. There is no upper limit to the interest/finance charges and there are numerous instances of exorbitant charges. Unfortunately, the Moneylenders Act tends to be unsatisfactory in its dealing with usury and it ^{is} therefore suggested that a rate be established in the Act, above which there would be ^{an} a priori presumption on the part of the courts that it is unconscionable.

- a bit of cross-section

(111) Often when goods are financed by credit the firms take out insurance on these goods, naming themselves as beneficiaries, and for which the consumer is asked to pay. This has led to another significant area of abuse. Usually we find that the insurance premium is often quite high. In addition the firms take out excessive cover by gearing the sum assured to the original advance, despite the fact that as payments are made the original balance diminishes. Also, when early payments ^{are} ~~is~~ made by the purchaser, there are no rebates of insurance premia. From this it is evident that insurance is seen more as a lucrative source of income to the firm, rather than a legitimate form of protection. The new laws, if they are to provide protection for the consumer must deal with these matters.

(iv) Methods of overcharging other than through the rate of interest applied to the loan, are also found in the firm's approach to the question of early settlement of the debt. It is clear that if effective interest/finance charges are to be declared that this must take into account the fact that the balance outstanding is being reduced as the instalments are made, and that there should be some principle of apportionment of each instalment as between interest charges and amortization payments. The laws, as we argued above, should specify these. Granted this occurs, then these principles also constitute the basis on which rebates should be calculated, if there is an early settlement of the debt. ¹ ✓

(v) Similarly the laws should also be required to spell out in detail the right of a "hirer" to determine an

1. There are two broad approaches. One is the constant ratio formula, which assumes that each instalment is divided between principal and interest in the fixed ratio of principal to total interest. There is also the direct ratio formula or the Rule of 78, which is based on the assumption that interest diminishes as the principal is reduced.

agreement, as well as the basis for recovery of both parties. Underlying this must be the requirement that the goods are disposed of on a commercial basis. This is similar to the requirement stated earlier, that if goods are seized, their disposition should be supervised to ensure that they are disposed of at an economic price. The practice has been for companies to dispose of the goods cheaply and claim insufficiency of the sale value to cover the value of the goods, and thereby enforce payment of all outstanding premia from the purchaser.

(vi) The laws should also recognize that the source of much imprudent lending comes from pressurized sales techniques. As we have noted the average consumer is often fairly ignorant of hire-purchase costs etc., and also, because of the general poverty in the region, he is inclined to take great risks to acquire basic necessities. To prevent his exploitation, it is not enough to request adequate advertisements, but each hire-purchase agreement should contain a "cooling-off" clause. This would give a customer a short period of grace, which would permit him to reconsider any contract hastily entered into, and also allow his second thoughts to benefit from consultation with other interested and hopefully more informed parties.

(viii) Finally, consumer protection should be based on the idea that the consumer who purchases under a hire-purchase agreement is entitled to "quiet possession" of his goods. The law should entrench this right more securely and

establish strong prohibitions against the harassment which frequently occurs. Often the harassment is through the use of specialized debt-collectors and their agencies, but sometimes it is reflected in the company's approach to the servicing and maintenance of the item. With the increasing localisation of consumer durables assembly plants in the region, there is also a strong case for tying the supervision and control of maintenance and servicing contracts to hire-purchase agreements.

5.39. Problems of legal reform are often also problems of administrative reform and development in the Caribbean. It is clear that the courts cannot deal effectively with the present levels of litigation, at least in Trinidad- Tobago. Therefore the reform of the laws must be bound up with an effort to improve the machinery for making the processes of law effective. But the issues encompass more than this.

5.40. To be effective these laws require a certain level of technical supervision. The control of advertisements, examination of details of contracts, the policing of credit charges cannot be left to the police machinery as it presently exists. There is therefore a strong case for the establishment of something along the lines of a Consumer Credit Authority. A similar recommendation was also made by the Crowther Committee in Britain. But the

merits of such an Authority in the Caribbean are even stronger. There are numerous functions which an Authority can perform here for which there are no adequate local agencies. Our Consumer Councils, where they exist are weak and ineffective. There are no adequate Bureaus of Standards and Quality anywhere in the region despite the proliferation of consumer durable assembly plants. And, the administration of these matters as an adjunct of a government Ministry (often the Ministry of Trade) is unsatisfactory. The Authority can therefore perform several useful functions. Firstly, it can have control over the licensing of all dealers in hire-purchase finance. Secondly, it can supervise and police the new laws proposed. Thirdly, it can arbitrate on most of the issues which lead to contention between company and consumer, and thereby help to relieve congestion in the courts. Fourthly, it can administer local Credit Bureaus to avoid their abuse. And, finally, it can take the lead in promoting consumer education on these matters. In the long run this would probably be the most effective deterrent to the ever widening gap between ethics and economics in this field.