CBB Working Paper No. WP/26/2

"Who Pays Whom? Bank Fees, Cheap Deposits and Commercial Bank Profits"

Working Paper by Dr. Kevin Greenidge[1]

July 18, 2026

We are often told that fees are simply the price of a modern banking service. That is true as far as it goes. But the figures on the sector's own returns to the Central Bank tell a more uncomfortable story.

The Headline Numbers

In 2025 the commercial banking system earned operating income of $752.1 million: $492.5 million of net interest income and $259.6 million of non-interest income. Fees and commissions alone accounted for $152.6 million, or 20.3 percent of the total. Add dealing profits, overwhelmingly foreign exchange, and the two together come to $238.9 million.

Pre-tax profit for the same year was $216.0 million.

That comparison is the point of this article. Fee and commission income plus foreign exchange dealing exceeded the entire pre-tax profit of the banking system. Strip those two lines out and the sector, in aggregate, does not make money. Lending remains the largest source of income, but the sector's profitability now depends materially on fees, foreign exchange earnings and exceptionally low-cost deposit funding.

Fees Have Grown; Lending Revenue Has Not

Between 2012 and 2025, fee and commission income rose by 46 percent, from $104.6 million to $152.6 million. Net interest income rose by 21 percent over the same period. Measured against the balance sheet, fee income moved from 0.85 percent of total assets to 0.96 percent, while total assets themselves grew by only 29 percent.

The composition matters as much as the level. Investment, advisory, brokerage and underwriting fees have almost tripled since 2020, from $12.6 million to $36.5 million. That is a legitimate and welcome development; it reflects genuine service and genuine capability. Other categories are harder to defend on the same basis. Fees on loans and advances, at $38.4 million, are broadly where they were six years ago despite a materially larger loan book. The residual category of other fees from residents, at $40.7 million, is now larger than the entire advisory business and is the least transparent line in the sector's income statement.

The Depositor Is Now a Net Payer

In 2025 the banks collected $36.7 million in service charges on deposits. In the same year they paid $10.2 million in interest on every demand, savings and time deposit in the system combined.

Depositors, as a class, paid the banks $26.5 million more than the banks paid them.

This is not a one-year anomaly. The crossover occurred in 2016, the first full year after the removal of the minimum savings rate. In every year since, deposit service charges have exceeded deposit interest, and the cumulative net transfer from depositors to banks over the decade to 2025 is $280.7 million.

The traditional bargain was straightforward. A depositor lends the bank money, the bank pays for it, and the bank charges for the services wrapped around it. That bargain has quietly inverted. Depositors now provide the banking system with more than $12 billion in funding at a very low direct interest cost, while also paying substantial charges for the services attached to those deposits.

The 2015 Deregulation of Savings Rates

The explanation for that inversion is not obscure, and it does not lie with the banks alone.

For decades the Central Bank set a minimum rate of interest payable on savings deposits at commercial banks, standing at 2.5 percent from 2009. On 7 April 2015 the Bank gave notice in the Official Gazette that, effective 21 April 2015, it would no longer stipulate that minimum, leaving each institution to set its own rate on one month's notice to customers. The policy rationale was defensible and consistent with regional practice; Jamaica and Trinidad and Tobago had already deregulated. The expectation was that competition among institutions would determine the price of deposits more efficiently than an administered floor.

The outcome can be measured. In 2014, the last full year under the floor, the banks paid $99.2 million in interest on savings deposits. In 2016, the first full year without it, they paid $17.8 million, a fall of 82 percent in two years. By 2025 the figure was $2.9 million, 97 percent below the 2014 level. Interest on deposits of all types fell from $128.0 million in 2014 to $27.1 million in 2016 and $10.2 million in 2025. Service charges on those same deposits rose from $27.1 million to $36.7 million across the same period.

Deposits did not leave the system in response. Transferable deposits grew from roughly $7.4 billion in 2014 to $12.5 billion in 2025. Deregulation therefore did not produce price competition for retail funding as expected. The aggregate outcome was a sharp movement towards very low deposit rates, with little evidence that competition produced materially better returns for depositors. The absence of any meaningful outside option for the retail depositor is the operative fact here, and remedying that is a matter for the Bank as much as for the institutions it supervises.

The Other Half of the Bargain: Loan Rates

One rationale for removing the floor was that interest rates should be market determined on both sides of the balance sheet. The institutions had argued that a mandated minimum on deposits was a fixed cost that had to be built into what they charged borrowers. Remove the floor, and rates on loans should respond to liquidity conditions in the same way as rates on deposits.

The deposit side responded immediately. The lending side did not.

Measured as interest income on loans and advances against the average loan book, the implied yield on lending was 6.18 percent in 2015. In 2018 it was 6.85 percent. Over the same period the implied cost of deposits fell from 0.90 percent to 0.09 percent. In the four years following deregulation, the cost of deposit funding fell by 82 basis points while the return on lending rose by 26.

The consequence is visible in the spread. The gap between what the banks earned on loans and what they paid for deposits was 4.46 percentage points in 2013. By 2018 it had widened to 6.76 percentage points. Lending rates did eventually decline, from 2020 onwards, but the adjustment came four to five years after the saving on deposits had been realised, and the spread in 2025, at 4.92 percentage points, remains wider than it was before the floor was removed.

Year	Implied yield on loans	Implied cost of deposits	Spread (percentage points)
2013	6.73%	2.27%	4.46 pp
2015	6.18%	0.90%	5.28 pp
2018	6.85%	0.09%	6.76 pp
2021	5.64%	0.05%	5.59 pp
2025	5.00%	0.08%	4.92 pp

Implied yield on loans is interest income on loans and advances divided by the average loan book. Implied cost of deposits is interest paid on all deposits divided by average total deposits. These are effective rates derived from the returns, not posted rates, and are affected by loan composition, non-performing loans and the payment moratoria of 2020 and 2021.

Had the spread of 2013 been maintained, borrowers in 2025 would have paid roughly $34 million less in interest, an amount close to the entire deposit service charge line. This is an illustrative calculation rather than a precise measure of overcharging, since the appropriate spread is not fixed and risk costs have changed. But the direction is not in doubt, and it is consistent with what would be expected in a market of few institutions with little incentive to move first on price.

This matters for the argument, because it disposes of the most natural defence. A bank may reasonably say that it pays little for deposits because liquidity is abundant and rates are low everywhere. The same logic should have carried through to the price of credit at the same speed. It did not.

Cheap Funding, Not Fee Restraint, is Holding Up Profitability

We need to be careful here, because the honest reading of the data cuts in two directions.

Fee income as a share of operating income has not exploded. It has moved within a band of roughly 18 to 23 percent since 2012, and by international standards 20 percent is not an extreme figure. Anyone claiming a decade of runaway fee escalation is not reading the accounts correctly.

What has changed is the other side of the ledger. In 2012 the banks paid out 31.9 percent of their interest income in interest expense. In 2025 they paid out 2.2 percent. Net interest income has been sustained not by lending more, or lending better, but by the near-total collapse in the cost of deposits. Fees have then been layered on top of that.

So the correct criticism is not that banks charge fees. Fees have become an important contributor to profit precisely as the cost of deposit funding has collapsed, and the customer is on both ends of that arrangement. The operating cost ratio of 69.2 percent tells us the sector is not conspicuously efficient either; a good deal of what is collected in fees is absorbed by the cost of running the institutions rather than passed through as better pricing or better service.

The Sector in Three Snapshots

Item	2012	2019	2025
Net interest income	$406.4m	$490.0m	$492.5m
Non-interest income	$178.3m	$207.0m	$259.6m
Fees and commissions	$104.6m	$145.8m	$152.6m
Fees as share of operating income	17.9%	20.9%	20.3%
Interest expense as share of interest income	31.9%	2.6%	2.2%
Deposit service charges	$23.5m	$36.8m	$36.7m
Interest paid on all deposits	$157.9m	$7.2m	$10.2m
of which: interest on savings deposits	$96.6m	$4.0m	$2.9m
Pre-tax profit	$151.4m	$215.2m	$216.0m

All figures in Barbados dollars, from aggregate commercial bank returns to the Central Bank of Barbados.

Where The Central Bank Goes From Here

Three things follow.

First, transparency. In accordance with Section 5.1.4 of the Bank's Market Conduct Guideline, fee schedules should be published, in full, in a form an ordinary customer can compare across institutions. A charge that cannot be explained in plain language on a single page is a charge that has not been properly justified. The residual fee categories in the sector returns need to be disaggregated and reported in a form the Bank and the public can interrogate.

Second, proportionality. A fee should bear a defensible relationship to the cost of providing the service. Where automation and shared infrastructure have removed cost, the fee should follow.

Under the Market Conduct Guideline, the Bank will continue to test proposed charges against that standard rather than accept them as given.

Third, competition. This is the durable answer, and it is the lesson of 2015. Deregulation only delivers better pricing where customers can compare, switch and move; absent that, removing a floor simply transfers the benefit to the institutions. That is why the payments reform matters. BiMPay, launched on 12 June 2026, replaced the previous ACH and RTP rails with instant transfers across all nine participating financial institutions. Its participants must submit fee schedules to the Bank by 31 July 2026, and no charge may be applied until the Bank has given its non-objection and customers have been given notice. The purpose of that sequencing is not to set prices by decree. It is to ensure that the first pricing decisions taken on a new national rail are made in the open, with the Bank's assessment on the record, and with customers able to compare and to move.

A customer who can move money in seconds, at a price they can see before authorising it, does more to discipline fees than anything the Bank can say. The banks have built a profitable business supported by very cheap deposits and a growing schedule of charges. That is not, in itself, wrongdoing. But it is a settlement that was never negotiated with the public, and it is one the public is entitled to see, understand, and shop around within.

All figures are drawn from the aggregate income statement and balance sheet returns of the commercial banking sector submitted to the Central Bank of Barbados, calendar years 1996 to 2025, expressed in Barbados dollars.