The Canadian Banking System

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THE Canadian banking system has many unique features that have grown up in the century of development that lies behind it. Today, facing the second half of the 20th century, it stands with a world-wide reputation for strength and stability, better equipped than ever to fill its role in the Canadian economy.

The Canadian banking system consists of the Bank of Canada, a government-owned central bank, and 10 privately-owned commercial banks competing among themselves for the domestic and foreign banking business of the Canadian people. The commercial banks, commonly called chartered banks, have branches across Canada, offices in many foreign countries and banking correspondents throughout the world. Because it is a branch bank system, with every important trading area having a branch of at least one bank, it is particularly suited to a country with a big international trade. Branches scattered across Canada make it easy to gather market information, arrange letters of credit and otherwise facilitate two-way trade.

Canadian banks have developed branch banking more than in any other country. There are several reasons for that but one is the immensity of Canada and its division into geographical areas, each with its own special and seasonal interests. It was to meet the varying demands of industries, both primary and secondary, widely separated seasonally as well as geographically, that branch banking in Canada has been extended so far. There now are 3,686 branches and subagencies in Canada's 10 provinces as well as 106 offices in foreign countries, mostly the United States, Britain, Central and South America.

II

EACH of the 10 chartered banks started as a small institution. Their growth from local to national scope has been comparatively rapid but was merely the reflection of the growth of Canada, itself, developing into one of the great production countries of the world and third ranking trading nation.

The commercial banks are called chartered because they receive a charter or licence from the federal parliament. They operate under the Bank Act, which sets forth what they can do and what they cannot do, and is revised every 10 years by Parliament after public hearings by the Banking and Commerce Committee of the House of Commons. This decennial revision of the basic banking law is unique and is done so that the banks will keep pace with the growing and expanding economy of the nation. The result is that banking in Canada never has been static or rigid but adaptable to new needs, safeguards and economic conditions. The last revision was in 1944.

The development and growth of the Canadian banking system has been on solid foundations and the confidence of the Canadian people has been retained. There are many reasons for this but one is the long series of decennial revisions of the Bank Act, dating back to 1871. In effect, the basic banking law is taken apart and put together again, after long public hearings, with all sorts of opinions aired. The result is that new features, based on new conditions, have been added as required. And more than that, the Canadian people, through Parliament and its banking committee, have been kept fully advised of banking conditions and banking laws.

III

ALTHOUGH the chartered banks are privately owned—there are 60,000 shareholders of the 10 institutions—they are not a law to themselves. First, they operate within the limits of the Bank Act which even sets maximum interest rates on loans. The federal government, through the Minister of Finance and an official of his department, the Inspector-General of Banks, receives detailed monthly statements of bank conditions. The Inspector-General is required to examine each bank at least once a year and he may examine the books of any bank at any time. Atop this structure, the Bank of Canada wields a potent influence in banking and monetary matters.

Although subject to regulatory influences from Ottawa, the banks are supreme in their day-to-day management. They set their own general policies, subject to varying degrees of supervision and checking from Ottawa. But they are free from political intrusion in their general affairs.

The Bank of Canada, a government-owned institution, is the nation's central bank, charged with specific responsibilities of a monetary, fiscal and economic nature. It is not a commercial bank although its subsidiary, the Industrial Development Bank, operates in a limited commercial field.

The chartered banks occupy the commercial field. They are strong institutions. At the end of 1950, they had combined assets of $9,495 million, demonstrating their capacity to meet all requirements of the Canadian economy.

In few countries is banking competition so keen as in Canada. The banks compete among themselves for deposits, loans and banking services to customers and this competition extends even to branches of the same bank in the same community. Competition also is evident in the opening of new branches, not only in big industrial centres but in newly-developed, frontier areas. As a result of this competition, there are in Canada more branch banks, in relation to population, than in the United States or Britain.

THE branch bank in Canada is a self-contained unit. It operates under the general supervision of head office but it has to offer a full range of banking services, whether located in a big city or a rural hamlet. Ninety percent of all loans are made by branch bank managers without consultation with higher authority and, in fact, only applications for big lines of credit are determined by head office.

IV

THE biggest feature of Canadian banking in the last 12 months was the freeing of the dollar on September 30, 1950 to find its own level in relation to the American dollar. This was preceded by an unprecedented inflow of American speculative funds into Canada in the hope the Canadian dollar would be placed on a parity with the American dollar.

The flow of American capital into Canada in the three months of July, August and September totalled $534 million. This movement was accelerating, with $285 million in September. It hit Canada at a time when the inflationary implications of stepped-up defence plans already were noticeable and some form of restraining policy rapidly became necessary.

What was done was first to use the government's bank balances and, when they ran down, to negotiate a net loan of

$200 million from the chartered banks. In addition, the Bank of Canada purchased American funds—in large amounts in September—and, at the same time, sold securities in almost the same quantity to prevent its purchases from increasing the cash reserves of the chartered banks and, thereby, intensify the inflationary forces.

Although bank deposits increased, the monetary authorities succeeded, for a time, in neutralizing the expansive effect of these operations. But the inflow of American dollars continued at an accelerated rate, making it more and more difficult to prevent the inflationary threat. Finally, the fixed rate of exchange was abandoned and the dollar was permitted to find its own level. In this way, the flow of capital could be checked and Canadian initiative regained in monetary policy—assuming the Canadian dollar in the open market moved somewhere between the former fixed note and parity. This proved to be true.

SINCE then, the flow of American speculative capital, as distinguished from genuine long-term investment capital has been slowed, if not arrested. But the movement, one of the biggest financial adventures in Canada's history, has left the nation with one problem intensified—inflationary pressures on Canada's economy, arising out of the nation's productive total being diverted in part, away from civilian goods to defence items. Since then, the Canadian government has stepped up its defence program and inflation remains Canada's number one fiscal problem.

The chartered banks have co-operated with the Bank of Canada in agreeing to curtail bank loans and credit curbs have been imposed on civilian buying. To overcome inflation will mean sacrifices and concerted action by all Canadians. If strong, resolute policies are followed, I have no doubt the situation will be met because of the abundant wealth of this nation, the vast resources only partly tapped or still to be developed. That is Canada's economic sheet-anchor, perhaps the greatest of any country in the world.

V

BANKING in Canada has taken giant strides since 1900. There are fewer banks today, due to amalgamations and failures, but the number of branches has increased from 708 to 3,686. This has more than kept pace with the increase in population, for the number of people served by each branch, on an average, has dropped from 7,500 in 1900 to 3,800 today.

The spectacular growth of Canadian banking in the first half of the century may be seen in two sets of figures. Current bank loans within Canada increased from $283 million in 1900 to $2,670 million today. In 1900 the total of deposits was $275 million. It is now $7,300 million, held in 8 million deposit accounts. This increase of 24 times in total deposits compares with a population increase of two and a half times.

These figures demonstrate not only the remarkable growth of Canadian banking in 50 years but are a reflection of the growth of the Canadian economy. The increase in bank deposits and bank loans stems from many causes, among them being the opening of the Canadian west, the gradual industrialization of the country, the discovery and development of mineral and forest wealth—all combining to create jobs, attract immigrants, distribute wealth and produce a standard of living second only to the United States.

LOOKING ahead, we may expect to see steady, perhaps spectacular growth of the Canadian economy. The oil fields of Alberta, titanium deposits in Quebec and the iron ore of Labrador and Ungava are reminders that Canada still has great raw material resources to develop and turn into jobs and wealth.

It should be borne in mind, however, that Canadian prosperity depends to an unusual extent on world markets and world conditions. Given peace and a measure of world prosperity, no country will outspeed Canada in development and wealth in the years ahead.

ONE of the greatest factors in the free nations' fight for continued freedom is the waging of battle against inflation. The Canadian chartered banks have responded willingly, and in the utmost co-operation with the Government and the Bank of Canada, to the national need for preventing as far as possible, in the current emergency, the expansion of the present volume of bank credit. The Canadian chartered banks are foregoing some rich earning possibilities, in ranging themselves alongside the forces that aim to protect the purchasing power of the dollar in the hands of the Canadian consumer or in the shopping-purse of his wife. It is a matter of high government policy, suggested to us through the Bank of Canada, and necessarily agreed to by the banks because they support the aim.
