

## Bank Mergers



In 1998, four of Canada's biggest banks proposed to merge. The deals would have meant the loss of thousands of Canadian jobs and the closure of hundreds of local branches across the country. The Council launched a well-publicized cross-country campaign to convince federal Finance Minister Paul Martin to reject the proposed mergers and bring greater accountability to the banking industry. The Finance Minister ruled against the mergers on December 14, 1998.

## Merging on Disaster



### Canadian banks -- the bigger they get, the harder they'll fall

After benefiting from more than a decade of gradual deregulation, Canada's chartered banks have finally amassed the confidence to make their big move.

The proposed mergers announced earlier this year between the Royal Bank and Bank of Montreal, and subsequently, Toronto Dominion and the Canadian Imperial Bank of Commerce, have set the stage for a showdown this fall with far-reaching implications. The final decision on the mergers rests with Finance Minister Paul Martin. It's a decision that is far more important than many realize.

By their own admission, the CEOs of the big banks view the mergers as a way to achieve greater "efficiencies" and "economies of scale." In plain English, this means reducing costs by cutting jobs. The most immediate consequence of bigger -- and fewer -- banks will be the closure of over 1,000 branches in communities from coast to coast and the elimination of 10%-15% of the banks' combined workforce. Fewer bank branches will mean severely limited services to depositors and a big squeeze on access to small-business loans.

The CEOs' second objective is to position the new mega-banks to compete globally for corporate finance deals. So while increased size and fewer numbers will serve to further distance the banks from Canadians, their focus of attention will also shift from Moose Jaw, Peterborough and Sydney to Singapore, London and New York.

### Banking on bigger

Since 1992, far from contributing to real economic growth, our banks have been net job killers. Small businesses, which receive only 3% of the total capital loaned by the banks, are already poorly served. Branches in poorer (read "less profitable")

neighbourhoods and communities are being shut down at an alarming rate. Considering the record-breaking profits (\$7.5 billion in 1997 alone), outrageous executive pay packets, and a tax rate lower than the bottom income tax bracket for working Canadians, there can be little doubt at whose expense the banks have grown.

And yet, the mergers pose an even more serious threat.

First, bigger banks fall harder. Canadians will face a huge risk with two banks holding a majority of all their deposits. The banks' stated intention to chase larger global finance deals raises the spectre of one big mistake leading to a major bank collapse. Canadians would be left to pay the price, whether by losing their deposits, paying for a public bailout, or coping with the massive social and economic crisis that would ensue.

Second, Bank of Montreal president Matthew Barrett has baldly stated it and Paul Martin has mused about it -- the quid pro quo for the mergers is opening up the Canadian market to foreign banks and eliminating the 10% cap on foreign ownership of Canadian banks.

Finance department and bank PR experts are competing to come up with the best spin possible on foreign ownership. Canadians should be wary. Foreign banks entering the Canadian market have no interest in providing basic services in communities such as Moose Jaw, Peterborough or Sydney. Mirroring the ambitions of our own prospective mega-bank CEOs, the heads of Japanese, German and American banks will try to "cherry-pick" the most profitable areas such as corporate finance.

### **Living up to public charters**

Canada's banks have come to view their public charters as a licence for making profits rather than as a privilege carrying clear obligations. Far from ensuring real competition, foreign ownership in the banking sector would put an end to the objective of banks truly fulfilling their public charters. Huge international banks headquartered in New York and Tokyo will never agree to be constrained by "quaint" made-in-Canada regulations.

Paul Martin needs a clear message. First, the mega-mergers must be stopped. Second, our politicians must set about requiring that Canada's chartered banks contribute to the country's real social and economic needs.

The public good demands it. - *Canadian Perspectives, Summer 1998*

## **5 Things You Should Know**

### **...About Banks and Bank Mergers**

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**Four of the Big Five chartered banks have proposed to merge - the Royal Bank of Canada (RBC) and Bank of Montreal (BoM); the Canadian Imperial Bank of Commerce (CIBC) and Toronto Dominion (TD). If**

**the federal government allows the mergers to proceed, the two new megabanks would, in the words of Scotiabank chairman Peter Godsoe, "control 70 per cent of the core banking markets in Canada." The vast majority of Canadians' deposits, savings and loans would be held by just two banks.**

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### **How big are they?**

The Big Five already dwarf all other Canadian corporations. In 1997, the banks' combined assets totaled \$1.05 trillion. Their combined profits for the year were \$7.13 billion, an increase of more than \$1 billion over the previous year. That year -- 1996 -- the Royal Bank posted the highest profit ever recorded by a Canadian company: \$1.43 billion.

### **How big would they be?**

The new megabanks would tower over the Canadian economy. The RBC/BoM bank alone would have assets of \$453 billion (more than the annual revenues of the federal, provincial and territorial governments combined) and rank 22nd in the world. It would have 17 million accounts and, with 92,000 employees, would be the largest single employer in the country. Its power to decide the success or failure of small and medium-sized Canadian businesses through granting or withholding loans would be staggering. On its own, it would constitute the greatest non-government influence on the national economy and, if it ever failed, the most devastating.

### **What happens if the banks merge?**

The banks have tried to downplay and even deny the impact that the proposed mergers would have on customers and the economy, arguing that they must merge in order to ensure a Canadian presence in both the domestic and global markets. Critics, such as the Canadian Community Reinvestment Coalition (CCRC), point to other countries where bank mergers have led to higher fees, closed branches and less customer service. In the case of the RBC-BoM merger, industry analysts estimate that at least 9,000 jobs (or 10% of the banks' combined workforce) would be cut and as much as half of the more than 2,500 branches would be closed. And that's just for starters.

Bigger banks would mean less competition - meaning less choice in mortgage rates and other consumer loans, fewer jobs and bank branches (especially in smaller rural communities), and even fewer loans to small and medium-sized Canadian businesses - the same businesses that create most of the new jobs in the country.

### **Do the banks really need to be bigger?**

No. They're big enough already. Decades of deregulation designed to strengthen the viability of our banking industry together with longstanding laws forbidding more than 10% foreign ownership ensure that Canadian banks will continue to dominate the national market. And they don't need to get any bigger to succeed internationally - as Scotiabank chair Peter Godsoe attested this spring in his presentation to the Liberal caucus taskforce on financial services. "We don't have to merge with another Canadian bank to achieve international success," stated Godsoe, referring to Scotiabank's lucrative dealings in 53 other countries.

### **What should the federal government do?**

First, stop the proposed mergers by the banks - they're already too big for our own good. Second, tax the banks - and their excessive profits - at a reasonable rate. (The phenomenal growth in bank profits over the past five years hasn't occurred by accident. It's occurred, in part, because banks pay income tax at a rate lower than most Canadian workers!) Third, force the banks to reinvest in Canadian communities, as called for by the CCRC. - *Canadian Perspectives, Summer 1998*

## **National Poll on Bank Mergers**

### **Council of Canadians Survey on Bank Mergers**

**ComQUEST Research  
November 1998**

#### **Introduction**

ComQUEST Research was commissioned by the Council of Canadians to conduct a nationwide survey on public perceptions and attitudes regarding the issue of bank mergers in Canada. The questionnaire was fielded during the week of October 26th. In all, a random sample of 600 Canadians completed the short survey (margin of error +/-4 %).

#### **Demographic Profile:**

Respondents were drawn proportionally from all regions of the country. Atlantic Canada accounted for 7% of the sample, Quebec had 27%, Ontario 37%, while 16% came from the Prairie Provinces and 13% from British Columbia. Equal numbers of men and women were also interviewed. The sample reflected the general age distribution of the Canadian population. The youngest group (18 to 24) constituted 10% of the sample. At the other end of the scale the oldest group (65 and over) made up 16% of the total. Younger middle-aged (25 to 44) accounted for 47% of those interviewed with the remaining 28% of the sample being drawn from a late middle-aged group (45 to 64).

#### **Results:**

An overwhelming majority (82%) of Canadians have heard about the proposed bank mergers and, typically, they see these mergers as a bad thing. Two thirds of decided respondents believe that the proposed bank mergers would be a bad thing for people like themselves. Older Canadians aged 55 and over were most likely to view mergers as bad (74%), as were British Columbians (72%).

Are banks telling the truth when they assert that there will be no job losses or branch closures if they merge? A strong majority of Canadians do not think so according to this survey. In all, two thirds of respondents stated that they did not believe the banks on this issue (66%). British Columbians again proved least responsive to the arguments of the banks with 76% believing that there would be job losses with mergers.

A majority of respondents did not believe government should decrease regulation of banks. In fact, an overwhelming majority (86%) wanted regulation increased or kept the same.

## **Council of Canadians Survey on Proposed Bank Mergers**

### **Q1 Have you heard recently about the proposed bank mergers?**

82% Yes (go directly to Q2)

18% No (read following)

Several major Canadian banks have recently proposed mergers that would create super-banks. The Royal Bank and the Bank of Montreal would form one super-bank, while the Toronto Dominion and CIBC would form another.

### **Q2 From what you have heard or read, do you think that the bank mergers are a good thing or a bad thing for Canadians like you?**

34% Good

66% Bad

For the following statement, please say whether you strongly agree, agree, disagree or strongly disagree.

### **Q3 I don't think the banks are telling the truth when they say there will be no job losses or branch closures if they merge.**

28% Strongly Agree

38% Agree

25% Disagree

9% Strongly Disagree

### **Q4 Does the fact that we are currently facing what many call a "global economic crisis" make you feel that the government should increase regulation of banks, decrease regulation or keep it the same?**

35% Increase regulation

14% Decrease regulation

51% Keep it the same