News in Review NOVEMBER98
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BANK MERGERS: IS BIGGER BETTER?

Introduction

In January 1998, the Bank of Montreal and the Royal Bank of Canada announced plans to merge and create one superbank. A few months later, in April, the Toronto Dominion Bank and the Canadian Imperial Bank of Commerce announced similar plans. The proposed bank mergers caught many people off guard, including Minister of Finance Paul Martin. In a Maclean s interview, Martin said, "Just because they decided to get into bed together doesn t mean that I have to bless their union." Martin s message seemed to be that Ottawa, not the banks, would decide the future of banking in Canada. "There will be no mergers in the banking sector until we are convinced that [it] is what is best for Canadians, and we will not be stampeded into making that decision."

According to the banks, the proposed mergers were a natural response to a changing and highly competitive global marketplace. Mergers, they said, provide a way of maintaining a strong Canadian presence in the banking industry. Certainly, recent technological advances have dramatically changed the manner in which the financial services industry conduct their business, and the above-mentioned banks feel, therefore, that they need to be bigger to compete and to have a substantial presence in the global banking community. Martin himself acknowledged the changed nature of banking when he said, "If you look back at banking five years ago, you might as well look back two centuries."

While the proposed bank mergers brought attention to the challenges facing Canada s banks, these challenges are not peculiar to the banks alone. Global competition, the need for increased efficiency and innovation, economic growth, and the impact of technology are concerns shared by other sectors of Canada s broader financial services industry. As well, this industry includes not just banks, but insurance companies, brokerage firms, mutual fund companies, automobile leasing companies, and trust companies. The challenges facing the entire industry are linked to larger questions. How should the financial services sector evolve to ensure that the needs of small businesses are adequately met? What role should foreign financial institutions play in Canada s financial sector? Does the current legislative/regulatory framework support or hinder the international competitiveness of Canadian financial institutions?

To formally address these questions the federal government had formed a task force previous to the announced mergers to undertake a study of the financial services sector. It began its work in December 1996 in preparation for making major revisions to the federal Bank Act. The report of the "Task Force on the Future of the Canadian Financial Services Sector," known as the MacKay Report, is the culmination of this task force s work. By the time the big banks announced their merger plans in early 1998, the mandate of the task force had been in place for more than two years, and its work was nearing completion. Its chairman, Harold MacKay, a Regina lawyer, made it clear that the merger announcements by the big banks would not alter his mandate or the task force s deadline. "Nothing changes as a result of this . . . bank mergers, have always been high on the task force s agenda." On September 14, 1998, the task force released its report along with 124 recommendations. In response, numerous government bodies and other agencies, including the Liberal government s own caucus committee, began to review the task force s recommendations. The latter group released a report on November 4 suggesting that Martin should not approve the mergers. Should the bank mergers be permitted to proceed? At the time of this writing, the man in the middle, Paul Martin, has not said yea or nay.

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"Superstores: Is Bigger Better?" November 1994
"The Changing World Economy," October 1998

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Three Key Concepts

On September 14, 1998, the "Report of the Task Force on the Future of the Canadian Financial Services Sector" was presented to Minister of Finance Paul Martin. In a letter that was addressed to the Minister and included within the report, the chairman of the task force, Harold MacKay, commented on what guided him and his colleagues as they conducted their inquiry. He said: "We have titled our report Change, Challenge, and Opportunity. We are living in a turbulent period. Change is a hallmark of our times, and the pace of change seems to be accelerating. Change presents challenges to all of us—to our financial institutions, which are facing new forms of competition in markets that are increasingly global; to consumers, who are presented with increased choice but also new risks and different relationships with providers; and to policy makers and regulators, who require flexibility and skills that have not previously been necessary to fulfil their important public policy responsibilities well. Our report sets out these challenges in some detail. It also points to the significant opportunities that change is bringing. Canada is, on balance, well positioned to benefit from a healthy, dynamic, innovative, and competitive financial services sector into the next millennium."

What Changes?

Working in small groups, brainstorm a list of changes that have had an impact on the Canadian economy over the last five to 10 years. Then, working as a class, pool your information and classify it into categories such as: new technology, global forces, new jobs, new consumers, new products and services, the changing role of government, or other categories you think of. Discuss the meaning and impact on Canadian businesses of each change. What challenges —good or bad—do these changes present to Canadian businesses?

What Challenges?

Challenge is a neutral word, neither good nor bad. While viewing this **News In Review** report, record specific challenges facing the Canadian financial services sector. To what extent is your list of challenges similar to the one recorded in the first part of this activity? Identify and explain any challenges facing the financial services sector that are distinct to it alone.

What Opportunities?

Finally, consider the title of the task force's report. What is it suggesting by the title Change, Challenge, and Opportunity? Why might the words be in this particular order? How do you think the MacKay task force interpreted the word challenge? In what way does each word represent a social force? Do they represent a natural progression? Did you see anything in the video that supports the concept represented by this title? Generally speaking, do challenges always present opportunities? What are some specific opportunities available to banks if they merge? What changes, challenges, or opportunities face the Canadian consumer if banks merge?

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The Terms of Reference

The Task Force on the Future of the Canadian Financial Services Sector was given a job to do. It was given specific terms of reference by the Minister of Finance on December 19, 1996, and its report is a response to those terms. Terms of reference provide a task force with parameters and a focus of investigation, determining what it will examine. The terms of reference below are excerpted from the first appendix of the task force's report.

As you study these terms of reference, examine the wording carefully and identify the concerns of the government. What exactly was the task force being directed to investigate? Speculate as to how the task force would carry out its mandate. What organizations, groups, or individuals would you ask to appear before you if you were Harold MacKay?

. . . The Task Force will inquire into public policies affecting the financial services sector and make recommendations to enhance:

1) the contribution of the sector to job creation, economic growth, and the new economy;

2) competition, efficiency, and innovation within the sector;

3) the international competitiveness of the sector in light of the globalization of financial services, while at the same time maintaining strong, vibrant domestic financial institutions;

4) the ability of the sector to take full advantage of technological advances as they occur and to meet the competitive challenges resulting from the introduction of new technologies; and

5) the contribution of the sector to the best interests of Canadian consumers. . . .

Task Force Questions

The Task Force will address issues affecting private sector financial institutions and non-traditional providers of financial services. In addressing these issues the Task Force will take into consideration the appropriate policy framework for giving effect to public policy objectives for the financial services sector, including those of maintaining the safety and soundness of the sector. The Task Force mandate should not be interpreted to indicate that further intervention in the financial services sector is necessarily warranted. The types of questions that the Task Force will consider in making its recommendations will include, but not be limited to, the following:

1. Promoting Job Creation, Economic Growth, and the New Economy
a) What are the key elements of the public policy environment that will allow the financial sector to most effectively contribute to future economic growth and job creation within the sector and for all regions of Canada? . . .
c) In what ways should the financial services sector evolve to ensure that the needs of small businesses are adequately met?

2. Promoting Competition, Efficiency, and Innovation within the Sector
a) Is the trend toward increased concentration in our financial sector likely to continue and, if so, what are the implications of this movement? How should public policy respond to these issues? . . .
c) What should be the role of foreign financial institutions in Canada's financial sector?

3. Globalization/International Competitiveness
a) What international pressures will shape future developments in our financial sector and what are the implications for consumers and public policy? . . .

4. Impacts of Technology
a) Should changes be made to Canada's legislative/regulatory framework to allow financial institutions to take full advantage of new technologies to develop innovative new products and delivery systems to meet the emerging needs of businesses and consumers? . . .

5. Promoting the Best Interest of Consumers
a) Does the current regulatory framework for financial institutions provide reasonable protection of consumers' rights and interests? . . .
c) What obligations does the financial services sector have to provide financial services to all Canadians, including those with low income?

6. Appropriateness of Regulation
Is the existing degree of regulation and supervision for Canadian financial institutions no more than is required to give effect to public policy objectives?

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A Flashing Yellow Light

The report "Task Force on the Future of the Canadian Financial Services Sector" was submitted to the Honourable Paul Martin, Minister of Finance, on September 14, 1998. The report made 124 recommendations that touched on almost every aspect of the financial services sector.

One of the recommendations that received the most attention was related to the issue of bank mergers. The report said that big banks should be permitted to merge, but only if it were in the public interest. Task force chairman Harold MacKay said, "We have not put up a red stop light, nor have we issued a green light. What we have done is put up a flashing yellow light."

Below you will find paraphrased recommendations from the report in the section "Major Recommendations: Enhancing Competition and Competitiveness." In this section the report focused on a four-point strategy to enhance competition within Canada. As you read each recommendation consider the impact the changes would have on Canada's banking system. How could these changes affect you and your family?

1. In a subsection titled "Strengthen the Position of Existing Participants," the task force recommended: allowing life insurance companies, mutual funds, and investment dealers to provide transaction services to Canadians; new powers for credit unions to make them more effective, including the power to become or to form banks; support for the rapid demutualization of major life insurance companies, which will enhance their ability to compete with large banks; the ability for banks and trust companies to offer insurance and auto leasing to their customers.

2. In the subsection "Encourage New Domestic Participants," it recommended: a new consistent set of ownership rules for all financial institutions, including banks, that will make it easier and more attractive for new banks to start up; a change in approval procedures for new institutions so that they can be started with less capital and faster turnaround times.

3. In the "Foreign Financial Institutions" subsection, the task force recommended: permitting foreign banks to operate in Canada; making it more economical for foreign firms to lend money to Canadian businesses and increase competition in the credit market; establishing a framework that will provide clear rules and new opportunities for foreign firms to make loans to Canadians without establishing a physical presence in Canada.

4. In "Empowering Consumers," it recommended: mandating the disclosure of transaction-specific fees and commissions; requiring financial institutions to adopt binding codes of conduct to ensure customer privacy; proposing a ban on coercive tied selling (preventing banks from giving approval of loans only to those who buy other bank services such as insurance or open accounts).

Erring On the Side of Caution?

In your opinion, to what extent did this report give a green light, a red light, or a flashing yellow light to changes in Canada's financial services industry?

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The Urge to Merge

Banking in Canada has a long and interesting history. The first "bank" in Canada was set up in 1792 when a group of Montreal merchants formed the Canada Banking Company. It was the first attempt to start a bank in Canada, but because it did not have permission to issue bank notes (currency), it failed. Canada would have to wait until the early 19th century for its first chartered banks: the Bank of Montreal (1822), the Bank of New Brunswick (1820), and the Bank of Upper Canada (1821). Following Confederation in 1867, the federal government established the Bank Act, in 1871. The Act defined what banks could and could not do; it was created to bring a degree of order, safety, and uniformity to bank activities.

For some Canadians, the concept of bank mergers challenges the very order, safety, and uniformity that Canadian banks have worked to established throughout their long and successful history. Critics of mergers have viewed them as a questionable new trend that in their opinion is not necessarily in the best interest of the average consumer. The proposed mergers of the four big Canadian banks were a reaction to the new competitive global economy in which giant international banks, especially U.S. banks, can easily dominate the open, globalized marketplace in which there are fewer protectionist forces. Recent mergers in other sectors of the economy, such as automobile companies, were interpreted by many people as a sign that mergers in general were on the rise, and that banks, therefore, would naturally follow this trend. Supporting this position, proponents of bank mergers reason that in order to thrive, Canadian banks must grow in order for Canada, through its major financial institutions, to maintain an effective role in world markets. A traditional point of view suggests that mergers should be resisted because they are not consistent with how Canadian banks have operated in the past.

An examination of Canada's major banks, however, reveals that acquisitions and mergers have been neither rare nor are they inconsistent with how Canadian banks have grown. In fact, bank mergers have played an integral role in Canada's banking system for over 100 years. Today Canada has six major national banks, each of which has come about as a result of a long history of bank mergers. As you examine these major banks and their history of merging, consider why, especially in a country as "regional" as Canada, bank mergers might have been logical, progressive, and good business for the consumers.

A Growing Trend

The Bank of Montreal (Commercial Bank of Canada, 1868; Exchange Bank of Yarmouth, 1903; People's Bank of Halifax, 1905; People's Bank of New Brunswick, 1907; Bank of British North America, 1918; Merchants Bank of Canada, 1922; Molson's Bank, 1925.)

The Bank of Nova Scotia (Union Bank of Prince Edward Island, 1883; Summerside Bank, 1901; Bank of New Brunswick, 1913; Metropolitan Bank, 1914; Bank of Ottawa, 1919.)

The Canadian Imperial Bank of Commerce (Gore Bank, 1870; Niagara District Bank, 1875; Bank of British Columbia, 1900; Halifax Banking Company, 1903; Merchants Bank of Prince Edward Island, 1906; Western Bank of Canada, 1909; Eastern Townships Bank, 1912; Bank of Hamilton, 1923; Sterling Bank of Canada, 1924; Standard Bank of Canada, 1928;

Weyburn Security Bank, 1931; Barclays Bank [Canada], 1956; Canadian Bank of Commerce and Imperial Bank of Canada [merger], 1961.)

The National Bank of Canada (Banque Canadienne Nationale and Banque Provinciale du Canada [merger], 1979.)

The Royal Bank of Canada (Commercial Bank of Windsor, 1902; Crown Bank of Canada, 1908; Union Bank of Halifax, 1910; United Empire Bank, 1911; Traders Bank of Canada, 1912; Quebec Bank, 1917; Northern Crown Bank, 1918; Union Bank of Canada, 1925.)

The Toronto Dominion Bank (Bank of Toronto and Dominion Bank [merger], 1955.)

Statistical Considerations

Examine the statistics on bank mergers below. Compare the current situation of the banks with a "post-merger scenario" (assuming mergers have occurred). What do these statistics suggest about the impact of bank mergers on Canada? If Paul Martin prohibits the four banks from merging, is there anything in this statistical evidence that suggests that sooner or later, perhaps under another government, major bank mergers will occur?

The Pre-Merger Scenario
The total number of banks in Canada is 54—46 foreign and eight domestic. The total number of bank branches in Canada is 8140. Canada's banks today employ over 220 000 people. The total number of ABMs (automatic bank machines) in Canada is 19 200. If one combined the total amount of funds held by Canada's five largest banks—as of September 15, 1997—they would equal the approximate amount of money held by North America's largest bank—U.S.-owned Citicorp. And this was prior to the announced merger between Travelers and Citicorp on April 6, 1998. In 1997, Canadian banks donated $71-million to charities and community organizations. Only two banks have failed in Canada over the past 60 years. Over the same period, over 2000 U.S.-based banks have failed. In 1997, the six largest Canadian banks paid $5.8-billion in taxes and levies in Canada alone, and $6.9-billion worldwide.

The Post-Merger Scenario
If the bank mergers were permitted to happen, the per cent share of deposits held by Canada's domestic banks would be the following: Royal Bank-Bank of Montreal, 40.9 per cent; CIBC-TD Bank, 35.9 per cent; Scotiabank, 18.6 per cent; National Bank, 5.6 per cent; Laurentian Bank, 1.2 per cent; Canadian Western Bank, 0.2 per cent.

Merger One
The merger of the Bank of Montreal and the Royal Bank of Canada would be the largest corporate merger ever in Canada. With 85 000 workers, the Royal Bank-Bank of Montreal organization would rank as Canada's largest single employer. The combined assets of the Bank of Montreal and the Royal Bank would be $453-billion.

Merger Two
A Toronto Dominion Bank and CIBC merger would have 74 000 employees and assets of $460-billion. It would have 10 million clients and 2300 branches across Canada and would adopt the CIBC name and TD Bank colours. A CIBC-TD Bank would be the ninth largest bank in North America and 21st in the world.

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Facts or Opinions?

What's the public to believe? An examination of almost any controversial issue can reveal disagreement about facts. It is common to see opinions presented as if they were indisputable facts. This inhibits the consumer's understanding. Distinguishing between fact and opinion is an important generic skill, and it is an integral component of sound analysis and reasoned judgment. But what is a fact and what is an opinion?

In a general sense a fact is information that is presented in such a manner that it is objective. This means that a fact is relatively free of bias, and there is an intent by the presenter of the fact to be neutral in the presentation of the information. Facts tend to be regarded as the "exact truth."

Opinions differ from facts in that they are neither neutral nor are they intended to be seen as neutral and unbiased. Opinions are not neutral because, by definition, they are a form of expression of beliefs, judgments, and sentiments. Opinions are an interpretation of the exact truth as opposed to being the truth itself. Quite often opinions are stated or presented with the intent to persuade someone to adopt this point of view. As a result, opinions lack objectivity and instead are subjective. Finally, opinions are formed from facts, but facts are not formed from opinions.

Is It A Fact Or An Opinion?
Consider the source. Is the source competent and reliable? Is the source neutral and objective? Is the source free from bias? Does the source have a background of logical reasoning and authority? Are careful references to related well-known authorities and proven facts linked to the "fact" being presented? If the answer is yes to these

questions, it is probably a fact.

Is the statement trying to be persuasive? Is the intent of the statement to do something more than to merely present information? Can the statement be disputed and challenged? Would other sources dispute the statement? Are key words such as "I feel," "Our position is, or "In my opinion" used? If the answer is yes to these questions, it is probably an opinion.

In Your Opinion . . .

Working individually, read the positions and information relating to bank mergers on the next page. Determine, to the best of your ability, if each is factual or a statement of opinion. Are some of these statements more likely to be factual than others? Are there statements that might possibly be factual but require more details in order to validate them? Are there statements you are prepared to accept as facts based on the source? Are some facts that might be used to support an opinion? Indicate your decision by marking each with an F (Fact) or an O (Opinion) in the space provided. Be prepared to explain your reasoning.

____ If both recent mergers are approved, Canada's two new megabanks would control 70 per cent of the country's banking assets between them. — Source: Peter Godsoe, president of Scotiabank

____ No jobs would be lost in the short term from a merger of the Royal and Bank of Montreal. — Source: Matthew Barrett of the Bank of Montreal

____ A merged TD-CIBC bank would cut its costs by 10 per cent annually but actually increase the present level of 74 000 jobs after about five years. — Source: Toronto Dominion president Charles Baillie

____ Canada has the lowest interest rate spreads among the G7 nations and the third lowest interest rate spreads among all 44 countries surveyed. — Source: The Global Competitiveness Report by the World Economic Forum

____ Canada has 21 per cent more bank branches per citizen than the United States and 125 per cent more than Japan. — Source: The Bank of Montreal

____ Sixty-eight per cent of the members of the Canadian Federation of Independent Business oppose bank mergers. Source: From a poll conducted by the organization.

____ Only bigger banks can spend the money that will be needed to compete with U.S. banks in the realm of computer and Internet banking. — Source: The Bank of Montreal

____ Canadian banks must merge sometime in the next century or they will lose their Canadian identity and will not be Canadian-based. — Source: The Bank of Montreal

____ Bank stocks rose sharply in response to the Royal-Bank of Montreal merger announcement. Source: The Globe and Mail

____ The service fees attached to a basket of 13 of the most popular retail banking services cost 57 per cent more at a typical U.S. bank (C $136) compared with those offered by Canadian banks (C$86). — Source: The Canadian Bankers Association (CBA)

____ Canada's banks today employ over 220 000 people. — Source: The Canadian Bankers Association (CBA)

____ Canada's five big banks are the largest corporations in Canada. The assets of each are greater than the federal government's annual revenues, and greater than the total revenues of the provinces and territories. — Source: the Canadian Community Reinvestment Coalition (CCRC)

____ In terms of consumer satisfaction with 21 different industries, Canadians ranked banks in the bottom five. Source: Surveys in 1996 and 1997 by the National Quality Institute of over 8000 Canadians

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Parliamentary Committees Formed

Following the release of the report titled "Task Force on the Future of the Canadian Financial Services Sector," a number of parliamentary committees began to examine it. One of the most important is The Standing Senate Committee on Banking, Trade and Commerce, which dates back to 1867 and historically has reviewed legislation on financial institutions and budgetary and commercial matters. It was among the first committees to study bills. Once the various committees on banking were convened, interested parties were invited to appear before them and address the recommendations and findings of the task force's report. A number of players in the financial services sector, including the major banks, trust companies, insurance companies, and brokers associations, as well as individuals and agencies outside of the financial services sector, addressed the committees. The following are excerpted comments made by representatives of some of these groups.

As you read the comments, make a list of the concerns of each group and be prepared to suggest what each group's objective was in addressing the committee. What similarities, differences, or even inconsistencies do you see in the presentations? Bank mergers aside, what do these comments tell you about the Canadian financial services industry in general?

George D. Anderson, President and Chief Executive Officer, the Insurance Bureau of Canada, addressing the House of Commons Standing Committee on Finance, September 25, 1998

" . . . The Task Force Report states that bancassurance,' as it is called in Europe, is a worldwide phenomenon. Yet virtually all of the examples it uses are taken exclusively from the life insurance industry. Moreover, its own background paper points out that banks in the United States do not have the power to own insurance companies, a power that Canada's major banks have enjoyed since 1992. . . . If the major banks were to be given the expanded insurance powers proposed by the Task Force, our estimates suggest that well over 20 000 jobs across Canada would be lost in the P&C [property and casualty] insurance industry. The bulk of these jobs would be lost among independent insurance brokers, located in small towns and cities all across Canada."

Peter C. Godsoe, Chairman and Chief Executive Officer, Scotiabank, addressing the Senate Banking Committee, October 7, 1998

" . . . Scotiabank's position is that these mergers must be analyzed very thoroughly because, from our viewpoint, they represent bad public policy. They are bad for competition and choice, bad for consumers and small businesses, and bad in terms of potential concentration of risk and power-concentration that is unhealthy in a country the size of Canada. The fact is that the proposed mergers would eliminate one-third of our country's banking system as we know it. This has never been done before in any other country. We would be moving to levels of concentration not seen anywhere else in the world. The mergers would mean that almost 70 per cent of virtually all core banking markets would be in the hands of two banks, 70 per cent of everyday banking services, ones that touch virtually every Canadian household, including personal deposits, transaction accounts, loans and mortgages, as well as small business lending. . . ."

Matthew Barrett, Chairman and Chief Executive Officer, the Bank of Montreal, addressing the Senate Banking Committee, October 8, 1998

" . . . For us, the best way to sustain growth is through merger. This in turn will enable us to fulfil our role as a full-service bank, with both electronic and domestic access and branches nationwide; a Canadian-based, Canadian-controlled, globally competitive bank; one that creates well-paid Canadian jobs, orders for Canadian suppliers and management decisions made in Canada for Canadian purposes; and a bank with the resources to re-invent the range and quality of customer service at a level beyond anything experienced before. If there is one point of consensus that has so far emerged from the debate, it is that the status quo is not an option. The hard reality is that, one way or another, Canadian banks must become more competitive and more productive. If we are not allowed to merge, we must find other ways to achieve efficiencies. That means greater focus and selectivity in lines of business, the customers we serve, and the products we offer. Bank of Montreal would emerge as a much smaller entity, no longer a national, full-service bank."

Charles Baillie, Chairman and Chief Executive Officer, Toronto Dominion Bank, addressing the House of Commons Standing

Committee on Finance, September 29, 1998

" . . . The other road is to say no to mergers, to say that big shall not buy big . . . to say that our institutions are big enough for Canada, and to rule out our competing effectively in world markets. Canadian financial institutions would also see their domestic market shares dwindle, squaring off against much larger foreign-owned competitors. That would be a valid choice, if your vision for Canada does not encompass excellence. Such a choice would not be catastrophic. It would not be a crisis. The decline of our influence as institutions, and Canada's position as a global financial centre, would be gradual. Our major banks and insurance companies and mutual fund companies are large enough to continue to operate profitably, and to develop strategies to operate in a narrower range of businesses, in order to generate acceptable returns for shareholders. But what of the long term—where would we be? Certainly, with consolidation continuing elsewhere—and make no mistake, bank mergers are a worldwide phenomenon—we would gradually lose our place at the table. There would be certain areas and businesses in which we simply could not compete; consolidation elsewhere results in our major institutions ranking further and further from the top tier, farther and farther from the table."

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The Rules of the Game

Working under the authority of the Competition Act, the Federal Competition Bureau, a marketplace watchdog, sets the rules of the game for the Canadian marketplace. Its purpose is to maintain and encourage competition in Canada, to ensure that firms compete fairly and that markets operate efficiently. In January and April of 1998, the Competition Bureau began to review the proposed bank mergers to determine if they would substantially lessen or prevent competition and whether such mergers would lead to increased prices, reduced level or quality of service, or to negatively impact on any other important elements of competition.

After studying the information below, suggest whether you think such mergers might contravene the Competition Act.

The Definition of a Merger
Section 91 of the Competition Act defines a merger as "any transaction in which control over, or a significant interest in, the whole or a part of a business of another person is acquired or established."

Factors to be Considered
The Competition Bureau's analysis of the proposed mergers considered factors such as: post-merger market concentration or market share; barriers preventing new competition from entering the market; the amount of foreign competition; the availability of substitute products; the extent to which effective competition remains in the market; the likelihood of the removal of a vigorous and effective competitor; the nature and extent of change and innovation in the market.

The Credit Card Connection
On October 27, 1998, the Financial Post reported that the Competition Bureau was concerned about the credit card business that would be

created out of the merger of the Royal Bank and Bank of Montreal. The new bank would be violating a rule that prohibits any Canadian bank from issuing more than one kind of credit card. Currently the Royal Bank offers its customers Visa while the Bank of Montreal issues Mastercard. According to the news article, the Competition Bureau is concerned that the merged bank would have a cartel-like dominance of credit cards. It appears that this issue also touches the proposed deal between the Toronto Dominion Bank and the Canadian Imperial Bank of Commerce. In this case both banks issue Visa, but the Competition Bureau is examining whether the two banks run the risk of having too much market concentration. A Royal-Bank of Montreal merged bank would have 35 per cent of the credit card market. The Competition Bureau is not expected to table its report until mid-December 1998.

More Bad News for the Banks?

A report released on November 4, 1998, by a Liberal government caucus committee on bank mergers stated that Finance Minister Paul Martin should not approve two merger proposals before him; banks should not be allowed to sell insurance or lease cars from their branches; foreign banks should be allowed to establish branches in Canada to broaden choices for consumers; the government should encourage chartered banks to make a voluntary promise to increase lending to small business to an amount equal to one-third of their total business lending over a "reasonable length of time;" banks should be encouraged to minimize local bank closings during this period of rapid change for the industry; the government should work with the banks to ensure "sound financial services" in rural areas; bank mergers would lead to branch closings in cities and rural areas because "the whole logic of merging is to integrate and rationalize services."

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Discussion, Research, and Essay Questions

1. Established in 1891, the Canadian Bankers Association (CBA) is a professional industry association that provides information, research, advocacy, education, and operational support services primarily to its members, the chartered banks of Canada. Read the CBA's response to the MacKay Task Force report on the Internet at www.cba.ca/eng/CBA_on_the_Issues/Submissions/980929-a.htm and prepare an oral summary for the class.

2. The Insurance Bureau of Canada has a Web site at www.ibc.ca. What are the concerns of the Insurance Bureau with regard to Canada's financial services sector?

3. Both the proposed Royal Bank-Bank of Montreal merger and the TD-CIBC merger have Web sites dedicated to the concept of bank mergers. Examine both sites and compare their reasons for supporting bank mergers. Which site is the more convincing and persuasive? They are: http://proposedmerger.com/home.cfm?Language=eng and www.tdbank.ca/tdbank/tdtoday/speeches.htm

4. Go to Statistics Canada's Web site at www.statcan.ca/english/Pgdb/Economy/Finance/fin17.htm and examine the latest statistics about bank profits. Examine Statistics Canada's other business links and compare the bank's profits with those of other sectors in the financial services industry. Can you draw any conclusions?

5. The Canadian Community Reinvestment Coalition (CCRC) is a coalition of over 100 small business, labour, community economic development, anti-poverty, and consumer groups. It represents over 3

million people and advocates for bank accountability in Canada. This organization can be found on the Web at www.cancrc.org/index.html. Examine its recommendations and commentary on the task force. Does the CCRC agree with the task force's recommendations?

6. Democracy Watch at www.web.net/dwatch/ is an independent, non-profit, non-partisan Canadian citizen advocacy organization that works to empower Canadians in their roles as voters, citizens, taxpayers, consumers, and shareholders. Its aim is to help reform Canadian government and business institutions and to bring them into line with the realities of a modern, working democracy. With reference to information in this site, suggest what the relationship between government, business, and citizens should be in a modern progressive democracy?

7. OSFI, at www.osfi-bsif.gc.ca, is an acronym for the Office of the Superintendent of Financial Institutions. This is the regulator for all banks in Canada, all federally chartered trust and loan companies, federally chartered insurance companies, fraternal benefit societies, and credit union centrals. What is its role with regard to the recent proposed bank mergers? Does it have the power to prevent them from happening? How does the decision-making process work?

Indicates material appropriate or adaptable for younger viewers.