THE ROYAL BANK OF CANADA
MONTHLY LETTER

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How the Banks Serve the People

HOW do Canada's banks serve the people? The story of two or three transactions will make evident how necessary and fundamental are banking services in this fast-growing country. Besides being essential to the nation's economy, the banks reach into the day-to-day life of every Canadian. This *Monthly Letter* is about that day-to-day service.

The simplest sort of bank is a piggy bank. You put money in, and by-and-by you take it out. But that system of banking has its limitations.

Let's suppose your piggy bank, in which you have been dropping cents and nickles and dimes toward paying for next year's vacation, is full. You shake out the coins and find that they amount to $4.85. Now you can start again putting odd change into the piggy bank: but what are you going to do with the $4.85? You can't leave it in your dresser drawer, because you know that it will quickly melt away as you pick it up for this and that, or you recall the sneak-thief who visited a neighbour's home.

This is your introduction to banking on a level higher than the piggy bank. You take your $4.85 to a branch of one of Canada's nine chartered banks and open a savings account. There are 4,352 branches in Canada — one for every 3,645 people — so it is not difficult to find one. We have better banking facilities in Canada, in relation to population, than any other country in the world.

You may choose a branch of any bank, but we are going to write about what happens in a branch of The Royal Bank of Canada, because naturally we are better acquainted with what takes place there.

You go to the counter where there are spaces served by various tellers, the accountant, and others. Any one of them will show you the simple procedure when you announce that you intend to open an account.

You fill out, or watch a teller fill out, a "deposit slip" indicating that you wish to place $4.85 in the safe keeping of the bank. You give your name and address. You sign a "signature card" which will be kept by the bank for comparison with your signature on cheques or withdrawals. This is a protection for you as well as for the bank, because it prevents wrongful withdrawal of your money by forgery. A "passbook" is given to you. This does not have your name on it, but only your account number. Why? Because if you leave the book lying around and someone picks it up he will not be able to know how much you have in the bank, but only that someone having an account numbered 12345 has such-and-such an amount. You know your number and the bank, of course, knows it, and that is enough. This is symbolic of the confidential nature of your dealings with the bank.

You are a depositor

Now you are a depositor. There is no more work or formality to it than that. Your money — and all that you deposit hereafter toward your vacation, or for any other purpose — is in the safe custody of The Royal Bank of Canada, one of the four largest banks on the continent. As Ken Liddell said early this year in his column in *The Calgary Herald:* "Canadians have implicit faith in their banks, and rightly so, for their banks have probably the finest reputation in the world for integrity."

Knowing that your savings are safe is a pleasant feeling, but there is more than that to being a depositor. You gain in at least four other ways: (1) your deposits earn interest at the rate presently in force, 2½ per cent per annum; (2) you can draw out your money at any time you want it; (3) you can transfer money from your account to other people merely by writing a cheque; (4) you know that your money, used by the bank under strict and wise safeguards, is playing its part in the great Canadian economy on which the prosperity and high standard of living of all Canadians depend.

Let's look at these advantages one by one, but first of all we should pay a little more attention to a feature mentioned earlier — one that vitally affects every one of us — the safety of the system.

Dependability of the banks

The most important principle in Canadian banking is that a depositor must be able, at any time, to withdraw any or all of his funds. The banks have assets more than enough to cover all their liabilities, capable of being converted into money more rapidly than would be necessary to meet the greatest demand upon them that could be reasonably expected.

Some who read this will recall the great financial tests of the past thirty years: the crash of world stock markets in 1929; Britain's going off the gold standard in 1931; the closing of banks in the United States in 1933; the outbreak of war in 1939; and the flurry of reconstruction following 1945. During all of these upheavals no Canadian had to fear for the loss of a single dollar of his bank deposit.

Why are the banks so certain of paying their obligations promptly? One reason is their capable management by men of integrity, working under wisely designed bank legislation. Another is the fact that they concentrate most of their advances in short term loans and refrain from taking speculative risks. Longer term loans are in the form of mortgages under the National Housing Act, guaranteed by the government. Investments are largely in government securities. The banks keep large reserves of cash and readily saleable securities. They have men of the highest competence looking ahead and looking back, guiding the course of their loans and investments.

Interest on deposits

Some people have more than one account, each earmarked for a special purpose. A caller told us recently that a friend had asked him to drop in when down town and deposit some money for him. The friend gave him three passbooks: the first marked "Jaguar", the second marked "Mink coat", and the third marked "Mexico next year."

The friend may not save enough in a year for all three of his desires. He may get a standard sedan instead of an exciting sports car, his wife may get Hudson seal instead of mink, and they may vacation at a Canadian resort instead of in Mexico: but he has the fun of splitting his savings in three desirable directions — and he is getting paid interest on his money.

What he is doing is placing a portion of his wealth in the keeping of the bank. The bank is at liberty to use it as it sees fit, so long as it returns his wealth on demand.

As remuneration for the use of his wealth the bank at present pays him interest on his savings at the rate of 2½ per cent per annum, credited twice yearly. This is an increase from 2 per cent, the rate applying at the beginning of this year.

That there are a good many people using the bank method of saving for what they want, profiting by the accumulation of interest, is shown by the latest detailed survey (September 1955). There were 8,595,160 personal savings accounts, with deposits totalling $5,757,182,000 payable in Canada in Canadian currency.

Withdrawing money

Funds deposited in a chartered bank will be paid only to the depositor in person or upon presentation of his written order.

By far the largest part of payments in leading countries is made by cheque. Though not required by law to do so, the banks in Canada allow chequing against savings accounts, but if the number of cheques issued is excessive in relation to the balance carried in an account, a service charge is collected.

An indication of the extent of the "pay by cheque" habit in Canada is given in Dominion Bureau of Statistics figures covering the dollar amount of cheques cashed in July: $17,852,087,000. In the first seven months of this year the amount was $113,135,960,000. These were not all savings account cheques, of course, but a goodly proportion were.

Indeed, the number of cheques drawn against savings accounts has become so large, involving an increase in staff to handle them with consequent increase in costs, that the banks have found it necessary to apply higher service charges.

Besides cheques, there are other ways of transferring money from your account to someone to whom you wish to pay it. A Canadian bank, with its head office in Montreal or Toronto, has not only its own system of branches in Canada and elsewhere, but it also has a connection with banks in all important cities in the world. The Royal Bank has 793 branches in Canada and 74 in other countries.

You may, by issuing a cheque on your account, buy money orders or bank drafts. If you are travelling, you may buy travellers cheques or arrange letters of credit. The latter are a great convenience: you finance yourself as you travel all over the world by drawing drafts against your letter of credit. Or you may transfer money by mail to the credit of persons living in distant places: the whole transaction is conducted by the bank, relieving you of all details.

Building Canada's economy

It may appear a little drop in the great tide of national and international finance that you should have deposited your $4.85 in The Royal Bank of

Canada, but indeed it is not so. It is by bringing together all the savings of all the people that the banks make capital available for carrying on business.

If the banks confined themselves to accepting deposits, and kept the money in their vaults instead of lending it out, the economy of the country would stagnate. Keeping money locked up in bank vaults would be a miserly proceeding that would benefit no one.

Bank loans increased greatly over the past ten years, both because of and as an aid to our expanding economy. The demand for additional funds came largely from farmers, business men, corporations and municipal governments who were all striving to supply the wants of our prosperous and growing population, but there were hundreds of thousands of small loans too.

Personal loans are made to salaried people and wage-earners for many purposes. Some use them to make house or property improvements, to buy equipment and appliances, to pay medical and other professional accounts, to pay taxes, for travel and recreation, to buy clothing and motor cars.

Every application for credit is considered on its merits. The most important question a bank manager asks is this: "Can and will the applicant repay this amount in accordance with the terms of the loan?"

Character of the customer is of great weight in the branch manager's mind, and this seems to be a good place to mention a plus value in opening that savings account we mentioned earlier. The man who has had an account with his bank over a period of time has demonstrated a certain sense of responsibility and his ability to handle finances. Having an account does not of itself entitle a person to obtain a loan, but it is undoubtedly a recommendation.

Some people entertain the idea that a would-be borrower who proposes to carry on some desirable productive activity is entitled to be supplied with funds whether or not he can satisfy the lender that he will be able to repay them. The simple fact is that unless a lender is satisfied that he will be able to get repayment he is not lending but subsidizing. No private lender, acting as agent for other persons who have entrusted their funds to him, can possibly undertake any such loan.

There are about 1,250,000 bank borrowers at any one time, and competition between the banks for this business is very keen. When a person of integrity, with a sound proposal, seeks credit at a bank it is seldom that he fails to obtain consideration.

The branch manager knows that the prospective borrower is free, under this banking system of ours, to go to any or all of the other chartered banks with his application, and if the banker has judged hastily or turned down the loan without reason, the business goes to a competitor.

Avoiding inflation

It is true that in the past few months the banks have stiffened some of their lending practices. This is done in their role as quasi-public institutions. It is a consequence of the monetary policy being pursued by Canada's monetary authorities, a policy designed to make bank credit more expensive and less accessible, thereby curbing inflation.

The Bank of Canada, a government agency, determines the over-all volume of bank credit, leaving it to the chartered banks to determine the individual distribution of it.

The credit restrictions currently in effect are felt to be a burden by some businesses and individuals. It is unpleasant to be told by one's banker that because of the national need to avoid inflation there just isn't enough money to give everyone the credit he would like to have — and which he could obtain readily from the banks in normal times. The banker, too, finds it unpleasant to have to apply restraining measures against his customers.

But the banking system has its big part to play in maintaining stability amid the expansion of our country. As the President of The Canadian Bankers' Association put it: "The present policy of credit restraint, applied by the chartered banks as a result of the monetary actions and suggestions of the Bank of Canada, is designed to sustain and prolong prosperity by not allowing an inflationary spree to take over."

As part of its contribution toward a desirable goal, this bank has conscientiously co-operated with the Bank of Canada in its efforts to control inflation by curtailing the use of bank credit. At the same time, it does its level best to meet the legitimate requirements of its customers.

Who owns the banks?

The Canadian banks are neither a government nor a private monopoly. They are business organizations chartered by the government to do certain sorts of business, just as industries have their company charters issued according to law.

The "owners" are the shareholders. Anyone who wishes to invest his money may go to a stockbroker and buy shares in the bank of his choice. There were 77,153 bank shareholders at the end of the 1955 fiscal year, holding 18,100,000 shares. Of these 74.4 per cent of shareholders, holding 73.8 per cent of the shares, were in Canada. Only 5.8 per cent of shareholders and 6.9 per cent of shares were outside the British

Commonwealth. The Royal Bank had the largest number of shareholders at that time, 18,700: today it has more than 21,000, still the largest number.

The par value of bank shares is fixed by the Bank Act at $10, changed from $100 at the 1944 parliamentary revision to encourage wider diffusion of ownership. A shareholder doesn't make a fortune out of his investment: the dividends he received in 1955 were only 4.86 per cent of his equity.

Compared with other businesses, bank profits are relatively low. Few industries get along on such a small margin. Just to run a bank costs big money. The banks' pay-rolls run to more than $153 million a year; interest to depositors costs $105 million; income taxes amount to about $37 million. Adding together salaries, interest, income taxes, and other expenses gives a sum of $389 million paid out by the banks in a year, an average of $14.85 for every dollar received by shareholders in dividends.

Shareholders are represented in management of the banks by directors elected annually. The directors appoint the management of the bank, and otherwise act as do the directors of any commercial company.

The bank staff

The nearly 60,000 workers in banks in Canada come, generally as high school graduates, from every city, town and village in this country. A great many of these young people have just made their homes in Canada, and the banks have on their staffs New Canadians from most countries of the world.

Because of the branch banking system, providing an office in practically every hamlet, a significant number of the staff come from small places. Here are the birthplaces of officers of this bank listed in the latest annual report: Peebles, Scotland; Oshawa, Ont. (2); Middle Musquodoboit, N.S.; Drayton, Ont. (2); Pembroke, Ont.; Milngavie, Scotland; Goderich, Ont.; Prescott, Ont.; Winnipeg, Man. (2); Sherbrooke, Que.; Pickering Township, Ont.; Ermelo, Transvaal; Wiarton, Ont.; Montreal, Que.; Boulardarie, N.S.; Barnet, Herts, England; Lockeport, N.S.; Lacombe, Alta.; Sydney, N.S.; Belize, British Honduras; Stanstead, Que.; Aberfeldy, Scotland; Inverness, Scotland; Fleming, Sask.

Top men in Canadian banking rise through the ranks. It is a tradition that the men who run the bank — the president, the general manager, the head office executives — are men who have started at the bottom as juniors and worked their way up.

Experience is generally of the "on the job" sort, although some banks are experimenting in a limited way with class tuition. Transfers from point to point are a necessary part of the bank training system. By viewing many parts of the Canadian economy at first hand, a man acquires the capacity for comparative judgment, and an understanding of the integration needed in business and industry in a country so varied in its natural resources as Canada. He learns not to take a purely local view of local problems.

Banks provide a good deal of money, in addition to the contributions of the staff themselves, to remove from employees the fear of unemployment, of sickness, and of a penniless old age. They contribute heavily to pension, life insurance, health insurance, and other plans. But security is not the chief attraction about work in a bank.

Young men are selected by this bank in the hope that they will show the competence and judgment to make a direct and continuing contribution to its service to the people. "As a career," said the Chairman and President of The Royal Bank in an address not long ago, "I can imagine none more stimulating or rewarding than banking. The best a banking career has to offer is not, as popular opinion would have it, security, but rather the stimulating challenge afforded by abundant opportunity for advancement in open competition in which nothing counts but the man's own qualifications and attitude to his work."

That is how the banks are owned and run. This bank has 21,000 shareholders, thirty directors, and a staff of more than 15,000 in its banking offices at home and abroad. Every one, from the longest employed to the latest newcomer, is trained or is in training to give the best in banking service to customers.

Banks serve the people

And so, from piggy bank to great institution, banking means service to you in your effort to attain what it is in your mind to achieve. This bank will serve you by keeping your money safely, paying interest on it, and by having it available to meet emergency or the purpose for which you saved it, or by advancing money on loan in exchange for your promise to repay it.

Bankers in the Canadian banking system do business with people individually, not with a mass market.

Your deposit, your withdrawal, your loan — all these are under the personal care of a trusted worker in one of the branches, advised by men of experience and integrity.

Your banker will sit down with you, in any financial problem you encounter, and give you the best guidance he can, supported by all the wisdom of his great institution, informed and enlightened by his personality and his intimate knowledge of your environment.

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