THE ROYAL BANK OF CANADA

HEAD OFFICE, MONTREAL

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CANADA is among the leading nations of the world in the dependability and efficiency of its banking system. The powers and business of banks are clearly defined in the Bank Act, an enactment of the Dominion Government. This is not a creation of lawyers and statesmen arrived at once and fixed for all time. The Canadian banking system is a product of evolution, and it is still pliable. The Bank Act, originally passed in 1871, is thoroughly overhauled every ten years by a committee of the House of Commons, and other changes may be made between revisions. At the decennial revisions, business people have their say; the legislators of the country are alert to protect the interests of the people; the banks themselves bring forward suggestions to improve their service, and any person or organization has a wide-open opportunity to present ideas for changes in either banking procedure or financial practice.

Briefly, the Bank Act authorizes a bank to take deposits and to deal in, discount, and lend money on commercial paper, stocks, bonds and debentures of municipal and other corporations, and on Dominion, Provincial, British or foreign public securities. The banks are forbidden to advance money on mortgages, though they may accept a mortgage as additional security for a debt already incurred; they are forbidden to buy, sell or barter goods, or to engage in trade. The object of these regulations is to prevent a bank from locking up its assets. The greater part of the assets of a bank, which consists of investments and short-term Government bonds and other high-grade securities, and commercial loans, are constantly in the process of being collected and reinvested and reloaned.

Other sections of the Bank Act (there are 165 of them) fix the maximum rate of interest which may be charged, indicate the commission the banks may charge for collecting a bill discounted in one city and payable in another, limit the small fixed fee for casual advances and lay down very strict rules regarding the loaning of money to persons in any way connected with the bank. For instance, a director is not even allowed to attend, let alone vote at, a meeting of a bank board when it is discussing an advance to himself or to any firm in which he is interested as a partner or director. Directors must be elected annually; the majority of directors on a bank board must be British subjects domiciled in Canada; they are liable in criminal law if they help in giving any creditor of the bank an unfair preference over other creditors, or if they knowingly or even negligently sign any return containing a false or deceptive statement. These returns and reports in great detail are made by the banks to the Minister of Finance and to the Bank of Canada periodically. The government publishes, every month, a statement of the position of the banks for information of the public, which is reprinted in certain financial journals, and commented on in the daily newspapers.

Bank of Canada

The Bank of Canada, a government central bank, was established by an Act of Parliament assented to on July 3, 1934. Its appearance on the Canadian banking scene was merely the culmination of a number of natural developments which led from the colonial banking of 1867 to a modern, well-integrated national system that has put the country in step with all the world and a pace ahead of many nations. Object of the Bank of Canada is "to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action." Its Governor summed up its function in this way: "Its primary duty is to see that at any given moment in the development of its country's economy there is the right amount of money in existence, neither too much, nor too little. By money, I mean not only notes and coins, but deposits in the banks." The Bank of Canada does no commercial business except through its subsidiary, the Industrial Development Bank, the function of which is to supplement the activities of the chartered banks and other lenders by supplying the medium and long-term capital needs of small and medium-sized business.

Chartered Banks

While the aggregate supply of money is determined by the central bank, it rests with the chartered banks to provide the individual credit requirements of commerce and industry and of the public generally. This eliminates all the many dangers inherent in a system which would distribute credit to individuals through a government monopoly. There are ten banks chartered under the Bank Act, and only they, and two long-established savings banks, in addition to the Bank of Canada, are legally entitled to call themselves "banks", or to use the word "banking" in connection with their business.

"Ours has been a banking system of unusual strength," said the Minister of Finance in introducing the revision of the Bank Act to Parliament last year. Canada, while a country small in population, has three banks with assets of more than one billion dollars each. There has been no bank failure since 1923, when an institution which was never an important factor in the financial set-up went under, and noteholders have experienced no losses whatever since 1881. The rank of the chartered banks on June 30, 1945, as revealed by the Return of the Chartered Banks to the Government, is shown by the following asset figures:

The Royal Bank of Canada	$1,831,605,106
Bank of Montreal	1,690,091,226
The Canadian Bank of Commerce	1,277,137,590
The Bank of Nova Scotia	613,591,788
Imperial Bank of Canada	376,323,972
The Bank of Toronto	327,818,284
Banque Canadienne Nationale	318,323,916
The Dominion Bank	304,424,196
La Banque Provinciale du Canada	120,312,360
Barclay's Bank (Canada)	35,318,657

There were approximately 51,190 shareholders last September, and the number has expanded since the par value of shares was changed last year from $100 to $10.

War Service

Before discussing the practical work of banks in handling their customers' business, it might be well to recapitulate briefly the changes wrought by war.

One of the chief wartime problems of the Canadian banks has been that of staff. This bank had, at the maximum, 2,170 of its Canadian staff in the armed forces. This represents 74 per cent of its pre-war male staff under forty-five, and the record of the other Canadian banks is similar. These men were replaced temporarily by young women. Concurrently with the decrease in experienced staff came a marked increase in the demand for banking services. This came from two sources: from the public because of ever-expanding war activities, and from the Government because of the various controls, war production, requirements of the armed forces, rationing and other activities.

In common with business and with people generally, the banks have endeavoured to pull their weight in many kinds of wartime service. Every branch of every chartered bank in Canada has been, during the war years, an authorized dealer for the Foreign Exchange Control Board. Almost every transaction involving travel outside Canada, import or export of goods, receipt or payment of foreign exchange necessitated the issuing of a permit, and except where it was beyond their authority, the banks discharged the responsibility of approving such applications for permits and ensuring the proper completion and disposal of the forms.

The intricate machinery necessary to float the various war loans was put into motion with the help of the banks, whose many branches afford nation-wide outlets for distribution of these securities among more than three million small holders. In addition they sell war savings stamps and war savings certificates over the counter, without remuneration, and provide safekeeping facilities for bonds and certificates at a very low cost to the holder. They also perform many other services for the Government. To all these extra duties has now been added the cashing of around 1½ million Family Allowance cheques issued monthly by the Government. Their handling imposes a great additional load upon already hard-working staffs.

Credit

Apart from providing a safe repository for savings and surplus funds the principal business of a bank is to furnish credit for carrying on the business of the country. This is done in a variety of ways. Letters of Credit are issued to finance the importation of goods. In this way the bank exchanges its well-known and acceptable credit for the less-known credit of its customers. Direct loans are made, the proceeds of which customers use for purchasing raw materials, paying wages and other operating expenses or for the purchase of goods for resale.

In whatever form credit is extended there must, of course, be reasonable certainty that advances will be repaid. In the case of commercial loans, for example, it is usual to require that they should be based on saleable merchandise or collectable debts.

There is no point upon which it has become more fashionable to criticize the banks than upon their alleged unwillingness to make loans. While it is inevitable that bankers, being mere mortals, are subject to error the same as all other humans, it is seldom indeed that a worthy and deserving applicant for a loan fails to obtain consideration. Unfortunately, sometimes there is one whose ideas as to his merits for a loan differ from the ideas of his banker, but this is not nearly so often as some are led to think.

As has been mentioned, there are certain limitations on the loans banks may make: for instance, they cannot advance money on the security of real estate nor on the security of goods and merchandise except as provided in a special section of the Bank Act. This section (88) was originally enacted during the days of provincial banking, when Canadian resources were undeveloped, and was designed to provide the banks with security to enable them to extend credit through all stages of marketing and processing of certain products—from standing timber to finished lumber, from threshed wheat to flour, from iron ore to steel, and so forth. This is one of the distinctive features of Canadian banking from the credit standpoint.

Branch Banking

Another feature of Canadian banking is the branch system. A chartered bank has been described as "a bank of branches, not a bank with branches." The head office neither takes nor lends money. All the banking business is done by the branches, each branch enjoying a considerable independence. But the fact that these branches are linked has a very important bearing on the country-wide economic situation, because through the branch system money is always seeking to find its own level. It means that stringency of cash at one point may be met from another and that deposits at one place not needed for local loans may be made available elsewhere. It means that all branch managers as well as head office officials, have access to country-wide information on which to base their advice to customers. The branch system, in which every branch manager endeavours to run his branch as successfully and as profitably as possible, has proven admirably adapted to the needs of the country, split as it is into several distinct economic areas. In the branch system, variety of risks is assured, and banks are not tied to the economic fortunes of any one section of the country.

The ten commercial banks have 3,078 offices spread out over the Dominion from the Atlantic to the Pacific, many located in small villages which would be quite unable to support an independent bank.

The number of branches per bank operated in Canada varies from 581, which is the largest number (The Royal Bank of Canada) down to 2 (Barclay's Bank, a subsidiary of the large British bank of the same name). These offices are all managed by experienced officers who have received their banking training in branches located in various sections of the country. Almost without exception the executives and officers of Canadian banks have worked up through the ranks. As a matter of fact, the General Managers of nearly all the Canadian banks, and most of the Presidents, started their careers as junior clerks. Branches are under control of their head offices, but the larger banks have supervisor's departments in most of the provinces, which have jurisdiction over all branches in their districts. These departments are virtually local head offices, and have power to approve loans up to substantial amounts.

All loans are made at the branches. Branch managers have authority to make loans up to certain limits, without the need of reference to higher authority. The maximum up to which a manager may make loans depends upon his experience and judgment, and upon the nature of the security offered. If a would-be borrower seeks an amount outside the manager's jurisdiction, the application is referred by the branch to the district supervisor, or to head office. Before being appointed to the post he holds, the branch manager has acquired a varied banking experience in other parts of Canada or abroad, so that he and the community are protected against the risk of his taking a purely local view of local problems. This is one of the features of bank training which makes branch managers so valuable as members of community boards and participants in community activities.

Each manager for whom an employee works reports regularly on his qualifications, as does also the inspector in the course of his annual visits. All reports are carefully kept and reviewed periodically by personnel and executive officers at supervisor's departments and head office, who endeavour to see that each employee receives opportunities and rewards in keeping with his ability.

In addition to branches in Canada, many Canadian banks are also represented in the international field. Fifty years ago they established branches in Newfoundland, and shortly afterward in Cuba, in all the principal British West Indian Islands, Puerto Rico, and other points in the Caribbean area. The Royal Bank of Canada, in addition to being located at these points, has been doing business in the Dominican Republic and Haiti since 1912. In 1914 it opened its first branch in South America, and today it is established in Colombia, Venezuela, British Guiana, Brazil, Argentina, Uruguay and Peru, with a total of 69 branches outside Canada. The majority of the Canadian banks operate agencies in London and New York, and at least one Canadian bank is to be found in Paris, San Francisco, Seattle, Chicago, Los Angeles and Portland, Oregon. The Canadian banks have correspondent banks in all countries, through which any kind and volume of international business may be negotiated. The complete understanding and accord which exist between Canadian and foreign banks will have no little part to play in the restoration of peace.

Accounts

Deposits in Canadian banks are broadly divided into two classes, current and savings. These accounts, as is the case with any phase of human activity, have taken on other names: the current account may be known as a demand deposit account, because sums at its credit are withdrawable on demand; the savings accounts are also called notice or time deposit accounts, because the sums at credit in these accounts are legally withdrawable only after a certain period. In practice, however, no bank insists upon this legal right of notice. Let us see, now, how these two accounts work out in practice.

Savings accounts represent the accumulations of small savers who do not enter the investment market and they are used by those who are accumulating funds to invest. Canadian banks have consistently encouraged savings, and it was not until 1933, after 30 years during which they paid 3 per cent, that they were compelled to reduce the rate of interest, which is now 1½ per cent. The total of savings deposits substantially exceeds that of deposits payable on demand, latest figures showing more than $2½ billion in savings, and $1¾ billion in current accounts. Canadian bankers watched with interest the insurance of small deposits introduced in the 1935 revision of United States banking legislation, but it is significant that branch banking and government regulation in Canada have, along with adherence to orthodox banking practice, carried Canadian depositors through the depression and war without loss. So long as this excellent record is maintained, there is not likely to be any demand for deposit insurance, the system itself being secure. That the people of Canada believe in their banks is evidenced by the fact that more than five million of them have savings deposit accounts, averaging $494 each.

How does one go about opening an account? It is simplicity itself. No one need hesitate to enter the bank because his resources are small or because he does not know the procedure. A savings account may be opened with $1, and any member of the staff will help to fill out the simple necessary form. The teller will accept the deposit, the ledgerkeeper will ask the new customer to fill in a signature card and supply a pass book showing the amount of the deposit. Every account is given a number, which should be written on all cheques, deposit slips and withdrawal slips. The pass book and cheque book are provided free by the bank. Interest is added to all balances twice a year. The advantages of a savings account are many: savings increase, so as to provide for the future; the possession of a savings account, and the reputation of being a savings-minded person, help in establishing credit should it become necessary to solicit a loan.

A current account is more of a business account. It does away with the need to carry large sums of cash, and its use is a security against loss through carelessness or theft. The depositor places all money received in the bank, and pays bills by cheque, so that his account is also a book-keeping record. Because most current accounts are active and subject to wide fluctuations, and a great deal of work is entailed in keeping them up to date, it is not usual to allow interest on balances. Some accounts, where the balance is not sufficient to offset the cost, are subject to a suitable charge. The service charge, as it is commonly called, is calculated to recompense the bank for the out-of-pocket expense involved in operating the account.

The Canadian banks enjoy to a remarkable degree the confidence of the public, due in no small measure to their splendid reputation for a high order of management. Apart from the requirements which must be observed before a charter is obtained, there are many other safeguards. The Minister of Finance is the technical head of the government regulatory system, although the immediate supervision of the banking department falls upon an official known as the Inspector General of Banks. This official receives statements of conditions once a month, and is empowered to conduct an examination of the assets of any bank at any time he sees fit. He examines every bank once a year. In addition, every bank head office maintains its own inspection department and a numerous staff of examiners. All branches are visited by these men at least once a year, and a thorough examination is made. Then there is a third examination, or audit, instituted by the shareholders, the report of which is made to the shareholders at the annual meeting. This audit is conducted by two senior chartered accountants, not members of the same firm, who are appointed annually by the shareholders from a list selected by the Government.

Only a small part has been told of the services banks render the communities in which they serve. They accept payment of bills for telephone service, electricity and gas; they issue money orders, drafts, travellers' cheques, letters of credit and other similar instruments; they provide safekeeping for bonds, stocks and other valuable papers; they have safe deposit boxes in which valuables can be stored privately by customers; they provide letters of identification for clients travelling outside the country, and letters of introduction to branches in the country being visited. Scores of thousands of people have found it worth while, before undertaking any change in their lives, to consult their bank manager, who is always ready to serve them.

There might be a special postscript addressed to service men who are leaving the forces: you will find the bank manager eager to advise you about investment or disposition of your funds, quite regardless of whether you are a customer of his bank or not. The Canadian banking system is businesslike in its efficiency, but it is human. Its executive and officers wish to see all Canada's service men re-established in the best way possible. "Consult your banker" would be a good slogan for businessmen, private individuals, and service men.

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