The personal savings deposit market in Canada is highly competitive. Service charges, commissions and fees that are an element of product differentiation, and, that help customers decide where to place their deposits, do not, by any means, explain the profit situation of 1981.

The consumer and mortgage loan markets

The consumer loan market is relatively small in comparison to the mortgage market. But its growth in the period under discussion was no less spectacular. Total consumer loans outstanding in 1971 were $12.1 billion and rose to $48.4 billion in 1981 for a compound average annual growth rate of 14.8 per cent, identical to that in mortgage lending. Both increased real income growth and price inflation account for much of this growth.

Evidence in Table 5.3 shows that the market shares of caisses populaires, credit unions, and Quebec savings banks have increased modestly over the years. Those of department stores and life insurance companies have declined somewhat. With regard to trust companies, it was noted elsewhere that consumer loans are not one of their prescribed activities; as a consequence, their consumer lending is covered by a "basket clause" which allows them to hold unspecified assets of up to 7 per cent of total assets. While trust companies have made some important gains in consumer lending, this potential is limited. Moreover, this gain had to be made at the expense of holding other potential assets.

By far, the most significant developments throughout this period are the gradual disappearance of sales finance and consumer loan companies from the consumer loan market and the ever growing pressure on it from chartered banks. Although the banks held the largest share of this market from 1971 to 1981, the size of their share grew from under 54 per cent to over 67 per cent of the market in this period. The dollar volume of consumer credit transacted through chartered banks rose from $6.5 billion in 1971 to $32.6 billion in 1981. The 13 per cent gain in market share exactly matches the 13 per cent decline of the finance companies.

The reasons for the banks' assumption of so much of the consumer loan market must be traced back to the Bank Act revision of 1967. Since 1877, a ceiling of 6 per cent had been imposed on bank loans.(5) As long as the general market rate of interest was below this ceiling, it did not affect the operational behaviour of banks, but, as the general level of interest rates rose close to it, it began to infringe upon the banks' lending activities. Their spreads were squeezed. This was precisely the case in the sixties. In some instances, the market rate exceeded the 6 per cent ceiling. However, the use of the "discount" and service charges allowed them to continue to compete in the market and still maintain their profitability.(6) They were able to offer consumer loans at the prevailing market rate. (The chartered banks had withdrawn from the mortgage lending market, for all practical purposes, during much of the sixties, because the market rate of interest exceeded the 6 per cent ceiling, and The Interest Act precluded them from discounting and imposing service charges).

The removal of the 6 per cent ceiling in the 1967 Bank Act provision and the decrease in reserve requirements gave the banks a competitive boost. They rejoined the mortgage market and pursued further consumer credit business by introducing bank credit cards.