banks and other institutions open new branches, close less frequented branches, extend their business hours, launch automatic distributing devices, and generally offer a greater variety of services.

A bank may:

(i) offer a higher interest rate than its competitors on savings deposits;

(ii) charge lower fees for services;

(iii) offer different terms of maturity; and

(iv) by advertising, try to convince the Canadian saver that deposits at its branches are better protected and that they are different from the ones offered by other institutions.

Even though a deposit at any one bank may appear identical to a deposit at another institution, over the past fifteen years, that is, since the 1967 Bank Act revision, the personal savings deposits market has been one of great innovation.(4) The following example illustrates how competition takes the form of product differentiation with respect to interest rates, services, and services charges.

On 10 February 1982 (Table 5.1), interest rates offered by different institutions varied considerably for the same maturity. For example, the City and District Trust Company was offering 14.125 per cent on 30-59 day deposits, while most banks were offering 13.5 per cent. Moreover, minimum deposits differed between institutions and, in some cases, deposits of long-term maturity, like one year and over, did not bear the same interest rate. However, the chief competition is not among interest rates but among services.

For example: in January 1979, the Toronto-Dominion Bank invited the cashing of cheques with only a Visa Card as I.D. In the following August the Bank of Montreal offered a Daily Interest Savings Account. The Toronto-Dominion Bank and the Royal Bank introduced the same service in September. In April 1980, the Bank of Montreal offered its clients consolidated reporting of all personal account balances, called "bottom line balance" and in April 1981, the same bank offered Daily Interest Savings Accounts where interest was credited monthly. To be sure, banks sometimes have to discontinue some retail service because of lack of demand, or because they have lost out to the competition.

Banks also compete on service charges. For example, on 1 November 1978, the charge for writing a cheque on a chequing account was 16¢ at the Bank of Montreal and at the Toronto-Dominion Bank. On 1 November 1980, the charge was 20¢ per cheque written at the Bank of Montreal but 19¢ at the Toronto-Dominion Bank. In the latter case however, there was a minimum service charge of 75¢. A better illustration of product differentiation is given by the service charges on Personal Chequing Accounts shown in Table 5.2.

During the course of this inquiry, the question was raised as to whether service charges were important in explaining the profit situation of Banks in 1981. They are part of a whole range of non-interest operating income like commissions, fees, service charges, all included in the Balance of Revenue. According to data from the Office of the Inspector General of Banks the answer to that question has to be "No". Non-interest income represented 0.60 per cent of average assets in 1981. This percentage is the same as in 1979 and 1978 and is the lowest of the period 1971-1981. In fact non-interest income as a percentage of average assets has been declining from 1971 to 1981. It averaged .68 per cent from 1971 to 1975 and .62 per cent from 1976 to 1980.