Bank Amalgamations

British bank committee reports that further fusions will endanger bank of England

The Treasury Committee appointed on March 11th to consider "to what extent, if at all, amalgamations between banks may affect prejudicially the interests of the industrial and mercantile community, and whether it is desirable that legislation should be introduced to prohibit such amalgamations or to provide safeguards under which they might continue to be permitted," have issued their report.

The Committee point out that bank absorptions and amalgamations are no new phenomenon in this country, about 300 instances having occurred, more than half of them in the last fifty years. Several recent amalgamations have, however, provoked an unusual amount of interest and have been seriously criticized in certain quarters. The change in public opinion appears to be due mainly to the fact that amalgamations have changed their type and consist no longer in the absorption of a local bank by a larger and more widely spread joint-stock bank, but in the union of two joint-stock banks, both possessing large funds and branches spread over a wide area.

Two main arguments, the Committee say, were laid before them in support of the policy of amalgamation lent up to their full resources home trade trade secured by an extension of bank areas." It was claimed that, as the large banks of the past secured certain advantages to trade by collecting deposits from various parts of the country where they were not required and placing them at the disposal of other parts which stood in need of advances, this process could be carried still further with advantage by amalgamating large banks with one another. While admitting the truth of this contention, the Committee remark that there must come a point when the policy of substituting one large bank for two will usually mean a very small extension of area, if any, and some reduction of competition. Moreover, if both the amalgamating units have before amalgamation lent up to their full resources home trade as a whole cannot gain any increase in accommodation as a result of the amalgamation.

They point out that in London an amalgamation can secure no material extension of area, and usually means a net reduction in the number of competing banks in the City, as all other important competitors are already represented there and cannot therefore, as is sometimes the case in other districts, add a new element of competition to counterbalance the amalgamation. Should no such new element arise, there will be a similar net reduction in the number of competing banks in nearly all the most important towns outside London.

The second main argument for amalgamation was that large banks were better for traders, and particularly for large traders, than small banks, because they could safely make individual advances on a more generous scale.

It was argued also "that banks must grow now to keep pace with the growth in size of business houses generally, and to enable them to deal with the demands of after-the-war trade both at home and abroad." The importance of this point is admitted by the Committee. Various Government Committees, they say, have drawn special attention to the question of banking facilities after the war, and it is very desirable that all possible steps should be taken to adapt the banking interest to the new position which will then arise. But the point with regard to the size of banks is one of degree only.

The Committee point out, moreover, that the argument with regard to post-war trade can only be used with some caution as regards foreign trade in view of the special dependence of English banks on deposits withdrawable at call or short notice.

The Committee admit that there is much weight in the arguments for amalgamation as far as they go, and say that "even if the absolute necessity of large new amalgamations is not clearly proved, yet the absence of proof of the public necessity for business reorganizations is not, in itself, any reason for objecting to them, and it is a serious step at any time to interfere with the natural developments of trade."

Three main grounds of objection to further amalgamations were brought before the Committee. The first was that amalgamation schemes usually mean a reduction in the total paid-up capital and uncalled liability of the two pre-amalgamation units. They give figures to show that in three cases of amalgamation or proposed amalgamation substantial benefits to shareholders are thus purchased at the expense of some of the security of the depositors, though they say the reduction of capital resulting in two of the cases appears to be merely nominal. The second ground of objection was based on the dangers of reduced competition, and the third on the danger of monopoly. On the last point the Committee say:

"It has been represented to us that there is a real danger lest one bank, by the gradual extension of its connections, may obtain such a position that it can attract an altogether preponderant amount of banking business; or, alternatively, lest two banks may approach such a position independently and then achieve it by amalgamation.

Any approach to a banking combine or Money Trust, by this or any other means, would undoubtedly cause great apprehension to all classes of the community and give rise to a demand for nationalizing the bank trade. Such a combine would mean that the financial safety of the country, and the interest of individual depositors and traders, would be placed in the hands of a few individuals, who would naturally operate mainly in the interests of the shareholders. Moreover, the position of the Bank of England—which would, it may be assumed, stand outside any such Trust—would be seriously undermined by so overwhelming a combination, and the Bank might find it extremely difficult to carry out its very important duties as supporter and regulator of the Money Market. Any such result would, in our opinion, be a grave menace to the public interest. . .

While we believe that there is at present no idea of a Money Trust, it appears to us not altogether impossible that circumstances might produce something approaching to it at a comparatively early date. Experience shows that, in order to preserve an approximate equality of resources and of competitive power, the larger English banks consider it necessary to meet each important amalgamation, sooner or later, by another. If, therefore, the argument from size is to prevail, it can only lead, and fairly rapidly, to the creation of a very few preponderant combinations; and if those combinations amalgamated, or entered into a joint agreement as to rates and policy, etc., the Money Trust would immediately spring to birth."

The Committee go on to point out that such are the main arguments laid before them against further amalgamations, and they add: "Undoubtedly some of the dangers feared are somewhat problematical and remote, and we should very much have preferred to avoid the necessity for any interference by Government with the administration of banking. But on a careful review of all the above considerations, we are forced to the conclusion that the possible dangers resulting from further large amalgamations are material enough to outweigh the arguments against Government interference, and that, in view of the exceptional extent to which the interests of the whole community depend on banking arrangements, some measure of Government control is essential. Our conclusions on this point were confirmed by the resolution passed at the recent annual meeting of the Association of Chambers of Commerce, in which it was proposed that steps should be taken to guard against amalgamations, etc., shown to be injurious to commercial interests.

We therefore recommend that legislation be passed requiring that the prior approval of the Government must be obtained before any amalgamations are announced or carried into effect. And, in order that such legislation may not merely have the effect of producing hidden amalgamations instead, we recommend that all proposals for interlocking directorates, or for agreements which in effect would alter the status of a bank as regards its separate entity and control, or for purchase by one bank of the shares of another bank, be also submitted for the prior approval of the Government before they are carried out.

As general principles to be acted upon at present by the Government at its discretion, we would suggest that a scheme for amalgamating or absorbing a small local bank ,or any scheme of amalgamation designed to secure important new facilities for the public or a really considerable and material extension of area or sphere of activity for the larger of the two banks affected, should normally be considered favorably, but that if an amalgamation scheme involves an appreciable overlap of area without securing such advantages, or would result in undue predominance on the part of the larger bank, it should be refused. Consideration should also, in our opinion, be given to the question of the clerical labor—usually very large—involved by amalgamations during the war, and to the undesirability of permitting an unusual aggregation of deposits without fully adequate capital and reserves.

It only remains to make a suggestion as to which Government Department or Departments should be charged with the responsibility of approving or disapproving amalgamation schemes, etc., under our proposal above. On the whole, we think that the approval both of the Treasury and of the Board of Trade should be obtained and that legislation should be passed requiring the two departments to set up a special statutory Committee to advise them, the members of which should be nominated by the departments from time to time, for such period as may seem desirable, and should consist of one commercial representative and one financial representative, with power to appoint an arbitrator, should they disagree."

LAST WEEK'S RECORD OF ACTIVE MONTREAL STOCKS.

Sales.		Open.	High.	Low.	Last sale.	Net ch'ge.	— YEAR — High.	— YEAR — Low.
300	Ames-Holden pfd.	60	62	60	62	+2	63¼	47
105	Brazilian	34½	34½	34½	34½	+ ¾	40	32
125	Can. Car	30½	33	30	33	+2½	33¼	18⅛
590	Do. pfd	*74	*78¾	*74	*78	+4½	78½	49½
410	Can. Cement	*60½	*61	*60½	*61	+1	62	*57
133	Do. pfd.	91⅞	92	91⅞	92	+ ¾	92	90
215	Can. Steamship	40½	40½	40½	40½	unch.	43¼	39¼
178	Do. pfd.	76	76	76	76	unch.	78½	76
136	Dom. Coal pfd.	94¼	94¼	94¼	94¼	.....	94¼	94¼
151	Dom. Iron pfd.	91	91	91	91	+1	91⅛	88
443	Dom. Steel	60¾	60¾	59¾	60½	—½	63⅞	*53
873	Mont. Power	76	76	75	75	—1	80¼	68⅛
185	Shawinigan	*111½	*111½	*111½	*111½	unch.	116¼	*107
190	St. Law. Flour	77	77	76	76	—1½	78	50
853	Steel of Can.	65½	66½	65½	66½	+1	67⅛	*49¾
	—BANKS—							
61	Merchants	167	167	167	167	unch.	*167	167
	—BONDS—							
$21,100	Can. Loan (1937)	93¾	93⅞	93¾	93⅞	unch.	93⅞	91⅛
	—UNLISTED SHARES—							
103	Laurentide Power	53	53	53	53	— ¼	54⅝	50

*Ex-dividend.