

Because of the different jurisdictional powers conferred by the British North America Act, both federal and provincial governments administer the complex regulatory structure of financial institutions. Classification is by type of corporate structure and place of incorporation, rather than by fields of activity. For example, banks, trust companies, caisses populaires, and credit unions, all of which compete directly in the consumer and mortgage lending field, are subject to considerably different regulatory regimes.

As defined by a report of the Economic Council of Canada "... regulation refers to a variety of measures undertaken by the government authorities to alter the behaviour of privately-owned deposit institutions. Most directly, regulation can take the form of legislation that establishes and limits the powers of deposit institutions".⁽¹⁾ In regard to the consumer and mortgage loan markets, the most important regulations governing the behaviour of banks and near-banks are the limitation of 10 per cent of total assets in residential mortgage lending, placed on chartered banks,⁽²⁾ and the "basket clause" that allows trust and loan companies to engage in otherwise unauthorized activities (including consumer loans) to the maximum limit of 7 per cent of total assets. Two consequences emerge from such regulations. On the one hand, trust and loan companies are restricted to concentration on their primary activity—mortgage lending—because they have limits placed on them in the consumers' loan market and the business loans market; while banks, on the other hand, can effectively pursue all markets. Their subsidiary mortgage loan companies are not subject to any limitation on mortgage lending and the banks have a history as the major lending institution for the business sector.

This section focuses on the evolution of the relationship between the banks and their clients with respect to the quality of services and the nature of competition in these markets, and the incidence of regulation in a changing environment.

5.1 THE HOUSEHOLD SECTOR AND THE BANKS

The personal savings market

Competition for funds is generally considered strong in Canada because any borrower has to compete with domestic financial institutions, domestic non-financial borrowers, and international markets.

This competitive situation is best illustrated by the personal savings market, where savers can choose to make their deposits at any one of banks, trust and loan companies, credit unions, and caisses populaires, or decide to buy Canada Savings Bonds. Personal savings deposits at chartered banks, as a percentage of total personal savings in the above financial institutions, were 46.3 per cent in 1971 and 49.5 per cent in 1981. During the first part of the decade (1971-1975), the banks' share was 44.9 per cent, on average, and, during the last part of the decade, it averaged 47.3 per cent. There is a slight upward trend in this share, but it is subject to short-run fluctuations, as in 1978 when the share dropped to 44.5 per cent.⁽³⁾

The choice of a deposit-taking institution usually depends on what is offered in location, business hours, service quality and financial advantage. For the sake of attracting customers,