

## Chapter 5

# Banks and Small Clients: Their Evolving Relationships

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Two kinds of customers make up the bulk of the banking sector's clientele,—households and businesses. The household sector generates the bulk of net savings of our economy, and so is the major lending source for the banks. It is also a major client on the borrowing side, using the banks to help finance the purchase of durable goods and housing.

The business sector is a large and growing client of the banks, as a net-borrower. As will be discussed more fully, it is becoming increasingly dependent on the banks as a source of financing, this is particularly true of small businesses. Smaller firms account for over 90 per cent of the banks' business clientele and their borrowing for over 40 per cent of the outstanding value of the banks' business loans.

Both consumers and small businesses are generally thought to be at a disadvantage in their dealings with the banks. The size of the banks is intimidating and without a competitive banking environment, smaller clients could be exposed to excessive costs and/or inadequate services. However, the Committee believes that such a competitive environment does exist. The regulatory framework of Canada's deposit-taking institutions—banks and near-banks—adds further protection for borrowers and this regulatory framework is also designed to enhance the working of monetary policy, to foster competition and efficiency, and to preserve Canadian ownership of the financial sector. In recent times, both regulators and bankers have been highly conscious of efficiency and competition, because of the presence of Schedule B (i.e. foreign) banks in the country, and because, in this period of high interest rates consumers have educated themselves about differences in investment vehicles.

Historically, financial institutions have not competed solely on the basis of price. Product differentiation has played a major role in this competition. The merit of this form of competition is to enhance consumer choice, as witnessed by the vast array of consumer-oriented services now offered by various banks.