5.4 SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Households and small businesses transact business with banks in three ways: as borrowers, as savers, and as consumers of banking services. The extent to which these clients receive adequate treatment at the hands of the banks is largely a function of the level of competition amongst the individual banks and amongst the various institutions engaged in these financial markets.

Although household savers have a choice of many ways to invest their savings, they have shown a marked preference for deposits with the banks. Yet, banks are not the sole deposit-taking institutions; they must compete with trust companies and credit unions, etc. There is competition in the rates of return on savings and in the quality, quantity, and price of services. The banks can only increase their share of this market to the extent that they meet the needs of savers better than their competitors do.

Already dominant in the consumer loan business by 1970, the banks increased their share of it dramatically over the next ten years. After the revisions to the Bank Act in 1967, the chartered banks effectively displaced sales finance and consumer loan companies from the market.

From 1970 to 1980, the banks also increased their share of the mortgage market. This was made possible by the removal of the 6 per cent interest rate ceiling that had existed prior to 1967, and by the banks' use of subsidiary companies that circumvented the restriction on bank activity in mortgages. The banks used these companies for matching assets and liabilities, and to provide themselves with alternative sources of funds not subject to reserve requirements. The large-scale entry of banks into this field has also brought about a number of innovative mortgage instruments for coping with the current high rates of interest.

The trend toward greater corporate reliance on bank loans and short-term loans is even more pronounced for small businesses. **There is no indication that the availability of loans to small businesses are inadequate in any well-defined sense.** The evidence rather suggests that bank loans to various sizes of business are demand determined.

Similarly, with regard to the pricing and quality of loans to small businesses, there is no hard evidence that banks discriminate amongst the various sizes of firms as to what they required for collateral, or what they charge as interest. Where small businesses appear to pay higher prices or make other concessions, higher administrative costs to the banks and greater risk exposure tend to explain these differences.

On the whole, the existing regulatory system allows greater freedom to banks than to other financial institutions. The results presented in the Committee's report, are consistent with what would be found in a competitive market. No discrimination appears to exist, and pricing seems to be tied to cost. In this respect, the impact of regulation appears to be neutral. Indeed, **competition defined by regulation is less likely to guarantee such results in the long-run, than competition determined by market forces.** Currently, financial markets are competitive, but future competition may be hindered by regulatory constraints placed on the banks' competitors. We are particularly concerned with the ability of small business to obtain funds from a wide variety of financial institutions. The Committee recommends that: