

The Inspector General



William A. Kennett

The Office of the Inspector General of Banks was established after the Home Bank failed in 1924 (Canada's last bank failure). Once a year the staff inspects each bank and reports to the Minister of Finance on its soundness.

William A. Kennett, the current Inspector General, will have responsibility for the general administration of the Act. He recently discussed the provisions affecting foreign banks with a writer from *Foreign Bank Focus*, 1981.

FBF: What is the extent of foreign banking in Canada at the present time, and is there room for expansion of foreign banks?

Mr. Kennett: There are approximately 35 foreign banks with Canadian operations and these corporations are currently reporting \$9.7 billion in total assets. Over half our foreign banks are U.S. based, with British, French and Swiss banks also playing an important role.

The eight per cent ceiling in the new act provides for a current asset base of about \$14 billion so there is still room to grow considering the fact that most new entrants will start with a very low base. The 35 banks now here have taken a number of years—five or more—to reach the \$9.7 billion figure.

FBF: Insofar as non-Canadian banks are concerned, what will be the major impact on non-Canadian banks?

Mr. Kennett: I see the legislation as definitely a positive step for foreign banks. The principal objective is to increase banking competition in Canada, and the most immediate impact will be through entry of foreign banks and transformation of foreign financial companies to full banking status. This will give them an improved profile in the Canadian financial system, and will increase the number and availability to Canadians of services from foreign banks.

FBF: Where do you see foreign banks in Canada concentrating in the years ahead?

Mr. Kennett: Under the new legislation, foreign banks will have the same powers as

Canadian banks. Depending upon their own expertise, foreign banks can enter the entire range of retail banking or concentrate on wholesale banking. Our information suggests that most will be interested in the wholesale side—commercial lending, trade and export financing.

FBF: What will be the effect of the new law regarding branching limitations on foreign banks, and please explain the restrictions on foreign bank assets to twenty times authorized capital?

Mr. Kennett: The branching limitations will not affect them. They were retained for two reasons: first, to enable us to obtain reciprocity when applying banks come from countries which limit Canadian banks; and secondly, at some stage the government might wish to influence the distribution of foreign banking activity in the country to ensure that all major urban centers benefit to some degree. This won't happen quickly since most foreign banks are anxious to distribute branch networks, but if other parts of the country are being neglected, there may be some encouragement of branching in those areas.

The capital limitations are there to enable us to control the size of individual institutions within the eight per cent ceiling. If over time, the eight per cent ceiling is not constraining, then neither will be the asset ceiling. We will be administering the legislation very cautiously in the first few years to make sure the ceiling is not inadvertently penetrated; over time, we hope to provide authorized capital to enable banks which are growing quickest to make the greatest contribution to a competitive banking environment.

FBF: Some observers have characterized the eight per cent limitation as protectionist in nature; how do you respond to this?

Mr. Kennett: You have to view it in the context of Canadian history and experience. The Canadian financial system has developed indigenously. Banking has historically been Canadian owned and controlled, as opposed to many industrial sectors where foreign ownership is very substantial. The Parliament has determined over many years to retain significant Canadian control over the important financial sector and particularly banking.

In opening up this sector to foreign banks, the government felt that some controls were necessary to ensure that Canadian institutions were not overwhelmed. The eight per cent limit is based on the experience of many other countries, and is substantial enough that, in our current thinking, rationing should not be necessary. The ceiling is a percentage that will grow as our system grows, thus permitting foreign bank growth to contribute to the overall growth of the system.