

whereby an institution of a Member State can exercise the same rights in other Member States as those it has in its own country. They have also agreed that the primary responsibility for regulating a financial institution and for guaranteeing solvency lies with the authorities of the country of origin.

Market Factors

Return on equity (ROE) of from 16 to 18 per cent is not unusual for Canadian banks; return on assets (ROA) in the range of 0.7 to 1 per cent is also to be expected. These rates are very high by European standards. For example, Deutsche Bank had a 10.8 per cent ROE and 0.39 per cent ROA in 1988.

The domestic market, being the most profitable, is given first priority in development plans and new investments. Expansion abroad is oriented towards industrialized countries where the level of profitability is similar to Canada — e.g., the U.K. or Australia. In these countries, high interest rates result in a high cost of capital. Capital allocation provides inadequate returns, which dilutes the total profitability and reduces capacity to raise additional capital; competition is fierce for this precious commodity. Financial institutions around the world are looking for large amounts of capital to comply with stringent new solvency and capital ratio requirements, and to finance expansion programs which cash flows are insufficient to cover. Maintaining shareholder fidelity and confidence is a never ending struggle, and is difficult to reconcile with long-term planning.

The U.S. market is a natural extension for Canadian financial activities in banking, securities transactions and insurance. This is supported by the extent of trade relations between the two countries, developments under the FTA and the opportunity to penetrate a still-fragmented U.S. market. In a depressed market, the U.S. offers attractive buying opportunities for

regional banks, savings and loans, and small- to medium-sized insurance companies.

The Bank of Montreal, for example, is transforming itself under new leadership from a global institution to a bank clearly oriented towards North America. Its offshore operations now focus on serving Canadian and U.S. customers and on attracting more North American business. The Bank hopes to increase its U.S. business from 26 per cent of earnings in 1989 to 50 per cent in the coming years.

Canadian Presence in the EC

Canadian financial institutions have a strong presence in Europe (Table 4). Their holdings have for many years been concentrated in the U.K., but in the 1960s and early 1970s expansions were made to both EC and EFTA countries, including France, the Federal Republic of Germany, Switzerland and some of the Scandinavian countries. However, many of these branches and subsidiaries have since the early 1980s been sold or closed, and only a symbolic presence has been maintained in some cities. Staff and assets have been regrouped in London, which thus serves as a European headquarters.

b) Insurance

Canadian life insurance companies have a long tradition of international operations. In 1988, policies amounting to \$423 billion covered five million people in more than 20 countries. Canadian companies have assets of \$40 billion invested abroad on behalf of policies written in other countries — this represents 34 per cent of the total assets of federally registered Canadian life insurance companies.

At the same time, non-Canadian insurers held 17.7 per cent of the \$995 billion of life insurance owned by Canadian residents in 1988. These insurers hold \$18 billion in Canada on behalf of policies, and they have invested \$32 billion in additional funds in Canada on behalf of their worldwide operations. The market share