

Canadian Banking Mini Bang

The Canadian banking industry is facing a "mini bang". On June 30, 1987, the industry will be deregulated. Canadian banks will then be permitted to engage in a wide range of investment banking and stockbrokerage activities.

As a result of this development, most Canadian banks are now looking toward investment banking, commonly referred to as securitization. Two primary areas are being considered: bond underwriting and mutual funds, often called investor services.

Singapore, too, is following this world trend and developing into an investment banking centre. Over the past five years, the volume of securities trading has increased by 49 per cent (see chart).

| SECURITIES AND EQUITIES | | | |
|-------------------------|--------------------------|-------------------|-------------------|
| END OF PERIOD | TOTAL | IN SINGAPORE | OUTSIDE SINGAPORE |
| | 9 = 10+11 S\$ Million | 10 S\$ Million | 11 |
| 1982 | 3,686.3 | 3,562.7 | 123.6 |
| 1983 | 4,390.3 | 4,249.9 | 140.4 |
| 1984 | 4,379.0 | 4,236.8 | 142.2 |
| 1985 | 5,072.9 | 4,880.4 | 192.5 |
| 1986 | 5,449.5 | 5,089.1 | 360.4 |

Source: Monetary Authority of Singapore

As Charles Carlson, manager of Toronto Dominion Bank in Singapore, sees it, "There will be future parallel development in Canada and Singapore toward securitization."

In general, banks everywhere are moving away from commercial lending and syndicated sovereign risk lending (lending money to governments) to securitization.

With the five major Canadian banks present in Singapore, the expertise developed by these banks will contribute to Singapore's progress toward becoming a mature investment centre.

Over the last few years the activities of the Canadian banks, which are all based in Singapore but operate throughout ASEAN, have undergone changes.



"The banks used to be very tough competitors," says Euan Ansley, Bank of Montreal's Manager in Singapore, "but now we have all gone in different directions. The old way of banking is out."

The Bank of Montreal, which has a branch and a merchant bank in Singapore, as do the other four Canadian banks, is now strictly interested in trading money. Operating only on a wholesale basis, its

branch handles foreign exchange and money markets while capital markets is the business of the merchant bank.

Remarks Mr. Ansley, "Asia still has a lot of potential and we are looking to expand regionally. As an example, we now have treasury people travelling the region monthly."

Scotiabank

The Singapore branch of the Bank of Nova Scotia is used as a funding centre for loans often raising money on behalf of its other branches.

According to Manager Bob Erickson, Scotiabank has three main operations in Singapore: a domestic funding unit for

local loans; an Asian Currency Unit handling funding and foreign exchange; and a merchant bank used mostly for offshore loans from any country in Asia.

With its comprehensive network of branches in 10 Asian countries, Scotiabank is seriously committed to the region for the long-term as part of its international banking policy. However, when it comes to capital markets in Asia, the bank is being cautious.



Peter Tulloch explains the Canadian Imperial Bank of Commerce's regional activities as trade and project financing with an emphasis on Canadian corporate clients.

Many of the bank's support packages are linked with the Export Development Corp., a Canadian crown corporation which provides credit to buyers of Canadian goods.

CIBC Asia Ltd., the bank's merchant arm, has begun dealing in securities trading. At the moment it is trading mostly bonds and Euronotes, but, says Mr. Tulloch, it hopes to build a sales network selling Canadian bonds and securities regionally.



James Lawrie, General Manager of the Royal Bank of Canada, sees a role for the banks to play in Canada-ASEAN trade.

As the other Canadian banks appear less interested in taking this part, he says the Royal Bank has taken the initiative and is now the only Canadian bank left in the region specializing in trade financing.

Mr. Lawrie explains, "Bilateral trade and investment is essential. We feel our job is to identify opportunities to further trade."



On the other hand, the Toronto Dominion Bank's regional customers are mostly the governments of Malaysia, Thailand and Indonesia. The fall in commodity prices has led to a drop in the request for loans from these governments. Consequently, the bank's volume of business has fallen recently.

To compensate for the decrease in sovereign syndicated loans the world over, TD is currently developing in Canada, securitization expertise. Its recent purchase of a Canadian stock broking firm is an indication of the bank's future activities says Mr. Carlson.

Yet, Toronto Dominion is also taking a cautious approach to development in Asia.



Another Canadian financial institution present in Singapore is Royal Trust Merchant Bank Ltd; which last year acquired Singapore's oldest merchant bank, Arbutnot Latham Asia Ltd.

Managing Director Gerhard Wehr outlines the bank's activities as corporate finance, lending and particularly, investment management.

"Royal Trust is keenly pushing portfolio management," he says. "We see ourselves as advisors to institutions and individuals in Southeast Asia, Australia and New Zealand providing them with investment information on Canada, the United States, Japan and Europe."

It will be interesting to see how the Canadian banks develop into this new area of investment banking.

Already Canadian banks are generally acknowledged as being technically superior to most banks in the world — a development resulting from Canada's tremendous geographic spread.

With this technological edge, Canadian banks are expected, as Mr. Carlson puts it, "to introduce investor services second to none".