Section 3.—The Commercial Banking System*

The Canadian commercial banking system consists of eight privately owned banks, chartered by Parliament and operating under the provisions of the Bank Act. Of these eight, five are nation-wide institutions; two operate mainly in the Province of Quebec and in other French-speaking areas and one, a subsidiary of a Netherlands bank, has a branch in each of the three largest cities. At the end of 1962, these banks together operated 5,496 banking offices of which 5,332 were in Canada and 164 abroad. Thus, the chief distinguishing feature of the Canadian banking system is the relatively small number of large banks having an extensive network of branches, operating under a single legislative jurisdiction (the Federal Government) and under one detailed and comprehensive statute (the Bank Act).

Since the first banks were established during the first quarter of the nineteenth century, the commercial banking system has developed in response to the changing needs of the Canadian economy, an evolution which is still in rapid progress. Canadian economic development has been characterized by two main features—successive but by no means continuous periods of rapid geographical expansion of settlement, and a continued dependence on export markets as new natural resources (agricultural land, forests and minerals) were exploited. Thus, Canadian banking has continually had to migrate to new areas and to find appropriate methods of financing new industries and new products; and it has from the beginning possessed a strongly 'international' character† with much emphasis on the financing of foreign trade, on foreign exchange operations, and on correspondent relations with foreign banks. At the same time, as regional isolation has gradually broken down and the economy has been integrated, banks originating in local areas have become part of a nation-wide banking system, in part by process of amalgamation particularly marked in the first twenty-five years of the present century.

Bank Legislation

From the first, banks in what is now Canada sought to operate under Acts of incorporation (charters) passed by the legislatures of the colonies in which they operated. As new banks were incorporated and older ones obtained charter renewals, there developed in the bank charters themselves a quite extensive and fairly uniform code of banking law. At Confederation, responsibility for banking and currency was given to the Dominion Government and in 1871 the first general Bank Act was passed. This legislation is subject to review and revision every ten years, a feature that has helped to keep the banking system adapted to the needs of a changing economy.

Certain characteristic features of the Canadian financial system have thus emerged—notably the traditional emphasis of the chartered banks on "commercial" banking. The early banks were established by merchants for merchants. Their note issues provided a badly needed medium of internal exchange and they advanced working capital to finance the processes of trade. The aim was to make lending as far as possible short-term and self-liquidating. The bank charters from the first contained prohibitions against lending on the security of real property, except as secondary or subsequent security. Now, however, exceptions to the rule against lending upon security of real property, incorporated in the Bank Act in 1944 and 1954, allow the banks to participate in government-guaranteed loans to farmers and fishermen and for housing constructed under the National Housing Act, to lend to oil companies on the security of oil "in, under or upon the ground" and production equipment, and to extend their consumer-finance lending by taking chattel

* More detail is included in an article appearing in the 1961 Year Book, pp. 1115-1120, prepared by J. Douglas Gibson, General Manager of The Bank of Nova Scotia. The early history of currency and banking in Canada is given in the 1938 Year Book, pp. 900-905. A list of the banks at Confederation appears in the 1940 Year Book, p. 897, and bank absorptions since 1867 are given in the 1941 edition, pp. 812-813. A table in the 1937 Year Book, pp. 894-895, shows the insolvencies since Confederation; the last insolvency occurred in 1923.

† The larger Canadian banks have long maintained offices in London and New York. In addition, some Canadian banks for more than half a century have been providing an important part of the commercial banking facilities in the Caribbean area (see Table 10, p. 1054). The Bank of Montreal opened an office in Tokyo in January 1962, the first to be established in Japan by a Canadian bank.