

or insolvency. In addition, it states what cash reserves the banks must keep, what reports they must make to the Government and to the Bank of Canada about their affairs and sets forth a variety of rules governing the conduct of business with the public. The Bank Act also specifies the maximum rate of interest that may be charged on bank loans. (Since the 1944 Bank Act revision this ceiling has been 6 p.c., replacing the 7-p.c. ceiling that had prevailed since 1871.) The banks derive their corporate existence from the Act, which states that "each bank. . . is a body politic and corporate and this Act is its charter"; successive Bank Acts have empowered the banks to do business for a period of ten years, until the next revision of the Act.

Banking Operations

Operating under the Bank Act, the chartered banks at their branches accept deposits from the public, make loans covering a wide range of commercial, industrial, agricultural and consumer activities, deal in foreign exchange, receive and pay out Bank of Canada notes and coin, provide safekeeping facilities, and perform a variety of other services coming within the scope of the general business of banking. The head office of a Canadian bank does not transact ordinary day-to-day business with the public; it performs general administration and policy-making functions, manages the bank's investment portfolio, does its centralized accounting work, and maintains specialized departments devoted to inspection of branch operations, the development of branch office methods, the acquisition of new business, premises, staff, arrangements with foreign banks, advertising, etc.

Under its branch system, Canadian banking is able to provide standard banking facilities throughout the country. Every branch, even the smallest, can provide all banking services, and each has behind it the resources of a large bank, which means that lending requirements can be met just as well by a branch in a small town or a suburban branch as in the main branches of a large city. Branch banking also provides an excellent training for Canadian bank officers through the system of promotion and transfer from branch to branch. Almost without exception, the chief executives of the Canadian banks have grown up in the service and have been trained in this way.

The branch system has proved to be most flexible and Canadian banking has been able to keep pace with settlement and economic development during its periods of most rapid growth. Particularly during the past quarter-century, with a rapidly expanding economy, sharply rising population and growing urbanization, new branches have opened at a very rapid rate. Offices have been established in suburban areas, in new towns, oil fields and mining camps, as well as in the long-established urban centres where industrial and commercial growth have so enlarged the demand for banking services. In all, the number of banking offices in Canada, which was about 3,300 at the end of 1939 and 3,100 at the end of 1945, grew by over 2,300 in the next eighteen years. As this growth suggests, Canadian banks have taken full advantage of the recent expansive atmosphere to extend the volume and variety of their services to industry and to individuals. Strongly competing for customers, they offer a wide variety of new deposit arrangements, including new savings programs, new forms of chequing accounts, and greatly broadened lending facilities.

By the end of the War, the banks had experienced more than fifteen years of restricted demand for commercial credit. Loans had declined sharply during the depression and shown only a slightly rising trend during the prewar years of incomplete recovery and, of course, in the wartime economy bank lending was subject to a variety of restrictive influences. The result was a marked change in the composition of bank assets; by the end of 1945 security holdings accounted for about 55 p.c. of the banks' total assets, compared with a little over 40 p.c. just before the War and only about 15 p.c. in 1930. In the early years of postwar reconstruction, the economic control apparatus created for the War was gradually dismantled. The expansion of the private sector of the economy and the contraction of the government sector were quickly reflected in a shift of bank assets from government securities to commercial loans. Between the end of 1945 and the end of 1950,