Canada's banks are making hay while the sun doesn't shine

Allan C. Hutchinson

The chief executives of RBC and National Bank, Dave McKay and Louis Vachon, both announced this week that “there are likely more trying times ahead.” This was said as their banks reported billions in profits for the last three months, exceeding the market’s predictions.

Most Canadians will hear this as if coming from another planet at another time. Tough times are around the corner — really! For most people, tough times are already here and have been since March. Whatever the future holds, many bank clients are struggling now to make ends meet. Talking and acting like this does little to help.

Canada’s five largest banks — RBC, TD, BMO, Scotiabank and CIBC — hold a central role in Canada’s economy. Different from other large commercial corporations, they suggest that profit-making is only incidental to their principal goal, that of serving the Canadian public.

This contrived status is belied by economic facts. In 2019, despite grumblings about reduced growth, the banks collectively had assets of over $4 trillion, had revenue of over $130 billion, and recorded profits of about $30 billion. These are enormous amounts.

When the pandemic struck, the banks reassured people that they were in it with them — all for one and one for all. Not only that, but they promised to ease the heavy burden on their clients. But this is simply not the case. While the banks have taken a slight hit, they are not hurting. Indeed, they are making hay while the sun is not shining.

They have agreed to defer some people’s loan repayments for a few months. This is not nothing. But people will still have to pay the usual charges eventually; there is no plan to waive such payments. In the next month or so, those deferrals end and full payments will be due.

Also, banks announced that they were halving the existing credit card rates for some, but not all customers. This means that the rates of around 20 per cent dropped to around 10 per cent. Again, this was not to be sneezed at, but it was more a gesture than anything else. Although the Bank of Canada’s prime lending rate is presently down to 0.25 per cent, the banks’ credit card rates remain at exorbitant and almost usurious levels — 40 times that of the Bank of Canada’s rate.

Continuing to pay dividends is a matter of perverse pride for the banks, who
have done so without interruption since 1940, even in the last financial crisis of 2008-09. In the last quarter alone, RBC earned $3.3 billion and paid dividends of $2.20 per share. National Bank reported profits of $602 million and paid $1.66 per share.

Moreover, these profits were calculated after huge sums were set aside to cover future losses on predicted loan defaults. Even then, the only hardship that the banks felt was that their profits were down a percentage point or so from this time last year.

The banks defend this approach as being important in order to maintain confidence in capital markets. This has a nice ring to it, but it smacks of disingenuity. It is wealthy investors who will be sheltered and benefitted by such dividends, not the average Canadian. The trickle-down effect to pension and mutual funds, if it exists, will be diluted by the time it reaches ordinary Canadians.

All this makes for disturbing and perhaps devastating reading for most Canadians. The very institutions that claim to have their interests at heart are still raking in huge profits at their expense. This is simply not good enough. Canadians are hurting and need the banks to put their money where their mouth is — to be the good citizens that they claim to be, and do so today.

In announcing present profits and dividend payouts, National Bank’s CEO Louis Vachon offered some reassurance to their clients: “let’s stay focused and humble.” This is a little rich, coming from an institution that is thriving while others suffer. In what way does all this add up to a “humble” strategy by the banks?