



Canada's Banks: Too Big to Fail?

Description

It looks like “too big to fail” is alive and well, according to a new report from the International Monetary Fund (IMF). And this is especially true in Canada, where the top banks control a very large portion of the assets.

According to the data, Canada's three largest banks – **Royal Bank** ([TSX: RY](#))([NYSE: RY](#)), **Toronto Dominion** ([TSX: TD](#))([NYSE: TD](#)) and **Scotiabank** ([TSX: BNS](#))([NYSE: BNS](#)) control nearly 65% of all banking assets in the country. That puts the country on par with countries like France and Spain. In the United States, that number is less than 45%. In Germany, it's less than 40%. And in India, it's less than 30%.

Nothing new

This should not be surprising. Canada is well-known to have a very small number of banks, with each one playing a major role in the economy. In May of last year, all of the country's big six banks were identified as “domestic systemically important financial institutions” by Canada's banking regulator. Although the phrase “too big to fail” wasn't used, it was certainly implied.

Size matters

Even before last May, it has been widely known that if any of the big banks failed, it would get bailed out by the government. And that is a great advantage to have, because it means that these banks can borrow at lower interest rates.

Larger banks have other advantages too. There are a lot of fixed costs (compliance, technology, etc.) that can be absorbed more easily by a larger bank. The big banks can also serve large institutions more easily than their smaller rivals.

So what does this mean for investors?

In Canadian banking, Royal Bank and TD lead in most categories. This allows the banks to operate more efficiently than their peers, which is great for investors. Those banks remain a great foundation

for any portfolio.

Foolish bottom line

Whenever the phrase “too big to fail” is thrown around, it always causes a lot of headlines. But in this case, it did not reveal anything new. Rather, it served as a reminder that Canada’s largest banks are in a great position, and that they still make a great option for most investors.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:RY (Royal Bank of Canada)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:RY (Royal Bank of Canada)
6. TSX:TD (The Toronto-Dominion Bank)

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