Canadian Banks Commit the Cardinal Sin

Description

The settlement announced December 15 by the Ontario Securities Commission (OSC) that will see **Bank of Montreal** (TSX:BMO)(NYSE:BMO) repay almost $50 million in fees taken by the bank in error from the accounts of 60,393 clients is the latest chapter in an ongoing saga of Canadian financial institutions overcharging clients for services rendered.

The OSC has made six no-contest settlements with Canadian financial institutions over the past two years—BMO, $50 million; **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), $73 million; **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), $14 million; **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), $20 million; **Quadrus Investment Services**, $8 million; and **CI Financial Corp.** (TSX:CIX), a whopping $156 million—as the industry continues to grapple with transparency issues despite new CRM2 reforms being implemented to reduce those issues.

The reality is that more financial institutions could step forward in the future, including the only big bank yet to do so, **Royal Bank of Canada** (TSX:RY)(NYSE:RY).

Why? Because the fish rots from the head.

Each of the six settlement agreements has been clear to point out that the fees taken from customers were done so inadvertently without any ill will or bad intentions. “We have taken steps to prevent this from ever happening again,” said BMO spokesman Ralph Marranca about the settlement.

If you believe that, you’re a bigger boy scout than I ever was.

The banks and other financial institutions are guilty of what you’d call “sins of omission.” They obviously had an inkling of this but, in my opinion, were willing to turn a blind eye until TD came forward in 2014, reporting four instances where its investment clients were overcharged for fees paid between 2000 and 2014.

The rest came forward in a domino effect that, to date, has seen $321 million returned to clients at six different financial institutions.

The moral of the story is, you shouldn't trust these financial institutions farther than you can throw them. There interests are not in alignment with your interests, no matter how much of a dividend they pay.

In September, I highlighted a prime reason why our economy wasn't doing nearly as well as it could be, placing a great deal of blame at the feet of the Canadian banks, which have hoodwinked the federal government's Canada Mortgage and Housing Corporation crown corporation into backstopping mortgages instead of business loans, dramatically reducing the capital available to small businesses—generally considered the true drivers of job creation in any developed country.

Don't get me wrong, I'm not suggesting you shouldn't invest in Canadian financial services companies.

I'm bullish on three of the six which have settled with the OSC—CIBC, CI Financial and BNS—but I do think it's important to remember that the wonderful dividends they're paying you come in part from situations such as the overcharge settlements they're currently experiencing.

All I'm saying is that when you invest in a bank or financial services company, you're robbing Peter (you, the customer) to pay Paul (you, the shareholder).

If you can live with that knowledge, as I can, go right ahead.

CATEGORY

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TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:CM (Canadian Imperial Bank of Commerce)
4. NYSE:RY (Royal Bank of Canada)
5. NYSE:TD (The Toronto-Dominion Bank)
6. TSX:BMO (Bank Of Montreal)
7. TSX:BNS (Bank Of Nova Scotia)
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