Canadian Banks Are Under a Microscope: Should Investors Be Worried?

Description

On August 15, the Office of the Superintendent of Financial Institutions (OSFI) confirmed that it was in the process of reviewing the sales practices of the six largest banks in Canada. Canadian banks have reiterated that company culture is in line with regulations. OSFI spokeswoman Annik Faucher said, "The review is focused on risk culture, the governance of sales practices, and how banks manage the potential reputational risk that is inherent in sales activities."

So far, there has been no evidence of systemic misconduct at the major banks. Controversy erupted when a March report by the Canadian Broadcasting Corporation (CBC) revealed grievances by employees at **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) regarding sales tactics. The report claimed that due to sales targets, employees were forced to increase customer lines of credit, overdraft protection amounts, and credit card limits without authorization. Shares dropped 5% the day the news broke — the largest decline since the Financial Crisis. TD Bank issued a statement that denied the allegations of systemic problems in the report.

The news was especially concerning after the scandal at **Wells Fargo & Co.** (NYSE:WFC) which revealed that employees had opened accounts without customer authorization. The bank was slapped with a $185 million fine, and CEO John Stumpf was forced into early retirement.

Chief executive officers at **Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) were quick to defend their respective companies in April. Both men said that allegations of aggressive tactics were, for the most part, unsubstantiated, and that the organizations monitored sales practices on a consistent basis. Banks were prompted to respond after a follow up CBC report that cited almost 1,000 email and phone contacts from employees at the other Canadian banks who described similar pressure to resort to aggressive tactics.

TD Bank and Bank of Nova Scotia took the liberty to conduct internal audits and review processes which did not yield misconduct. There has been an increase in complaints for the last several years to the OBSI, a body which reviews disputes between banks and customers. The review is expected to conclude in June 2018, which gives investors some time to ruminate over the possible findings and repercussions if any wrongdoing is uncovered.

Wells Fargo experienced a steep decline in the wake of its sales practices scandal. Canadian banks have sustained a reputation as global leaders in financial stability because of strict adherence to national regulations, which tend to be heavy.

All three of the aforementioned banks experienced declines on August 16. The S&P/TSX Index fell 0.32% on the same day that U.S. indexes saw the biggest one-day decreases in months. Tightening interest rates, concerns of overheating, and worsening internal problems are sparking anxiety in investors. There are broadening divisions inside the U.S. and even inside the White House. The pro-growth policies of the Trump administration are at serious risk if the administration is unable to provide stability to push through legislation.

Earnings are right around the corner for Canadian banks, and it may be time for investors to be greedy while others are fearful.

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1. Bank Stocks
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1. NYSE:BMO (Bank of Montreal)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:TD (The Toronto-Dominion Bank)
4. NYSE:WFC (Wells Fargo)
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