

**Bank Mergers:
Business Opposition Digging in Its Heels
Despite Bank of Canada Governor's Entreaty**

**BDO Dunwoody CEO/Business Leader Poll
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1.0. Introduction

Bank of Canada Governor David Dodge's call for allowing bank mergers so that Canadian banks could become more effective players in international financial services to the benefit of Canada as a whole appears to have fallen on deaf ears.

The larger minority of the COMPAS business panel remains steadfast in its opposition. Indeed, last week's poll of the CEOs and business leaders on the panel reveals the minority to be digging in its heels—a sizeable increase in the proportion of panelists who insist that there is no persuasive reason for allowing mergers along with an increase in concern that Canada's banks offer too little competition in the current situation.

These are the key findings from the week's web-survey of CEOs and business leaders on the COMPAS panel, carried out on behalf of *The Financial Post* under sponsorship of BDO Dunwoody LLP.

2.0. No Overall Change in Acceptance of Mergers, But Intensification of Opposition

A sizeable minority of the panel remains opposed to bank mergers, as shown in table 2A. The panel's general attitude to bank mergers has changed hardly at all in more than three years. The persistence of strong minority resistance on the panel is noteworthy given that panelists have long expressed reservations about undue government regulation of business. As one CEO put it this week, "Ottawa meddles too much in many areas of business. I can name many well run businesses, but it is hard to name one well run Government department."

While the minority adamant against mergers has not growth in size, it appears to be digging in its heels. For more than four years, members of the panel have been asked to select the best reason for allowing mergers from among a list of such reasons. From 2002 to the present, there has been a



virtual doubling to 35% of the proportion of the panel who see no good reason at all for considering the possibility of such mergers, as shown in table 2B.

Panelists have also been asked to consider the validity of reasons against allowance of bank mergers, as shown in table 2C. The proportion concerned about insufficient competition keeps rising while the proportion who dismiss the validity of any reason against mergers is in incremental decline.

Table 2A: (Q1) As you know, mergers have re-emerged as a question for discussion in financial services. How willing should government be to allow bank-to-bank mergers or acquisitions? Please use a 7 point scale where 7 means very willing to allow and 1, the opposite.

	Mean	7	6	5	4	3	2	1	DNK
Dec. 2006	4.8	16	29	19	10	7	13	5	1
Oct. 2004	4.7	19	20	24	10	11	8	7	1
Mar. 2003	4.8	19	23	23	8	11	10	4	2
Jan. 2002	4.5	22	16	19	10	9	9	13	1

Table 2B: (Q3) Which of the following reasons FOR bank mergers do you find the most persuasive? [ROTATE]

	Dec. 2006	Oct. 2004	Nov. 2002
Canada's economy needs banks to be allowed to grow large enough to be true competitors in global markets	46	54	61
Canada's banks need to be allowed to get bigger so that they can protect themselves from foreign competitors many times larger than themselves	13	20	17
Ottawa has no right to stop the mergers because doing so harms the life savings of thousands of people who invest in banks for retirement	5	5	2
None of them are persuasive	35	22	18
DNK/ Refused	1	0	2



*Table 2C: (Q4) Which of the following reasons AGAINST bank
mergers do you find the most persuasive? [ROTATE]*

	Dec. 2006	Oct. 2004	Nov. 2002
Canada has too little competition among Canada's banks as it is	38	32	29
The banks' continuing profitability shows that they don't need to double in size to be viable	25	23	24
The banks' successes abroad shows that they can be very successful without merging	9	11	8
None of them are persuasive	26	32	37
DNK/ Refused	2	1	3

The following verbatims capture the sentiments of both those favouring and those opposing the allowance of mergers:

The world is a big market place and our banks need the size and agility to compete.

Canada's banking system has little or no visibility around the world. To be more competitive they need to be bigger; so the 'straight jacket' of 'no merger regulation' should be removed. Conversely, Canada should be opened to foreign Banks so that the Canadian consumer can freely choose a competitive product.

Allowing bank mergers without allowing more foreign and non-bank competition would be a mistake. Phasing one in before the other would be a mistake too. A careful plan over a few years to deregulate the market would be the most appropriate course of action.

The Federal Government should foster the creation and growth of 5 - 10 more sizeable 'Canadian' banks to provide competition. Perhaps a total income tax holiday for all new banks for 10 years if 100% Canadian owned and controlled.



This would encourage formation of capital to create and expand new banks, and would encourage their profitable growth.

Our banks are chartered by our government and protected by it. If our banks want the right to merge, they should be willing to give up their preferred status. Our banks want [to have] their cake and eat it too.

3.0. Paramount Consideration for Government Should Be Allowing Foreign Bank Competition

Over the years, the COMPAS panel has been asked which of several concerns should be paramount in the mind of government as it assesses a bank merger proposal, as shown in table 3. Since 2003, the proportion saying that government should allow more foreign bank competition has risen by about 50%--from 24% in 2003 to 35% today.

Table 3: (Q2) Which of the following concerns should be paramount in the mind of government when it assesses a bank merger proposal? Please choose one option. [ROTATE]

	Dec. 2006	Oct. 2004	Mar. 2003
Allowing more competition from foreign banks	35	31	24
Protecting small and medium businesses	33	28	33
Allowing more competition from non-bank financial institutions	23	32	28
Protecting the lowest 10% of income earning individuals	5	3	3
Stopping the banks from closing more branches	3	6	8
DNK/ Refused	2	1	5



4.0. Methodology

The *National Post*/COMPAS web-survey of CEOs and leaders of small, medium, and large corporations and among executives of the local and national Chambers of Commerce was conducted December 15 - 18, 2006. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of 134 are deemed accurate to within approximately 8.5 percentage points 19 times out of 20. The principal and co-investigator on this study are Conrad Winn, Ph.D and Tamara Gottlieb.

