The Competitive Landscape in Banking: Insights from Canada and the U.S.

Key Takeaways

- Canadian banks demonstrate higher operational efficiency but operate on a smaller scale than U.S. banks.
- U.S. banks excel in scale and diversity but face greater variability in **operational efficiency**.
- Revenue per employee and efficiency ratios highlight structural differences between the two markets, with **Canadian banks benefiting from concentration** and U.S. banks leveraging diverse revenue streams.

The Canadian and U.S. banking sectors provide a striking contrast in structure, scale, and operational focus. Canada's highly concentrated banking system enables its largest banks to deliver consistent performance metrics, while the U.S. banking market thrives on its diversity but exhibits greater variability in efficiency.

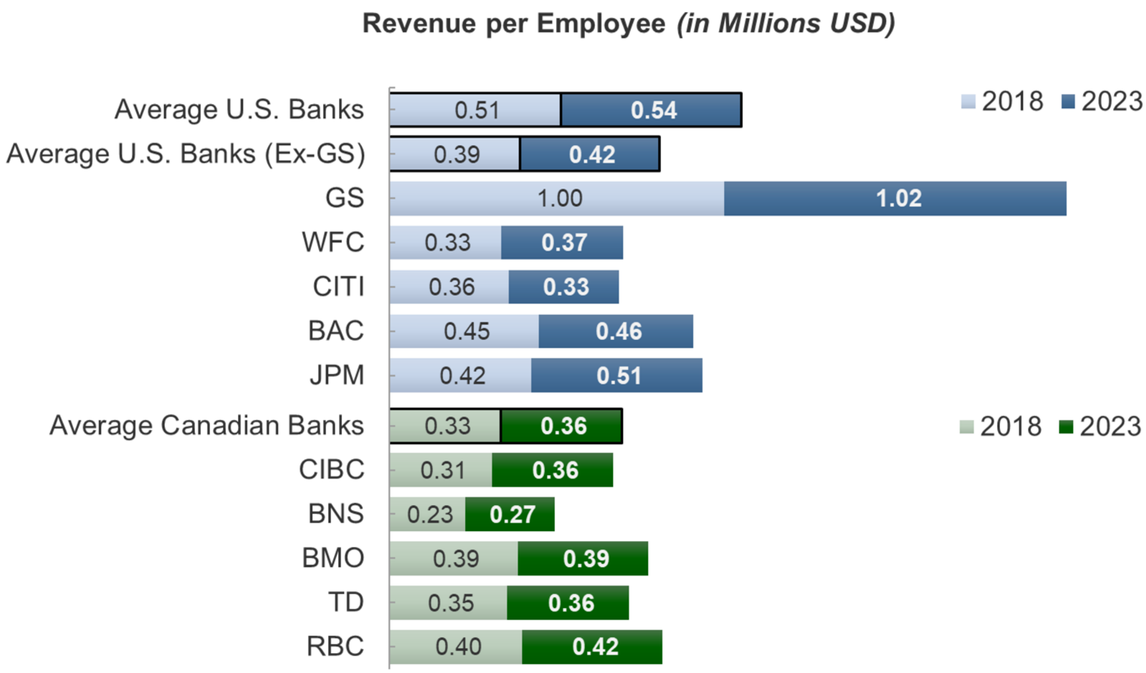
Economic Analysis & Research,
Canstead Advisory Inc.
Email: Economics@tCanstead.com
Canstead.com/Economics

Revenue Per Employee: The Scale Paradox

Revenue per employee underscores the operational disparities between Canada and the U.S. In 2023, the **average revenue per employee for Canadian banks was $0.36 million USD**, closely aligned with the U.S. average excluding investment-focused Goldman Sachs **($0.42 million USD)**. However, when including Goldman Sachs, the U.S. average rises to **$0.54 million USD**, driven by Goldman's exceptional **$1.02 million USD per employee**, a reflection of its high-margin investment banking operations (See Box 1). (Chart 1: Revenue per Employee).

Among Canadian banks, RBC led with **$0.42 million USD per employee**, while Scotiabank reported just **$0.27 million USD per employee**, highlighting variations within the country. In the U.S., JPMorgan Chase stood out with **$0.51 million USD per employee**, emphasizing its efficient scaling capabilities. The figures reveal that **Canada's concentrated structure supports consistent metrics, while U.S. banks benefit from scale at the cost of variability**.

Chart 1: Revenue Per Employee: U.S. Banks Have the Edge, But the Gap is Driven by Scale



Source: Company financial disclosures, Canstead Economics calculations, USD rate from annual average of monthly closing values.
Note: Revenue per employee converted to USD for comparability.

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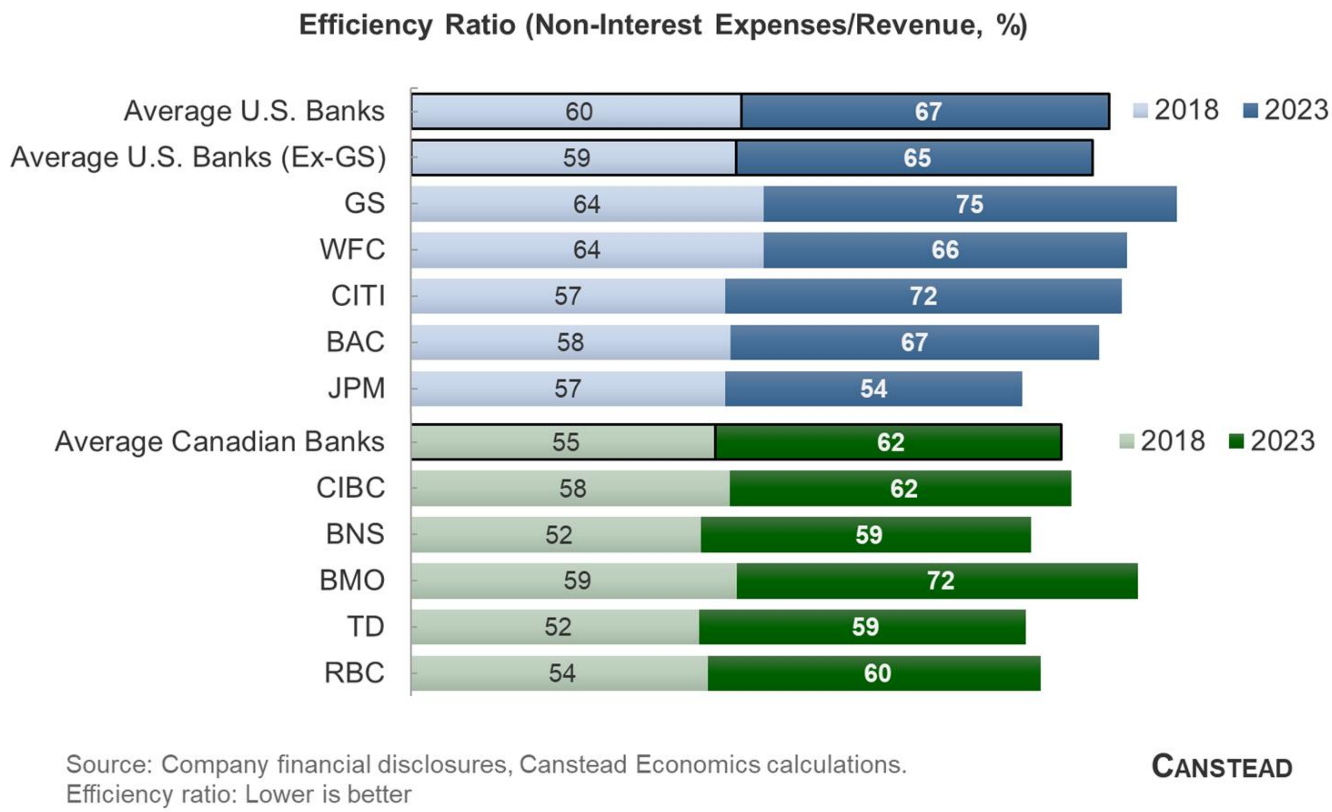
Efficiency Ratios: Cost Discipline in Focus

Efficiency ratios provide further insight into cost discipline. In 2023, Canadian banks averaged an efficiency ratio of **62%**, compared to **65% for U.S. banks excluding Goldman Sachs**. Including Goldman, the U.S.

ratio held steady at **67%**, reflecting the cost-intensity of investment banking operations (Chart 2: Efficiency Ratios).

Scotiabank and TD led the Canadian group with an efficiency ratio of **59%**, while BMO trailed at a concerning **72%**, marking the highest cost base among Canadian banks. On the U.S. side, JPMorgan demonstrated the strongest cost discipline with a ratio of **54%**, while Citigroup struggled at **72%**, revealing inefficiencies in its operational structure. **These differences highlight the importance of operational efficiency in navigating competitive pressures, particularly as global economic conditions tighten.**

Chart 2: Operational Efficiency: Canadian Banks More Cost-Disciplined, U.S. Banks More Volatile

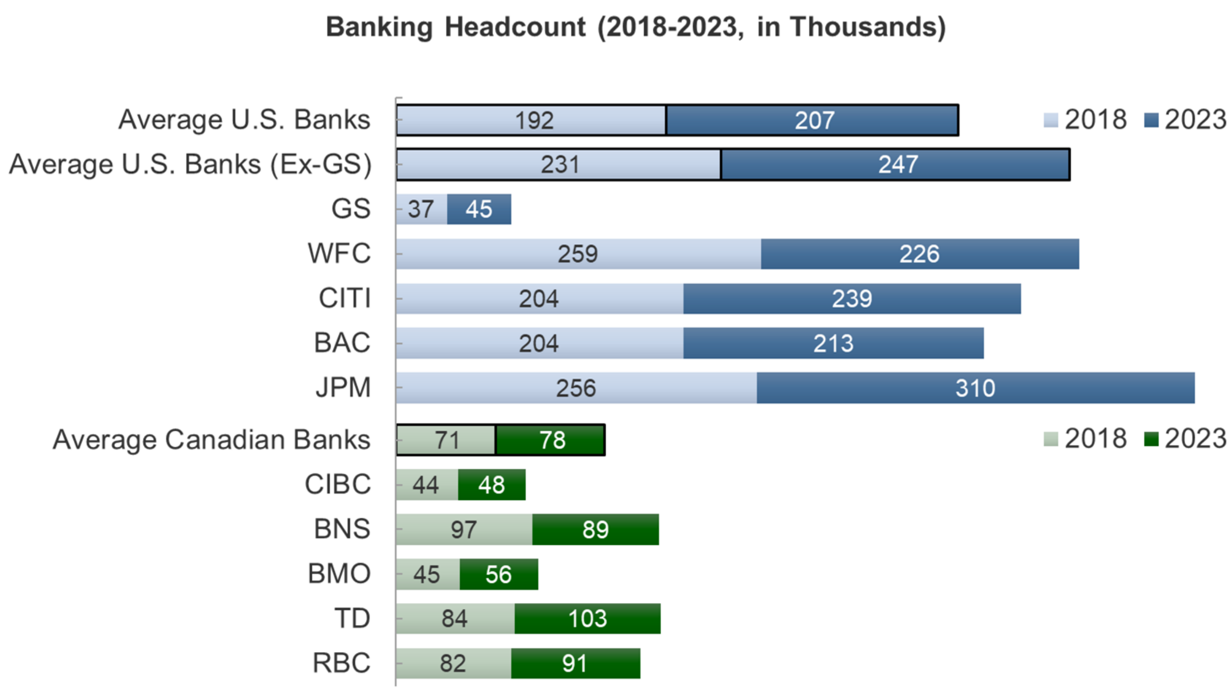


Headcount Trends: Diverging Strategies

Headcount data from 2018 to 2023 showcases differing workforce strategies. Canadian banks expanded their workforce modestly, with RBC increasing headcount by **9,528 employees** over the period, reflecting organic growth in a stable market. In contrast, U.S. banks displayed a broader range of workforce strategies. JPMorgan Chase added **53,821 employees**, leveraging its scale for global expansion, while Wells Fargo reduced headcount by more than **30,000 employees**, driven by restructuring efforts (Chart 3: Headcount Trends).

These trends illustrate the balance between efficiency and scale. **Canadian banks maintain a lean workforce aligned with operational stability, while U.S. banks adjust staffing to meet the demands of their diverse business models**.

Chart 3: Banking Workforce Trends: Growth in Canada, Restructuring in the U.S.



Source: Company financial disclosures, Canstead Economics calculations.
Note: Headcount data reflects full-time equivalent (FTE) employees.

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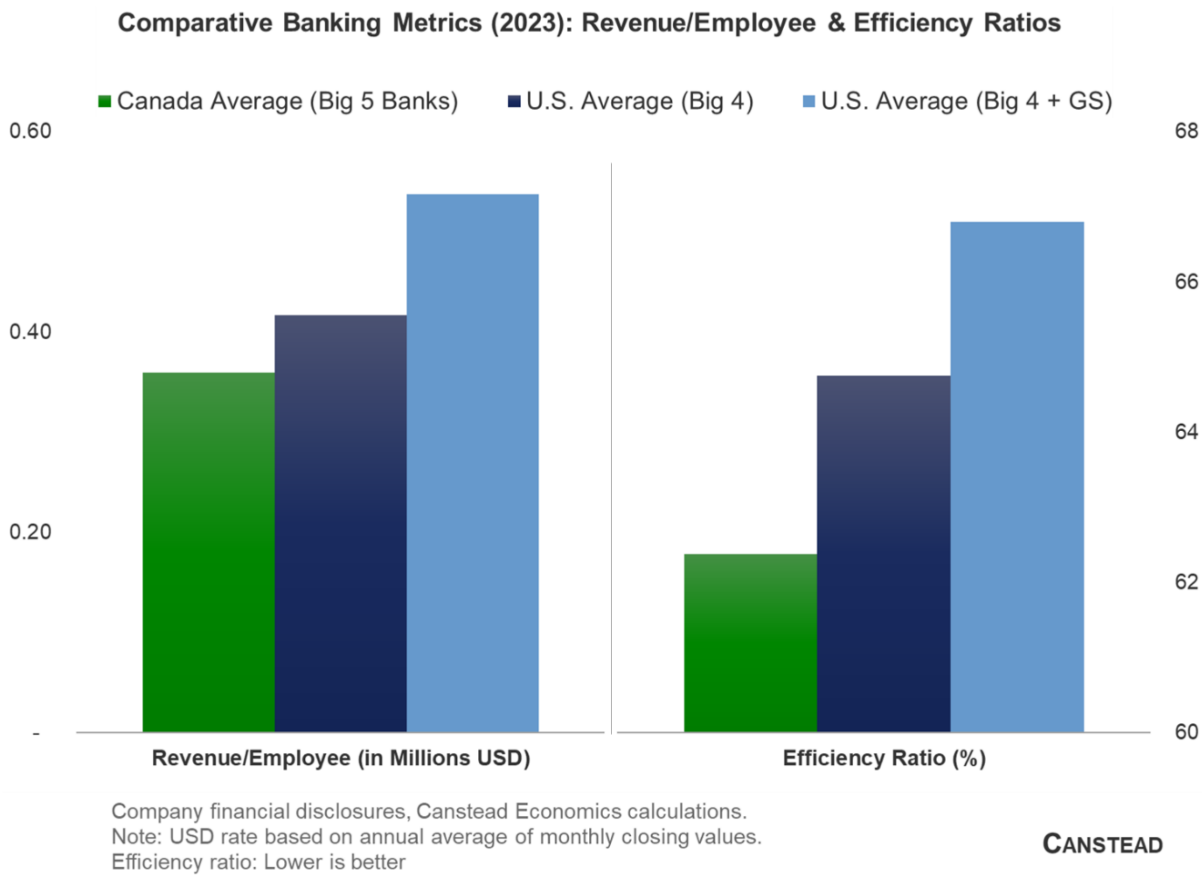
STRUCTURAL INSIGHTS: KEY AREAS OF CONCERN

1. **Cost Challenges for Canadian Banks**: While Canadian banks maintain stronger average efficiency ratios, BMO's sharp increase in cost ratios to **72% in 2023** signals potential challenges in managing expenses.

2. Revenue Efficiency Divergence: The wide gap between Scotiabank's **$0.27 million USD per employee** and RBC's **$0.42 million USD per employee** suggests an uneven distribution of operational effectiveness across Canada's "Big Five."

3. **U.S. Variability in Operational Metrics**: While JPMorgan Chase excels in both revenue efficiency and cost discipline, Citigroup and Goldman Sachs highlight the challenges of balancing cost structures in the U.S. market.

Chart 4: A Tale of Two Banking Models: Canada's Cost Efficiency vs. U.S. Scale



CONCLUSION

The Canadian and U.S. banking sectors represent two distinct models of competitiveness. **Canada's concentrated and regulated banking environment emphasizes operational stability, while the U.S. market thrives on scale and diversity at the cost of greater inefficiencies**.

For Canadian banks, the challenge lies in maintaining their operational edge as global economic pressures mount. U.S. banks, meanwhile, must navigate the complexities of scale while addressing operational inefficiencies and adapting to shifting economic conditions.

The narrative is clear: Canadian banks excel in cost efficiency, while U.S. banks leverage scale and diversity to compete in a highly fragmented market. Policymakers and industry leaders must carefully consider these structural differences to remain competitive in an evolving global financial landscape.

Box 1

Why Two Averages for U.S. Banks?

The inclusion of Goldman Sachs in U.S. banking averages necessitates a distinction due to its unique business model and financial structure. Unlike its peers—JPMorgan Chase, Bank of America, Citigroup, and Wells Fargo—Goldman Sachs is primarily an **investment bank**, with minimal exposure to retail or commercial banking. Here's why we calculate two separate averages:

- **Revenue Disparity**: Goldman Sachs' revenue per employee in 2023 was **$1.02 million**, significantly outpacing the rest of the U.S. banks, whose individual revenue per employee ranged from **$0.33 million (Citigroup)** to **$0.51 million (JPMorgan Chase)**. Including Goldman Sachs skews the overall average, overstating revenue efficiency for the sector.
- **Operational Differences**: The business model of investment banking, focused on high-margin trading, advisory, and asset management, contrasts with the lending and deposit-heavy operations of traditional banks. This divergence impacts key metrics such as efficiency ratios and revenue per employee.
- **Efficiency Challenges**: Goldman Sachs reported an **efficiency ratio of 75%** in 2023, the highest among the five banks. This reflects the cost intensity of its operations, driven by high-skill labor and complex market activities. The average efficiency ratio of the remaining banks (excluding Goldman Sachs) was **65%**, more reflective of traditional banking operations.

By calculating two averages—**one including Goldman Sachs (Comprehensive U.S. Banks Average)** and **one excluding it (U.S. Commercial Banks Average)**—we provide a clearer and more balanced view of the competitive landscape. This approach avoids distortion and highlights the operational realities of the broader U.S. banking sector.

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- **Email:** Economics@Canstead.com
- **Website:** Canstead.com/Economics