

CHANGE, CHALLENGE, OPPORTUNITY

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Thank you very much for inviting me to be with you.

Some 20 months ago, our mandate from the federal Minister of Finance was, in effect, to advise the government on how best to assure that Canada...and individual Canadians...remain well-served by the Canadian financial system in a rapidly changing world.

A diverse team was named to the Task Force, giving us the breadth and scope of experiences – and knowledge of the country - that added great value during our work.

We agreed early on that the dramatic pace and intensity of change - in Canada and worldwide - was a critical factor. Driven by technology and globalization, change is having a profound effect on the world and all of its citizens.

Jets and fiber optics and satellites have made the world a smaller place. And as the world is shrinking, it's also changing. Change is forcing countries to reinvent themselves. Not that long ago there were two Germanys and Russia was a formidable power. A dozen years ago, only one country in four had a democratic government. Today, two-thirds of the countries in the world are democracies. Ten years ago 1 billion people lived in a market economy; today 5 billion people do.

The same forces of change are clearly affecting the financial services sector. Capital markets have become global...new competitors with advanced technology are threatening existing players... consumers have new means to access financial services...and a whole new range of consumer needs and issues are looming.

A few facts and figures illustrate the force and power of the change process:

- Since 1994, telephone banking has grown 50% per year and the use of debit cards by a stunning 91% annually.
- The total assets invested in mutual funds increased by an astonishing 600% from 1991 to 1997. Today, Canadians have more money in mutual funds than in bank deposits.
- One internet bank claims it is able to approve mortgage applications for 80% of its clients in just 30 seconds from application to approval with its on-line credit approval process.

- Today, the five largest Canadian life insurance companies have about a 60% share of the domestic life insurance market, compared with 40% just seven years ago. In fact, those five companies have a greater share of the life insurance market than the five largest banks have of the personal deposit market.

These examples underscore the profound changes taking place in our financial services sector...and mirror what's happening globally.

We commissioned 18 in-depth studies that examined important areas of our financial services sector. We carefully reviewed more than 250 submissions. And we met with more than 100 individuals and groups in eleven cities across Canada.

By the time all that information was compiled, we certainly weren't lacking for input.

We then faced the daunting challenge of assessing what we had learned and agreeing on what it should mean for Canadian public policy.

The result is our report. With 124 unanimous recommendations for changes to the Canadian financial services sector. It's entitled 'Change, Challenge, Opportunity'. Because we believe we have set out a cohesive public policy framework. A framework for Canadians to manage the challenges of change in a way that realizes new opportunities.

Now, you may quite rightly ask: So, what's the big deal? You can get a loan...buy insurance policies...make payments through your nearby ATM... shop with your debit card.

Well, there is a big deal. It's a global deal. And we're seeing it unfold right now. We're seeing it in Russia. And in Japan. And in numerous other countries where financial systems are under considerable stress. The big deal is not just the failure of institutions, but the demolition of the savings - and the hopes and dreams - of individuals and small businesses.

A well-designed, well-managed, flexible and forward-looking financial services system for any nation is one of its most important critical success factors. When financial institutions work well, an economy functions better and the lives of individuals are made easier. When they do not, shockwaves can-- and do-- undermine the economic wellbeing of citizens...of businesses...of the nation.

More than ever before our own personal futures are linked to events in the world over which we have very little control. To some extent, that's a rather frightening thought. But it's a reality. We're all active players - whether we like it or not - in the financial minefield of a global economy that reacts instantly to every tremor of change.

And while the forces of change are global, their impacts are local. Our challenge as Canadians is to recognize change, to anticipate it, and to manage it in our own best interests.

Our Task Force verified that our banks and other financial institutions are strong and healthy, with sound balance sheets. In fact, the World Economic Forum ranks Canada at the top of 53 countries for the soundness of our banking system.

Our large financial institutions are national in scope. They provide consistent service standards, pricing and product delivery and offer state-of-the-art technology for customer convenience.

Many have done very well in international markets. The result is good for us, good for job creation in Canada, and good for the Canadian economy.

So for what is a relatively small country, Canada has some remarkably strong and successful financial institutions. We have a strong foundation and we are well positioned to cope with change.

That's the up side. But every coin has two sides. So let's look at the down side.

We have a strong national banking system, but it's been built at the cost of protecting our domestic banks from foreign competition. The result is less innovation and competition than we'd like to see. In fact, the same Forum survey ranks Canada 41st out of 53 in terms of competition from foreign banks... not a good ranking.

We also have a very centralized system. National institutions don't always have a desirable level of sensitivity to regional and local conditions. In Canada, we have not enjoyed the successful 'second tier' institutions that in some countries provide more choices for personal services.

Our financial services sector also must live with the reality of Canada's divided constitutional jurisdiction. That makes it more difficult for us to develop coherent laws and frameworks that allow the sector to flourish with good, fair competition. And it's more challenging to protect the consumer.

In addition to these challenges, traditional players are facing new kinds of change. In the past two years alone we have seen:

- Two new virtual banks start up in Canada – operating through telephone and internet with no branches;
- The entry into Canada of specialized American credit card companies that are international powerhouses; and

- Consumer choice in mutual funds expand dramatically, with nine new companies and more than 100 new funds.

While those may be problems of change for some of the existing institutions, they represent important new choices - and a benefit-- to Canadian consumers.

Clearly, a lot is going on. And the Task Force believes that we have only begun to witness the impact of the forces of change.

Looking ahead, we can see smart cards that Canadians can load with cash through home phones – totally bypassing their banks and credit unions. We can also see Canadians more often using the internet's emerging electronic shopping malls.

The Task Force believes that these trends will continue to mushroom. The changes will come sooner rather than later. Banks and other financial institutions we know today may well be unrecognizable within the coming decade.

All this creates many challenges for consumers and for institutions alike.

Consumers will find their choices increased. But they may have difficulty understanding new and complex products and choosing those that are best for them. They may also be much more concerned about control over their sensitive personal information in an increasingly electronic marketplace.

Financial institutions will need to adapt to new forms of competition to stay healthy. We see them seeking new strategies for success. And well they should - the Task Force is convinced that the status quo is no option for them or for their customers.

The bottom line is that our financial sector is in pretty good shape and serves Canadians reasonably well. But it's not good enough. And it's being challenged. We believe Canadians can and should have a strong, but more competitive and more accountable, financial services industry.

And that's what our Task Force committed to provide. As a part of our work we brainstormed together and developed a coherent vision of a financial services sector that will better serve Canadians, well into the next century.

Our vision will deliver a sector that provides excellent choices in products, service levels and prices... with terms and conditions clearly expressed and easily understood. Consumers won't feel pressured. They'll have easy and affordable access to independent redress mechanisms if they've been mistreated. And all consumers will have access to basic financial services and effective control over their personal information.

If that sounds like common sense, it is. We think it's also good business sense.

To serve customers well, we see a financial services sector that is fully open and competitive, with a broader range of service providers able to serve consumers in all areas. It will be easier to start up new banks and for foreign companies to enter our markets.

There will be many large and small, regional and national financial institutions...some of them world-class competitors...and most of them Canadian based. They'll be effectively governed and demonstrably committed to excellence, innovation and service.

To help make all this happen, we need a regulatory framework that provides a better balance between ensuring safety and soundness, effective competition, and consumer protection. We need forward looking, flexible regulation - to anticipate change and to help institutions and consumers manage it well, in the public interest.

Our recommendations are directed at achieving this vision. We have put every one of them to a common litmus test – will the change we propose assist the Canadian consumer?

Today, time won't let me go into detail on our recommendations. But let me summarize some of the key recommendations.

Our Report has four broad themes. The first of these is enhancing competition and competitiveness.

We make recommendations to strengthen the position of existing participants and promote new players, so consumers will have more choice. For example:

- We recommend opening the payments system to life insurance companies, money market mutual funds and investment dealers. This means you won't need a bank account to write cheques or use a debit card. Other institutions will compete to provide these services and that should lead to better pricing, improved service and more innovation.
- We propose new powers for credit unions to make them more effective competitors. This includes the ability for credit unions and their centrals to become or to form national cooperative banks.
- We propose a new, consistent ownership regime for all financial institutions to make it easier and more attractive to start new banks - with a ten-year holiday from capital taxes and streamlined approval processes to assist start-ups.
- We recommend changes to make it easier for foreign banks to operate in Canada, and we present a framework that allows them to offer credit to Canadians from outside the country.

- We propose that deposit insurance for banks be integrated with policyholder compensation plans for life insurance companies, to reduce the competitive advantage that banks now enjoy.
- We urge that the Interac network allow Canadians to make deposits to any institution through an ATM, just as you can now withdraw funds.
- And, we recommend that through their branches, banks and trust companies can offer insurance and automobile leasing – to offer the same broad range of choice for Canadians for these products as customers have in Europe and the United States.

We're also proposing changes to increase options for our institutions to adapt to the new realities they face.

- We propose a much more flexible wide ownership regime that will provide large banks and insurance companies with more flexibility to enter into strategic alliances, including acquisitions, while preserving them as Canadian-based companies.
- We also recommend important changes to taxation and to accounting principles that will make our institutions more competitive.

We believe that it is up to institutions to determine the business plans and strategies that make most sense for them. And mergers are one legitimate strategy. While our Task Force didn't have a mandate to review specific transactions, we did consider merger policy. We concluded that it would be shortsighted for Canada to rule out mergers of large banks and other financial institutions without even considering them. There should be no "big shall not buy big" policy. Careful and disciplined case-by-case review should take place.

We recommend a Public Interest Review Process to assess mergers of large financial institutions. It includes formal public input. It sets out criteria to judge whether a merger is in the public interest.

It includes a requirement for merger proponents to identify public interest benefits and costs and to demonstrate that their merger will not harm the public interest. And it provides for legally enforceable undertakings from the proponents, with severe sanctions if those undertakings aren't honoured.

In the end, mergers should be permitted to proceed where the Minister of Finance is satisfied that markets will remain competitive, that there are no material safety and soundness concerns, and that the transaction is in the public interest. But we should be very clear: in case of a conflict, the public interest trumps the private interest.

Our second broad theme is the empowerment of consumers. The Task Force believes that informed consumers, operating in a fair and responsible marketplace, can be a powerful force.

Consumers should understand what is being offered to them, they should be able to comparison shop, and make more informed purchases. To that end, we recommend steps to improve the clarity of marketing and sales documents. In addition, we propose that governments require disclosure of all transaction-related fees and commissions.

The changes that are shaping the financial services sector are blurring the traditional distinctions between institutions. These changes offer consumers more choice, and that's good. But they also raise concerns that powerful institutions, selling many products, can take unfair advantage of consumers by tying products together in a way that isn't in their interest. Or, by abusing personal information. In fact, the Task Force was surprised to learn through our research that 16% of those surveyed said they had experienced pressured selling.

Our recommendations provide for the benefits of choice and prevent potential abuse. We believe that all consumers should be free from coercion when buying financial services. And we recommend that all governments make such coercion illegal. We recommend a tough ban on coercive tied selling – a tougher ban than exists now, and one that applies to all financial institutions.

Similarly, we propose that the privacy of sensitive personal information, including medical information, should be protected by law. Because we don't believe voluntary codes provide adequate protection for the world ahead, we recommend legally binding codes of conduct with civil remedies for breaches of privacy.

We say the federal government should establish a financial sector ombudsman to resolve customer grievances with all federal financial institutions and their subsidiaries. And we urge provincial governments to have their financial institutions opt in.

In our third major theme we seek to strengthen the relationship between our institutions and the communities they serve. Canadians have high expectations of their banks, credit unions and insurance companies, and the Task Force believes those expectations are fully justified.

Our recommendations will make our institutions more responsive and more responsible.

We spent a lot of time on how small businesses, and especially the knowledge-based businesses of the new economy, are financed. Our report urges banks, in particular, to mount initiatives to strengthen relationships with their small business customers...we encourage them to have more meaningful career paths for locally-based small business account managers and to offer more innovative financing packages for higher risk borrowers.

Small business financing is critical to job creation. But we found, somewhat to our surprise, that current information for policy makers on this subject is inadequate. We need to know much more about the needs of small businesses for all types of financing; to understand how financing patterns break down by categories of business and region.

We must resolve this information deficiency in Canada. So we have recommended that the government introduce a legislated, comprehensive data collection and analysis program – covering all major suppliers of small business financing, not just banks. We urge government to create a dedicated small business analysis unit to report annually to Parliament on the state of small business finance in Canada.

Canadians also expect their financial institutions to provide a basic level of service to individuals and to communities.

We urge deposit-takers to work with governments and community groups to ensure that all Canadians have access to basic banking services. If real progress is not made soon, we recommend that government legislate.

We also recommend that banks and trust companies give communities at least four months' notice before they close a branch, and that they work with communities to find creative alternatives to minimize the resulting disruption.

We explored a number of ways in which institutions can contribute to... and enrich... our communities. We make recommendations for innovative partnerships in support of the voluntary sector, and in specific areas such as the provision of micro-credit.

We think that better mechanisms are required by which financial institutions may demonstrate their contributions to the communities they serve and find ways to enhance that contribution. So we recommend that federally regulated banks, trust companies and life insurance companies be required to provide public, annual Community Accountability Statements.

Those statements will focus our institutions on how they relate to the communities they serve and ensure a continuing structured dialogue that can strengthen the bonds between financial institutions and Canadians. To give them sharper focus, the statements would be filed with the Minister of Finance, who would table them with the House of Commons Finance Committee.

The final main theme of our report seeks to improve our regulatory framework.

Canada's regulatory structures are strong, and they work well. In fact, some countries emulate the Canadian model. But we have concluded that to manage change, we need further improvements. We recommend that the federal regulator, OSFI, should have its mandate updated and its governance structure improved. We make specific proposals to eliminate overlap and duplication. And we recommend clear rules and new opportunities for foreign firms to lend money to Canadians without setting up operations here.

Now, you all know that wonderful old saying: 'if it ain't broke, don't fix it'. I suggest to you that considering the change era we're in-- and the importance of our financial services sector-- the saying to guide us should be: 'If it ain't broke, but you can make it better, do it while you can'.

The rules that worked well for us for so long are still fine for the world of yesterday. But today we have to plan for tomorrow. We must recognize that the status quo is not only unacceptable, it's dangerous.

Isolationism isn't an option in a world where commerce is global and financial transactions take seconds to complete. Our financial services sector requires a flexible, clear public policy framework establishing logical criteria that address the new realities of our new age. We need to rethink the ground rules now.

I say now, because while we don't know exactly how the future will shape up, we know enough about the general trends and directions to be able to plan for tomorrow... to put in place the framework that will ensure our financial services sector will be strong - and competitive at home and abroad... and more in tune with the needs of customers and Canadians.

The Task Force has done its work. We are convinced that if Canadians work together, we can manage change in a way that benefits all of us. I urge you to use our report as the basis for discussion, debate and action.

We need to keep moving the dialogue—and the process— forward. It's in the best interests of all of us, whether we're consumers of financial services... in the financial services sector itself... or its regulators. For that dialogue to be productive, we will also have to set aside romantic notions of the 'good old days'. We'll have to set aside dearly held vested interests.

Special interest thinking won't do. It just stands in the way of clear thinking. And clear thinking is what we need. Just look at Russia and Japan, where weak banking systems are destabilizing economies and jeopardizing the savings of their citizens. We want strong institutions in Canada. Not to assist the companies, but for the good of the people they serve and our country. A healthy, profitable, competitive financial services sector will help ensure a strong, healthy, competitive Canada.

Thank you for your attention.