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Submitted by email: fin.legislativereview-examenlegislatif.fin@canada.ca

Subject: Potential Policy Measures to Support a Strong and Growing Economy: Positioning Canada's Financial Sector for the Future

Independent Financial Brokers of Canada (IFB) welcomes the opportunity to comment on this second consultation paper on the review of the financial sector framework, and consents to the publication of this response.

Who we are

IFB is a national, not for profit, professional association representing approximately 3,500 individuals who are licensed financial advisors. IFB members are self-employed, often operating small to medium-sized businesses. Every day, they assist a diverse population of clients and their families in communities across Canada with setting and achieving financial and estate planning goals that will help secure their financial future.

IFB members have chosen to be independent so they are able to offer clients advice on a range of financial products and services from more than one company. IFB does not represent company or bank employees, or advisors who work in an exclusive relationship with one company.

An important part of the work IFB does is to advocate on behalf of our members for a well-regulated industry that recognizes the value that independent advice brings to clients of all financial means.

Supporting a Competitive and Innovative Sector

IFB supports a competitive financial marketplace, where consumers have choice in how they obtain financial products and advice. IFB members must compete with large, vertically integrated financial institutions – like banks and insurance companies – for clients. However, today, the increasing regulatory burden and dominance of large financial institutions is reducing the ability of independent firms to remain competitive.

This regulatory burden, especially as it relates to compliance, places smaller financial businesses at a particular competitive disadvantage. Much of an advisor's independent practice is devoted to the time and cost of compliance. This detracts from time spent in client care and building their practice to a sustainable level.

We support the Government's intention to consider proportionality in the development of policy and regulation.¹ The paper notes that small and mid-sized banks face regulatory challenges and costs proportionately higher than their larger counterparts that are not reflective of the risk they pose. As noted above, this is also the case for IFB members who operate businesses on a much smaller scale.

The consultation paper states that "a competitive sector can deliver more affordable and innovative financial services to consumers"². We agree. Today, we have a financial services landscape increasingly dominated by six large banks. This domination extends to all aspects of the financial services industry – banking, securities, even insurance - while delivering services to consumers that, at best, have been shown to lack transparency. Equally troubling has been the discovery that many bank clients have been systematically overcharged, over the course of many years, which has led to "no contest" settlements.³

Given the dominance of the big banks in Canada, consumers often have little choice but to conduct business with one or more. Since banks have been permitted to own securities dealers, the independent market has shrunk drastically, and it is often unclear to consumers whether they are dealing with a bank branch or a representative of a bank-run securities arm.

An article published in The Globe and Mail entitled "How the big six banks won the battle for Canadian's wealth" noted: Some believe the Big Six are in the process of conquering the asset-management industry – just as they swept up independent investment dealers and trust companies in the 1980s and 90s. That may turn out well for bank shareholders, but it also

¹ Second Consultation paper, page 10

² Second Consultation paper page 9

³ The CBC at: http://www.cbc.ca/news/business/big-banks-osc-excess-fees-1.4180732

represents an even greater concentration of market power in a small number of already-powerful institutions.⁴

We submit that this concentration has deepened. Indeed, the MFDA published a <u>report</u> in May 2017 which analyzed the mutual fund industry and households served by its member mutual fund dealers, and found that —

Deposit-taker institutions (i.e., banks and credit unions):

- have the greatest share of the \$633 billion of mutual fund assets (i.e., 59% or \$372 billion);
- service 72%, or 6.4 million, of the 8.9 million households with mutual fund assets; and
- employed 62%, or about 51,000, of the 83,009 licensed advisors.⁵

New Zealand's Financial Markets Authority observed in its 2015 "Report on Sales and Advice" that: *Vertically integrated distribution models, where a business is the provider, manager and distributor of a product, can exacerbate conflicts of interest. Remuneration and incentive arrangements can also reinforce conflicts of interest, particularly when sales staff are remunerated on a volume basis or through certain bonus structures.* This same structure, of course, exists in Canada, and we believe merits the attention of regulators and policy-makers.

This review presents Finance with the opportunity to focus on promoting and supporting fair competition throughout the financial services sector – which is ultimately a win for consumers.

Improving the Protection of Bank Customers

It has become very apparent that there are serious flaws in the fair treatment of bank customers, as articulated in the CBC's *Go Public* revelations by bank employees. This has led to Senate hearings, the FCAC investigations and OFSI's review of retail sales practices.

Allegations of improper sales practices, hidden fees, and production pressures on frontline bank employees speak to the need for improved governance practices and to the corporate culture itself. Integrated financial institutions, like banks, benefit from ongoing contact with individuals and businesses who deal with them on a regular basis. This provides them with the opportunity to continually up-sell and cross-sell, which magnifies the impact of improper practices for consumers.

These relationships must be conducted in an open and transparent manner, so that consumers can be better informed, manage their choice of bank services, and understand the fees they have paid for these services. As an example, under the Client Relationship Model - Phase 2 (or

⁴ The Globe and Mail at: https://beta.theglobeandmail.com/report-on-business/how-the-big-six-banks-won-the-battle-for-canadians-wealth/article13467969/?ref=http://www.theglobeandmail.com&

⁵ MFDA Client Research Report, page 9

⁶ New Zealand, Financial Markets Authority at:

http://www.interest.co.nz/sites/default/files/embedded images/FMA-Sales-and-advice-report.pdf, page 10

CRM2), securities investors are receiving documents that provide greater transparency about the cost and performance of their accounts. Customers transacting with any financial service provider should receive equivalent disclosure regardless of the particular product or service provided.

In December 2016, proposed changes to the Bank Act would have introduced a more comprehensive series of consumer protection measures. While these were removed, there is now another opportunity to champion a comprehensive consumer code of conduct. Canada's lack of a statutory financial consumer protection policy, in comparison to some other countries, has been cited as a fundamental weakness in oversight.

IFB welcomes the paper's continued support for the separation of life/health insurance from banking, as we believe it is essential for the protection of consumers' health information and to preserve competition.

Finally, the Finance Department's concurrent consultation, on proposed changes to the taxation of private corporations, has created concern among our members because it further threatens the viability of small financial practices that incorporated under the existing rules. It's important to note that many of these practices are family-run. While IFB fully agrees with the objective of improving tax fairness, there is much uncertainty about whether this objective will be achieved through these proposals, or instead add to the unequal burden of compliance and regulation already faced by small business owners. IFB will respond separately to that consultation, but we wish to draw attention to the cumulative impacts that these factors have on our members' ability to operate a sustainable, competitive business.

IFB appreciates the opportunity to provide our comments. Should you have questions, or wish to discuss, please contact the undersigned or Susan Allemang, Director, Policy & Regulatory Affairs (email: sallemang@ifbc.ca.).

Yours truly,

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