Consultation Document Responses

1. Here are some thoughts on the issues identified in this document:
    a. There was much discussion on the different regulatory bodies that ensure the safety and stability of the financial system. I would caution that the Government should, if it does not already, focus on ensuring that the degree of coordination between these bodies is appropriate. Are there duplication of efforts? Are there negative spillover effects of regulation undertaken by one body and not another? Are they all working efficiently towards ensuring systemic risk is under control?
    b. There needs to be a greater discussion on competitiveness of the financial sector. In both banking and insurance we see not only large asset shares concentrated amongst a few players, but growth in these shares. While asset share may not necessarily be the best measure of competitiveness it is one measure and the Government should explain its view on this issue.
    c. There is data and papers that show a lack of foreign bank assets in Canada (see for example Claessens and van Horen (2014)). How does the Government view this issue in terms of reasons why? Is it barriers to foreign competition in Canada?
    d. The mention of low interest rates and their impact on insurance companies and pension funds is completely appropriate. It is these low rates that have forced expansion into other business lines. The question to be answered though is how to view this from a regulatory perspective? Are there concerns that insurance companies moving into these new areas may have systemic risk implications, especially as they grow into large financial conglomerates?
    e. For P&C insurers there needs to be more discussion on catastrophic risk. Studies have shown that the industry cannot handle an event, like an earthquake, that creates damager greater than $35 billion. Low likelihood event but with large implications especially in Quebec where uptake of insurance has been low for these events. (See Le Pan (2016))
    f. The document mentions only one credit union moving to the federal model. Why is that? Is it a loss of certain privileges when moving from the provincial to federal model? We need a better discussion on why the uptake has been so small and what should be done.
    g. What I am about to say on bail-in is neither pro nor anti but the discussion in the document is too brief. A couple examples: There is no scenario where a bank, like CIBC in 2007, will be able to recapitalize with equity at a reasonable discount under the bail-in regime, because any sniff of non-viability and people will buy up bail-in debt. This has big market implications. Furthermore, to the extent that current shareholders are middle income households a bail-in regime wipes out their holdings so it may not be a taxpayer bail-out but it will certainly be widely felt.

h. The housing policy discussion lacked a review of the affordability side of things. It's fine to discuss taxpayer exposure but part of the problem is nothing is affordable for young families. What is going to be done to fix this? A better discussion of supply side issues is warranted.
i. Missing issues:
    i. Regulatory spillover internationally: It's fine to have coordination of regulation but in terms of preventing credit growth it's not necessarily apparent that this will be the end result. If Canadian firms can more easily meet regulation in a foreign country compared with a domestic firm, they can provide the credit sought in that jurisdiction upending credit growth prevention desired in that country. The reverse into Canada is of course true. Need to think through cross-border capital spillovers.
    ii. Value of advice: big debate on whether there is actual value in financial advice and what implications this has for fee-based versus commission-based payment structure in this industry. (See Montmarquette and Viennot-Briot (2015) on one side and Cummings (2015) on the other)

2. The balance seems to be fairly decent but certainly financial sector players would argue there is too much lean on the stability side. One way to fix this is to remove older regulation and make it clear that this has occurred and how it affects financial institutions. One issue with all this new regulation since the crisis is you never hear about older regulation that might be burdensome and no longer necessary.
3. NOTHING TO ADD ON LESSONS FROM OTHER JURISDICTIONS.
4. There are a few things that can be done to promote growth:
    a. New fintech should be treated like the internet was in the 1990s. It will be incredibly disruptive (in a mostly good way) but stifling its growth at this point is counterproductive. For a country looking at productivity growth declines this is a great opportunity for us.
    b. See Jason (2016) for many ideas around promoting more competition in the industry. One thing not in there that is key is to ask small financial institutions why they can't get started and can't grow the way they want to. One anecdotal refrain is always the length of time it takes to get approval from OSFI. Four years is inappropriate for almost anyone looking to start a business.
    c. On the internationalization issue, my comment above is important. Prudential carveouts should continue to be part of trade and investment agreements. Understanding what the goal of regulation is at the end of the day is key. It's great if your FIs are not taking on inappropriate loans, but if your constituents still have excess credit growth, bad outcomes for the real economy remain a very realistic possibility. Figuring out how to monitor how regulation impacts your domestic households/businesses should continue to be a priority for the Government.
    d. We have great regulatory bodies. The one thing I would reinforce is the need to have a body that has an overview of how these individual silos are operating. The body should be independent and be able to provide a critical review of what they see on the ground.

5. NOTHING TO ADD ON MODERNITY

References

Claessens, S., and N. van Horen. 2014. "Foreign Banks: Trends and Impact." *Journal of Money, Credit, and Banking* 46 (1, supplement): 295–326.

Montmarquette, C. and N. Viennot-Briot. 2015. "The Value of Financial Advice." *Annals of Economics and Finance.* 16-1, 69-94.

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