

- The policy framework for the financial sector must encourage rather than inhibit innovation;
- Any set of reforms must ensure that our successful institutions remain world class and that other institutions have the flexibility to achieve this status; and
- Where possible, the reform process ought to work from, and build upon, our existing strengths.

## B. BROADENING SOURCES OF CREDIT AND CUSTOMERS' OPTIONS

### The Process of Financial Integration

The barriers separating the four pillars are rapidly eroding. Each pillar now offers products that have traditionally been the preserve of other pillars. Securities firms, for all intents and purposes, now accept deposits and, via networking, some now offer chequing privileges. Trust companies are increasingly involved in unsecured or commercial lending. Both banks and life insurance companies are engaging more and more in securities-related activities. The caisses populaires have diversification powers in terms of their assets somewhere between those of banks and trusts. Moreover, there now exists a range of specialty financial institutions that are difficult to classify in terms of the pillars and, as a result, sometimes go unregulated.

At the ownership or affiliated-company level the integration is even more pronounced. The high profile examples are of course the financial conglomerates which can incorporate insurance, trusts, commercial lending and leasing, and securities-related functions under their umbrella. But ownership integration across the pillars is not limited to these financial holding companies. Offshore, some of the chartered banks operate substantial and successful merchant banking (securities) operations. Indeed, in Australia for example, some of the chartered banks have subsidiaries in each of the pillars. Life insurance companies have long been able to own substantial portions of trust companies. In Quebec, this process of integration has been carried much further: mutual insurance companies can form downstream financial holding companies and can use this structure to branch into other pillars, the caisses populaires (or their *centrale*) own insurance and trust companies and most financial institutions can register with *la Commission des valeurs mobilières du Québec* as agents to manage individual securities accounts under the Quebec Stock Savings Plan. Quebec has even opened up ownership requirements as they pertain to securities firms.

### An Approach to Institution Flexibility

Our view is that this integration will likely increase both in terms of range and complexity. In the face of consumer demands, technology and financial innovation, regulation will probably not be successful in stemming this tide. If by some means it does, it will likely be at the expense of the efficiency and competitiveness of the system.

The Green Paper's approach is to channel this thrust for integration through the avenue of federally regulated FHCs. As noted above, our concern is not with the concept of financial holding companies, but rather with the Green Paper's view that this represents the only acceptable avenue for integration or diversification.

From our perspective, the essential question is whether or not the regulatory system is capable of accommodating a more far-ranging approach to diversification. Not only do we believe that it is, but we are also of the view that greater diversification is consistent with one of the key aspects of the four-pillar approach, namely the assignment of primary regulators to particular types of institutions according to their core function. Phrased in a more positive manner this means that, from the vantage point of consumer protection and institution