

needs of Canadian savers and investors, not how well the financial sector is serving the needs or interests of the chartered banks, trust companies, insurance companies or securities firms. Relatedly, if policy-makers decide to maintain the four-pillar structure, it should not be because this makes life more comfortable for institutions and regulators; it must also be that this structure is deemed to be a highly effective and efficient way to transfer funds from ultimate lenders to ultimate borrowers. The role of financial intermediaries is to intermediate.

The second precept is that government policy in the financial area should avoid the imposition of a preconceived structure on the system. Technology is evolving too quickly and innovation is proceeding too rapidly for the policy authorities to attempt to straitjacket the system in any one direction. To be sure, policy in the financial area must ensure that certain priorities are maintained. Within such a legislative framework, however, the system should be free to evolve in response to market forces. In this observation we are fully in line with the views of the Green Paper.

Third, when the policy or regulatory authorities are presented with innovative types of institutions or products, the presumption ought to be that these innovations are acceptable unless they can be demonstrated to run contrary to the public interest. Unfortunately, it is all too often the case that innovators themselves are called upon, at considerable cost in terms of time and money, to demonstrate that their products or processes are in the public interest. This assigns a degree of optimality to the status quo that is clearly inappropriate in a fast-changing domestic and international financial environment. In other words, the overall policy framework for the financial system must, as the Green Paper stresses, encourage rather than inhibit innovation.

In general, Canadians have been well served by their financial institutions and many of these institutions are world class. Thus, the fourth observation in these times of rapid change in financial markets is that an overriding goal in redesigning the system must be to ensure that our successful institutions remain world class and that other institutions be permitted the flexibility to achieve this status. The final observation is related: when contemplating how to accommodate the changing needs of the financial market-place we ought to work from and build upon our existing strengths, whether these be institutional structures or time-tested processes. What this approach has to offer, in contrast to entirely new structures, is that monitoring is much easier, difficulties will be evident much earlier and, in the case of error, the process is more easily reversible.

Working from these and other considerations, the Committee offers the following analysis and recommendations relating to the structure of the Canadian financial sector. The discussion begins by focussing on the third of the Green Paper principles, namely how best to broaden the sources of credit available to individuals and business. In part, this is also related to the second principle, enhancing the convenience and options available to customers in the market-place. Our general conclusion is that, within an acceptable overall set of priorities, the system should be opened up to accommodate flexibility and diversity.

RECOMMENDATIONS AND OBSERVATIONS

49. The Committee endorses the principles relating to competition and efficiency enunciated in the Green Paper. However, in conducting the analysis the Committee was also influenced by the following concerns:

- **The ultimate role of the financial system is to transfer funds efficiently from lender to borrower;**
- **Government policy in the financial arena should avoid the imposition of a preconceived structure on the financial system;**