III. Introduction

Since 1980, Canada's financial services industry can be characterized by both a remarkable expansion in terms of institutions and products, and a considerable degree of instability. Almost 60 chartered banks have been incorporated since the last revision of the *Bank Act*. Credit cards, deposit accounts, annuities, life insurance policies, mortgage and consumer loans bearing features that were unknown only a few years earlier have proliferated. Examples of these include weekly payment plans on mortgages, buy-back option on car loans, short term deferred annuities, life insurance policies without non-forfeiture options and personal lines of credit on credit cards and so forth. Parallel to the rapid developments in financial innovation and the inevitable blurring of distinctions among chartered banks, trust companies, life insurance companies, securities dealers, credit unions and caisse populaires, there has also been a significant number of failures of financial institutions. The Green Paper cited 15 cases of insolvencies since 1981 involving 4 property and casualty insurance companies and eleven trust and mortgage loan companies. Since the Committee began studying the Green Paper proposals in late May, London Loan has been placed under liquidation, Northumberland Insurance Company has failed, Continental Trust is being wound up, the Canadian Commercial Bank and the Northland Bank are undergoing curatorship or liquidation, CCB Mortgage Investment Corporation has been given 45 days to determine its viability, and Heritage Savings and Trust has recently signed an agreement with a provincial government to receive liquidity support for a period of six months. The Canadian financial system is sound but shaken. Recent financial institution failures have reinforced the need for immediate and substantial regulatory change. The central question facing the Government is not whether regulatory change is needed, but, rather what means should be used and how soon.

While these insolvencies generally reflect the difficult economic conditions of the recent past and the outdated laws and regulations governing these institutions, they also serve to reinforce the number one public policy objective in respect of financial institutions, notably solvency and stability. This is of particular relevance to deposit-taking institutions which are custodians of the public's money and whose operations are highly leveraged to an extent unknown in any other business. As a consequence, it is a prerequisite that the smooth functioning of financial institutions must entail trust, confidence and integrity. Solvency and stability both foster and reflect the development of these qualities. Recognizing that liabilities are generally more liquid than assets in deposit-taking institutions, confidence in the system becomes paramount for the survival of these institutions. Without confidence, problems of an isolated instance could rapidly translate into systemic proportions. The recent liquidity problem of the Mercantile Bank is a case in point. Moreover, financial intermediation is the lubricant of the engine of economic growth. It is the instrument by which scarce financial resources are allocated to productive use. For these reasons, financial institutions impose a responsibility of prudence on their management and warrant close regulation and supervision by public authorities. Lastly, it must be recognized that implicitly embodied in the public policy objective of stability and solvency is the principle of consumer protection.