

prefers recommendations 26-28. However, should some concessions to the provinces be deemed necessary in the context of achieving the Committee's later-enunciated goal of a single national market for financial services, acquiescence to the provinces' demands with respect to in-house trust powers represents an acceptable trade-off.

- *Ancillary Activities for Banks*

The banks have long desired to acquire or establish subsidiaries in finance-related areas such as factoring and leasing or in ancillary activities such as computer service companies. Given that the Committee has already endorsed the BHC concept, it is obvious that banks and other financial institutions should be able to engage in these activities. The only question is "how". If these ancillary activities fall naturally into the domain of the financial sector, then the appropriate route would be to regulate these activities and to allow financial institutions to engage in them through downstream holdings. Alternatively, if these are essentially viewed as commercial activities, then it is questionable whether they should be financed directly downstream from financial institutions. In this case, the preferable route would be the bank holding company structure and, more generally, commercial subsidiaries along the lines depicted in Charts 1 to 5 above.

RECOMMENDATIONS AND OBSERVATIONS

30. The Committee recognizes that banks in particular have long lobbied to have ancillary activities such as factoring and computer services come under the definition of banking. If the federal policy and regulatory authorities feel comfortable having these financed directly or indirectly by CDIC-insured deposits, then the Committee will defer to these authorities. However, now that the Committee has recommended alternative structures, e.g. bank holding companies, for engaging in these activities, our distinct preference is for financial institutions to use these new alternatives for undertaking ancillary activities.

C. Networking

Networking is a term used to describe arrangements between financial institutions under which one of the institutions provides the public with access to products or services issued by the other. This type of arrangement can exist between affiliated or independent institutions. It provides an opportunity for independent and small institutions to offer a broader range of financial services than they could otherwise offer on their own account.

The Committee adopts a very positive approach to networking. We believe that it is in the interests of consumers since it enhances product differentiation. This may be of particular importance for communities that have only one financial institution. Moreover, networking allows an alternative form of diversification for financial institutions that desire to restrict their own operations to specialized areas.

Networking has now become a reality. Focussing only on the networking of home insurance, the T.D. Bank offers consumers in Quebec, Ontario and Saskatchewan insurance services (or rather information, brochures and phone lines to access insurance) from Simcoe and Erie Investors Ltd. The Bank of Nova Scotia markets Canada Life Casualty insurance through brochures and phone lines at its Ontario branches. Mortgage holders with Canada Trustco Mortgage Co. will now be offered home insurance with Prudential of America Federal Insurance Co. (Canada). And on and on.

RECOMMENDATIONS AND OBSERVATIONS

31. Networking of financial services has become a reality in Canada. The Committee fully supports this development, with two provisos. Tied selling must be prohibited and