

IT'S A FACT that Canada has the highest number of Scottish immigrants anywhere in the world. You only have to look at a map of this vast country – almost the size of Europe, yet populated by only some 30 million souls – to see the influence, illustrated by place names such as Hamilton and Banff. And with a reputation for producing solid, trustworthy financial institutions, the similarities don't stop there.

But while Canada's famously spectacular scenery is everlasting, major regulatory and merger issues could lead to the country's financial landscape being substantially altered in the not-too-distant future.

Canada's largest city is Toronto, a Native word for "meeting place" – particularly apt as it's in this city's downtown financial district that most of the country's financial community get together, in and around the headquarters of the country's five largest banks (CIBC, RBC Financial Group, Bank of Nova Scotia (Scotiabank), BMO Financial Group and TD-Canada Trust). Two issues in particular – the regulatory system and mergers – are currently uppermost in their thoughts and discussions.

When the chairman of Canada's largest securities regulator himself criticises the regulatory system as being "hobbled by excessive costs and complexity that can be unfathomable", as has David Brown, chairman of the Ontario Securities Commission, it's clear there is a problem.

It's a problem stemming from the Canadian system of

government which divides power, and financial services regulation, among federal, provincial and territorial governments. Terry Campbell, Vice President, Policy, at the Canadian Bankers Association (CBA), explains: "Financial services regulation is divided. There are some areas where some regulations are exclusively federal, such as banking, and some which are more provincial, such as securities."

"And because of the nature of the industry, where increasingly banks are part of larger financial groups – along with insurers security firms, trust companies and so on – individual financial services companies are regulated by an incredible multiplicity of regulators. We've counted at least 50 financial regulators, not including more than 100 general business oversight bodies."

This multiple regulation raises a number of issues, and the CBA is exhorting the federal government, provinces, and financial services stakeholders to devote their efforts to creating

Two difficult issues – a complicated regulatory system and unclear merger environment – are currently concentrating minds in the Canadian financial community, writes **Robin Mathison**

a national financial services regulatory system in Canada.

"It's an important focus for CBA, and the most important focus for the banking industry in Canada," says Campbell.

The sheer number of regulators is just the start – there is also inconsistency among the rules. Michael Gregory, Director, Marketing and Client Relations for the Institute of Canadian Bankers (ICB), the CBA's educational arm, says: "We have federal regulators that overlap provincial regulators that don't always agree on what the regulations should be. As an industry, it's our greatest challenge."

With a national banking market, the regulations make it very difficult, and expensive, for financial services companies to carry on business across the country. Cost and effort that could be better used elsewhere. To illustrate the cost implications of all this regulation, the CBA has looked at the UK's introduction of the FSA – combining ten agencies into one – and Australia which, like Canada, has a federal government system.

"We have produced a cost comparison using examples of other countries such as Australia and the UK that have changed and rationalised," says Campbell. "The comparison showed Canada is clearly more expensive."

"The regulatory structure is so important to the ability of the sector to be as efficient, competitive and innovative as possible, and a more efficient and rationalised regulatory system would ultimately be better for consumers."

This all adds considerable weight to the push for change.

"It's fair to say there is virtual consensus, including regulators, on the fact that we have a problem, and this is a big, big step," he says. "Different players have begun to articulate the issues. Governments, academics, institutions are all coming forward to add to the discussion. Who should take the lead is the next stage, since as yet there is no structure to focus the discussion."

If the "unfathomable" regulatory system can be seen as an obstacle to growth for Canadian banks – none is now in the Top 50, let alone the Top 20 – another is that they have not been allowed to merge.

In 1998, The Royal Bank of Canada and BMO announced they wanted to merge, as did Toronto-Dominion and CIBC. The finance minister at that time, Paul Martin, however, turned down the proposals, and since then no further mergers have been proposed. The conjecture has been that, as a potential future Prime Minister, Martin would not do anything that could upset his political ambitions, with mergers leading to possible job losses and consumer unrest.

However, one development could change all this. The government has put forward a merger review process,

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articulating what the steps would be if the larger banks put forward plans for such link-ups, and thus indicating that mergers were now an option.

"Before, banks could not form themselves into holding companies, which is one way of restructuring your organisation to be more efficient and grow," Campbell says. "Now they can do this, and there is much greater latitude for partnerships and strategic alliances."

Of course, there's also Canada's superpower neighbour. Canadian banks are very active in the US in terms of making acquisitions. BMO was the first to buy big there, with its purchase of Harris Bank in 1984, and the Royal Bank has been buying small institutions in the US for several years. Likewise, the other major banks all have a foothold in the US.

Campbell says: "Growth is more likely to happen south of the border. There are big competitors down there, and to play that field our banks are looking for ways to increase their size, scale and scope. To continue making the necessary investments in information technology, make bigger deals and so on, they need more clout."

Recently, another event – the resignation of Minister Martin in June – could be potentially significant. His replacement, John Manley, will face increasingly loud calls to allow mergers between Canadian banks to go ahead. Indeed, there are already reports that BMO and Scotiabank could be ideal candidates for a merger proposal.

A senior analyst, quoted in Canada's *National Post*, said: "A merger between BMO and Scotiabank would have many merits and would be an exciting and logical way to start a consolidation process in Canada."

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*Canadian Bank Facts, CBA, 2000.
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CANADA'S TWIN PEAKS

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