200-411 Richmond Street E, Toronto, ON M5A 3S5
(416) 494-9224 (416) 967-6320
info@cafii.com www.cafii.com

Agenda Item 4(b)(i)

June 26/18 EOC Meeting

Strengthening financial consumer protection – what has to be the driving force
Speech Delivered by Lucie Tedesco, Commissioner of the Financial Consumer Agency of Canada
June 12, 2018, Toronto ON; Economic Club of Canada
Check against delivery

Thank you very much.

It is truly a pleasure to be here, and I am delighted to see so many familiar faces.

Thank you to the Economic Club of Canada for providing this podium for thought leaders and decision-makers to share ideas and plans for advancing the lives of Canadians.

I am here today – eager – to share with you what the findings of our recent review of bank sales practices mean for the financial institutions we regulate, as well as for us at the FCAC.

I appreciate that many of you here might not represent financial institutions.

But regardless of the organization in which you work, if you are serving or otherwise dealing with clients, I can assure you that my messages are relevant.

If this is the case, I can assure you that my messages are pertinent to you too.

Soon after the story of Wells Fargo surfaced in the US in the fall of 2016, we decided to conduct our own review of sales practices at Canada's largest retail banks.

Our initiative started last spring. Now here we are, a little over a year later, our report in the public domain, with its findings and recommendations on addressing sales practices risk.

For those we regulate, these recommendations are not just printed words.

They are actually a plan for action.

And for the Agency, they represent not only the culmination of extensive research and analysis, but also the point at which we transition into the next stage of our evolution as a regulator.

Some of you may recall the objective of our review: To identify the drivers of sales practices that could increase risks to consumers.

During the course of our review, one of the key drivers identified as influencing sales practice was culture.

Corporate culture – a set of shared values and norms – has been described as the only sustainable competitive advantage.

It is the sole aspect of an organization that cannot be replicated.

Everything else – from strategies and products, to services and marketing – can be imitated.

But culture is the one true identifier.

An organization's DNA, so to speak.

Our industry review confirmed that the changing business models of retail banking culture are anchored in sales.

As a result, performance management and incentive programs are designed to foster sales, and distribution channels and practices do not give the interests of consumers the consideration that they require.

In other words: A culture than can be rich soil for mis-selling to consumers and for breaching market conduct obligations.

Now, couple this with controls and governance frameworks that are underdeveloped, and what results is a fault line that undermines consumer protection.

We also noted that roles, responsibilities and accountabilities related to the oversight and management of sales practices and market conduct risk are not always well defined.

As an outcome of this, CEOs, executives and boards are not getting the full picture.

Information that is currently gathered and reported on in isolation must be pulled together in a way that provides them with a comprehensive and holistic assessment of their market conduct risk.

When I meet with CEOs and boards, they express a firm belief in and commitment to customer centricity.

It is a value they believe is at the heart of their organizations' culture.

From my perspective and from what we have learned from our review, however, this culture has become misaligned with their belief and values.

So then, how did we end up with a retail banking culture that is so strongly rooted in sales?
What has happened is that the underlying programs, infrastructure and focus on returns have caused a misalignment with the conviction of consumer centricity.

In the words of the Group of Thirty in their report on Banking Conduct and Culture, "Banks should look at culture, and achieving consistent behavior and conduct aligned with firm values, as key to strategic success, rather than as a separate work stream or add-on process to respond to short-term regulatory or enforcement priorities."

The good news is that industry executives are willing to act and strengthen their governance frameworks and controls to better mitigate sales practices risk.

I am encouraged by this.

Our report sets out a number of expectations.

The most important one is that financial institutions must make financial consumer protection, fairness and product suitability a priority.

Because market conduct is more than just compliance with regulations, policies and procedures.

As the UK's Financial Conduct Authority expresses, "Firms now need to shift more of their attention outwardly to consider whether their actions are causing or have the potential to cause harm to customers or markets."

The Financial Conduct Authority is assisting financial institutions with this shift through its 5 Conduct Questions Programme.

This program aims to systematically improve conduct by enabling financial institutions to challenge themselves and to informally benchmark their efforts across the industry.

Each institution is responsible for defining its own approach to market conduct.

And to guide institutions in defining their approach, the Financial Conduct Authority asks them to answer 5 conduct questions.

As an example, one of the questions reads: "How do you encourage the individuals who work in front, middle, back office and control and support functions to feel and be responsible for managing the conduct of the business?"

This question touches on the importance of the Tone from the Top.

Although Tone from the Top in our banks is usually, as I noted previously, consumer centric, the review found that middle management is in a much stronger position to shape the sales culture in branches and call centres.

In some circumstances, middle managers can undermine the strength of the messages that are disseminated from the Top.

Leadership must be aligned not only in its messaging but also in modeling the right behaviours.

After all, market conduct is everyone's business.

That is why we expect financial institutions to expand market conduct discussions beyond the lines of defence to include those areas, for example, responsible for product development and business lines.

In fact, we have already met with several business teams from the large banks to initiate such discussions.

But expanding our communication and outreach is not the only FCAC initiative contributing to a more evolved supervisory and enforcement approach.

Throughout our existence, we have learned, evolved and gained more responsibilities and relevance within the financial services sector.

The Agency keeps progressing and is driven to keep pace with trends and emerging issues within the financial marketplace.

This review has contributed to this progress.

It has changed the way we work.

Because we now have a greater understanding of the context within which the institutions we regulate operate, as well as a greater understanding of the nature of the market conduct-related data they capture.

So, it will no longer be enough, for instance, for us to ensure that the policies and procedures meant to protect consumers are in place.

Moving ahead, we must confirm that these policies and procedures are being properly applied and are yielding the outcomes intended.

This will be achieved through, what I call, deeper dives into the consumer provisions of the legislation and regulations we oversee.

So, by applying the lessons we learned from the review, and by acting on the measures we have outlined in the report, we will become more resilient, more agile and well positioned for the future.

To illustrate, we are currently creating an infrastructure for the implementation of a modernized supervision framework.

Under this framework, financial institutions will proactively identify, address and monitor their conduct risk and report to the FCAC on how they are measuring up.

We, in turn, will be increasingly proactive in our efforts to understand emerging risks before they impact consumers, and proactive in communicating vital information that will assist institutions in complying with their obligations.

We will also continue to assess, evaluate and improve our supervisory and enforcement processes in order to ensure sustained efficiency and effectiveness.

In addition to our work on the framework, we are readying the Agency to better respond to the expectations of the marketplace by increasing our bench strength and diversifying our skill set.

With these investments, we will be equipped to engage in more comprehensive oversight activities, and to conduct the necessary follow-up work resulting from this and future reviews.

We are introducing changes to become more flexible, more rigorous and, above all, more impactful.

As we do so, we must also be realistic about our objectives.

We must acknowledge our limitations.

FCAC can be everything a modern, effective regulator should be, but we can only be as effective as the institutions we regulate are committed to the primacy of their customers.

Rounding out my presentation to you on what is required to strengthen financial consumer protection, I encourage financial institutions to engage in their own deep dives.

Above all, they need to know if their organization is virtuous – that is, truly committed at the core and heart of its culture to customer centricity.

In the very wise words of the former Governor of the Bank of Canada, Mark Carney, with whom I have had the pleasure to work during my tenure as FCAC's Commissioner:

"Virtue cannot be regulated. Even the strongest supervision cannot guarantee good conduct."

I will leave it at that.

Thank you again for being here. I would be pleased to answer questions.