

Agenda Item 4(b)(ii)

June 26/18 EOC Meeting

**CAFII Insights/Intelligence Notes From June 12/18 Speech by FCAC Commissioner Lucie Tedesco
to Economic Club of Canada; and Ensuing Private Conversation**

*(See also 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, agenda item 4(b)(i))*

**Private Conversation of Brendan Wycks and Keith Martin of CAFII with Lucie Tedesco, FCAC Commissioner;
and Brigitte Goulard, FCAC Deputy Commissioner, Following Conclusion of Event**

-Phase 2 of the FCAC's Review of domestic banks' sales practices will consist solely of carrying out a similar review of the sales practices of small and medium-sized federally regulated financial institutions, as the initial review looked only at the "Big 6" federally chartered banks. Continuing communications/stakeholder engagement around the results of the initial Review; a Phase 2 Review focused on small and medium-sized FRFIs; and the launch of the new, modern FCAC Supervision Framework will be the Agency's sole areas of focus for the balance of 2018.

-There could possibly be further Phases of the Review – perhaps focusing on an individual product line or on particular distribution channels – but any additional Phase along those lines wouldn't occur until 2019 at the earliest.

-Because CAFII is an important stakeholder related to the Review of domestic banks' sales practices, Deputy Commissioner Brigitte Goulard and/or Commissioner Lucie Tedesco would be happy to travel to Toronto to meet with the CAFII Board of Directors and other Association leaders to discuss relevant aspects of the Review's findings; the FCAC's new Supervision Framework; general plans for future "deep dives" at individual FIs, etc. (Based on further discussion of this FCAC offer from Ms. Tedesco and Ms. Goulard and internal CAFI consideration of it, it is recommended that the proposed meeting be a Special/Single Focus CAFII Board Meeting with Guest Presenter(s)/Discussant(s) and that it occur in Toronto during the second or third week of September 2018).

Lucie Tedesco's Prepared Speech

-The sales culture which permeates our domestic banks today creates a "fault line" for professed customer-centricity, such that middle managers can actually undermine the "Tone from the Top" messages around Fair Treatment of Consumers/Customers.

-How do you encourage individuals at middle and junior levels in the banks to place top priority upon and to model behaviours that are aligned with the Tone from the Top?

-It's also critically important to get the people who are involved in such things as product development and distribution planning/execution to be responsible for customer-centricity and FTC "by design".

-The FCAC has been evolving and progressing since its inception in 2001; and this latest Review of domestic banks' sales practices has contributed to our progress because we now have a greater understanding of how the financial institutions we regulate actually work (e.g. their internal policies, procedures etc.), as well as of the market conduct-related data which they capture.

-On a go forward basis, the FCAC will be doing "deeper dives" into how the banks we regulate are applying the consumer provisions of the legislation and regulations which we oversee. We will be developing a "risk profile" for each FI.

-We are on the verge of releasing a new, modern FCAC "Supervision Framework" which we are planning to implement this Fall after a few more necessary direct consultations on it have taken place. Under this framework, FIs will have to proactively identify, address and monitor their conduct risk and report to the FCAC on how they are measuring up.

And the FCAC, in turn, will be increasingly proactive in identifying emerging risks before they impact consumers, and proactive in communicating information that will assist FIs in complying with their obligations. The new Supervision Framework will allow us to be more proactive, transparent, and predictable as a Regulator.

Q&A Session Following Lucie Tedesco's Prepared Speech

-The Australian Royal Commission on Banking is not very relevant to Canada because the environment in Australia is much different than it is in Canada, completely different in fact. Canada has a very strong prudential regulator, OSFI; and, we believe, a very strong market conduct regulator as well, the FCAC.

Our Review of the domestic banks' sales practices was not akin to the Australian Royal Commission, but more like the US Office of the Comptroller General's recent review of all US banks other than Wells Fargo.

-Through the very deep dives that were part of our Review of the domestic banks' sales practices, we realized that the banks gather and have at their disposal an inordinate amount of data which seems to "just sit there" but could be used to identify underlying risks and improve things.

-The FCAC has a very good collegial and collaborative relationship with OSFI. Both regulators are members of the federal government's Financial Institutions Standing Committee (FISC). There will be instances in the future where the FCAC will choose to do a joint review with OSFI; and other circumstances where we won't.

-When the FCAC was established in 2001, its work largely consisted of reacting to consumer complaints. Then, some years later, we became able to identify systemic issues through data analysis. Now, after our recent Review of domestic banks' sales practices, we've realized how we need to do our work going forward, to be optimally effective.

So a more proactive, "deep dive" approach – looking at things microscopically re how policies and procedures are being applied – has become a "natural evolution" in the FCAC's history.