Opening Statement by
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Mr. Chairman, I am pleased to appear before you today as part of your study of the Task Force Report on the Future of the Canadian Financial Services Sector.

Perhaps it might be helpful if I were to start by clarifying the Bank of Canada's role in this area. The Bank has no formal responsibility for the development of financial legislation. However, we do have a vital interest in the efficiency and safety of the financial system, because it can affect the transmission of monetary policy, because of our role as lender of last resort, and because of our regulatory oversight role for large-value clearing and settlement systems. As well, I am an ex officio member of the Financial Institutions Supervisory Committee (FISC), which is chaired by the Superintendent of Financial Institutions, and an ex officio member of the Board of Directors of the Canada Deposit Insurance Corporation. The Bank is also involved in a number of international discussions on financial system issues. As a result, the Bank has traditionally played an advisory role to the Minister of Finance and his Department on policy regarding financial legislation.

I would note with respect to the specific measures proposed in the Task Force Report that there are very few with direct implications for the Bank of Canada. None of the Task Force's recommendations have any significant implications for the conduct of monetary policy. And a similar conclusion can be reached for many of the other operations of the Bank.

With respect to the payments system, where the Bank has an interest, the Task Force recommended that financial institutions other than deposit-taking institutions be permitted to join the Canadian Payments Association. This issue illustrates the potential tension between competition and safety concerns that can arise in formulating policies for the financial sector. Consumers could benefit from greater competition through expanded choice and additional convenience, as well as from potentially lower prices for payment related services. At the same time, however, new entrants to the system may raise potential risk concerns. These concerns could increase the costs or reduce the quality of payments services if it turned out that new and more complex measures were needed to control risks introduced by these new participants.

In principle, I am inclined to support expanded participation in the payments system, but it is important that the detailed issues associated with such expanded access be fully addressed and that we not underestimate the complexity of doing so.

The Task Force also discussed the issue of oversight of the payments system in Canada. As the federal government's July 1998 discussion paper indicated, more comprehensive public sector oversight may be necessary to help ensure that the payments system arrangements are compatible with the public policy objectives. Two broad questions related to this issue need to be examined. First, what should be the scope of such oversight? The Task Force has suggested that this oversight should be applied to the activities of the Canadian Payments Association. However, there is also the question as to whether there are any grounds for extending this type of oversight to private payment network arrangements, such as Interac, or future networks supporting the use of e-money.

A second issue to be addressed is who should carry out such oversight activities. While the Task Force recommends that the Minister of Finance carry out this function, the Department of Finance's discussion paper suggested a number of alternatives. Any arrangement that is chosen will have to take into account the existing role of agencies with responsibilities in this area. The Competition Bureau has a general responsibility for competition issues (and has already intervened in the payments area) and the Bank of Canada has a statutory oversight responsibility related to control of systemic risk in large-value payment systems. Whatever arrangements are decided on, they presumably will have to find a way to ensure that the twin objectives of efficiency and safety are adequately recognized, and that the roles and responsibilities of the various agencies are clear.

In the area of financial sector supervision, the Task Force recommended that a board of directors be created to oversee the operations of the Office of the Superintendent of Financial Institutions. The proposed board would be made up mainly of independent directors but also include ex officio members, including the Governor of the Bank of Canada.

In general, I believe a board of directors can be an important part of the governance arrangements of public sector institutions. That is certainly true of the Board of the Bank of Canada. However, it is crucial that the role of the Board is clearly articulated. In the case of OSFI, it will be important to be explicit about the respective roles of the Minister, the Superintendent and the proposed board.

I must also say that I have some reservations about the proposed inclusion of ex officio directors on the board. I believe that it can be difficult for officials who are heads of public institutions to carry out the fiduciary duty to another public institution that membership on a board of directors requires.

With respect to the broad issues examined by the Task Force, I think we would all agree that an efficient and strong financial sector is one of the key requirements for achieving a strong and internationally competitive domestic economy. Over the past three decades, the changes to the legislation governing the activities of financial institutions have sought to increase the competition associated with the delivery of financial services. However, these changes have always been made in the context of a continuing concern about safety in the financial sector. The MacKay Task Force has adopted a similar framework in considering possible future changes.

All of the changes proposed by the Task Force to increase the amount of competition in the financial sector are worth considering. However, it is possible that with more new entrants and the greater organizational flexibility being proposed, there could be an increased likelihood of failure of regulated financial institutions. A healthy, competitive marketplace does not preclude an occasional institution failure, and while it is not something one wants to see very often, we need to recognize this possibility. Thus, I think that it is very important to consider changes to the regulatory framework that might serve to identify potential problems and to reduce the costs associated with financially impaired institutions by ensuring an early exit from the financial sector. One should also consider whether increased disclosure and other means could be used to strengthen market incentives for financial institutions to manage the risks they face in a prudent fashion, thus reducing the likelihood of failure.

Mr. Chairman, your committee is examining issues of vital importance to all Canadians. We strongly agree with the Task Force's desire to promote greater competition in the financial services sector. The forces of change are very strong and there is a need for a regulatory framework that can assist in producing a more efficient financial system, while at the same time addressing concerns about the safety of the system. The challenge will be in finding the appropriate balance between these two public policy objectives.